

# **East Sussex Fire Authority**

## **Statement of Accounts**

**2011/12**

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# Explanatory Foreword by the Treasurer

## Statement of Accounts

The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, Members of the Fire Authority, employees and other interested parties clear information about the Fire Authority's finances. The format of the Statement of Accounts is governed by The Code of Practice on Local Authority Accounting in the United Kingdom (the Code). To make the document as useful as possible to its audience, and make meaningful comparisons between authorities, the Code requires:

- All Statements of Accounts to reflect a consistent presentation.
- Interpretation and explanation of the Statement of Accounts to be provided.
- The Statement of Accounts and supporting notes to be written in plain language.

This Statement of Accounts comprises various sections and statements, which are briefly explained below:

- Foreword - this provides information on the format of this Statement of Accounts as well as a review of the financial position of the Fire Authority for the financial year 2011/12.
- The Statement of Responsibilities – this details the responsibilities of the Fire Authority and the Treasurer concerning the Fire Authority's financial affairs and the actual Statement of Accounts.
- The Independent Auditor's Report to the Fire Authority – this is provided by the external auditors, the Audit Commission, following the completion of the annual audit.
- Annual Governance Statement – the Fire Authority is required to carry out an annual review of the effectiveness of its system of internal control and to include a status report with the Statement of Accounts. The Statement explains how the Fire Authority has complied with its Code of Corporate Governance during 2011/12. However, any significant events or developments that occur between 31 March 2012 and the date on which the Statement of Accounts is signed by the Treasurer must also be reported.
- The Statement of Internal Financial Control – this explains the specific financial framework that underpins maintaining and developing excellence in financial management.
- The Core Accounting Statements, comprise:

~ The Movement in Reserves Statement (MIRS) - this is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year. This statement shows the movement in the year on the different reserves held by the Fire Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services total shows the true economic cost of providing the Fire Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Fire Authority tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Fire Authority.

~ The Comprehensive Income and Expenditure Statement (CIES) – this is fundamental to the understanding of a Fire Authority's activities. It brings together all of the functions of the Fire Authority and summarises all of the resources that the Fire Authority has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Fire Authority, before allowing for the concessions provided by statute to raise Fire Authority tax according to different rules and for the ability to switch particular expenditure to be met from capital resources.

~ The Balance Sheet – like the Comprehensive Income and Expenditure Statement, is also fundamental to the understanding of the Fire Authority's financial position as at 31 March 2012. It shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Fire Authority. The net assets of the Fire Authority (assets less liabilities) are matched by the reserves held by the Fire Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Fire Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the Fire Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses, and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

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

- The Statement of Accounting Policies – this statement explains the basis for the recognition, measurement, and disclosure of transactions in the accounts.
- The Notes to the Accounting Statements provide supporting and explanatory information and are fundamentally important in the presentation of true and fair view.

## Explanatory Foreword by the Treasurer

- The Firefighters' Pension Fund Account Statement – this summarises the transactions relating to the Firefighters' Pension Fund Account for 2011/12. This is an unfunded scheme (i.e. it is not backed by investments) into which employee and employer contributions are paid and from which pension payments are made. The account is topped up by a grant from Government if the contributions are insufficient to meet the cost of pension payments in any one year.
- A glossary to the Statement of Accounts is also included to help to make, what is ultimately a very technical accounting document, more understandable to the reader.

### Changes to accounting policies

The Code of Practice is based on International Financial Reporting Standards (IFRSs), and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board. The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance.

The Code of Practice on Local Authority Accounting 2011/12 (the Code) highlights the following most significant key changes in accounting practice:

- The Code requires additional disclosures in respect of remuneration and exit packages. Disclosure of remuneration and pension contributions in respect of senior employees is required in England, this requirement was introduced in amendments to the Accounts and Audit Regulations.
- The Code introduces a requirement that, within the annual governance statement or the statement on the system of internal financial control, an authority includes a specific statement on whether the Council's financial management arrangements conform with the governance requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*.
- The Code amends the related party disclosures required in respect of central government departments, government agencies, NHS bodies and other local authorities.
- The 2011/12 Code adopts the requirements of FRS 30 *Heritage Assets* - Heritage assets are carried at valuation where possible and additional disclosures are required.
- The Code clarifies that financial instrument disclosures are required in respect of leases and PFI, and similar schemes
- The Code includes clarification that where an authority is a party to a joint venture, does not have joint control of that joint venture but does have significant influence, the interest in the joint venture should be accounted for as if it were an associate in line with IAS 31.
- Accounting for the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme in 2011/12 - The 2011/12 financial year is the first year for which there will be an obligation to purchase and surrender Carbon Reduction Commitment (CRC) Allowances in relation to carbon dioxide emissions, - LAAP Bulletin 91 (see page 36).

### Financial Report

This section of the Statement of Accounts for 2011/12 sets out:

- The construction of the original budget for 2011/12.
- The final outturn for 2011/12.

#### Setting the Revenue Budget for 2011/12

The Fire Authority has developed its service planning processes so that they provide a sound basis both for setting its strategic objectives, plans and policies and for its medium term financial planning and budget setting. The process for 2011/12 began in May 2010 and involved officers and Members reviewing and updating the forecast of likely resources available over the period 2011/12 – 2015/16. At the same time, following the General Election in May 2010, the new Coalition Government carried out a Comprehensive Spending Review which eventually set targets for public sector spending over a 4 year period with Fire Authorities receiving a 25% reduction in their grant funding as a result. Given the significant level of grant reductions the Authority carried out a service prioritisation exercise which fundamentally reviewed all of its services and their budgets to identify savings that would have least impact on our frontline and community services.

During the second half of 2010 proposals for both service investments and potential savings arising from the service prioritisation process were developed by officers, alongside an assessment of unavoidable budget pressures for example for pay and price inflation.

The formula grant figures for 2011/12 and 2012/13 were announced in December 2010 with East Sussex FRA receiving a 5.7% decrease to £13.836m in 2011/12 and a slight increase of 0.35% to £13.884m in 2012/13. It was subsequently confirmed that the balance of the anticipated 25% grant reduction would be backloaded to 2013/14 and 2014/15 to give Fire Authorities time to develop their savings plans without adversely affecting front line services.

In addition to the formula grant, the Government also announced that it would provide a specific grant equivalent to a 2.5% increase in Council Tax for 2011/12 for a period of four years where authorities agreed to keep their Council Tax at 2010/11 levels.

Staff consultations and formal consultations with representative bodies including the Fire Brigades' Union, the Fire Officers' Association, the Retained Firefighters' Union and UNISON about the 2011/12 Revenue Budget were conducted as usual. As a result of the decision to freeze Council Tax levels, no broader public consultation was carried out as part of this budget round.

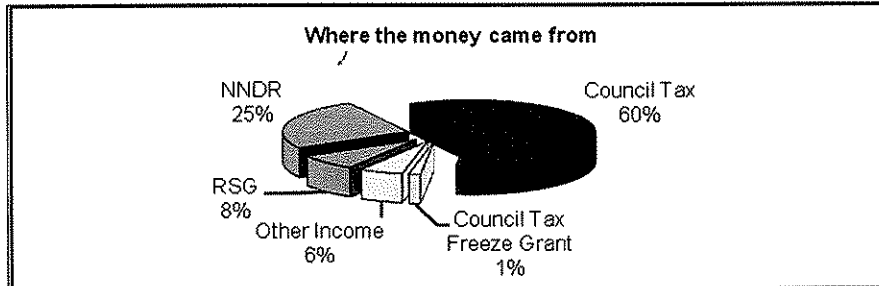
## Explanatory Foreword by the Treasurer

In February 2011, the final revenue budget of £39.203m (a reduction of 0.28% on 2010/11) was approved. This included provision for service investments of £528,000 and savings of £653,000 in 2011/12 rising to £910,000 in 2012/13; £934,000 in 2013/14 and £940,000 in 2014/15 and beyond.

The Fire Authority also approved, in principal, a further programme of indicative savings which are expected to save £1.166m in 2013/14 and £1.56m in 2014/15. Council Tax was frozen at the 2010/11 level of £81.86.

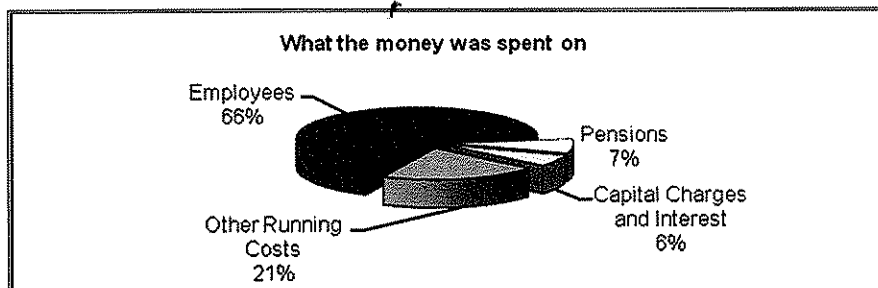
### Revenue Expenditure and Income

The revenue, or day to day, spending of the Authority is shown in full in the Comprehensive Income and Expenditure Statement (page 23) and is summarised in the following charts. The first chart shows the source of resources supporting revenue expenditure.



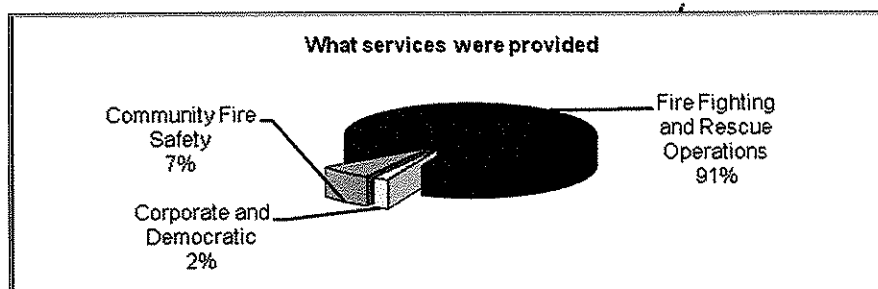
The majority 60% comes from the Council Tax payers of East Sussex and the City of Brighton & Hove. The other main source at 25% is the non-domestic (or business) rate with central government grants 9% and other income 6% making up the remainder.

The next chart shows what this money was spent on:



Fire Authority services are heavily reliant upon staff, and employee and pensions costs accounted for 73% of expenditure. Running expenses including the cost of premises, transport and supplies and services accounted for 21% of the total, and the balance of 6% is made up by capital charges, the costs associated with loans taken out to invest in the Fire Authority's services.

The third and final chart shows the cost of providing the services of the Authority:



The Authority's focus is on services to local communities and this is reflected by the fact that 91% of expenditure is on firefighting and rescue operations. Within this there is an increasing focus on community safety work. Dedicated community safety work makes up 7% of total spend including preventing fires, reducing arson, working with partners in the local business community, and with other local authorities and stakeholders to make all our local communities safer. There is a small balance of 2% covering corporate and democratic core costs.

## Explanatory Foreword by the Treasurer

### Analysis of the Revenue Budget

The table below sets out the main components of the Revenue Budget for 2011/12 and how these compare with the actual outturn:

Year to 31 March 2012	Current	Actual	Variance	
	Budget	Outturn	£'000	%
	£'000	£'000	£'000	%
Employees	25,971	25,952	(19)	(0.1)
Premises	1,932	1,968	36	1.9
Transport	1,301	1,307	6	0.5
Supplies and Services	4,381	4,514	133	3.0
Support Services	503	505	2	0.4
Capital Financing	2,313	2,313	0	0.0
Less Income	(824)	(847)	(23)	2.8
<b>Total</b>	<b>35,577</b>	<b>35,712</b>	<b>135</b>	<b>0.4</b>
Treasury Management	(1,525)	(1,457)	68	(4.5)
Pensions	3,267	2,984	(283)	(8.7)
<b>Total Expenditure</b>	<b>37,319</b>	<b>37,239</b>	<b>(80)</b>	<b>(0.2)</b>
Transfer to Balances	1,884	1,884	0	0.0
<b>Total Gross Expenditure</b>	<b>39,203</b>	<b>39,123</b>	<b>80</b>	<b>(0.2)</b>
<i>Financed by:</i>				
Formula Grant	(14,452)	(14,452)	0	0.0
Council Tax	(24,674)	(24,674)	0	0.0
Council Tax Surplus	£ (77)	(77)	0	0.0
	<b>(39,203)</b>	<b>(39,203)</b>	<b>0</b>	<b>0.0</b>

Careful monitoring of budgets during the year has ensured that new service pressures have been identified early and action taken by officers to manage potential variations within the Fire Authority's approved Revenue Budget.

The Authority's original estimate of net revenue expenditure for the year was £39.203m. The table above shows that in fact the Authority's expenditure was £39.123m, £80,000 less than planned which will be taken to revenue balances. These figures are based on the full cost of providing services i.e. after including charges for support services, use of assets.

The Fire Authority's revenue balances have increased by £1.962m to £7.610m at 31 March 2012 (with the addition of the Capital Receipts Reserve of £1.702m this means that total usable reserves stand at £9.312m - as shown in note 23 to the accounts - of which 56% are held for specific purposes). The transfer to Revenue Balances includes the establishment of earmarked reserves to support the costs of merger, collaboration and transition (£1.000m) and the costs of the planned Wide Area Network (£0.400m).

The analysis of revenue expenditure provided is for budgetary comparison purposes and does not agree directly to the analysis of expenditure contained in the CIES. The disparity arises because the CIES is presented in a prescribed Service Reporting Code of Practice (SeRCOP) format, based on standard accounting practices, which facilitate direct comparisons with other Local Authorities. For example, for external reporting purposes, the CIES includes gains and losses on the sale of fixed assets. The differences in presentation and convention may significantly affect the reported cost of services, but it has no effect on the total reported expenditure of the Fire Authority.

### Earmarked Reserves

The financial statements also set out details of the Fire Authority's earmarked reserves, which are another essential tool to manage risk exposure and smooth the impact of major costs. The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. The level of the Fire Authority General Fund Balance (£4.093m) is consistent with the overall financial environment and the key financial risks faced by the Fire Authority. This risk assessment is carried out annually and takes account of circumstances at the time.

Details of the Fire Authority's earmarked reserves can be found on page 43, within note 8 to the Core Accounting Statements. Current earmarked reserves are £3.517m, the most significant being those to provide resources which may be used for capital spending in order to reduce the need for and consequent revenue cost of borrowing and to support the cost of merger, collaboration and transition activity that will assist in delivering both savings and resilience. Other earmarked reserves cover the Wide Area Network, Radio Communication Equipment, Maritime Incident Response Group (MIRG), Insurance Fund and Fire Safety Management.

## ***Explanatory Foreword by the Treasurer***

Certain reserves are held to manage the accounting processes for tangible fixed assets and retirement benefits and they do not represent usable resources for the Authority.

The Chartered Institute of Public Finance and Accountancy takes the view that there is no theoretically right level of reserves or a generally applicable minimum level of reserves because the factors that affect the need for reserves - such as inflation rates and the certainty about local authorities' spending plans - vary over time, but believes that elected members should agree on the appropriate level of reserves in the light of the advice given by the Treasurer. We always look closely at our reserves and we do not hold more than we need, but equally we are prudent in setting aside money for new facilities and other major committed and planned capital investment.

### ***The Capital Programme***

The Prudential Code allows the Authority to determine its own affordable level of borrowing. This strategy, which includes the Authorised Borrowing Limit and prudential indicators for the Authority is approved through the annual Treasury Strategy report to the Authority.

In 2011/12, the Fire Authority spent £1.483m on its vehicles, buildings and other capital projects.

The Authority can fund its capital expenditure from several sources, each with its own advantages and limitations. The main source of funding in 2011/12 was capital grants (£1.203m) with the balance funded from borrowing (loans raised in previous years ~ £0.280m). Capital bids for new projects are made in accordance with the 5 year Capital Asset Strategy and individual schemes are subject to the Authority's project management regime to ensure effective delivery.

The capital programme budget for the year was £4.394m including any budget not spent in the previous year due to project delays or rescheduling which amounted to £2.094m. The programme was also revised during the year through formal approved variations as better information became available, for example, the rescheduling of the Newhaven Fire Station scheme (£1.000m) and the review of a number of major ICT schemes including the Wide Area Network (£1.600m). The final revised budget for the year was £1.564m.

The underspend of £0.081m compared to the revised budget is due principally to re-phasing / scheme delays (slippage) of £0.139m and net overspends on schemes of £0.058m.

The larger schemes during the year included 4 new fire appliances, the chassis for a new combined aerial rescue pump and continuing improvements to community fire stations at Lewes and Bexhill.

During the year, the Government confirmed that the Authority would receive a capital grant of £1.203m reducing the need to use other resources to support the capital programme. No new borrowing was undertaken during the year, so total prudential borrowing as at 31 March 2012 remained £11.123m.

During 2012/13, the Fire Authority plans to invest £4.808m in capital schemes, including £1.682m on schemes which started in previous years, which will be financed by a capital grant of £1.203m with the balance being met from funds borrowed in advance of need, capital receipts and the capital programme reserve.

### ***Impact of Benefit Pension Schemes***

In line with the accounting standard IAS19, the Fire Authority's net liability for future pension payments, as shown in the Balance Sheet, has increased from £233.668m at the start of the year to £253.802m at 31 March 2012. Note 41 to the accounting statements provide detailed information.

The explanations for this significant change are as follows:

- In assessing liabilities for retirement benefits at 31 March 2011, the actuary assumed a discount rate of 2.6% real (5.5% nominal), which is based on the rate of return at the accounting date on a high-quality corporate bond of equivalent currency and term to scheme liabilities. In assessing liabilities for retirement benefits at 31 March 2012, the actuary has advised that a rate of 2.2% real (4.8% nominal) is appropriate. All other things being equal, the change in the real discount rate over the year has resulted in an increase in liabilities included in the actuarial gain recognised for the year in the Comprehensive Income and Expenditure Statement.
- Some of the loss in the MIRS mentioned above was offset by a change to the salary growth assumption this year with the extension of public sector pay restrictions until 31 March 2015. All other things being equal this acts to reduce the value placed on the Authority's liabilities at 31 March 2012.

The resultant impact on the CIES is a charge of £2.748m under Non Distributed Costs for past service costs (in effect recognising "underpayment" in previous years) and an Actuarial loss on pension liabilities of £4.943m.

The liabilities assessed due over the long-term of the Firefighters' Pension Scheme do not affect the present operational service costs of the Fire Authority, where the actual costs of providing pensions is determined by the government and legislation that sets the employer and employee pension contributions rates for both the 1992 and 2006 Firefighters' Pension Schemes.

## ***Explanatory Foreword by the Treasurer***

### ***Other major financial issues during the year***

The Fire Authority's Treasury Management Strategy for 2011/12, agreed in February 2011 was set against a continued background of market uncertainty and a prudent approach was taken with all investments on an overnight basis (on call). The emphasis continued to be on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed) rather than on yield. The strategy and limits were consistent with the approved capital programme and revenue budget. The strategy aims to secure investment income of at least base rate plus 0.5% on the Fire Authority's general cash balances.

A prudent approach is maintained primarily through investing overnight with selected banks and money market funds that meet the Fire Authority's rating criteria. These criteria were revised (see page 72 of these accounts) during the year to reflect changing market conditions and to safeguard the funds invested. No new borrowing was undertaken in 2011/12, indeed the Authority has not had to externally borrow since 2007/08 as it has been determined that, where necessary, in the short term internal funds would be used to finance new capital investments. As at 31 March 2012, the total outstanding loan debt was £11.123m at an average interest rate of 4.6%. The amount of interest received on short term balances was £0.117m at an average rate of 0.94% (0.44% above the base rate which remained at a historically low level of 0.50% throughout the year).

### ***2012-13 and beyond***

The Authority continues to set its financial plans in the context of a bleak national economic outlook and continued significant and potentially increasing pressure on public finances. The Office for Budget Responsibility has presented a realistically downbeat view of the economy's recovery prospects over the short and medium term, projecting that growth will struggle to exceed its trend rate in the current parliament. The Government's determination to cut the size of the public sector deficit considerably more quickly than its predecessor, will be a drag upon economic activity in the medium term. 2012/13 is the second year of the current 4 year Comprehensive Spending Review period during which Fire Authority grant funding is expected to be cut by at least 20% with the majority of the cuts being backloaded in 2013/14 and 2014/15.

The Fire Authority's budget for 2012/13 was set at £40.030m, an increase of 2.1% over the previous year, and following Member agreement to accept additional one off Government funding, the Council Tax was frozen for a second year at £81.86.

The Authority recognises the serious financial challenges it will face in the future and has been developing plans to balance its budget in 2013/14 and beyond, whilst maintaining its frontline community services. When we set the 2012/13 budget our expectation was that a further £1m of savings would need to be delivered by the end of the current CSR period and £2.5m by the end of our 5 year plan. The service prioritisation process, started in advance of the 2011/12 budget, continues to be key in identifying savings to meet these challenges.

In addition, the Fire Authority has been engaged in a project with West Sussex Fire and Rescue Service to consider the potential operational and financial benefits of collaborative working. Following an initial options appraisal, it was hoped to submit a business case to DCLG seeking approval for the establishment of a single Pan-Sussex Fire Authority from 1 April 2013. However, whilst this work was progressing, the Government launched the Local Government Resource Review (LGRR) which meant it was not possible to be sufficiently certain of the future funding arrangements for a merged Authority, and so Members of both Authorities decided that the project should instead focus on delivering savings and increased resilience through increased collaboration. The main focus of this work is currently to establish a joint Sussex Control Centre and a successful bid for funding of £3.6m was made to DCLG to cover the costs of setting this up. It is expected that the project, once complete, will deliver savings of £0.425m to each authority. Further areas for collaboration are currently being examined, primarily around learning and development.

During the last year, the Government has launched a number of major initiatives which will increase the complexity, uncertainty and risk around future funding for all local authorities. The most significant potential impacts on the Fire Authority will result from the Local Government Resource Review (LGRR) which aims to give Authorities greater financial autonomy from Central Government by allowing all Authorities to keep some of the business rates they collect and abolishing the general grants regime and the Localisation of Council Tax Benefit through which Central Government aims to save 10% of the current scheme's costs. We are currently modelling the impact of these changes as part of the service planning and budget process for 2013/14, but it is unlikely that we will have a clear picture until the proposals are finalised much later in the year.

Following the decision of the Government to abolish the Audit Commission and the subsequent outsourcing exercise, Ernst and Young will replace the Commission's in house practice as the Fire Authority's external auditors on a five year contract from the audit of the 2012/13 accounts. We will be liaising closely with Ernst and Young to ensure a smooth transition. Further changes to the public audit regime are expected when the Government publishes its bill on the Future of Local Public Audit later this year.

Local authorities in the United Kingdom will continue to keep their accounts in accordance with 'proper practices'. IFRS are International Financial Reporting Standards, and are accounting standards issued by the International Accounting Standards Board (IASB). CIPFA/LASAAC continue to consider future changes to IFRS for local government and welcomes the further adoption of IFRS, as it reinforces the drive to improve financial reporting and enhance accountability for public money.



## **Explanatory Foreword by the Treasurer**

### ***The Fire Authority's Stewardship, Responsibilities and Financial Management Policies***

The Fire Authority deals with considerable sums of public money. The Fire Authority's Financial Regulations provide the framework within which financial control is operated. To conduct its business efficiently, a Fire Authority needs to ensure that it has sound financial management and procedures in place to which they are strictly adhered. Strict compliance with these policies ensures that the Fire Authority's policy objectives are pursued in a prudent and efficient way. These Financial Regulations provide clarity about the accountabilities of individuals: Members; the Chief Executive and Chief Fire Officer; the Monitoring Officer; the Treasurer; and other senior officers.

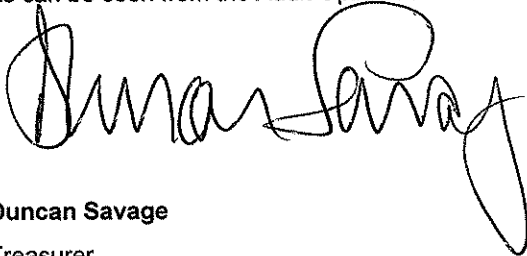
These Financial Regulations link with other internal regulatory documents forming part of the Fire Authority's Constitution, including Standing Orders, the Scheme of Delegation, Codes of Conduct and other corporate strategies. This Statement of Accounts is part of that stewardship process, part of the process for being publicly accountable for public money.

The Annual Governance Statement which is included in this Statement of Accounts covers more than just financial matters and is set out in full on pages 12 to 19 and is complemented by the Statement of Internal Financial Control.

Our financial framework relies upon the quality of the financial systems of the Fire Authority. There is a commitment continually to improve these systems and processes for example through the current programme of budget delegation.

### ***The Audit Opinion***

As can be seen from the Audit Opinion and Certificate on pages 10 to 11 the Auditor is satisfied with these accounts.



**Duncan Savage**

Treasurer

20 September 2012

## Statement of Responsibilities for the Statement of Accounts

### The Authority's Responsibilities

The Authority is required to:

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

### The Treasurer's Responsibilities

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

In preparing this Statement of Accounts, the Treasurer has:

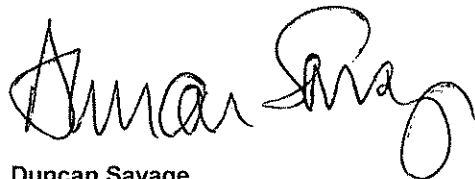
- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code.

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.

### Treasurer's Certificate

I certify that the Statement of Accounts presents a true and fair view of the financial position of the East Sussex Fire Authority as at 31 March 2012 and its income and expenditure for the year ended. These financial statements replace the unaudited financial statements authorised for issue on the 28th June 2012.



Duncan Savage

Treasurer  
20 September 2012

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAST SUSSEX FIRE AUTHORITY

### Opinion on the Authority and Pension Fund financial statements

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

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

### Respective responsibilities of the Treasurer and auditor

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

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In my opinion the financial statements:

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

### Opinion on other matters

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

### Matters on which I report by exception

I report to you if:

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

I have nothing to report in these respects.

# **Independent Auditor's Report to East Sussex Fire Authority**

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

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

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

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

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

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

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

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

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

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

### **Conclusion**

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

### **Certificate**

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

Lizzie Peers  
**Appointed Auditor**

Audit Commission, Suite 2, Ground Floor, Bicentennial Building, Southern Gate, Chichester, West Sussex, PO19 8EZ

20 September 2012

## Annual Governance Statement for the year ended 31 March 2012

### 1. Background

East Sussex Fire Authority, as the authority which runs East Sussex Fire and Rescue Service, is responsible for ensuring that there is a sound system of Corporate Governance which facilitates the effective exercise of the Fire Authority's functions and which includes arrangements for the management of risk.

The Department of Communities and Local Government recognise "proper practice" in relation to Corporate Governance, as contained in the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government (2007)*. The new "proper practice" builds on existing disclosure statement requirements by extending the existing legislative requirements, governance principles and management processes relating to the whole organisation and the activities through which it accounts to, engages with and leads its community.

This Annual Governance Statement summarises how the Fire Authority has complied with its Local Code and also meets the requirements of the Accounts and Audit Regulations 2011. A copy of the Local Code is on our website at [www.esfrs.org](http://www.esfrs.org) or can be obtained from the Fire Authority's Clerk.

### 2. Scope of responsibility

East Sussex Fire Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Fire 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. The latest required arrangements are set out in new DCLG guidance issued in 2011/12 which have been included the latest version of our Service Planning, Use of Resources and Value for Money Strategy. In discharging this overall responsibility, Members and senior officers are responsible for putting in place proper arrangements for the governance of the Fire Authority's affairs, the effective exercise of its functions, the management of risk and the stewardship of the resources at its disposal. To this end, East Sussex Fire Authority has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

### 3. Purpose of the governance framework

Good governance is about how a local authority, including a Fire Authority, ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. Our governance framework comprises the systems, processes, culture and values by which the Fire Authority is directed and controlled. Through effective governance, the Fire Authority is accountable to, engages with and, where appropriate, leads the community.

The Fire Authority has agreed procedures forming a constitution which sets out how it operates, how decisions are made and the processes which are followed to ensure these are efficient, transparent and accountable to the community. Many of these processes are required by statute, while the Fire Authority has determined others locally. The constitution sets out the basic rules governing its formal business.

From 2007/08, the governance responsibilities were charged to the Scrutiny & Audit Panel and also to the Standards Panel. The role of approving this Statement and recommending the Code of Corporate Governance for adoption by the full Fire Authority falls to the Scrutiny & Audit Panel. Also the responsibility for the approval of the Statement of Accounts and the related Annual Governance Report falls to this same Panel.

The Local Code of Corporate Governance can provide only reasonable and not absolute assurance that the Fire Authority achieves its aim of good governance. Equally, the Fire Authority's system of internal control is designed to identify and prioritise the risks to the achievement our policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and to manage those risks efficiently, effectively and economically. It cannot eliminate all risk of failure; it can therefore only provide reasonable and not absolute assurance that our policies, aims and objectives are achieved.

The Local Code, which was substantially revised during 2008/09, and the system of internal control have been in place at East Sussex Fire Authority since 31 March 2009.

### 4. Policy and decision making

In discharging its statutory duties in the provision of services the Fire Authority's constitution provides details of the decision making process for the Fire Authority as a whole. The Fire Authority's constitution is available on our website and is reviewed by the Monitoring Officer on a regular basis and regular reports are received by the relevant Panels relating to proposed changes. The Fire Authority's key Panel for policy and resource planning is the Policy & Resources Panel. Reports of all Panel meetings are presented to the full Fire Authority for consideration at its next meeting. All Fire Authority and Panel meetings held are open to the public, unless the items being discussed are considered to be private under the Local Government Act 1972; these will include staffing, legal matters and those of a contractual nature.

All Fire Authority and Panel agendas are posted on the Fire Authority website and copies of agendas are posted at Service Headquarters and issued for posting at Brighton & Hove City Council and East Sussex County Council main reception offices.

## 5. Establishment and monitoring of corporate and service objectives

The Fire Authority's Medium Term Plan (five year) is approved by Members and provides details of the medium term corporate priorities and community risks it is seeking to improve. The Fire Authority's Annual Plan summarises the improvement agenda for the forthcoming year to meet our 3 Strategic Aims. Targets for the forthcoming year are also provided along with a summary of its performance achievements for the previous year. Targets are reviewed and updated on an annual basis and, where appropriate, further refined during the year based upon actual results.

The Annual Plan also sets out a key summary of resources being used to meet service commitments.

Copies of both documents can be found on our website at: <http://www.esfrs.org>. The Annual Plan establishes in detail our improvement priorities and these feed down through to Corporate Business Plans for each Directorate to follow as well as our Borough Plans for each of our 6 Borough Command areas and local station action plans. Our personnel can then understand where they fit into achieving our overall policy priorities and staff development appraisals help to ensure there is a "Golden Thread" from the strategic to each functional area.

Our key Performance Plans include information on our corporately agreed performance targets. These targets are cascaded through all the Plans and are time specific. Performance is monitored by the Corporate Management Team (CMT) and the Scrutiny & Audit Panel on a quarterly basis giving details of the progress to date and what management action is being taken to correct any adverse performance. Work was completed in 2010/11 to further refine the performance targets to a reduced set of key indicators with supporting performance measures to focus strategic attention on key issues.

Since 2009/10, our key plans have provided improved community profiling information commensurate with the particular aims of the Plans. Local community risk information is also being included to ensure they are properly aligned to meet the diverse needs of local communities and help to mitigate the community risks across our local areas. This key intelligence will help us to ensure our services are prioritised to meet the greatest needs of vulnerable people and work with our partners to ensure our collective efforts protect them from life risk and injury.

## 6. Audit Commission Annual Audit Letter 2010/11

The Audit Commission's Comprehensive Area Assessment (CAA) ceased in 2010/11 following the change in government, although the complementary Operational Assessment regime continues in force. Copies of all previous Audit Commission assessments are available on our website at [www.esfrs.org](http://www.esfrs.org) and a summary of their conclusions is also included in our Annual Plan. The most recent Audit Commission Annual Audit Letter was considered by the Fire Authority in December 2011, which summarised the Fire Authority's current arrangements as set out below:

"I considered whether the Authority is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion. The Authority has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources. My conclusion on each area is set out below:

# Annual Governance Statement for the year ended 31 March 2012

## Value for money criteria and key messages

Criterion	Key Messages
<b>1. Financial resilience</b>	
<b>The organisation has proper arrangements in place to secure financial resilience.</b>	
Focus for 2010/11:	
The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	<p>East Sussex Fire Authority has good systems and processes in place to manage financial risks. Its corporate governance arrangements are clearly documented and are adhered to. The leadership team has a clear understanding of the financial challenges faced by the organisation and this has been communicated in the Corporate Plan and budget setting reports. The Authority has brought forward a range of measures to ensure the continued delivery of the Authority's priorities in the future. A review of service provision in rural areas has been completed and it has recently launched consultation on further collaboration or merger with West Sussex Fire and Rescue Service.</p> <p>The Authority's financial planning and budgetary control is strong. It has a history of managing effectively within available resources. In 2010/11 there was a 1.2 per cent under spend.</p> <p>The Authority has continued to make investments in its property, vehicles and equipment, spending £2.7 million in 2010/11, without needing to increase borrowing. It has reviewed and scaled down the future capital programme to match the level of expected resources and avoid additional borrowing.</p>
<b>2. Securing economy efficiency and effectiveness</b>	
<b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b>	
Focus for 2010/11:	
The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	<p>East Sussex Fire Authority has good arrangements which allow it to challenge and prioritise resources. It has an established planning framework. A mature strategic plan is supported by divisional plans and a review process to monitor delivery of priorities. The plan and priorities are developed in consultation with stakeholders. There is ongoing monitoring and scrutiny of performance and challenge where targets are not being achieved. The Authority's medium term financial plan has been agreed, which includes a programme of savings to be implemented in 2011/12 and 2012/13, with a further savings package approved in principal for 2013/14 and future years. These plans are aside from potential savings which may result from the outcome of the consultation on further collaboration or merger.</p>

The effective targeting and usage of our resources has always been a Fire Authority as well as a Service corporate priority, and for 2011/12 this is being achieved in several ways:

### Securing Financial resilience

- the production of an effective Five Year Financial Strategy which is supported by annual service planning and related budget setting on the most prudent principles.
- the mature corporate risk assessment processes in place
- the investments made and continuing to be made on capital and asset infrastructure
- Investing unused Balances to fund Capital investment to minimise need for borrowing
- Full business appraisals for every financial investment
- Agreeing a new policy for recruitment that requires a full business case to be completed prior to proceeding to recruit to a vacancy for CMT approval.

## Prioritising resources within tighter budgets

- The latest IRMP has unlocked capital resources in Service housing to release it for operational capital investment over the next 4 years which will yield a full year revenue budget saving in excess of £0.5m per annum in relation to essential capital spending.
- A previous, yet sustained, fundamental review of the Capital Programme has taken place to meet reduced resourcing projections which has yielded an immediate revenue saving well in excess of £0.5m per annum for the foreseeable future
- A comprehensive service prioritisation programme is underway that has ensured the Fire Authority's Medium Term Plan is balanced in terms of the expected 25% reductions in formula grant over the next four years until 2015/16.
- The preparation of a draft business case for merger/increased collaboration with West Sussex Fire & Rescue Service (WSFRS) is in progress. (see below for current status)
- A decision to merge the existing control rooms of ESFRS and WSFRS into a Sussex Control Centre with an implementation project now underway for delivery in the second half of 2013/14.

The draft business case for increased collaboration and possible merger was completed following a successful public consultation outcome in the autumn of 2011, with the exception of some key financial information. After the work on the business case was commenced, the Government announced the Local Government Resources Review which, if approved, will have fundamental consequences on local government funding arrangements. As such the DCLG was unable to assist or respective authorities with the projected grant information for a new Sussex CFA and, as such, the medium term financial planning work could not be finalised and financial settlement issues could not be completed. DCLG promised to assist both authorities with the required information as soon as it is possible to do so. The whole position was to be reviewed in December 2012 to assess whether the business case for merger could be completed and respective decisions made by both authorities as to whether to apply to the DCLG for a voluntary combination order for a possible merger date of 1.4.2014. However, West Sussex County Council has recently advised that it does not consider a merger to be possible for the foreseeable future. Meanwhile work on increased collaboration continues to take place, the most significant of which is the decision already taken to create a Sussex Control Centre which is expected to deliver joint savings of £0.95m per annum once implemented in 2013/14.

## 7. Complaints and confidential reporting policies

The Fire Authority operates a formal complaints procedure which is available to both staff and stakeholders either on request or on our website. The procedure is well documented. The Complaints Investigation Officer formally investigates every complaint and a summary of complaints made is reported to the Scrutiny & Audit Panel in September each year. The Fire Authority has dealt with less than 30 complaints each year for the last five years. There have been no findings of maladministration against the Fire Authority for 2011/12.

The Fire Authority also has a Whistleblowing Policy along with an Anti Fraud & Corruption Strategy. Staff are informed of these at their induction and are reminded on a regular basis. Both the Whistleblowing Policy and Anti Fraud Strategy are reviewed and updated where necessary on a regular basis and leaflets issued to all staff. One potential issue was reported under the Fire Authority whistleblowing arrangements in 2011/12, but following investigation, was found to be unsubstantiated, but did lead to a further tightening of internal controls and policy clarifications. In April 2011, an Employment Tribunal claim was received from a previous employee and has now been settled.

## 8. Compliance

The Fire Authority has a duty to ensure that all activities undertaken are in accordance with the law. This is discharged in part by the Fire Authority's Financial Regulations and Contract Standing Orders. Other policies or strategies covering both internal and external issues are available to staff and the public via the East Sussex Fire and Rescue Service intranet and our Fire Authority internet sites respectively and can be found on the Fire Authority website at [www.esfrs.org](http://www.esfrs.org) These include:

- Anti-fraud Strategy
- Whistleblowing Policy
- Freedom of Information

East Sussex Fire & Rescue Service also has a complementary set of Manuals to ensure operational, personnel, health, safety and welfare, financial procedures and corporate administrative arrangements are executed effectively. All strategies, policies and Manuals are allocated to a lead officer who is responsible for the periodic review and updating of each.

## 9. Review of effectiveness

East Sussex Fire Authority reviews the effectiveness of its governance arrangements, including its system of internal control, on a continual basis. This review of effectiveness is informed by:

1. the work of Members through the Scrutiny & Audit Panel and the Standards Panel as well as the full Fire Authority;
2. the work of Corporate Management Team as well as other senior managers within East Sussex Fire & Rescue Service, who have primary responsibility for the development and maintenance of the internal control environment;
3. the Statement of Internal Financial Control and the work of the Treasurer of the Fire Authority as the Fire Authority's Chief Financial Officer and officers of East Sussex Fire & Rescue Service with financial management responsibilities;



4. the work of the Monitoring Officer (who is also the Head of Law at Brighton & Hove City Council); and officers of East Sussex Fire & Rescue Service with corporate governance responsibilities;
5. the annual risk management report and periodic review of strategic risks conducted by Corporate Management Team and considered by the Scrutiny & Audit Panel;
6. the work of the internal audit service including their annual report and opinion;
7. the external auditors in their various audit and annual governance reports;
8. the Audit Commission's assessment processes for governance and internal control arrangements.
9. any judgements made by a range of external inspection and other statutory bodies including the Local Government Ombudsman and the Standards Board for England (to be disbanded) (no referrals have been reported by either organisations in 2011/12).

## 10. Key elements of the governance and internal control environments

The key elements that comprise the Fire Authority's governance arrangements are set out in the Local Code and they include:

### Fire Authority Constitutional arrangements

- the Fire Authority's constitution which sets out clear arrangements for decision making, scrutiny, communication and the delegation of powers to officers and Members;
- codes of conduct for Members and employees which set out clear expectations for standards of behaviour;
- a clear framework for financial governance based on Contract Standing Orders, Financial Regulations and Standard Financial Procedures;
- a risk management strategy and detailed risk management framework, which takes account of both strategic and operational risks and ensures that they are appropriately managed and controlled;
- Fire Authority Panels (committees of Members of the Authority) with clear responsibilities for governance, audit and standards;
- established arrangements for dealing with complaints and whistle-blowing, and combating fraud and corruption.
- The Fire Authority has appointed the Director of Corporate Resources at East Sussex County Council as its Treasurer who fulfills the role of the Chief Finance Officer. The Treasurer or their Deputy, attends all CFA and Panel meetings and is represented on the Corporate Management Team by the Assistant Chief Officer (Corporate Services) and the Director of Financial Services. The Fire Authority is satisfied that these arrangements and its financial management more generally comply in all material respects with the CIPFA Statement on the role of the Chief Finance Officer.

### Strategies

- a range of supporting Strategies that link the constitutional arrangements with our Vision, Strategic, Aims, supporting corporate objectives and our values which we wish to uphold in everything we do. It also provides links to the functions of the organisation.

### Performance Plans

- an established medium term planning process including the process for reconciling policy priorities with financial resources, which takes account of the need to improve both customer focus and efficiency; and which feeds into:
  - a Medium Term Plan that sets out our medium term vision for our local communities and the outcomes we intend to achieve for them. Included in it is the Community Risk Management (Integrated Risk Management) Plan that covers a three year period detailing the key service priorities, proposed areas for review over the medium term and to seeks consultation and active engagement with our affected local communities through the lifetime of the Plan;
  - an Annual Plan that sets out our annual aims and objectives for our local communities and the outcomes we intend to achieve for them each year;
  - 4 Directorate Business Plans that identify the functional work targets across the organisation to meet the strategic aims;
  - related Borough Plans that identify the functional work targets across the 6 Borough Commands for local stations to deliver local services targeted to their needs and summarise local community profiles and risk and how the Plan will help to support those with particular and diverse needs as well as mitigate local risks.

### Performance Management Framework

- a business planning and performance management framework which includes setting clear objectives and targets, both financial and otherwise;
- regular reporting of performance against the Fire Authority's key corporate objectives, national and local performance indicators and their related performance improvement targets as set out in the Annual Plan, to officers and Members;
- established budgeting systems, clear budget management guidance and regular reporting of financial performance against budget forecasts to officers and Members;
- delegated financial management processes to promote ownership of financial issues within our four Directorates;
- a partnership review framework that ensures our partnership working arrangements meet the objectives set;
- a range of policies and processes designed to ensure best practice and legal compliance for personnel matters, IT security, access to information, data protection and project management;
- Borough Commanders attend CMT on a quarterly basis to report on their respective teams' performance.

## Operational Assurance

- the Operational Assurance action plan is being completed to the agreed timetable set and monitored by CMT;
- the Fire Authority has agreed the continued, but tapered, funding for the Operational Improvement Team;
- the Retained Duty System contracts have been revised to secure more effective and resilient retained appliance availability;
- a review of the Incident Command System is underway to provide a resilient command and supervision structure to be supported by an operational assurance framework that assesses our performance at all levels of incidents;
- business continuity plans are in place and testing commenced in 2011/12 and will continue in 2012/13;
- the feasibility study for the Sussex Control Centre is now providing a basis on which to plan for the future effectiveness of our call handling providing dynamic mobilising of appliances based upon their ability to attend quickest not on location of fire station.

## People and organisational development

- assessment under the Equality Framework ensures legal compliance as well as fundamental linkage with business aims schemes for identifying the development needs of Members and officers, supported by appropriate training; ESFRS has just received 'Excellence' as an outcome to the latest external peer review.
- development programme in place for Corporate Management Team learning and development approaches to not only ensure operational or professional competencies are sustained and enhanced, but building our middle managers to be our local community leaders;
- learning and development competency framework which received a national commendation in 2010/11;
- strategies for communication and consultation with our key stakeholders, partners and our local communities;
- achievement of Charter status for Member Learning & Development, following an amended induction and development programme along with a Member mentoring scheme;
- reviewed and implemented new procedures for discipline, grievance, attendance and performance management ;
- introduced managing change policy (redundancy) and a flexible retirement package;
- revision of staff contracts to improve capacity.
- introduction of the new Firewatch HR and training software in early 2012/13 following the project creation in 2011/12.

## Information Management

- the Business Plan incorporates developing frameworks including the Information Technology Infrastructure Library V3 (ITIL V3) to focus on organisational objectives and drive up productivity with emphasis on performance and quality.
- Information Management Strategy is designed to provide IT solutions to organisational business requirements and also assign resources for acquiring or developing such solutions. The Strategy also maps the solutions to the organisational objectives thereby providing a link between the solutions and the business objectives it supports.
- the Strategy is based upon a fundamental principle of providing IT solutions by not limiting technologies supplied by Microsoft or Novell thereby maintaining a platform that can support either system or format.
- the Strategy is introducing a unified communication system to foster collaborative working, sharing of information and task management. This will negate the need to circulate or store multiple copies of the same information.
- External and internal IT audit reviews. Regular external and internal audits take place on our IT infrastructure. An external audit undertaken in 2010/11 on IT security arrangements required the implementation of a number of key actions which have been monitored by CMT throughout 2011/12. All high and medium priority actions are scheduled for completion to a defined timetable until all key priorities have been addressed. This work has been further supported by external consultants who are working with both Services on the Sussex Control Centre project and related joint IT issues. A revisit from the external auditors to assess progress with action plan implementation will take place in 2012/13/

## Corporate Risk and Insurance

- corporate risk management arrangements are mature and corporate training is refreshed annually with different approaches being used to ensure continual improvement in skill sets and competencies.
- a fundamental review of corporate insurance cover took place in 2010/11 to consider current and future risks and costs of insurance relative to those risks. The review was considered by Corporate Management Team and whilst most of the portfolio remained unchanged, decisions were taken to enhance cover in some areas and raise excesses on motor insurances and establish an internal fund to meet the self-insured costs as this was likely to be cheaper over the long term. No other changes in insurance cover have taken place in 2011/12.

## 11. Incident at Marlie Farm

The Health and Safety Executive (HSE) undertook a review of the work undertaken by East Sussex Fire & Rescue Service following the incident at Marlie Farm, East Sussex on 3 December 2006 where two personnel from East Sussex Fire & Rescue Service tragically lost their lives. A formal letter was received from the HSE on 19 March 2008 raising concerns on matters relating to operational communication to station personnel, operational training and risk management arrangements. A formal action plan was agreed to ensure all issues raised have been, or are being substantially resolved, within the timescale set by the Health and Safety Executive. The Health and Safety Executive reviewed the final position and approved the actions taken which demonstrated that ESFRS met all the concerns raised. Civil claims are being handled via our insurers.

## 12. Equality and Diversity

ESFRS met the latest 'Achieving Excellence Standard' of the Equality Standard for Local Government in March 2012. This involved all parts of the organisation ensuring that not only are our employment practices sound, but diversity and equality principles are embedded in everything we do. All our strategies have had Equality Impact Assessments completed on them, and the strategies adapted accordingly.

## 13. Assurance and Significant Governance Issues

No assurance can ever be absolute; however this statement seeks to provide a reasonable assurance that there are no significant weaknesses in the Fire Authority's governance arrangements. On the basis of the review of the sources of assurance set out in this statement, we are satisfied that the Fire Authority has in place satisfactory governance arrangements which are operating effectively.

A major review of our constitutional framework took place in 2007/08. A further update took place in 2009/10 with changes approved for the release of the Members' Handbook in July 2010. Various updating for legislative changes or internal requirements takes place throughout the year with a new Handbook being released for the AGM in June each year.

Other related development work in 2011/12 has now been completed. The year's work has included:

- Keeping under review the effectiveness of the final implementation of the action plan achieved in 2010/11 arising from the self-assessment of our corporate governance arrangements using the CIPFA/SOLACE guidance.
- Keeping under review the action plan following the original self-assessment review of Managing the Risk of Fraud and in line with all subsequent Audit Commission /CIPFA guidance; again, our base level of compliance was good and the remaining action points have been completed. The latest Audit Commission guidance has also been reviewed, a compliance assessment undertaken and reported to the Scrutiny & Audit Panel for monitoring purposes.
- Continuing to finalise our directorate/functional business continuity plans to the previously agreed corporate template so that every functional area can relocate and continue to work in an alternative premises, if required to meet our own responsibilities and are in keeping with our Civil Resilience responsibilities.
- Continuing to develop our directorate business plans to include the new challenges identified by the Audit Commission for managing the finances, governing the business and managing the resources now assisted by using Interplan so that our business plans are kept up to date throughout the year and corporate monitoring takes place more easily.
- Continuing to develop the Fire Authority's information security policy and put in place consistent and robust approaches to information security management in line with relevant national standards – the monitoring of which takes place on a quarterly basis by CMT.

On the basis of the review of the sources of assurance set out in this statement, we are satisfied that the Fire Authority also has in place a satisfactory system of internal control which is operating effectively. On the basis of the internal audit work completed, it is internal audit's opinion that "the Fire Authority has in place a sound framework of internal control that provides a reasonable assurance regarding the efficient and effective achievement of its objectives."

Although Internal Audit was able to provide this assurance, the Internal Annual Report for 2011/12 drew to the attention of the Scrutiny & Audit Panel weaknesses in the control environment of the Lewes and Bexhill refurbishment project.

Despite these weaknesses, the overall opinion reflected the positive response by management to our recommendations and its commitment to addressing the issues identified as well as other recommendations made in other audit reports. Clearly, it is important that all agreed actions are completed to the timescales set and formal follow up reviews will be undertaken by internal audit during 2012/13, as appropriate. The respective senior managers within ESFRS have given their commitment to ensure that all the issues identified are addressed. Apart from these latter issues, we have not identified any significant gaps in assurance over key risks or significant governance and internal control issues. The Fire Authority will continue to regularly monitor issues that may seriously prejudice or prevent achievement of its key objectives through its strategic risk review process.

Both governance and internal control arrangements must be kept under review to ensure that they continue to operate effectively and meet changing legislative needs, reflect best practice and our intention to achieve excellence in all our activities.

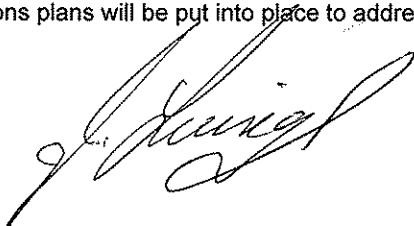
The Fire Authority has progressed with a number of initiatives to enhance its governance arrangements which will continue for 2012/13 and beyond, as follows:

- Continue to implement outcomes achieved and further develop its strategic service prioritisation approach to assist with the bleaker financial context facing the whole of the public sector for the foreseeable future;
- Continue to rationalise the business agenda for the Fire Authority and its Main Panels to improve focus on strategic decision making and use the Members seminars and bulletins for information sharing;
- Further develop the Member Lead arrangements where 16 of the 18 members on the Fire Authority now have a lead responsibility for progressing a strategic issue and reporting progress to fellow Fire Authority members, as supported by ESFRS staff and CFA appointed officers as appropriate;
- Continue to improve in embedding equality and diversity principles and practices following the 'Achieving Excellence' Equality Standard for Local Government;

**Annual Governance Statement for the year ended 31 March 2012**

- Enhance management and control over energy usage and promote its environment strategy objectives to gain commitment from all staff and improve performance across all organisational activities;
- Complete our community profiling development work including the development of social marketing concepts to aid local and strategic decision making by better understanding the needs of our local communities and the diverse needs of individuals within our local area and ensure the information can be accessed and used simply and effectively across the organisation by having the right support systems and information management processes in place;
- Complete the action plans following the recent self-assessments identified above;
- Keep under review corporate health, safety and welfare arrangements including the health and safety values within the organisation;
- Make further adaptations, if required, to our constitutional arrangements and delegations to meet requirements of the Local Government and Public Involvement in Health and Localism Acts.

Actions plans will be put into place to address these issues, and their implementation will be monitored and reviewed.



*John Livings*  
Councillor ~~Paul Sparks~~ *JOHN LIVINGS*  
~~VICE CHAIRMAN OF THE FIRE AUTHORITY~~  
~~and~~  
~~CHAIRMAN OF THE SCRUTINY & AUDIT PANEL~~ *John Livings*

20 September 2012



Desmond Prichard  
CHIEF FIRE OFFICER &  
CHIEF EXECUTIVE

20 September 2012

# Statement Reporting Reviews of Internal Financial Controls for the year ended 31 March 2012

This statement is given in respect of the Statement of Accounts for the East Sussex Fire Authority.

I acknowledge my responsibility under the 1972 Local Government Act (s151) and the Accounts and Audit Regulations 2011 for ensuring that there are adequate and effective arrangements for financial management and that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

My review of the effectiveness of the system of internal financial control is informed by:

- the work of managers within the Fire Authority;
- the work of contracted financial services staff employed by East Sussex County Council who work on behalf of the Fire Authority;
- the work of the internal audit service;
- the external auditors in their annual audit and inspection letter and other reports.

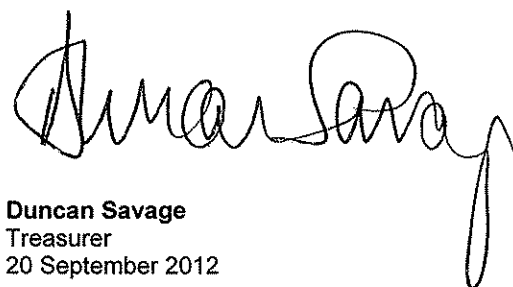
The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. It is management's responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved. It is the responsibility of internal audit to form an independent opinion on the adequacy and effectiveness of the system of internal control. In particular, the system includes:

- an established medium term planning process including the process for reconciling policy priorities with financial resources;
- comprehensive budgeting systems and clear budget management guidance;
- regular reporting of financial performance against budget forecasts to officers and Members;
- the use of key financial systems provided by East Sussex County Council to the Fire Authority which are subject to regular review by internal audit;
- arrangements for the provision of financial support and advice to the Fire Authority from East Sussex County Council;
- a clear framework for financial governance based on contract standing orders and financial regulations;
- clearly defined capital expenditure guidelines and processes which are compliant with CIPFA's Prudential Code;
- clearly defined responsibilities for budget and financial management;
- robust and appropriate treasury management arrangements which are compliant with CIPFA's Treasury Management Code, and;
- a clear Anti-fraud and Corruption Strategy.

In carrying out my responsibility for establishing sound financial management arrangements I have relied primarily on my head of profession links with the Assistant Chief Officer (Corporate Services) and the systems and processes outlined above. I am satisfied that my role and the Fire Authority's financial management arrangements generally are compliant with CIPFA's Statement on the Role of the Chief Officer in Public Service Organisations in all material respects. I have also placed reliance on the Fire Authority's statutory internal audit arrangements for which I am responsible. East Sussex Fire Authority's internal audit service is provided through a contract with East Sussex County Council's Corporate Resources Directorate. The internal audit service is delivered in line with the Code of Practice for Internal Audit in Local Government in the United Kingdom and includes a risk based strategic audit plan and reporting to managers and the Scrutiny & Audit Panel. On the basis of the audit reviews carried out, the Head of Internal Audit provides an independent annual opinion on the adequacy and effectiveness of the system of internal control.

No assurance can ever be absolute. However, this opinion seeks to provide a reasonable assurance that there are no significant weaknesses in the Fire Authority's system of internal financial control. In my opinion, the Fire Authority has in place a satisfactory framework of internal financial control. However, through the work of internal audit weaknesses in the control environment have been identified in relation to procurement and project management arrangements for capital projects. I am satisfied that appropriate action is being taken by the relevant managers to address these weaknesses. The Fire Authority does also face a number of challenges going forward (which are summarised in the Fire Authority's risk register) and will need to keep its system of internal financial control under review.

We know that the financial outlook for public spending over the medium term will be the most challenging for decades. With the back-loading of grant reductions for Fire Authorities and the added uncertainty as a result of the Local Government Resource Review and the Localisation of Council Tax Benefit our service and financial planning processes for the last two years of the current CSR period and beyond will need to continue to be both robust and flexible. The Authority will need to build on the groundwork it has already put in place through the service prioritisation exercise and its programme of collaboration with West Sussex Fire & Rescue Service to ensure that it can meet the medium term financial challenge.



**Duncan Savage**  
Treasurer  
20 September 2012

## Movement in Reserves Statement

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

	General Fund Balance	Capital Receipts Reserve	Earmarked reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2010</b>	3,781	-	402	-	4,183	(229,041)	(224,858)
<b>Movement in Reserves during 2010/11</b>							
Surplus or (deficit) on provision of services	13,937	-	-	-	13,937	-	13,937
Other Comprehensive Income and Expenditure	-	-	-	-	-	18,727	18,727
<b>Total Comprehensive Income and Expenditure</b>	<b>13,937</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,937</b>	<b>18,727</b>	<b>32,664</b>
Adjustments between accounting basis & funding basis under regulations (Note 7)	(12,472)	700	-	-	(11,772)	11,772	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>1,465</b>	<b>700</b>	<b>-</b>	<b>-</b>	<b>2,165</b>	<b>30,499</b>	<b>32,664</b>
Transfers to/from Earmarked Reserves (Note 8)	(1,992)	-	1,992	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>(527)</b>	<b>700</b>	<b>1,992</b>	<b>-</b>	<b>2,165</b>	<b>30,499</b>	<b>32,664</b>
<b>Balance at 31 March 2011</b>	<b>3,254</b>	<b>700</b>	<b>2,394</b>	<b>-</b>	<b>6,348</b>	<b>(198,542)</b>	<b>(192,194)</b>

## Movement in Reserves Statement

	General Fund Balance	Capital Receipts Reserve	Earmarked reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2011 carried forward	3,254	700	2,394	-	6,348	(198,542)	(192,194)
<b>Movement in Reserves during 2011/12</b>							
Surplus or (deficit) on provision of services	(13,174)	-	-	-	(13,174)	-	(13,174)
Other Comprehensive Income and Expenditure	-	-	-	-	-	(4,226)	(4,226)
<b>Total Comprehensive Income and Expenditure</b>	<b>(13,174)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(13,174)</b>	<b>(4,226)</b>	<b>(17,400)</b>
Adjustments between accounting basis & funding basis under regulations (Note 7)	15,136	1,002	-	-	16,138	(16,138)	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>1,962</b>	<b>1,002</b>	<b>-</b>	<b>-</b>	<b>2,964</b>	<b>(20,364)</b>	<b>(17,400)</b>
Transfers to/from Earmarked Reserves (Note 8)	(1,123)	-	1,123	-	-	-	-
Increase/Decrease in Year	839	1,002	1,123	-	2,964	(20,364)	(17,400)
<b>Balance at 31 March 2012</b>	<b>4,093</b>	<b>1,702</b>	<b>3,517</b>	<b>-</b>	<b>9,312</b>	<b>(218,906)</b>	<b>(209,594)</b>

# Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the Fire Authority's actual financial performance for the year in accordance with proper accounting practices. It summarises the resources that have been generated and consumed in providing the functions for which the Authority is responsible, and demonstrates how the cost has been financed from general government grants and income from local taxpayers. The taxation position is shown in the Movement in Reserves Statement.

2010/11				2011/12		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
2,690	(39)	2,651	Community Fire Safety	2,684	(178)	2,506
40,185	(1,238)	38,947	Fire Fighting and Rescue Operations	35,250	(670)	34,580
			Central services:			
762	-	762	Corporate and Democratic Core	711	-	711
-	(29,222)	(29,222)	Non Distributed Costs (Note 5)	2,748	-	2,748
<b>43,637</b>	<b>(30,499)</b>	<b>13,138</b>	<b>Cost of Services</b>	<b>41,393</b>	<b>(848)</b>	<b>40,545</b>
		(522)	Other operating expenditure (Note 9)			(71)
		13,640	Financing and investment income and expenditure (Note 10)			13,113
		-	Surplus or deficit of discontinued operations			-
		(40,193)	Taxation and non-specific grant income (Note 11)			(40,413)
		<b>(13,937)</b>	<b>(Surplus) or Deficit on Provision of Services</b>			<b>13,174</b>
		(2,428)	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets (Note 24)			(717)
		(16,299)	Actuarial (gains) /losses on pension liabilities (Note 24)			4,943
		<b>(18,727)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>4,226</b>
		<b>(32,664)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>17,400</b>

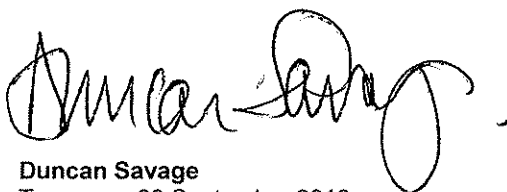


## Balance Sheet

The Fire Authority Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'

31 March 2011			31 March 2012	
£000		Notes	£000	
46,464	Property, Plant & Equipment	12	45,968	
-	Investment Property	13	-	
-	Intangible Assets	14	-	
-	Long Term Investments	15	-	
-	Long Term Debtors	15	-	
<b>46,464</b>	<b>Long Term Assets</b>		<b>45,968</b>	
4,505	Short Term Investments	15	8,907	
152	Assets Held for Sale	20	-	
1,091	Payments in Advance		1,113	
47	Inventories	16	59	
1,536	Short Term Debtors	18	1,075	
2,476	Cash and Cash Equivalents	19	2,389	
<b>9,807</b>	<b>Current Assets</b>		<b>13,543</b>	
-	Income in Advance		-	
-	Short Term Borrowing	15	-	
(3,094)	Short Term Creditors	21	(3,786)	
-	Provisions	22	-	
<b>(3,094)</b>	<b>Current Liabilities</b>		<b>(3,786)</b>	
(233,668)	Liabilities related to defined benefit pension schemes	41	(253,802)	
-	Provisions	22	-	
(11,123)	Long Term Borrowing	15	(11,123)	
-	Other Long Term Liabilities	15	-	
(580)	Deferred Liabilities	15	(394)	
-	Donated Assets Account	35	-	
-	Capital Grants Receipts in Advance	35	-	
<b>(245,371)</b>	<b>Long Term Liabilities</b>		<b>(265,319)</b>	
<b>(192,194)</b>	<b>Net Assets</b>		<b>(209,594)</b>	
6,348	Usable Reserves	23	9,312	
(198,542)	Unusable Reserves	24	(218,906)	
<b>(192,194)</b>	<b>Total Reserves</b>		<b>(209,594)</b>	

I certify that this Statement of Accounts provides a true and fair view of the financial position of the Fire Authority as at 31 March 2012 and its Comprehensive Income and Expenditure Statement for the year then ended. These financial statements replace the unaudited financial statements authorised for issue on the 28th June 2012.



**Duncan Savage**  
Treasurer, 20 September 2012

The statement was approved by the Scrutiny and Audit Panel on 20 September 2012.

## Cash Flow Statement

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

2010/11		2011/12
£000		£000
(13,937)	Net (surplus) or deficit on the provision of services	13,174
9,139	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 25)	(19,293)
1,637	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 25)	2,205
(3,161)	Net cash flows from Operating Activities	(3,914)
2,763	Investing Activities (Note 26)	3,781
143	Financing Activities (Note 27)	220
(255)	Net (increase) or decrease in cash and cash equivalents	87
<b>2,221</b>	Cash and cash equivalents at the beginning of the reporting period	<b>2,476</b>
<b>2,476</b>	<b>Cash and cash equivalents at the end of the reporting period (Note 19)</b>	<b>2,389</b>

Note:

An adjustment of £69k was made between the 2010/11 figures for Adjustments to net surplus or deficit on the provision of services for non-cash movements and Financing Activities from the publicised version of the 2010/11 Statement of Accounts.

# Notes to the Accounting Statements

## Authorisation of Statement of Accounts & Prior Period Adjustments

Authorisation of Statement of Accounts - These accounts were authorised for issue by Duncan Savage, Treasurer, and the Statement of Accounts (approved on 20 September 2012) is published with an audit opinion.

## Accounting Policies

### i. General

The Chartered Institute of Public Finance and Accountancy (CIPFA) provide legally binding guidance on local authority accounting. The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the *Service Reporting Code of Practice 2011/12*, supported by International Financial Reporting Standards (IFRS), statutory guidance issued under section 12 of the 2003 Act, and Accounts and Audit (England) Regulations 2011. The accounting convention adopted for the Authority's Accounting Statements is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Authority regularly reviews its accounting policies to ensure that they remain the most appropriate, giving due weight to the impact that a change in accounting policy would have on comparability between periods. In accordance with the Code, the Authority has disclosed the expected impact of new accounting standards that have been issued but not yet adopted.

### ii. Accruals of Income and Expenditure

The accounts of the Authority are prepared on an accruals basis. Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### iii. Debtors and Creditors

We record all material transactions on the basis of income and expenditure. In order to achieve this we account for actual or estimated debtors and creditors at the end of the year, except in two cases:

- Charges for utilities (gas, electricity and telephones) are not accrued, so long as we have paid for a full twelve months during each financial year;
- Accruals are generally not raised where amounts are immaterial, although managers' discretion may be used. This exception has no material effect on the financial statements.

Lump sum payments relating to redundancy cases are accounted for in the period when the related decision was taken.

### iv. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits held by the Authority as part of its normal cash management including all deposit accounts with financial institutions repayable without penalty on notice of not more than 24 hours. Cash Equivalents are generally defined as short-term, highly liquid investments that are readily convertible to cash. They are held for short term cash flow requirements rather than for investment gain and have an insignificant risk of a change in their value.

## Notes to the Accounting Statements

The Authority defines cash equivalents as any investment that could be recalled the same day without penalty and include call accounts, money market funds and instant deposits. However the Authority use these products for both short term cash flow requirements and investment gain purposes. The Authority therefore defines only its call account with its own banker (NatWest) as a cash equivalent used for short term cash flow requirements. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

**Short Term Investments** - Short Term Investments are those investments that are not classified as a cash equivalent as they are held for investment gain purposes. The Authority's annual Treasury Management Strategy sets out the type of investments that meet its security, liquidity and yield criteria.

### v. Exceptional Items

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

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

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

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

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

### vii. Charges to Revenue and Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation is provided for on all assets used by the relevant service with a determinable finite life (except for investment properties, assets under construction and community assets), by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.
- Revaluation and impairment losses on tangible Property, Plant and Equipment assets used by the service where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- Amortisation of intangible fixed assets attributable to the service.

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

### viii. Employee Benefits

Employee benefits are accounted for in accordance with the Code's interpretation of IAS 19 – Employee Benefits. This standard covers both benefits payable during and after employment.

#### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### Termination Benefits

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

## Notes to the Accounting Statements

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

### Post Employment Benefits

The Authority contributes to two different pension schemes that meet the needs of different groups of employees. The schemes are:

- The Firefighters Pension Scheme
- The Local Government Pension Scheme.

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

### Firefighters' Pensions Scheme

Details of the Firefighters' Pension Scheme can be found on page 76.

### Local Government Pensions Scheme

Most other employees can join the Local Government Pension Scheme. East Sussex County Council administers the pension fund for all local authorities and other admitted bodies within the geographical area of East Sussex.

The Local Government Scheme is accounted for as a defined benefits scheme:

As per IAS 19/IAS 26, the liabilities of the pension scheme attributable to the Fire Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees.

In assessing liabilities for retirement benefits at 31 March 2011, the actuary assumed a discount rate of 2.6% real (5.5% nominal), which is based on the rate of return at the accounting date on a high-quality corporate bond of equivalent currency and term to scheme liabilities. In assessing liabilities for retirement benefits at 31 March 2012, the actuary has advised that a rate of 2.2% real (4.8% nominal) is appropriate.

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

- quoted securities – current bid price;
- unquoted securities – professional estimate of fair value;
- unitised securities – current bid price;
- property – market value.

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

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

## Notes to the Accounting Statements

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

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

### ix. Events After the Balance Sheet Date

The accounts have taken into consideration any material event after the Balance Sheet, which are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period for which the Authority shall adjust the amounts recognised in its financial statements or recognise items that were not previously recognised (adjusting events);
- Those that are indicative of conditions that arose after the at the end of the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

### x. Financial Instruments

#### Financial Liabilities

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

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

Where loans are replaced through restructuring, there are distinct accounting treatments, as follow:

- *Modification* - Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.
- *Substantially Different* - Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.
- *Early repayment of loans* - The accounting treatment for premiums and discounts arising on the early repayment of loans is largely dictated by the general principle that financial instruments are derecognised when the contracts that establish them come to an end. The amounts payable or receivable are cleared to the Comprehensive Income and Expenditure Statement upon extinguishment. In line with regulations and statutory guidance, the impact of premiums is spread over future financial years. These provisions are effected in the Movement in Reserves Statement on the General Fund Balance, after debits and credits have been made to the Comprehensive Income and Expenditure Statement. The adjustments made in the Movement in Reserves Statement are managed via the Financial Instruments Adjustment Account.

# Notes to the Accounting Statements

## Financial Assets

Loans and Receivables - assets that have fixed or determinable payments but are not quoted in an active market. Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For all of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service line) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest will be credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provision require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year - the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

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

Where, the Authority entered into financial guarantees that are not required to be accounted for as financial instruments. These guarantees will be reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

## **xi. Foreign Currency Transaction**

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

## **xii. Government Grant and Contributions**

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

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

Government grants and third party contributions and donations to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied or there is reasonable assurance that they will be met. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

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

## **xiii. Intangible Assets**

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

## **Notes to the Accounting Statements**

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase. Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve. Capital receipts (if more than the de-minimus level of £10,000) from the sale of assets are held in a reserve until they are required to finance capital expenditure.

### **xiv. Interests in Companies and Other Entities**

The investments in the Authority's accounts are shown at cost.

The Authority is of the opinion that it has no material interest in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities which would require it to produce Group Accounts alongside its own financial statements.

### **xv. Inventories and Long Term Contracts**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the latest invoice price.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

### **xvi. Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **xvii. Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of Property, Plant or Equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

### **xviii. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.



## Notes to the Accounting Statements

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### The Authority as Lessee

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the Property, Plant or Equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

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

### The Authority as Lessor

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases - Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

# Notes to the Accounting Statements

## xix. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011/12 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

## xx. Property, Plant and Equipment

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

### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

We record as capital expenditure all transactions that involve the purchase of new Property, Plant and Equipment or expenditure that adds to their value. The purchase of furniture and equipment is treated as capital if it is associated with capital building works. Otherwise individual items of vehicles and equipment are treated as capital if the value is over £20,000. If the value is less than this sum we charge it to revenue.

### Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value (EUUV)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUUV).

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

## Notes to the Accounting Statements

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

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

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

### Impairment

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

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

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

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

### Componentisation

Componentisation applies to Plant and Equipment assets from 1<sup>st</sup> April 2010 in relation to enhancement expenditure, acquisition expenditure and revaluations carried out as per the five year rolling programme. Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets and calculated on a straight-line basis over the expected life of the asset, on the difference between the book value and any estimated residual value. Depreciation is charged on all classes of assets, with the exception of land, community land assets, investment land, land awaiting disposal and assets under construction.

The Authority does not have a Housing Revenue Account (HRA) which accounts for the provision for housing accommodation, so all net assets employed by the Authority relate to the General Fund.

The life expectancies of the assets and the depreciation is calculated on the following bases:

Operational land	Not depreciated as an infinite life expectancy
Operational buildings	Individually assessed by valuers
Vehicles	Individually assessed on acquisition (usually up to 10 years)
IT equipment	Individually assessed on acquisition (usually up to 5 years)
Other plant, furniture and equipment	Individually assessed on acquisition (usually up to 20 years)
Intangible assets	Length of IT software licence agreement (if capitalised)
Investment properties	Individually assessed by valuers
Investment land	Not depreciated as an infinite life expectancy
Assets under construction	Not depreciated
Buildings awaiting disposal	Individually assessed by valuers
Land awaiting disposal	Not depreciated as an infinite life expectancy

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

## Notes to the Accounting Statements

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

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

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### xxi. Provisions, Contingent Liabilities and Contingent Assets

#### Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

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

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

#### Contingent Liabilities

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

#### Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## Notes to the Accounting Statements

### xxii. Reserves

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

### xxiii. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, the cost of revenue expenditure funded from capital under statute is immediately charged to the revenue account for the appropriate service, and a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax. In some cases, this is because we capitalise expenditure on schemes such as increasing access for the disabled: such expenditure is initially added to the asset value and then revalued to negate its effect. There are other circumstances where we account for capital expenditure as revenue expenditure funded from capital under statute rather than assets. This includes expenditure on assets not owned by the Authority, capital grants and on feasibility studies for schemes that may or may not take place.

In addition, the Government may direct the Authority to treat as capital expenditure items which would normally count as revenue. These would not result in an asset or an increase to the value of existing assets and are therefore treated as revenue expenditure funded from capital under statute.

### xxiv. Value Added Tax (VAT)

VAT paid by the Authority is only shown in the accounts as an amount recoverable from HM Customs and Revenue. VAT charged by the Authority to its customers is payable to Customs and Revenue, and is therefore shown only as a reduction of the net amount payable.

### xxv. Interest Charges

We show the accrued interest associated with a loan as part of the carrying value of the loan. Loans are included on the Balance Sheet at amortised cost based on the Effective Interest Rate (EIR) method.

Where no EIR calculation has been undertaken, the accrued interest will be charged to the Income and Expenditure Accounts and added to the value of the loan. This will increase the carrying value of the loan until such time the interest is paid.

### xxvi. Redemption of Debt

There is a legal requirement for the Authority to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement of at least 4% of its total debt outstanding at the start of the year or an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. This is not a cost to the Comprehensive Income & Expenditure Statement but is charged to the General Fund through the Movement in Reserve Statement.

### xxvii. Carbon Reduction Commitment (CRC)

Carbon Reduction Commitment (CRC) - This is a national scheme being introduced by central government to incentivise organisations within the public and private sectors to reduce their carbon emissions. The scheme focuses specifically on buildings and the carbon emissions attributable are based on the organisations' consumption of electricity, gas and fuel oil. The four key requirements of the scheme are:

- Purchase in advance the estimated carbon emission allowances required by the authority at a fixed price from government;
- Monitor emissions and complete an annual report
- Surrender allowances equal to total emissions, buying or selling allowances as appropriate
- Receive a recycling repayment from the government based on the Authority's position within a league table of performance - improved performance is rewarded, poor performance is penalized

It is envisaged that a secondary trading market in these emission allowances will develop as the scheme becomes embedded over time.

The CRC scheme has a de-minimis level for organisations of 6,000MWh per year of electricity, below which the scheme does not apply. The Fire Authority is currently below this threshold and therefore is not part of the scheme at this time.

# Notes to the Accounting Statements

## xxviii. Council Tax

The Council Tax is collected on behalf of the Authority on an agency basis by the five billing authorities in East Sussex: Eastbourne Borough Council, Hastings Borough Council, Lewes District Council, Rother District Council, Wealden District Council and Brighton & Hove City Council. From 1 April 2009, the Authority as a precepting authority is required to show Council Tax income in the Comprehensive Income and Expenditure Statement on an accruals basis.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by legislation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. From 1 April 2009, the Authority is also required to recognise its share of Council Tax arrears, bad debt allowances, overpayments and prepayments in its Balance Sheet.

## xxix. Heritage Assets

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant, and equipment.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage, or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairments.

## 2. Accounting Standards that have been issued but have not yet been adopted

For 2011/12, the only accounting policy change that needs to be reported relates to the adoption of amendments to IFRS 7 *Financial Instruments: Disclosures* by the Code of Practice on Local Authority Accounting will require a change of accounting policy from 01 April 2012. The amendments will assist the users of the financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the authority's financial position. It is likely that this standard will not have a material impact on the financial statements of local authorities.

## 3. Critical Judgements in Applying Accounting Policies

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

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

## 4. Assumptions made about the future and other major sources of estimation uncertainty

The financial statements contains estimates and assumptions about the future or events that are otherwise uncertain, which affect the application of policies and reported amounts of assets and liabilities, income and expenses. Estimates are made taking into account historical experience, current trends, and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. This means that the Authority is required to make estimates and assumptions. Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the period if the change affects only that period, or into future periods if it also affects future periods.

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

Item and area of uncertainty	Effect if actual results differ from assumptions	Actions undertaken to reduce the area of uncertainty
<p><b>Useful lives of property, plant and equipment assets</b></p> <p>The Authority estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use.</p> <p>However It is possible that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above.</p> <p>The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the non-current assets.</p>	<p>It is estimated that the annual depreciation charge would increase by £333,000 for every 1 year that useful lives had to be reduced.</p> <p>This amount is not considered to be material in relation to the recorded expenses and non current assets totals in the Statement of Accounts.</p>	<p>The estimated useful lives of property, plant and equipment are reviewed annually and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets.</p> <p>The estimation of the useful lives of property, plant, and equipment are based on external technical evaluation and experience with similar assets.</p> <p>Valuations are undertaken by RICS Registered Valuers and prepared in accordance with RICS Valuation Standards.</p>

## Notes to the Accounting Statements

Item and area of uncertainty	Effect if actual results differ from assumptions	Actions undertaken to reduce the area of uncertainty
<p><b>Impairment/revaluation loss of property, plant and equipment assets</b></p> <p>The Authority has significant investments in property, plant and equipment.</p> <p>Changes in the circumstances or expectations of future performance of an individual asset may be an indicator that the asset is impaired, thus requiring the book value to be written down to its recoverable amount.</p> <p>Evaluating whether an asset is impaired requires a high degree of judgement and may depend to a large extent on the selection of key assumptions about the future used.</p>	<p>It is estimated that the revaluation losses would decrease by £6,000 for every 1% increase in the valuations carried out during 2011/12 under the five year rolling programme.</p> <p>This amount is not considered to be material in relation to the recorded expenses and non current assets totals in the Statement of Accounts.</p>	<p>Assets are assessed annually for impairment when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.</p> <p>Valuations are undertaken by RICS Registered Valuers and prepared in accordance with RICS Valuation Standards.</p> <p>Impairments are reversed if the conditions for impairment are no longer present.</p>
<p><b>Pension Liability</b></p> <p>The Authority recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.</p> <p>When estimating the present value of defined pension benefit obligations that represent a gross long-term liability in the balance sheet, and, indirectly, the period's net pension expense in the Comprehensive Income and Expenditure Statement, the actuaries make a number of critical assumptions affecting these estimates.</p> <p>Most notably, assumptions include a number of judgements and estimations in respect of the expected rate of return on assets, the real discount rate, the rate of increase in salaries, life expectancy, the annual rate of compensation increase and inflation assumptions have a direct and potentially material impact on the amounts presented.</p>	<p>It is estimated that:</p> <p>A £4,300,000 increase in the pension liability for the fire-fighters pension schemes would result if the real discount rate was to be decreased by 0.1%.</p> <p>A £2,578,000 increase in the pension liability for the local government pension scheme would result if the real discount rate was to be decreased by 0.5%.</p> <p>A £8,177,000 increase in the pension liability would result if member life expectancy was increased by 1 year.</p> <p>A £4,305,000 increase in the pension liability would result if the salary increase rate was increased by 0.5%.</p> <p>A £20,237,000 increase in the pension liability would result if the pension increase rate was increased by 0.5%.</p>	<p>The retirement benefit obligation is assessed annually by the schemes actuary in accordance with IAS 19 'Employee Benefits' and is updated if events have not coincided with the actuarial assumptions made for the last valuation or if the assumptions have changed.</p> <p>The assumptions are set based on advice from the schemes actuaries and experience. The key assumptions used are set out in Note 41.</p> <p>The actuarial methods and advice provided on assumptions used are carried out in accordance with the Pensions Technical Actuarial Standards.</p>

### 5. Material items of income and expense

The Comprehensive Income and Expenditure Statement includes a loss of £2.748m under Non Distributed Costs for past service costs in relation to the Local Government and Firefighters' pension schemes.

There are no other material items of income or expense that are not already disclosed on the face of the Comprehensive Income and Expenditure Statement, which by their nature and amount of material items should be set out in a note.

### 6. Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Treasurer on 20 September 2012. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

# Notes to the Accounting Statements

## 7. Adjustments between accounting basis and funding basis under regulations

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

2011/12	Usable Reserves				Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserve	Earmarked reserves	Capital Grants Unapplied	
	£000	£000	£000	£000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>					
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Charges for depreciation and impairment of non-current assets	2,285	-	-	-	(2,285)
Revaluation losses on Property Plant and Equipment	(367)	-	-	-	367
Movements in the market value of Investment Properties	-	-	-	-	-
Amortisation of intangible assets	-	-	-	-	-
Capital grants and contributions applied	(1,203)	-	-	-	1,203
Movement in the Donated Assets Account	-	-	-	-	-
Revenue expenditure funded from capital under statute	-	-	-	-	-
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	930	-	-	-	(930)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Statutory provision for the financing of capital investment	(670)	-	-	-	670
Capital expenditure charged against the General Fund	-	-	-	-	-
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	-



## Notes to the Accounting Statements

### Adjustments primarily involving the Capital Receipts Reserve:

Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,002)	1,002	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	-	-
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-	-	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	-	-	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-	-	-

### Adjustments primarily involving the Pensions Reserve:

Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 41)	22,744	-	-	-	(22,744)
Employer's pensions contributions and direct payments to pensioners payable in the year	(7,553)	-	-	-	7,553

### Adjustments primarily involving the Collection Fund Adjustment Account:

Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(8)	-	-	-	8
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### Adjustment primarily involving the Accumulated Absences Account:

Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(20)	-	-	-	20
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<b>Total Adjustments</b>	<b>15,136</b>	<b>1,002</b>	<b>-</b>	<b>-</b>	<b>(16,138)</b>
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# Notes to the Accounting Statements

2010/11	Usable Reserves				Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserve	Earmarked reserves	Capital Grants Unapplied	
	£000	£000	£000	£000	£000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>					
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Charges for depreciation and impairment of non-current assets	2,203	-	-	-	(2,203)
Revaluation losses on Property Plant and Equipment	2,636	-	-	-	(2,636)
Movements in the market value of Investment Properties	-	-	-	-	-
Amortisation of intangible assets	-	-	-	-	-
Capital grants and contributions applied	(937)	-	-	-	937
Movement in the Donated Assets Account	(554)	-	-	-	554
Revenue expenditure funded from capital under statute	-	-	-	-	-
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	732	-	-	-	(732)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Statutory provision for the financing of capital investment	(581)	-	-	-	581
Capital expenditure charged against the General Fund and HRA balances	(250)	-	-	-	250
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	-

## Notes to the Accounting Statements

### Adjustments primarily involving the Capital Receipts Reserve:

Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(700)	700	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	-	-
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-	-	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	-	-	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-	-	-

### Adjustments primarily involving the Pensions Reserve:

Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 41)	(7,498)	-	-	-	7,498
Employer's pensions contributions and direct payments to pensioners payable in the year	(7,570)	-	-	-	7,570

### Adjustments primarily involving the Collection Fund Adjustment Account:

Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	58	-	-	-	(58)
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### Adjustment primarily involving the Accumulated Absences Account:

Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(11)	-	-	-	11
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<b>Total Adjustments</b>	<b>(12,472)</b>	<b>700</b>	<b>-</b>	<b>-</b>	<b>11,772</b>
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## Notes to the Accounting Statements

### 8. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2011/12

	Balance at 1 April 2010	Transfers Out 2010/11	Transfers In 2010/11	Balance at 31 March 2011	Transfers Out 2011/12	Transfers In 2011/12	Balance at 31 March 2012
	£000	£000	£000	£000	£000	£000	£000
Capital Programme	402	(250)	1,000	1,152	-	-	1,152
Other Earmarked	-	-	1,242	1,242	(929)	2,052	2,365
<b>Total</b>	<b>402</b>	<b>(250)</b>	<b>2,242</b>	<b>2,394</b>	<b>(929)</b>	<b>2,052</b>	<b>3,517</b>

Capital Programme	To provide resources which may be used for capital spending in order to reduce the need for and consequent revenue cost of borrowing
Other Earmarked	Includes Merger/Collaboration/Transition Reserve, Wide Area Network, Radio Communication Equipment, Maritime Incident Response Group (MIRG), Insurance Fund and Fire Safety Management.

### 9. Other Operating Expenditure

	31 March 2011	31 March 2012
	£000	£000
(Gains) / losses on the disposal of non-current assets	32	(71)
(Gains) / losses on the acquisition of non-current assets	(554)	-
<b>Total</b>	<b>(522)</b>	<b>(71)</b>

### 10. Financing and Investment Income and Expenditure

	31 March 2011	31 March 2012
	£000	£000
Interest payable and similar charges	573	561
Pensions interest cost and expected return on pensions assets	13,157	12,669
Interest receivable and similar income	(90)	(117)
Income and expenditure in relation to investment properties and changes in their fair value	-	-
Other investment income	-	-
<b>Total</b>	<b>13,640</b>	<b>13,113</b>

### 11. Taxation and Non-Specific Grant Income

	31 March 2011	31 March 2012
	£000	£000
Council tax income	24,583	24,758
Non domestic rates	12,813	10,568
Revenue support grant	1,860	3,267
Council Tax Freeze Grant	-	617
Capital grants and contributions	937	1,203
<b>Total</b>	<b>40,193</b>	<b>40,413</b>

# Notes to the Accounting Statements

## 12. Property, Plant, and Equipment

Movements in 2011/12:	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
<b>Cost or Valuation</b>					
At 1 April 2011	44,932	15,716	-	-	60,648
Additions	295	1,083	-	105	1,483
Donations	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	329	-	-	-	329
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(433)	-	-	-	(433)
Derecognition – disposals	(758)	(1,136)	-	-	(1,894)
Derecognition – other	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-
Other movements in cost or valuation	(3,827)	-	-	-	(3,827)
<b>At 31 March 2012</b>	<b>40,538</b>	<b>15,663</b>	<b>-</b>	<b>105</b>	<b>56,306</b>
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2011	(6,851)	(7,333)	-	-	(14,184)
Depreciation charge	(989)	(1,296)	-	-	(2,285)
Depreciation written out to the Revaluation Reserve	971	-	-	-	971
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	-	-	-	-
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-
Impairment losses/(reversals) recognised in The Surplus/Deficit on the Provision of Services	217	-	-	-	217
Derecognition – disposals	65	1,051	-	-	1,116
Derecognition – other	-	-	-	-	-
Other movements in depreciation and impairment	3,827	-	-	-	3,827
<b>At 31 March 2012</b>	<b>(2,760)</b>	<b>(7,578)</b>	<b>-</b>	<b>-</b>	<b>(10,338)</b>
<b>Net Book Value</b>					
<b>At 31 March 2012</b>	<b>37,778</b>	<b>8,085</b>	<b>-</b>	<b>105</b>	<b>45,968</b>
<b>At 31 March 2011</b>	<b>38,081</b>	<b>8,383</b>	<b>-</b>	<b>-</b>	<b>46,464</b>

## Notes to the Accounting Statements

### Comparative Movements in 2010/11:

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
<b>Cost or Valuation</b>					
At 1 April 2010	41,771	13,847	-	-	55,618
Additions	1,656	1,069	-	-	2,725
Donations - Transfer of properties from CLG	-	1,098	-	-	1,098
Revaluation increases/(decreases) recognised in the Revaluation Reserve	1,343	-	-	-	1,343
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	915	-	-	-	915
derecognition – disposals	(601)	(298)	-	-	(899)
Derecognition – other	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	(152)	-	-	-	(152)
Other movements in cost or valuation	-	-	-	-	-
<b>At 31 March 2011</b>	<b>44,932</b>	<b>15,716</b>	<b>-</b>	<b>-</b>	<b>60,648</b>

### Accumulated Depreciation and Impairment

At 1 April 2010	(3,463)	(5,826)	-	-	(9,289)
Depreciation charge	(956)	(1,247)	-	-	(2,203)
Donations - Transfer of properties from CLG	-	(544)	-	-	(544)
Depreciation written out to the Revaluation Reserve	1,092	-	-	-	1,092
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	-	-	-	-
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(3,557)	-	-	-	(3,557)
Derecognition – disposals	33	284	-	-	317
Derecognition – other	-	-	-	-	-
Other movements in depreciation and impairment	-	-	-	-	-
<b>At 31 March 2011</b>	<b>(6,851)</b>	<b>(7,333)</b>	<b>-</b>	<b>-</b>	<b>(14,184)</b>

### Net Book Value

<b>At 31 March 2011</b>	<b>38,081</b>	<b>8,383</b>	<b>-</b>	<b>-</b>	<b>46,464</b>
<b>At 31 March 2010</b>	<b>38,308</b>	<b>8,021</b>	<b>-</b>	<b>-</b>	<b>46,329</b>

## Notes to the Accounting Statements

Intangible Assets represent purchased software licences and are valued at acquisition cost and written off over the period of the licence. The Authority has no intangible assets, trademarks, artistic originals or patents.

The Authority had no Infrastructure or Community Assets at 31<sup>st</sup> March 2012.

Depreciation is calculated on a straight-line basis over the expected life of the asset, on the difference between the book value and any estimated residual value. Depreciation is charged on all classes of assets, with the exception of land, community land assets, investment land, land awaiting disposal and assets under construction.

### Capital Commitments

Over the four year period, 2012/13 to 2015/16, the Authority is planning to spend a gross capital expenditure of £16.313m. A large part of this, some £14.173m is planned to be funded using specific resources such as government grants and external contributions, capital receipts and reserves.

The approved capital programme shows that in 2012/13 the Authority plans to spend £4.808m, of which £3.853m is supported by specific resources. Having adjusted for the actual outturn in 2011/12, slippage on projects and for provisions where there is no on-going commitment, the net commitment profiles for schemes in progress at 31 March 2012 are shown below:

2012/13	2013/14	2014/15	2015/16	Total
4,808	675	160	160	5,803

The Fire Authority had one asset under construction as at 31 March 2012 for £0.105m (there were no assets under construction at 31 March 2011).

### Valuation of Property, Plant and Equipment (PPE)

The Authority operates a policy of revaluing its Property, Plant and Equipment on a rolling 5-year basis, with the aim of revaluing all of its assets within this period. The Authority also reviews the asset register each year, and, if necessary adjusts the value of assets if significant impairment has been identified.

Freehold and leasehold properties regarded by the authority as operational, together with investment assets and assets awaiting disposal, are valued on the basis of open market value for the existing use or where this cannot be assessed because there was no market value, the depreciated replacement cost. This is in line with the Statement of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors. Buildings are depreciated in line with the estimated life expectancies of the assets.

Furniture, equipment, plant and machinery values were initially calculated either as an assessed proportion of the valuation of the buildings or, in the case of properties valued at open market value, as an assessed rate per square metre. Together with intangible assets, they are updated in line with capital expenditure, and depreciated in line with the estimated lives of the assets.

Infrastructure and community assets are not revalued. They were initially shown on the basis of outstanding loan debt at 1 April 1994. They are updated in line with capital expenditure and, in the case of infrastructure, depreciated in accordance with the expected life of the asset created or enhanced.

The following statement shows the progress of the Authority's rolling programme for the revaluation of land and buildings. The valuations are carried out by an external firm of valuers – Stiles, Harold, Williams (a member of Chartered Surveyors and Town Planners), on behalf of the Authority. The valuation dates are as at 1 April in each year.

<b>Total PPE</b>	
<b>£000</b>	
Valued at historical cost	39,772
Valued at current value in:	
2011	1,438
2010	2,370
2009	1,824
2008	564
2007	-
<b>Total</b>	<b>45,968</b>

In the light of on-going economic recession, the Authority carried out a review for impairment of all fixed assets to determine the carrying amount of the fixed asset. This is to determine if there has been any diminution in the value of assets due to the current economic climate and to ensure that the accounts do not include values that are materially different following significant changes in asset values. The outcome of the review was no additional impairment charge in the 2011/12 accounts.

# Notes to the Accounting Statements

## 13. Investment Properties

The Fire Authority had no Investment properties at 31<sup>st</sup> March 2012 or in the previous year.

## 14. Intangible Assets

The Fire Authority had no intangible assets at 31<sup>st</sup> March 2012 or in the previous year. Any software licences held are expensed as revenue in the year.

## 15. Financial Instruments

### Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long Term		Current	
	31 March 2011 £000	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000
<b>Investments</b>				
Loans and receivables (principal amount)	-	-	4,500	8,900
Accrued interest	-	-	5	7
Accounting adjustments	-	-	-	-
<b>Loans and receivables at amortised cost (1)</b>	-	-	<b>4,505</b>	<b>8,907</b>
Available-for-sale financial assets	-	-	-	-
Unquoted equity investment at cost	-	-	-	-
Financial assets at fair value through profit and loss (2)	-	-	-	-
Unquoted equity investments at cost	-	-	-	-
<b>Total investments</b>	-	-	<b>4,505</b>	<b>8,907</b>
<b>Cash and cash equivalents</b>	-	-	<b>2,476</b>	<b>2,389</b>
<b>Debtors</b>				
Loans and receivables	-	-	928	230
Financial assets carried at contract amounts	-	-	-	-
<b>Total debtors</b>	-	-	<b>928</b>	<b>230</b>
<b>Soft loans provided (4)</b>	-	-	-	-
<b>Borrowings</b>				
Financial liabilities (principal amount)	(11,123)	(11,123)	-	-
Accrued Interest	-	-	(4)	(5)
Other accounting adjustments	-	-	-	-
<b>Financial liabilities at amortised cost (1)</b>	<b>(11,123)</b>	<b>(11,123)</b>	<b>(4)</b>	<b>(5)</b>
Financial liabilities at fair value through profit and loss (2)	-	-	-	-
<b>Total borrowings</b>	<b>(11,123)</b>	<b>(11,123)</b>	<b>(4)</b>	<b>(5)</b>
<b>Other Long Term Liabilities</b>				
PFI and finance lease liabilities	(580)	(394)	-	-
<b>Total other long term liabilities</b>	<b>(580)</b>	<b>(394)</b>	-	-
<b>Creditors</b>				
Financial liabilities at amortised cost	-	-	(1,661)	(2,353)
Financial liabilities carried at contract amount	-	-	-	-
<b>Total creditors</b>	-	-	<b>(1,661)</b>	<b>(2,353)</b>
<b>Financial Guarantees (3)</b>	-	-	-	-
<b>Soft Loans received (4)</b>	-	-	-	-



## Notes to the Accounting Statements

**Note 1** – Under accounting requirements the carrying value of the financial instrument value is shown in the balance sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is effectively accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

**Note 2** – Fair value has been measured by:

- Direct reference to published price quotations in an active market; and/or
- Estimating using a valuation technique.

**Note 3** – Local authorities sometimes give financial guarantees that require them to make specified payments to reimburse the holder of a debt if the debtor fails to make payment when due in accordance with the terms of the contract. The Authority did not provide a financial guarantee in 2011/12 or in previous years. Financial guarantee's are initially recognised at fair value. Subsequently this is measured at the higher of the amount recognised initially and the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Assets less when appropriate cumulative amortisation. Therefore, the carrying amount of the financial guarantee would remain at the original amount estimated at inception (less cumulative amortisation) unless payment under the guarantee becomes probable at which point the amount of the liability will be determined in accordance with IAS 37.

**Note 4** - The Authority has not made any loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account.

### Valuation Assumptions

The interest rate at which the fair values of these soft loans have been recognised is arrived at by taking the authority's prevailing cost of borrowing for a comparable loan at the date of the advance and adding an allowance for the risk that the loan might not be repaid by the employees.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. Any gains and losses that arise on the derecognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

## Notes to the Accounting Statements

### Income, Expense, Gains and Losses

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

2011/12	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000
Interest expense	(562)	-	-	-	(562)
Losses on derecognition	-	-	-	-	-
Reductions in fair value	-	-	-	-	-
Impairment losses	-	-	-	-	-
Fee expense	-	-	-	-	-
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>(562)</b>	-	-	-	<b>(562)</b>
Interest income	-	117	-	-	117
Interest income accrued on impaired financial assets	-	-	-	-	-
Increases in fair value	-	-	-	-	-
Gains on derecognition	-	-	-	-	-
Fee income	-	-	-	-	-
<b>Total income in Surplus or Deficit on the Provision of Services</b>	-	<b>117</b>	-	-	<b>117</b>
Gains on revaluation	-	-	-	-	-
Losses on revaluation	-	-	-	-	-
Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	-	-	-	-	-
<b>Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b>	-	-	-	-	-
<b>Net gain/(loss) for the year</b>	<b>(562)</b>	<b>117</b>	-	-	<b>(445)</b>

## Notes to the Accounting Statements

2010/11	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000
Interest expense	(573)	-	-	-	(573)
Losses on derecognition	-	-	-	-	-
Reductions in fair value	-	-	-	-	-
Impairment losses	-	-	-	-	-
Fee expense	-	-	-	-	-
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>(573)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(573)</b>
Interest income	-	90	-	-	90
Interest income accrued on impaired financial assets	-	-	-	-	-
Increases in fair value	-	-	-	-	-
Gains on derecognition	-	-	-	-	-
Fee income	-	-	-	-	-
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>-</b>	<b>90</b>	<b>-</b>	<b>-</b>	<b>90</b>
Gains on revaluation	-	-	-	-	-
Losses on revaluation	-	-	-	-	-
Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	-	-	-	-	-
<b>Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net gain/(loss) for the year</b>	<b>(573)</b>	<b>90</b>	<b>-</b>	<b>-</b>	<b>(483)</b>

### Fair Values of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, borrowing/premature repayment rates (choose which one is being used) from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures; For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

## Notes to the Accounting Statements

The fair values calculated are as follows:

	31 March 2011		31 March 2012	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
<b>Financial liabilities</b>				
PWLB Debt	(11,127)	(11,865)	(11,127)	(13,797)
Non-PWLB Debt	-	-	-	-
<b>Total Debt</b>	<b>(11,127)</b>	<b>(11,865)</b>	<b>(11,127)</b>	<b>(13,797)</b>
Short term borrowing	-	-	-	-
Short term creditors	(1,449)	(1,449)	(2,167)	(2,167)
Short term finance lease liability	(212)	(212)	(186)	(186)
Long-term creditors	-	-	-	-
Long term finance lease liability	(580)	(580)	(394)	(394)
<b>Total Financial Liabilities</b>	<b>(13,368)</b>	<b>(14,106)</b>	<b>(13,874)</b>	<b>(16,544)</b>
<b>Financial assets</b>				
Short term investments	6,981	6,981	11,296	11,296
Long term investments	-	-	-	-
Available for Sale investments	-	-	-	-
Fair Value through the I&E	-	-	-	-
Short term debtors	928	928	230	230
Long-term debtors	-	-	-	-
<b>Total Financial Assets</b>	<b>7,909</b>	<b>7,909</b>	<b>11,526</b>	<b>11,526</b>

The fair value of the liabilities is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2012) arising from a commitment to pay interest to lenders above current market rates.

The fair value of the money market loans is the same as the carrying amount as they are all short term investments with a maturity of less than a year.

The fair values for loans and receivables have been determined by reference to similar practices, as above, which provide a reasonable approximation for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

### 16. Inventories

	Consumable Stores		Total	
	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000
<b>Balance outstanding at start of year</b>	<b>40</b>	<b>47</b>	<b>40</b>	<b>47</b>
Purchases	311	364	311	364
Recognised as an expense in the year	(304)	(352)	(304)	(352)
Written off balances	-	-	-	-
Reversals of write-offs in previous years	-	-	-	-
<b>Balance outstanding at year-end</b>	<b>47</b>	<b>59</b>	<b>47</b>	<b>59</b>

Consumable Stores includes stocks of fuel.

### 17. Construction Contracts

At 31 March 2012, the Fire Authority had entered into no construction contracts on behalf of other organisations.

# Notes to the Accounting Statements

## 18. Current and Long Term Debtors

	31 March 2011	31 March 2012
	£000	£000
<b>Current Debtors</b>		
Central Government bodies	785	322
Other local authorities	688	721
NHS bodies	5	8
Public corporations and trading funds	-	-
Other entities and individuals	58	24
<b>Total</b>	<b>1,536</b>	<b>1,075</b>

There were no long term debtors as at 31<sup>st</sup> March 2012 or in the previous year.

**Allowance for impairment losses** - The Authority makes allowance for impairment losses (i.e. doubtful debts) based on an assessment of the recoverability of receivables. There was no change to the existing provision for impairment losses in 2011/12 regarding general debtors. However the Council Tax arrears impairment allowance was decreased by £0.015m to £1.141m. Management specifically review all debts, and evaluate the adequacy of the allowance of doubtful debts of receivables. However, most categories of the Authority's debtors are not subject to substantial fluctuation and past experience are used within material limits to judge the percentages of each type of debt that will not eventually be recovered.

## 19. Cash and Cash Equivalents

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

	31 March 2011 £000	31 March 2012 £000	Movement £000
Cash in hand	86	86	-
Bank current accounts	2,390	2,303	(87)
Short-term deposits with building societies	-	-	-
Cash overdrawn	-	-	-
<b>Total Cash and Cash Equivalents</b>	<b>2,476</b>	<b>2,389</b>	<b>(87)</b>

## 20. Assets held for Sale

	Current		Non Current	
	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000
<b>Balance outstanding at start of year</b>	<b>151</b>	<b>152</b>	-	-
<i>Assets newly classified as held for sale:</i>				
Property, Plant and Equipment	152	-	-	-
Intangible Assets	-	-	-	-
Other assets/liabilities in disposal group.	-	-	-	-
Revaluation losses	-	-	-	-
Revaluation gains	-	-	-	-
Impairment losses	-	-	-	-
<i>Assets declassified as held of sale:</i>				
Property, Plant and Equipment	-	-	-	-
Intangible Assets	-	-	-	-
Other assets/liabilities in disposal group.	-	-	-	-
Assets sold	(151)	(152)	-	-
Transfers from non-current to current	-	-	-	-
Other movements	-	-	-	-
<b>Balance outstanding at year end</b>	<b>152</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Notes to the Accounting Statements

### 21. Creditors

	31 March 2011	31 March 2012
	£000	£000
Central government bodies	639	1,277
Other local authorities	867	883
NHS bodies	1	-
Public corporations and trading funds	27	22
Other entities and individuals	1,560	1,604
<b>Total</b>	<b>3,094</b>	<b>3,786</b>

### 22. Provisions

Provisions are amounts set aside in the accounts for liabilities or losses which are certain or very likely to occur and for which a reliable estimate of the amount of the obligation can be made. The provision has been established for material liabilities of uncertain timing. The following table shows the level of the Authority's provisions:

The Authority had no long term or short term provisions at 31<sup>st</sup> March 2012 or in the previous year (a provision in the 2010/11 figures of £128k reported in the published version of 2010/11 Statement of Accounts has been reclassified as a creditor).

### 23. Usable Reserves

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and Notes 23 and 24.

	31 March 2011	31 March 2012
	£000	£000
Usable Capital Receipts Reserve	700	1,702
Capital Grants & Contributions Unapplied	-	-
Earmarked Reserves	2,394	3,517
Earmarked Reserves – Revenue Grant & Contribution	-	-
General Fund balances	3,254	4,093
<b>Total Usable Reserves</b>	<b>6,348</b>	<b>9,312</b>

#### Capital Receipts Reserve

The Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets until they are utilised to finance capital expenditure.

	2010/11	2011/12
	£000	£000
<b>Balance at 1 April</b>	-	700
Amounts receivable during the year	700	1,002
Amounts applied to finance new capital investment	-	-
Net Transfer to the Capital Receipts Reserve	700	1,002
<b>Balance at 31 March</b>	<b>700</b>	<b>1,702</b>

### 24. Unusable Reserves

	Closing Balance	Closing Balance
	31 March 2011	31 March 2012
	£000	£000
Revaluation Reserve	5,687	6,195
Capital Adjustment Account	29,480	28,714
Financial Instruments Adjustment Account	-	-
Collection Fund Adjustment Account	87	95
Accumulated Absences Account	(128)	(108)
Pensions Reserve	(233,668)	(253,802)
<b>Total Unusable Reserves</b>	<b>(198,542)</b>	<b>(218,906)</b>

## Notes to the Accounting Statements

### Revaluation Reserve

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

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

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

	2010/11		2011/12	
	£000	£000	£000	£000
<b>Balance at 1 April</b>		<b>3,406</b>		<b>5,687</b>
Upward revaluation of assets	3,645		1,299	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(1,210)		(167)	
Reversal of previous years revaluation losses	(7)		(415)	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		2,428		717
Difference between fair value depreciation and historical cost depreciation	(92)		(148)	
Accumulated gains on assets sold or scrapped	(55)		(61)	
Amount written off to the Capital Adjustment Account	<i>r</i>	(147)		(209)
<b>Balance at 31 March</b>		<b>5,687</b>		<b>6,195</b>

### Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

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

## Notes to the Accounting Statements

	2010/11	2011/12	
	£000	£000	£000
<b>Balance at 1 April</b>	<b>32,582</b>		<b>29,480</b>
<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>			
Charges for depreciation and impairment of non-current assets	(2,203)	(2,285)	
Revaluation losses on Property, Plant and Equipment	(2,643)	(48)	
Revaluation loss reversals on Property, Plant and Equipment	7	415	
Amortisation of intangible assets	-	-	
Revenue expenditure funded from capital under statute	-	-	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(732)	(930)	
	<b>(5,571)</b>	<b>(2,848)</b>	
Adjusting amounts written out of the Revaluation Reserve	147	209	
Net written out amount of the cost of non-current assets consumed in the year			
	<b>(5,424)</b>		<b>(2,639)</b>
<b>Capital financing applied in the year</b>			
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	937	1,203	
Application of grants to capital financing from the Capital Grants Unapplied Account	-	-	
Statutory provision for the financing of capital investment charged against the General Fund	581	670	
Capital expenditure charged against the General Fund	250	-	
	<b>1,768</b>		<b>1,873</b>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	-	-	
Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	554	-	
	<b>29,480</b>		<b>28,714</b>

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Authority had no balances at 31<sup>st</sup> March 2012 or in the previous year.



## Notes to the Accounting Statements

### Pensions Reserve

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

#### Balance at 1 April

Actuarial gains or losses on pensions assets and liabilities  
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement  
Employer's pensions contributions and direct payments to pensioners payable in the year

#### Balance at 31 March

2010/11	2011/12
£000	£000
(265,035)	(233,668)
16,299	(4,943)
7,498	(22,744)
7,570	7,553
<b>(233,668)</b>	<b>(253,802)</b>

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. Council Tax income is collected on behalf of the Fire Authority on an agency basis by the five billing authorities in East Sussex: Eastbourne Borough Council, Hastings Borough Council, Lewes District Council, Rother District Council, Wealden District Council and also Brighton & Hove City Council.

From 1 April 2009, the Fire Authority as a precepting authority is required to show Council Tax income in its Income and Expenditure Account on an accruals basis. The difference between the income included in the Income and Expenditure account and the amount required by legislation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance.

#### Balance at 1 April

Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements

#### Balance at 31 March

2010/11	2011/12
£000	£000
145	87
(58)	8
<b>87</b>	<b>95</b>

### Accumulated Absences Account

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

#### Balance at 1 April

Settlement or cancellation of accrual made at the end of the preceding year  
Amounts accrued at the end of the current year  
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements

#### Balance at 31 March

2010/11	2011/12
£000	£000
(139)	(128)
139	128
(128)	(108)
11	20
<b>(128)</b>	<b>(108)</b>

## Notes to the Accounting Statements

### 25. Cash Flow Statement – Operating Activities

Adjustments to net surplus or deficit on the provision of services for non-cash movements:

	2010/11	2011/12
	£000	£000
Depreciation and Amortisation	(2,203)	(2,285)
Impairment and downward valuations	(2,636)	368
Increase in impairment for provision for bad debts	-	-
(Increase) / decrease in creditors	49	(562)
(Increase) / decrease in interest creditors	11	(234)
Increase / (decrease) in debtors	(980)	(473)
Increase / (decrease) in interest and dividend debtors	1	2
Increase / (decrease) in stock	7	12
Pension Liability	15,068	(15,191)
Contributions to / (from) provisions	-	-
Carrying amount of PPE, Investment Property and Intangible Assets sold	(732)	(930)
Other non-cash items charged to the net Surplus or Deficit on the Provision of Services	554	-
<b>Total Adjustment</b>	<b>9,139</b>	<b>(19,293)</b>

Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:

	2010/11	2011/12
	£000	£000
Capital Grants and Contributions credited to surplus/deficit on provision of services	937	1,203
Proceeds from the sale of short and long term investments	-	-
Proceeds from the Sale of PPE, Investment Property and intangible assets	700	1,002
<b>Total Adjustment</b>	<b>1,637</b>	<b>2,205</b>

The cash flows for operating activities include the following items:

	2010/11	2011/12
	£000	£000
Interest received	(89)	(115)
Interest paid	562	328
Dividends received	-	-

### 26. Cash Flow Statement – Investing Activities

	2010/11	2011/12
	£000	£000
Purchase of property, plant and equipment, investment property and intangible assets	2,899	1,585
Purchase of short-term and long-term investments	1,501	4,402
Other payments for investing activities	-	-
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(700)	(1,003)
Proceeds from short-term and long-term investments	-	-
Other receipts from investing activities	(937)	(1,203)
<b>Net cash flows from investing activities</b>	<b>2,763</b>	<b>3,781</b>

## Notes to the Accounting Statements

### 27. Cash Flow Statement – Financing Activities

The cash flows for financing activities, excluding interest paid and received, includes the following items:

	2010/11	2011/12
	£000	£000
Cash receipts of short- and long-term borrowing	-	-
Other receipts from financing activities	(58)	8
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	201	212
Repayments of short- and long-term borrowing	-	-
Other payments for financing activities	-	-
<b>Net cash flows from financing activities</b>	<b>143</b>	<b>220</b>

### 28. Amounts reported for resource allocation decisions

#### East Sussex Fire Authority departments and responsibilities –

The Fire Authority is made up of 18 councillors, 12 who are nominated by East Sussex County Council and 6 who are nominated by Brighton and Hove City Council. They have legal responsibility to provide a Fire and Rescue Service for the whole of East Sussex and the city of Brighton and Hove. The Chief Fire Officer and Chief Executive reports to the Fire Authority which has ultimate responsibility for such things as deciding how many fire stations are needed, how many firefighters, how many fire engines and how much money needs to be raised from local taxes to pay for the service.

East Sussex Fire and Rescue Service is managed by its board or Corporate Management Team (CMT) comprising five Principal Officers and three directors. The role of the Chief Fire Officer and Chief Executive is to deliver the strategic aims and objectives on behalf of the Fire Authority and is supported by CMT who deliver services to local communities, and the necessary support functions, through the following directorates: Service Delivery, Service Support, Corporate Services and People and Organisational Development. The team meet at least once a month to discuss strategic and policy issues and to monitor and determine service and financial plans into the future.

The four East Sussex Fire Authority directorates and their main responsibilities are:

- Service Delivery - operational response and resilience, new dimensions, community and legislative fire safety, and emergency planning
- Support Services - Health, Safety and Welfare, Engineering Services, Estates Management, Information Management and the Firelink and FiReControl projects;
- Corporate Services - business planning, financial planning and governance, strategic procurement development, support and review of performance and quality;
- People and Organisational Development - development of staff, focusing particularly on personal leadership, developing managerial capability and embedding core values.

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

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to departments.

## Notes to the Accounting Statements

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

<b>2011/12 Department Income and Expenditure</b>	<b>Corporate Services</b>	<b>Service Support</b>	<b>Service Delivery</b>	<b>People Organisation Development</b>	<b>Central</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fees, charges & other service income	-	(62)	(447)	(115)	(124)	(748)
Government grants	-	(54)	(45)	-	-	(99)
<b>Total Income</b>	<b>-</b>	<b>(116)</b>	<b>(492)</b>	<b>(115)</b>	<b>(124)</b>	<b>(847)</b>
Employee expenses	869	1,903	19,223	3,005	3,936	28,936
Other service expenses	1,012	3,771	1,815	778	660	8,036
Support service recharges	-	-	-	-	-	-
<b>Total Expenditure</b>	<b>1,881</b>	<b>5,674</b>	<b>21,038</b>	<b>3,783</b>	<b>4,596</b>	<b>36,972</b>
<b>Net Expenditure</b>	<b>1,881</b>	<b>5,558</b>	<b>20,546</b>	<b>3,668</b>	<b>4,472</b>	<b>36,125</b>
<b>2010/11 Department Income and Expenditure</b>	<b>Corporate Services</b>	<b>Service Support</b>	<b>Service Delivery</b>	<b>People Organisation Development</b>	<b>Central</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fees, charges & other service income	(7)	(274)	(412)	(94)	(201)	(988)
Government grants	-	(106)	(44)	-	-	(150)
<b>Total Income</b>	<b>(7)</b>	<b>(380)</b>	<b>(456)</b>	<b>(94)</b>	<b>(201)</b>	<b>(1,138)</b>
Employee expenses	934	2,056	19,283	3,125	4,219	29,617
Other service expenses	964	4,012	1,624	599	857	8,056
Support service recharges	-	-	-	-	-	-
<b>Total Expenditure</b>	<b>1,898</b>	<b>6,068</b>	<b>20,907</b>	<b>3,724</b>	<b>5,076</b>	<b>37,673</b>
<b>Net Expenditure</b>	<b>1,891</b>	<b>5,688</b>	<b>20,451</b>	<b>3,630</b>	<b>4,875</b>	<b>36,535</b>

### Reconciliation of Department Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of department income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

#### Net expenditure in the Department Analysis

Net expenditure of services and support services not included in the Analysis  
 Amounts in the Comprehensive Income and Expenditure Statement not reported  
 to management in the Analysis  
 Amounts included in the Analysis not included in the Comprehensive Income and  
 Expenditure Statement

#### Cost of Services in Comprehensive Income and Expenditure Statement

<b>2010/11</b>	<b>2011/12</b>
<b>£000</b>	<b>£000</b>
<b>36,535</b>	<b>36,125</b>
-	-
(23,397)	4,420
-	-
<b>13,138</b>	<b>40,545</b>

## Notes to the Accounting Statements

### Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of department income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2011/12	Department Analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(748)	-	-	-	-	-	(748)
Net surplus on trading undertakings	-	-	-	-	-	-	-
Interest & investment income	-	-	-	-	-	(117)	(117)
Income from council tax	-	-	-	-	-	(24,758)	(24,758)
Revenue Support Grant	-	-	-	-	-	(3,267)	(3,267)
Council Tax Freeze Grant	-	-	-	-	-	(617)	(617)
Local Authority Business Growth Incentive Grant	-	-	-	-	-	-	-
Area Based Grant	-	-	-	-	-	-	-
Non-Domestic Rates	-	-	-	-	-	(10,568)	(10,568)
Government grants & contributions	(99)	-	-	-	-	(1,203)	(1,302)
<b>Total income</b>	<b>(847)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(40,530)</b>	<b>(41,377)</b>
Employee expenses	28,936	(7,573)	-	-	-	-	21,363
Other service expenses	8,036	10,075	-	-	-	-	18,111
Support Service recharges	-	-	-	-	-	-	-
Depreciation, amortisation & impairment	-	1,918	-	-	-	-	1,918
Pensions interest cost & net return on assets	-	-	-	-	-	12,669	12,669
Interest Payable & Similar Charges - Leases/PFI schemes	-	-	-	-	-	48	48
Interest Payments	-	-	-	-	-	514	514
Precepts & Levies	-	-	-	-	-	-	-
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	(72)	(72)
<b>Total expenditure</b>	<b>36,972</b>	<b>4,420</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,159</b>	<b>54,551</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>36,125</b>	<b>4,420</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(27,371)</b>	<b>13,174</b>

## Notes to the Accounting Statements

2010/11	Department Analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(988)	(139)	-	-	-	-	(1,127)
Net surplus on trading undertakings	-	-	-	-	-	-	-
Interest & investment income	-	-	-	-	-	(90)	(90)
Income from council tax	-	-	-	-	-	(24,583)	(24,583)
Revenue Support Grant	-	-	-	-	-	(1,860)	(1,860)
Local Authority Business Growth Incentive Grant	-	-	-	-	-	-	-
Area Based Grant	-	-	-	-	-	-	-
Non-Domestic Rates	-	-	-	-	-	(12,813)	(12,813)
Government grants & contributions	(150)	-	-	-	-	(937)	(1,087)
<b>Total income</b>	<b>(1,138)</b>	<b>(139)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(40,283)</b>	<b>(41,560)</b>
Employee expenses	29,617	(7,442)	-	-	-	-	22,175
Other service expenses	8,056	(20,655)	-	-	-	-	(12,599)
Support Service recharges	-	-	-	-	-	-	-
Depreciation, amortisation & impairment	-	4,839	-	-	-	-	4,839
Pensions interest cost & net return on assets	-	-	-	-	-	13,157	13,157
Interest Payable & Similar Charges - Leases/PFI schemes	-	-	-	-	-	59	59
Interest Payments	-	-	-	-	-	514	514
Precepts & Levies	-	-	-	-	-	-	-
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	(522)	(522)
<b>Total expenditure</b>	<b>37,673</b>	<b>(23,258)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,208</b>	<b>27,623</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>36,535</b>	<b>(23,397)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(27,075)</b>	<b>(13,937)</b>

### 29. Trading Operations

The Authority has no trading operations at 31<sup>st</sup> March 2012 or in the previous year.

### 30. Pooled Budgets

The Authority has no pooled budgets at 31<sup>st</sup> March 2012 or in the previous year.

### 31. Members' Allowances

The Authority paid the following amounts to members of the Authority during the year.

	2010/11	2011/12
	£000	£000
Allowances	81	78
Expenses	6	6
<b>Total</b>	<b>87</b>	<b>84</b>

Further details of allowances can be found on the East Sussex Fire and Rescue Service website [www.esfrs.org](http://www.esfrs.org).

# Notes to the Accounting Statements

## 32. Officers' Remuneration

The following table provides information about the remuneration of those senior managers who influence the decisions of the Fire Authority as a whole (i.e. Senior Officers whose salary is more than £50,000 pa).

### Senior Employees Remuneration

	Year	Salary, Fees and Allowances £	Bonuses £	Expenses Allowances (incl. Benefit in Kind) £	Compensation of Loss of Employment £	Employers Pension Contribution £	Total £
Mr Des Prichard (Chief Fire Officer) (Note 1)	2011/12	151,123	-	-	-	-	151,123
	2010/11	151,858	-	-	-	-	151,858
Deputy Chief Fire Officer	2011/12	107,791	-	-	-	22,992	130,783
	2010/11	109,238	-	-	-	23,268	132,506
Assistant Chief Fire Officer (Note 2)	2011/12	113,423	-	-	-	24,142	137,565
	2010/11	106,338	-	-	-	22,650	128,988
Assistant Chief Officer	2011/12	84,330	-	5,697	-	16,360	106,387
	2010/11	84,778	-	5,460	-	16,390	106,628
Assistant Chief Officer	2011/12	83,983	-	5,334	-	16,293	105,610
	2010/11	84,778	-	5,272	-	16,446	106,496

Notes:

1. Pay includes a Management Allowance of 12% of annual salary.
2. Pay includes a Management Allowance of 12% of annual salary only applied in 2011/12

The Authority's employees receiving more than £50,000 more remuneration for the year in bands of £5,000, excluding employer's pension contributions were:

Remuneration band	2010/11	2011/12
	Number of employees	Number of employees
£50,000 to £54,999	13	10
£55,000 to £59,999	9	10
£60,000 to £64,999	1	1
£65,000 to £69,999	3	1
£70,000 to £74,999	-	2
£75,000 to £79,999	-	-
£80,000 to £84,999	-	-
£85,000 to £89,999	-	1
£90,000 to £94,999	2	1
£95,000 to £99,999	-	-
£100,000 to £104,999	-	-
£105,000 to £109,999	2	1
£110,000 to £114,999	-	1
£115,000 to £119,999	-	-
£120,000 to £124,999	-	-
£125,000 to £129,999	-	-
£130,000 to £134,999	-	-
£135,000 to £139,999	-	-
£140,000 to £144,999	-	-
£145,000 to £149,999	-	-
£150,000 to £154,999	1	1

## Notes to the Accounting Statements

### 33. Exit Packages

Reporting of the Authority and other compensation schemes - Exit Packages

2011/12 Exit package cost band	Compulsory redundancies		Other departures agreed		Total number of exit packages	
	Number of employees	£000	Number of employees	£000	Number of employees	£000
less than £20,000	-	-	4	20	4	20
£20,000 to £39,999	-	-	-	-	-	-
£40,000 to £59,999	-	-	-	-	-	-
£60,000 to £79,999	-	-	-	-	-	-
£80,000 to £99,999	-	-	-	-	-	-
£100,000 to £149,999	-	-	-	-	-	-
£150,000 to £199,999	-	-	-	-	-	-
£200,000 to £249,999	-	-	-	-	-	-
<b>Total</b>	-	-	<b>4</b>	<b>20</b>	<b>4</b>	<b>20</b>

2010/11 Exit package cost band	Compulsory redundancies		Other departures agreed		Total number of exit packages	
	Number of employees	£000	Number of employees	£000	Number of employees	£000
less than £20,000	1	1	-	-	1	1
£20,000 to £39,999	-	-	1	23	1	23
£40,000 to £59,999	-	-	-	-	-	-
£60,000 to £79,999	-	-	-	-	-	-
£80,000 to £99,999	-	-	-	-	-	-
£100,000 to £149,999	-	-	-	-	-	-
£150,000 to £199,999	-	-	-	-	-	-
£200,000 to £249,999	-	-	-	-	-	-
<b>Total</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>23</b>	<b>2</b>	<b>24</b>

### 34. External Audit Costs

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims, statutory inspections and to non-audit services provided by the Authority's external auditors, the Audit Commission, during the year.

	2010/11 £000	2011/12 £000
Fees payable to with regard to external audit services carried out by the appointed auditor for the year	55	69
Fees payable to in respect of statutory inspections	-	-
Fees payable to for the certification of grant claims and returns for the year	-	-
Fees payable in respect of other services provided for the year	1	-
<b>Total</b>	<b>56</b>	<b>69</b>

### 35. Grant Income

The Authority credited the following grants, contributions, and donations to the Comprehensive Income and Expenditure Statement in 2011/12

	2010/11 £000	2011/12 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
National Non Domestic Rates	12,813	10,568
Revenue Support Grant	1,860	3,267
Fire Capital Grant	820	1,203
Local Area Agreement	82	-
Disability Discrimination Act	35	-
Council Tax Freeze Grant	-	617
<b>Total</b>	<b>15,610</b>	<b>15,655</b>



## Notes to the Accounting Statements

### Credited to Services

Special Projects	106	-
Resilience	40	-
Flood Defence	4	-
New Dimensions	-	45
Firelink	-	34
Control Room	-	20
<b>Total</b>	<b>150</b>	<b>99</b>

2011/12

£000

Capital Grants Receipts in Advance  
Total

-
-

Donated Assets Account  
Total

-
-

The Authority has received no grants, contributions or donations that have yet to be recognised as income, where the conditions attached to them would require the monies or property to be returned to the giver.

In 2010/11 the Department for Communities and Local Government transferred the ownership of the New Dimension Assets to Fire Authorities. For the East Sussex Fire Authority this included two Prime Movers, an Incident Response Unit and a High Volume Pump.

The assets were initially recorded in a Donated Assets Account but as the associated conditions were met they were transferred out to the Comprehensive Income and Expenditure Statement as a gain on acquisition. The gain is mitigated through the Movement in Reserves Statement to the Capital Adjustment Account so there is no impact on the general fund balances. The balance on the Donated Assets Account is therefore nil at 31<sup>st</sup> March 2012 (nil 31<sup>st</sup> March 2011).

### 36. Related Parties

The Fire Authority is obliged to disclose material transactions with related parties, a term that includes central government, the Pension Fund, some partnerships, as well as any financial relationships with Members and Chief Officers other than payments of salaries, expenses, etc. We disclose these transactions to indicate the extent to which the Authority might have been constrained in its ability to operate independently, or to have secured the ability to limit another party's ability to bargain freely with the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority 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. Grants received from government departments are set out in the subjective analysis in Note 28 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2012 are shown in Note 35.

#### Members and Chief Officers

Members of the Fire Authority have direct control over the Authority's financial and operating policies. None of the Members or Chief Officers had any interests in any related party transactions during the year. The Register of Members' Interests is held at Fire HQ, Eastbourne, and is open to public inspection. The total of members' allowances paid in 2011/12 is shown in Note 31.

### 37. Capital Expenditure and Capital Financing

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

## Notes to the Accounting Statements

	2010/11 £000	2011/12 £000
<b>Opening Capital Financing Requirement</b>	<b>10,492</b>	<b>11,449</b>
<b>Capital Investment</b>		
Property, Plant and Equipment	2,725	1,483
Investment Properties	-	-
Intangible assets	-	-
Revenue Expenditure Funded from Capital under Statute	-	-
<b>Sources of Finance</b>		
Capital receipts	-	-
Government grants & other contributions	(937)	(1,203)
<b>Sums set aside from revenue</b>		
Direct Revenue contributions	(250)	-
Minimum Revenue Provisions	(581)	(670)
<b>Closing Capital Financing Requirement</b>	<b>11,449</b>	<b>11,059</b>

The Capital Financing Requirement represents the Authority's net need to borrow to finance its capital investment, made up of all loan investment in previous years, less amounts set aside each year for the redemption of debt.

<i>Explanation of movements in year</i>	2010/11 £000	2011/12 £000
Increase in underlying need to borrowing (supported by government financial assistance)-	-	-
Increase in underlying need to borrowing (unsupported by government financial assistance)	1,158	(178)
Assets acquired under finance leases	(201)	(212)
Assets acquired under PFI/PPP contracts	-	-
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>957</b>	<b>(390)</b>

### 38. Leases

#### Authority as Lessee

**Finance Leases** - The Authority has acquired a number of vehicles under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2011 £000	31 March 2012 £000
Vehicles, Plant, Furniture and Equipment	652	553

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

	31 March 2011 £000	31 March 2012 £000
Finance lease liabilities (net present value of minimum lease payments):		
Current	212	186
Non-current	580	394
Finance costs payable in future years	119	71
<b>Minimum lease payments</b>	<b>911</b>	<b>651</b>

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2011 £000	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000
Not later than one year	48	35	212	186
Later than one year and not later than five years	71	36	580	394
Later than five years	-	-	-	-
	<b>119</b>	<b>71</b>	<b>792</b>	<b>580</b>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 no contingent rents were payable by the Authority.

## Notes to the Accounting Statements

**Operating Leases** - The Authority has lease cars for certain staff and paid £0.041m in 2011/12 (£0.045m 2010/11).

### **Authority as Lessor**

**Finance Leases** - The Authority does not have any finance leases where it acts as a lessor.

**Operating Leases** – The Authority leases out Property, Plant and Equipment under operating leases in relation to space on its aerial masts and received £0.074m in 2011/12 (£0.043m 2010/11).

### **39. Private Finance Initiatives and Similar Contracts**

The Authority has not entered into any Private Finance Initiative or similar contracts as at 31<sup>st</sup> March 2012.

### **40. Impairment and Revaluation Losses**

During 2011/12, the Authority had no impairment losses in relation to Property, Plant and Equipment.

During 2011/12, the Authority had revaluation losses in relation to Property, Plant or Equipment of £0.048m (£2.643m 2010/11).

### **41. Defined Benefits Pension Schemes**

#### **Participation in Pension Schemes**

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

The Statement of Accounting Policies explains that the Authority participates in three schemes, the 1992 Firefighter's Pension Scheme, the 2006 Firefighter's Pension Scheme and the Local Government Pension Scheme.

The Firefighters' Pension Schemes are administered nationally, and the Income and Expenditure Account contains actual contributions made to the schemes. Details of the East Sussex Firefighters Pension Fund can be found on pages 76 to 78.

The Local Government Scheme is administered through the East Sussex Pension Fund, and in addition, the Authority has liabilities for discretionary payments for added years, and other benefits for local government employees. These are charged as an expense to the accounts of the Authority, rather than those of the Pension Fund. The quoted securities held as assets in the defined benefits pension scheme are now valued at bid price rather than mid-market value.

#### **Transactions Relating to Post-employment Benefits**

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the contributions made in the year, so the real cost of retirement benefits is reversed out through the General Fund via the Movement in Reserves Statement and the contributions made in the year are included. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

## Notes to the Accounting Statements

	Local Government Pension Scheme		1992 Firefighters Pension Scheme		2006 New Firefighters Pension Scheme	
	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000
<b>Comprehensive Income and Expenditure Statement</b>						
Net Cost of Services:						
- Current Service Cost	927	1,067	5,600	6,600	800	900
- Past Service Cost	48	(2,422)	2,700	(26,300)	-	(500)
- Settlements and Curtailments	-	-	-	-	-	-
<i>Financing and Investment Income and Expenditure:</i>						
- Interest Cost	1,137	1,223	12,600	12,800	200	200
- Expected Return on Scheme Assets	(1,268)	(1,066)	-	-	-	-
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>844</b>	<b>(1,198)</b>	<b>20,900</b>	<b>(6,900)</b>	<b>1,000</b>	<b>600</b>
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement						
- Actuarial gains and losses	(1,043)	4,599	(4,200)	11,700	300	-
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(199)</b>	<b>3,401</b>	<b>16,700</b>	<b>4,800</b>	<b>1,300</b>	<b>600</b>
<b>Movement in Reserves Statement</b>						
- Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(844)	1,198	(20,900)	6,900	(1,000)	(600)
Actual amount charged against the General Fund Balance for pensions in the year:						
- Employers' contributions payable to scheme	953	970	6,800	7,000	(200)	(400)

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, actuarial losses of £4.9m (1992 Firefighters' Pension Scheme £4.2m loss 2006 New Firefighters' Pension Scheme £0.3m gain Local Government Pension Scheme £1.0m loss) (£16.3m gain in 2010/11 1992 Firefighters' Pension Scheme £11.7m gain 2006 New Firefighters' Pension Scheme £0.0m gain Local Government Pension Scheme £4.6m gain) were included in the Statement of Recognised Gains and Losses. The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £69.5m (1992 Firefighters' Pension Scheme £64.2m loss 2006 New Firefighters' Pension Scheme £0.9m loss Local Government Pension Scheme £4.4m loss) (£64.5m loss in 2010/11 1992 Firefighters' Pension Scheme £60.0m loss 2006 New Firefighters' Pension Scheme £1.2m loss Local Government Pension Scheme £3.3m loss)

## Notes to the Accounting Statements

### Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Local Government Pension Scheme		1992 Firefighters Pension Scheme		2006 New Firefighters Pension Scheme	
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
	£000	£000	£000	£000	£000	£000
Opening balance at 1 April	20,257	23,619	227,400	253,000	4,000	3,000
Current service cost	927	1,067	5,600	6,600	800	900
Interest cost	1,137	1,223	12,600	12,800	200	200
Contributions by scheme participants	323	331	1,300	1,300	200	200
Actuarial (gains) and losses	361	(3,165)	4,200	(11,700)	(300)	-
Benefits paid	(471)	(396)	(8,400)	(8,000)	-	-
Past service costs	48	(2,422)	2,700	(26,300)	-	(500)
Transfers in from other authorities	-	-	300	-	-	200
Transfers out to other authorities	-	-	-	(300)	-	-
Entity combinations	-	-	-	-	-	-
Curtailments	-	-	-	-	-	-
Settlements	-	-	-	-	-	-
<b>Closing balance at 31 March</b>	<b>22,582</b>	<b>20,257</b>	<b>245,700</b>	<b>227,400</b>	<b>4,900</b>	<b>4,000</b>

Reconciliation of fair value of the scheme (plan) assets:

	Local Government Pension Scheme		1992 Firefighters Pension Scheme		2006 New Firefighters Pension Scheme	
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
	£000	£000	£000	£000	£000	£000
Opening balance at 1 April	17,989	14,584	-	-	-	-
Expected rate of return	1,268	1,066	-	-	-	-
Actuarial gains and losses	(682)	1,434	-	-	-	-
Employer contributions	953	970	6,800	7,000	(200)	(400)
Contributions by scheme participants	323	331	1,300	1,300	200	200
Benefits paid	(471)	(396)	(8,400)	(8,000)	-	-
Transfers in from other authorities	-	-	300	-	-	200
Transfers out to other authorities	-	-	-	(300)	-	-
Entity combinations	-	-	-	-	-	-
Settlements	-	-	-	-	-	-
<b>Closing balance at 31 March</b>	<b>19,380</b>	<b>17,989</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £0.591m (2010/11: £1.039m).

### Scheme History

	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
<b>Present value of liabilities:</b>					
Local Government Pension Scheme	(12,651)	(12,976)	(23,619)	(20,257)	(22,582)
1992 Firefighters Pension Scheme	(174,800)	(174,400)	(253,000)	(227,400)	(245,700)
2006 New Firefighters Pension Scheme	(400)	(1,200)	(3,000)	(4,000)	(4,900)
<b>Fair value of assets in the Local Government Pension Scheme</b>	<b>11,029</b>	<b>9,887</b>	<b>14,584</b>	<b>17,989</b>	<b>19,380</b>
<b>Surplus/(deficit) in the scheme:</b>					
Local Government Pension Scheme	(1,622)	(3,089)	(9,035)	(2,268)	(3,202)
1992 Firefighters Pension Scheme	(174,800)	(174,400)	(253,000)	(227,400)	(245,700)
2006 New Firefighters Pension Scheme	(400)	(1,200)	(3,000)	(4,000)	(4,900)
<b>Total</b>	<b>(176,822)</b>	<b>(178,689)</b>	<b>(265,035)</b>	<b>(233,668)</b>	<b>(253,802)</b>

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £273.2m (£251.7m in 2010/11) has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £253.8m (£233.7m in 2010/11).

## Notes to the Accounting Statements

However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy. The deficit on the Local Government Scheme will be made good by increased contributions over a 20 year period, as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2013 is £0.898m. This excludes items that cannot be fairly estimated in advance such as past service cost, losses/ (gains) on curtailments and settlements, etc.

Based on the current benefits structure of the Local Government Pension Scheme (LGPS), and using the roll forward model, the actuarial estimate of the present value of funded liabilities is approximately £16.8m, £1.6m and £4.2m in respect of employee members, deferred pensioners, and pensioners respectively as at 31 March 2012. There is also a liability of approximately £0.027m in respect of LGPS unfunded pensions. It is assumed that all unfunded pensions are payable for the remainder of the member's life.

### Basis for 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 assumptions about mortality rates, salary levels, etc. The Fire Authority Fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the East Sussex Pension Fund being based on the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		1992 Firefighters Pension Scheme		2006 New Firefighters Pension Scheme	
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
<b>Long-term expected rate of return on assets in the scheme:</b>						
Equity investments	6.3%	7.5%	-	-	-	-
Bonds	4.4%	4.9%	-	-	-	-
Property	4.4%	5.5%				
Cash	3.5%	4.6%	-	-	-	-
<b>Mortality assumptions:</b>						
<b>Longevity for current pensioners:</b>						
• Men	21.3	21.3	27.9	27.9	27.9	27.9
• Women	23.4	23.4	30.8	30.8	30.8	30.8
<b>Longevity for future pensioners:</b>						
• Men	23.3	23.3	29.5	29.5	29.5	29.5
• Women	25.7	25.7	32.3	32.3	32.3	32.3
Rate of inflation	2.5%	2.8%	3.3%	3.6%	3.3%	3.6%
Rate of increase in salaries	4.8%	5.1%	3.5%	4.6%	3.5%	4.6%
Rate of increase in pensions	2.5%	2.8%	2.5%	2.8%	2.5%	2.8%
Rate for discounting scheme liabilities	4.8%	5.5%	4.8%	5.5%	4.8%	5.5%
Take-up of option to convert annual pension into retirement lump sum	-	-	90.0%	90.0%	90.0%	90.0%

Average future life expectancies for the Local Government Pension Scheme is at age 65

Average future life expectancies for the Firefighters Pension Scheme is at age 60

Assets in the Local Government Pension Fund consist of the following categories, by proportion of the total assets held by the Fund:

	31 March 2012	31 March 2011
	%	%
Equity investments	80	78
Bonds	9	8
Property	9	8
Cash	2	6
<b>Total</b>	<b>100</b>	<b>100</b>

## Notes to the Accounting Statements

### History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

Local Government Pension Scheme	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Differences between the expected and actual return on assets	(1,124)	(2,835)	3,052	1,434	(682)
Experience gains and (losses) on liabilities	(758)	3	13	(65)	(133)

1992 Firefighters Pension Scheme	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Differences between the expected and actual return on assets	-	-	-	-	-
Experience gains and (losses) on liabilities	(5,200)	5,300	1,600	6,900	6,400

2006 Firefighters Pension Scheme	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Differences between the expected and actual return on assets	-	-	-	-	-
Experience gains and (losses) on liabilities	100	(300)	100	(200)	300

### 42. Contingent Liabilities

A contingent liability is a possible present conditional obligation arising from past events and whose existence will be confirmed only by the occurrence of future uncertain events not wholly within the Fire Authority's control.

There is a potential for the Fire Authority to incur additional liabilities as a result of the incident at Marlie Farm that occurred on 3 December 2006. Although the court case and subsequent appeals have been concluded, the Authority has been informed that a number of claims have been received naming the Authority as one of the parties. These are being dealt with on behalf of the Authority by its insurers. The value of any potential liabilities will depend on any resulting actions taken. At this stage, therefore, it is not possible to estimate what this value might be.

The imminent retrospective access for RDS staff to the Firefighters' Pension Scheme 1992 for the period 1 July 2000 (when the Part Time Workers Legislation came into force) to April 2006 on the introduction of the New Firefighters' Pension Scheme 2006 to which RDS staff have access. The cost and mechanism of this is unknown but funding is to be met by both employer and employee contributions into a modified 2006 Scheme ensuring benefits of the 1992 scheme will be preserved.

The European Parliament and the European Council have not been able to find a compromise position regarding the Working Time Directive. The Conciliation Committee, comprising delegates from Parliament and Council, decided that it was not possible to reach an agreement on three crucial points – opt-out, on-call time and multiple contracts. Since there is no agreement, the current Directive remains in force, though the Commission can draft a new proposal, from scratch. Such new legislation would need to take account of the rulings of the European Court of Justice regarding on-call time. Any change to the implementation of the Working Time Directive is likely to have implications for Fire and Rescue Authorities particularly in relation to operational personnel conditioned to the retained duty system and others involved with on-call time. It is not possible to project the financial implications at this stage.

### 43. Nature and extent of risks arising from Financial Instruments

#### Key Risks

The Authority's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Authority;
- Liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Authority might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk - the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates movements.

## Overall Procedures for Managing Risk

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

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Authority's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance;

These are required to be reported and approved at or before the Authority's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual Treasury Management Strategy, which outlines the detailed approach to managing risk in relation to the Authority's financial instrument exposure. Actual performance is also reported annually to Members, as is a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by the Authority on 4th February 2011 and is available on the Authority's website. The key issues within the strategy were:

- The Authorised Limit for 2011/12 was set at £12.59 million. This is the maximum limit of external borrowings or other long term liabilities;
- The Operational Boundary was expected to be £10.17 million. This is the expected level of debt and other long term liabilities during the year;
- The maximum amounts of fixed and variable rate interest rate exposure were set at 100% based on the Authority's net debt;
- The maximum and minimum exposures to the maturity structure of debt are shown under the Refinancing and Maturity Risk section of this note.

These policies are implemented by a central treasury team. The Authority maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

## Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

This risk is minimized through the Treasury Management Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Ratings Services. The Treasury Management Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The Authority's Treasury Management is kept under constant review and due to the exceptional risks of the international financial crisis the strategy was amended a number of times during 2008/09, 2010/11 and 2011/12.

Whilst the recent credit crisis in international markets has raised the overall possibility of default, the Authority maintains strict credit criteria for investment counterparties. The credit criteria in respect of financial assets held by the authority at 31 March 2012 are detailed below:



## Notes to the Accounting Statements

### (A) UK Investment Without Government Equity Holding

Up to a maximum of £3m deposited up to a period of up to one year with any of the following: -

The current policy stance is overnight but the policy allows changes to reflect market conditions if and when they improve.

<p><i>Bank / Fund / Local Authority</i></p> <p>Barclays. Santander UK. HSBC. Nationwide. Individual Treasury Type Money Market Funds (AAA rated) which invest in Government Securities only. Individual Cash Type Money Market Funds (AAA rated). Another Local Authority (Equivalent to the low risk of investing with the Government but not formally rated).</p>
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Only banks which meet the following minimum rating criteria for at least two of the designated agencies to be used.

<b>Ratings Agency</b>	<b>Long Term</b>	<b>Short Term</b>
<i>Fitch</i>	AA-	F1+
<i>Moody</i>	AA3	P-1
<i>Standards and Poors</i>	AA-	A-1+

### (B) UK Investment With Government Equity Holding of minimum of 30%

We took 30% as a minimum level of significant associated company influence. In practice it serves as a trigger to formally review our position.

Up to a maximum of £3m deposited up to a period of up to three months with the following: -

The current policy stance is overnight but the policy allows changes to reflect market conditions if and when they improve.

<p><b>Bank</b></p> <p>Lloyds/HBOS Nat West/RBS</p>
--

Only banks which meet the following minimum rating criteria for at least two of the designated agencies are to be used. The banks will not be used if the UK Sovereign rating falls below AAA.

<b>Ratings Agency</b>	<b>Long Term</b>	<b>Short Term</b>
<i>Fitch</i>	A	F1
<i>Moody</i>	A2	P-1
<i>Standards and Poors</i>	A	A-1

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £8.9m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2012 that this was likely to crystallise.

The Authority has no exposure to credit risk on other financial assets such as bonds.

No breaches of the Authority's counterparty criteria occurred during the reporting period. In October 2008, the Icelandic banking sector defaulted on its obligations but the Authority had no funds invested in this sector. All the Authority's deposits are made through the London Money Markets. As at 31 March 2012, the Authority's investments included £8.9m with UK banks, with no investments in non-UK banks. The Authority does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

## Notes to the Accounting Statements

The Authority does not generally allow credit for its customers, however £0.081m in 2011/12 (£0.083m 2010/11) is past its due date for payment. The past due amount can be analysed by age as follows:

	31 March 2011	31 March 2012
	£000	£000
Less than three months	83	81
Three to five months	-	-
Five months to one year	-	-
More than one year	-	-
<b>Total</b>	<b>83</b>	<b>81</b>

Collateral – During the reporting period the Authority held no collateral as security

### Liquidity risk –

The Authority manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when it is needed.

The Authority has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to Authorities (although it will not provide funding to an Authority whose actions are unlawful). The Authority is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial assets is as follows:

	2010/11	2011/12
	£000	£000
Less than one year (current assets)	7,826	11,443
Between one and two years	-	-
Between two and three years	-	-
More than three years	-	-
	<b>7,826</b>	<b>11,443</b>

### Refinancing and Maturity Risk –

The Authority maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Authority relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Authority approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Authority's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

## Notes to the Accounting Statements

The maturity analysis of financial liabilities, including the minimum and maximum limits for fixed interest rates maturing in each period, is as follows:

	Approved Minimum Limit	Approved Maximum Limit	2010/11	2011/12
	%	%	£000	£000
Less than one year (current liabilities)	0%	25%	1,665	2,358
Between one and two years	0%	40%	186	172
Between two and five years	0%	60%	394	373
Between five and ten years	0%	80%	350	675
More than ten years	0%	80%	10,773	10,298
			<b>13,368</b>	<b>13,876</b>

All trade and other payables are due to be paid in less than one year.

### Market risk

**Interest rate risk** – The Authority is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Authority's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect in 2011/12 would be:

	£000
Increase in interest payable on variable rate borrowings (none held)	-
Increase in interest receivable on variable rate investments	89
Impact on Surplus or Deficit on the Provision of Services	89
Decrease in fair value of fixed rate investments (none held)	-
Impact on other Comprehensive Income and Expenditure	-
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or other Comprehensive Income and Expenditure)	-

## Notes to the Accounting Statements

The approximate impact of a 1% fall in interest rates would be as above, but with the movements being reversed. This figure of £0.089 million (£0.045 million at 31 March 2011) represents the immediate impact on the Authority's investments that are on variable rate, but ignores the impact of overnight and short-term fixed rate investments. These assumptions are based on the same methodology as used in the Note – Fair value of Assets and Liabilities carried at Amortised Cost.

**Price risk** - The Authority does not invest in equity shares or marketable bonds.

**Foreign exchange risk** - The Authority has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

### 44 Heritage Assets

The Authority holds a number of items such as cap badges, brass helmets and various trophies and memorabilia, all of which is not material so have not been included in the assets of the Authority.

The Authority had no other heritage assets at 31 March 2012 or the previous year.

## Firefighters' Pension Fund Accounts

### Introduction

The Firefighters' Pension Scheme eligible to operational firefighters is unfunded, that is there are no investment assets to offset liabilities. The Firefighters' Pension Fund Account is balanced to nil each year by receipt of pension top-up grant from the Government or by paying over the surplus to the Government.

The initial amount received from the Government during the year is based on an early estimate of likely outcome based on pensionable pay of members in the scheme and an estimate for members joining and leaving, and an estimate of likely lump sum retirement benefits payable to firefighters due to retire during the year.

In the event this year, the lump sum retirement benefits paid to firefighters who actually retired during the year was in excess of that sum based on the estimated number of firefighters who were eligible and were likely to retire. The pension top-up grant accordingly under-advanced by the Government is required to be paid to the Fire Authority after the year end accounts are finalised, and appears as a debtor in the balance sheet of the Statement of Accounts of the Fire Authority.

The Firefighters' Pension Fund Account is not a bank account, and the fund does not require active fund administration and management. The Firefighters' Pension Fund Account operates as a series of balance sheet ledger accounts in the accounting books of the Fire Authority designed to record the applicable transactions as they arise from employee and employer contributions from payroll, the payments of lump sums at retirement, accounting for ill-health charges to accord to a Government formula, and the accounting to eliminate that element within pensions paid relating to retirement on grounds of injury. Since such an injury element of pensions paid cost is not borne by the Firefighters' Pension Fund Account and hence by the Government, this is a cost to the Fire Authority.

The Firefighters' Pension Fund Account has been prepared on an accruals basis. Accruals are not significant since substantially all the transactions are derived either from payroll, or from actual payments into and out of the Firefighters' Pension Fund Account. There are no significant estimation techniques adopted.

From 1 April 2006, employee contributions and a new employer's contribution are paid into a pension fund account from which pension payments are made. The account is to be topped up by Government grant if the contributions are insufficient to meet the cost of pension payments. The underlying principle of these new arrangements is that employer and employee contributions together will meet the full costs of pension liabilities being accrued in respect of currently serving employees, while central Government will meet the costs of retirement pensions in payment, net of these contributions. The account forms part of the assets and liabilities of the Fire Authority.

In May 2008 the Government issued a directive revising commutation factors prepared by the Government Actuary for the purposes of calculating the lump sums payable to persons who commute part of their firefighters' pension under the Firefighters' Pension Scheme 1992 arrangements. The effect of these new factors however were backdated to 1 October 2007.

In May 2009 the Government issued a further directive revising commutation factors again for the purposes of calculating the lump sums payable to persons who commuted part of their firefighters' pension. The effect of these new factors again had backdated effect.

Under the new arrangements, a pension transfer payment or receipt for pension rights transferred from one eligible pension scheme to another when employees with eligible years of service change their employment no longer applies for eligible firefighters, but does apply for firefighters transferring to or from ineligible schemes. There were pension transfers in 2011/12 from ineligible schemes.

The Firefighters' Pension Fund Account does not take account of liabilities to pay pensions and other benefits in the future.

# Firefighters' Pension Fund Accounts

## Fund Account

2010/11 £000		2011/12 £000
	<b>Contributions Receivable:</b>	
(2,839)	Contributions in relation to pensionable pay	(2,762)
-	early retirements	-
-	other	-
(1,552)	Firefighters contribution	(1,515)
(4,391)		(4,277)
(170)	Transfers in from other authorities	(287)
	<b>Benefits Payable:</b>	
6,491	Pensions	6,803
916	Commutations and Lump Sum retirement Benefits	1,107
33	Lump Sum death benefits	-
7,440		7,910
	<b>Payments to and on account of leavers:</b>	
290	Transfers out to other authorities	-
-	Refunds of contributions	-
290		-
3,169	Net amount Payable for year	3,346
(3,169)	Top up grant payable by the government	(3,346)
-		-

## Net Assets Statement

31 March 2011 £000		31 March 2012 £000
	<b>Current Assets:</b>	
-	Contributions due from fire authority	-
-	Recoverable overpayments of pensions	-
557	Top-up grant receivable from the government	-
-	Cash and Cash Equivalents	372
	<b>Current Liabilities:</b>	
(557)	Cash overdrawn	-
-	Unpaid pensions benefits	-
-	Amount of grant payable to the government	(372)
-		-

## Firefighters' Pension Fund Accounts

### 1. Employer Contributions

The Fire Authority bore pension contributions as the employer, totalling £2.762m (£2.839m 2010/11) under these new arrangements representing 21.3% of pensionable pay for existing firefighters under the 1992 scheme and 11.0% for retained and new firefighters under the new 2006 scheme.

Together with ill-health charges of £nil, and injury portion of pensions paid of £0.225m (£0.223m 2010/11), employer contributions totalling £2.987m (£3.061m 2010/11) were charged under this scheme as pension costs to the accounts of the Fire Authority.

### 2. Top-Up Grant

The Firefighters' Pension Scheme is an unfunded scheme with any deficit/surplus on the account funded via a government grant or paid back to government.

The grant is paid once a year and consists of two elements;

- 80% of the estimated pension deficit for the current year (100% of any estimated surplus would be required to be repaid)
- The amount required to fully fund the previous year's pension scheme deficit or payment required to recover any surplus.

### 3. IAS 19 Employee Benefits

Details of the Actuarial Valuation are included within Note 41 to the Fire Authority statements.

### **Accruals**

Provision made at the year-end to bring into account outstanding debtors, creditors, etc, in order to show income and expenditure as it is earned or incurred.

### **Actuarial Gains and Losses**

The change in pension liabilities since the previous year, caused either by events differing from the previous forecast, or a change in actuarial assumptions.

### **Actuarial Valuation**

A review of the Pension Fund normally carried out at 3-year intervals, which assesses the contributions required from employing bodies in order to maintain the Fund's ability to pay benefits in future years to pensioners, contributors and their dependants.

### **Annual Governance Statement**

The statement sets out any functions delegated to sub-committee(s) or officers, terms, structure and operation of delegation, any representation of employers including voting rights and publishes details of governance arrangements against a set of best practice principles.

### **Balances**

A working balance maintained as a cushion against unexpected expenditure during the year.

### **Budget**

An expression, mainly in financial terms, of the Authority's policy for a specified period.

### **Capital / Capital Expenditure / Capital Receipts**

Capital expenditure pays for the acquisition of assets or the enhancement (rather than maintenance) of existing assets. It is financed mainly from borrowing, and charged to revenue over a number of years. We plan for capital expenditure over several years in the published capital programme. The term 'capital receipts' covers income from the sale of assets, together with grants and contributions received specifically for financing the capital programme. Capital receipts can only be used for capital purposes, and not to support the revenue budget.

### **Capital Charges**

Amounts charged to service revenue accounts for the use of assets, consisting of depreciation.

### **Capital Adjustment Account**

A reserve which is credited with amounts set aside to finance capital expenditure and absorbs the timing differences that might arise as a result of the setting aside of resources being out of line with accounting charges for depreciation and impairment losses.

### **CIES**

The Comprehensive Income and Expenditure Statement

### **CIPFA**

The Chartered Institute of Public Finance and Accountancy.

### **Collection Fund Adjustment Account**

The difference between the income included in the Income and Expenditure account for Council Tax and the amount required by legislation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance.

### **Community Assets**

These are assets which the Authority intends to hold in perpetuity and have no determinable finite useful life.

### **Corporate and Democratic Core**

This consists of two elements: Democratic Representation and Management, comprising the costs associated with Members of the Authority including support costs, and Corporate Management, which covers a tightly defined core of central costs, including the cost of the Chief Fire Officer and Chief Executive, and the costs of corporate information such as preparing the Statement of Accounts.

### **Contingent Assets and Liabilities**

A statement of a possible gain or loss to the authority, which is contingent upon the outcome of an event which is not known for certain when the accounts are drawn up.



### **General Fund**

The main revenue fund of the Fire Authority into which is paid income from the council tax precept, grants and charges for services and from which is met the cost of providing services.

### **Creditors**

Amounts owed by the Authority but not paid at the date of the Balance Sheet.

### **Current Service Cost**

The increase in pension liabilities expected to arise from employee service in the current period.

### **Curtailments**

This heading covers the additional cost arising from the early payment of pension benefits when an employee is made redundant. The full estimated discounted cost is charged immediately to the Revenue Account, under the heading of 'non-distributed costs', but this is offset by a transfer from the Pensions Reserve.

### **Debt Management Account Deposit Facility (DMADF)**

The Debt Management Office provides the service as part of its cash management operations and of a wider series of measures designed to improve local and central government's investment framework and cash management. The key objective of the DMADF is to provide users with a flexible and secure facility to supplement their existing range of investment options.

### **Debtors**

Amounts owed to the Authority but unpaid at the date of the Balance Sheet.

### **Defined Benefit Pension Schemes**

Pension schemes generally fall into one of these two categories. Defined Benefit schemes are those such as the Local Government Pension Scheme and Firefighters' Pension Scheme, where the benefits to employees are based on their final salaries and where employers' contributions have to be adjusted to match estimates of future liabilities. Defined Contribution schemes are those where the employer's liability is restricted to the amount that they contribute.

### **Depreciation**

A charge to services in the Income & Expenditure Account, assessed as the amounts by which fixed assets reduce in value during the year, calculated from the estimated life expectancy and any residual value.

### **Fair value**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. The concept of fair value is used in many accounting standards including the IFRS covering acquisition, valuation of assets, and financial instruments, but it is not limited to these.

### **Financial Reporting Standards (FRSs)**

Accounting standards approved by the Accounting Standards Board.

### **Floor / Floor Authority**

See Revenue Support Grant.

### **Formula Spending Share (FSS)**

See Revenue Support Grant.

### **FRAB**

The Financial Reporting Advisory Board's (FRAB) role is to promote the highest possible standards in financial reporting by Government and to help to ensure that any adaptations of, or departures from, Generally Accepted Accounting Principles (GAAP) are justified and properly explained.

### **Government Grants**

Contributions by central Government towards either the revenue or capital cost of local authority services.

### **Heritage Assets**

Heritage assets are physical assets the community intends to preserve because of cultural, historic, or environmental reasons; preserve indefinitely, e.g., monuments, art, museums, historical treasures.

### **HM Revenue & Customs (HMRC)**

HMRC's purpose is to make sure that the money is available to fund the UK's public services. HM Revenue & Customs (HMRC) was formed on the 18 April 2005, following the merger of Inland Revenue and HM Customs and Excise Departments. HMRC ensure the correct tax is paid at the right time, whether this relates to payment of taxes received by the department or entitlement to benefits paid.

### **IASB**

The International Accounting Standards Board (IASB) is an independent accounting standard-setter board and has responsibility for setting International Financial Reporting Standards

### **Impairment**

Impairment to assets may be physical in nature, such as damage by fire, or caused by a general or specific reduction in prices during the financial year.

### **Infrastructure**

This term covers capital investment on assets such as roads and rights of way.

### **Intangible Assets**

This term includes such items as development expenditure or goodwill, but for local authorities it only covers licences for the use of computer software.

### **Interest Cost**

The expected increase in the present value of pension liabilities during the current period, because the benefits are one year closer to settlement.

### **IFRS**

International Financial Reporting Standards

### **IFRIC**

International Financial Reporting Issues Committee - The IFRIC reviews, on a timely basis within the context of current International Financial Reporting Standards (IFRSs) and the IASB Framework, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus on the appropriate accounting treatment. In developing interpretations, the IFRIC works closely with similar national committees.

### **IRR**

The **internal rate of return** (IRR) on an investment or potential investment is the annualised effective compounded return rate that can be earned on the invested capital. In more familiar terms, the IRR of an investment is the interest rate at which the costs of the investment lead to the benefits of the investment. This means that all gains from the investment are inherent to the time value of money and that the investment has a zero net present value at this interest rate.

### **Leasing**

A method of obtaining the use of assets: a rental charge is paid for a specified period, but under operating lease conditions the asset remains the property of the lessor and the Authority has no rights to purchase.

### **Minimum Revenue Provision**

An amount, prescribed by Government, to be set aside from revenue for the redemption of debt.

### **MIRS**

The Movement in Reserves Statement

### **Net Book Value (NBV)**

The amount at which fixed assets are included in the Balance Sheet. The NBV is the historical cost or current value less any accumulated depreciation.

### **Net Worth**

The total of all assets less the total of all liabilities. It helps to determine the value of an entity and is also known as Total Net Assets or Total Equity.

### **Non-Distributed Costs**

These are costs which the Authority has to bear, but which do not support any statutory services. This includes three elements of the pension cost (Past Service Cost, Settlements and Curtailments) which are defined elsewhere, and the costs of properties which have been declared surplus and are awaiting disposal.

### **Non-Domestic Rates**

A charge on commercial and industrial buildings fixed by the Government and reallocated to local authorities.

### **Outturn**

The actual level of income and expenditure in a financial year.

### **Past Service Costs**

## **Glossary of Terms**

These arise when an employer agrees to provide added benefits in terms of years of service to an employee retiring early, normally because of redundancy. The full estimated discounted cost of the added years over the lifetime of the pension are charged immediately to the General Fund Revenue Account, under the heading of 'non-distributed costs', but this is offset by a transfer from the Pensions Reserve.

### **Post Balance Sheet Events**

A statement of the financial implications of an event taking place after the Balance Sheet date, which has a material effect on the Authority's financial position at the balance sheet date.

### **Prior Period Adjustments**

Material adjustments that are applicable to prior years and which arise from changes in accounting policy or the correction of fundamental errors. A fundamental error is one of such significance as to undermine the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

### **Private Finance Initiative (PFI)**

A long-term contractual public-private partnership, under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to agreed standards of performance.

### **Property, Plant and Equipment (PP&E)**

Property, plant and equipment covers all assets with physical substance (tangible assets) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period. PP&E is a summation of all the Authority's purchases of property, plants and pieces of equipment to that point in time, less any depreciation.

### **Provisions**

Provisions are made for liabilities and losses which have already been incurred at the date of the balance sheet, but for which the amount or dates on which they will arise cannot be determined accurately.

### **Public Works Loan Board (PWLB)**

A Government agency which provides the main source of borrowing for local authorities.

### **Real Terms**

The value given to expenditure and income in different years after removing the effects of inflation. The figures then being in constant price terms enable a comparison to be made of changes in volume over the years.

### **Related Parties**

This term covers individuals or bodies with which the Authority has a close economic relationship. It includes Members and Chief Officers, Government departments that provide funding, and other bodies that are involved in partnerships with the Authority.

### **Reserves**

Internal reserves set aside to finance future expenditure for purposes falling outside the definition of provisions.

### **Restatements**

Assessed increases or decreases in values of the Authority's fixed assets.

### **Revaluation Reserve**

This reserve is the net unrealised gains arising from the revaluation of fixed assets recognised in the balance sheet.

### **Revenue**

Recurring expenditure principally on pay, running costs of buildings, equipment and capital financing costs.

### **Revenue Expenditure Funded from Capital Under Statute**

Expenditure which may properly be charged to capital, and financed over a number of years, but which does not result in tangible assets.

### **Revenue Support Grant / Formula Spending Share / 4-Block Model / Floor and Floor Authorities**

Revenue Support Grant (RSG) – a significant general grant, received from the Government, and to contribute to the overall costs of providing services.

4-Block Model – the financial modelling process that underpins the allocation of Revenue Support Grant. Formula Grant funding encompasses four elements: (1) a central minimum amount allocated per head of population; (2) the needs of a local authority to provide certain services; (3) the resources the local authority can generate for itself (e.g. the amount of council tax it can raise); (4) a safeguard to prevent unreasonable year-on-year fluctuations. These four elements represent the 'Four Block' method of calculating entitlement to Formula Grant.

Floor – the Revenue Support Grant to which local authorities are entitled is calculated using complex formulae, based upon measures of local population needs and assessment of local council tax revenues. In order to reduce any effects of negative changes or developments in these grant formulae, a minimum ('floor') grant increase for each authority is guaranteed by the Government. Authorities receiving this minimum are generally known as 'floor' authorities.

### **Settlements**

These are adjustments to the Authority's pension liability arising from bulk transfers of employees. The full estimated discounted cost or gain is charged immediately to the General Fund Revenue Account, under the heading of 'non-distributed costs', but this amount is offset by a transfer from the Pensions Reserve.

### **Service Reporting Code of Practice (SeRCOP)**

A Code of Practice to establish consistent and comparable financial reporting. The code gives a mandatory definition of total cost and the divisions of service at which total cost must be aggregated when presenting cost based information and performance indicators in a published format.

### **Transfer Value**

A lump sum paid or received for pension rights transferred from one pension scheme to another usually when employees change their employment.

### **Unfunded Pensions**

The continuing payment of those elements of pensions, which may be awarded as additional years' service by the employer on early retirements triggered by redundancy.

### **Unusable Reserves**

This include unrealised gains and losses, particularly in relation to the revaluation of property, plant and equipment (e.g. the Revaluation Reserve) adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. the Capital Adjustment Account and the Pensions Reserve).

### **Usable Reserves**

This includes the revenue and capital resources available to meet future expenditure (e.g. the General Balances, Earmarked Reserves, and the Capital Receipts Reserve).

## ***Additional Information***

In addition to the Statement of Accounts, financial information can be obtained from the Fire Authority's agendas. Information on the Fire Authority's budget and finances can also be found on the website [www.esfrs.org](http://www.esfrs.org).

Further information on particular aspects of the East Sussex Fire Authority's finances may be obtained from:

Treasurer  
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County Hall  
Lewes, East Sussex  
BN7 1UE

Or by email to [finance@eastsussex.gov.uk](mailto:finance@eastsussex.gov.uk) or [enquiries@esfrs.org](mailto:enquiries@esfrs.org).