

HIGHLAND AND ISLANDS FIRE BOARD

UNAUDITED STATEMENT OF ACCOUNTS

2005-06

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EXPLANATORY FOREWORD

The Board's accounts for the year ended 31 March 2006 provide an assessment of the Board's financial performance. The accounts have been prepared, as far as practicable, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the SORP). There are no material departures from the above, and the accounts also comply with the requirements of the Best Value Accounting Code of Practice (BVACOP) issued by the Chartered Institute of Public Finance and Accountancy.

The accounts, which follow, consist of the:

- ◆ Statement of Accounting Policies explaining the policies adopted in compiling the accounts;
- ◆ Revenue Account which reports the net cost of the fire service and the funding from each constituent authority;
- ◆ Balance Sheet detailing the assets and liabilities of the Board and their financing as at 31 March 2006;
- ◆ Statement of Total Movements in Reserves which shows both the movements in those reserves which were introduced as a result of Capital Accounting, Financial Reporting Standard 17 (Retirement Benefits) and the Revenue Reserve;
- ◆ Cash Flow Statement summarising the inflows and outflows of cash;
- ◆ Statement of Responsibilities for the Statement of Accounts explaining the respective responsibilities of the Board and the Treasurer; and
- ◆ Statement on the System of Internal Financial Control which sets out the framework within which financial control is managed and reviewed, and the main components of the system, including the arrangements for internal audit.

In addition the Report by the Treasurer to the Board provides a brief explanation of the financial aspects of the Board's activities and draws attention to the main features of the Board's financing.

REPORT BY TREASURER TO THE BOARD

Introduction

The Highland and Islands Fire Board administers the Highlands and Islands Fire and Rescue Service on behalf of Highland Council, Orkney and Shetland Islands Councils and Comhairle Nan Eilean Siar.

Operational control of the service is the responsibility of the Firemaster who receives administrative, architectural, financial and computing support from the Central Administrative Services of Highland Council.

Revenue Budget Performance

The Board's financial results for the year, compared against budget are as shown below. This presentation differs from that shown in the Revenue Account on page 10 which is set out in accordance with the Best Value Accounting Code of Practice (BVACOP).

**Revenue Account
 For the year ended 31 March 2006**

2004/05		2005/06	
Actual		Budget	Actual
£000		£000	£000
15,000	Staff	16,221	15,307
1,072	Property	1,152	1,135
1,404	Administration	1,461	1,756
956	Supplies and services	800	692
2,673	Capital charges	2,465	2,896
251	Transport and plant	307	258
21,356	Gross expenditure	22,406	22,044
(1,590)	Pension contributions and transfer values	(538)	(519)
(47)	Other income	(27)	(44)
(1,637)	Gross income	(565)	(563)
19,719	Net cost of services	21,841	21,481
(73)	Interest on revenue balances	-	(204)
(28)	Asset management revenue account	(223)	(262)
19,618	Net operating expenditure	21,618	21,015
11	Contribution from capital financing account	1,335	1,568
19,629	Amount to be met by constituent authorities	22,953	22,583

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The Board's net budgeted expenditure in 2005/06 was £22.953m (2004/05 £21.837m). Constituent authorities agreed to increased requisitions in the year to allow completion of the upgrade programme.

(Under)/overspend	2005/06	2004/05
	£m	£m
Staff costs	(0.914)	(0.922)
Property costs	(0.017)	(0.034)
Administration	0.296	0.013
Supplies and Services	(0.108)	(0.022)
Loan Charges and CFR	0.624	(0.085)
Transport & Plant	(0.049)	(0.030)
Pension Contributions and Transfer Values	0.013	(1.086)
Other Income	(0.215)	(0.042)
Net Underspend	<u>(0.370)</u>	<u>(2.208)</u>

The Board is entitled to carry forward an underspend on the Grant Aided Expenditure (GAE) level in the year of up to 3% and up to 5% cumulatively. The amount to be carried forward into 2006/07 is £0.234m. An amount of £0.121m has been returned from earmarked reserves to match commuted sums payments in the year. The net transfer to reserves in the year is therefore £0.113m with additional underspend of £0.257m being returned to the constituent authorities.

The net expenditure of the Board's service is allocated between the constituent authorities, in line with the Montgomery Committee recommendations, as far as possible on the basis of actual cost. Due to the impact of shifting expenditure patterns in recent years GAE awarded to the Constituent Authorities has become disproportionate to the actual expenditure in each area. During 2005-06 the Board agreed to set aside strict adherence to the Montgomery formula for 2005-06 and 2006-07 and apply the following percentages to the 2005-06 expenditure.

For 2005/06 the net expenditure of the Board has been allocated as detailed in the following table.

Constituent authority	2005/06		2004/05	
	£m	%	£m	%
Highland Council	17.987	79.26	13.563	69.47
Comhairle Nan Eilean Siar	1.925	8.48	2.338	11.98
Orkney Islands Council	1.342	5.91	1.522	7.79
Shetland Islands Council	1.442	6.35	2.101	10.76
	22.696	100.00	19.524	100.00

Capital Expenditure and Borrowing

The Board uses The Highland Council's Loans Fund for their borrowing requirements and currently has £17.545m outstanding advances from the Loans Fund (2004/05 £19.083m).

Until 31 March 2004 the board was restricted in the level of net capital expenditure it could incur by section 94 of the Local Government Scotland Act 1973. From 1 April 2005, provisions in the Local Government Scotland Act 2003, have replaced the Section 94 consents with cash grants. In addition the Fire Board is able to determine the most appropriate level of capital expenditure for the Board's circumstances, being guided by the Prudential Code, which requires the board to ensure that any capital borrowing is affordable, prudent and sustainable.

In 2005/06 the Board received capital grant of £2.586m. With the permission of the Scottish Executive £0.184m of this grant has been carried forward to 2006/07. Capital grant utilised in the year was therefore £2.402m and the board agreed to fund capital from current revenue of £1.603m allowing for a gross capital programme to the value of £4.005m. Capital receipts in the year of £0.156m were not utilised in the year but added to the useable capital receipts reserve.

Public Private Partnership (PPP) Scheme Update for 05/06

During 2002/03 an Outline Business Case (OBC) for a prospective PPP project was compiled. Following the Fire Board meeting of 4 April 2003 the report was submitted to the Scottish Executive for consideration and approval. However the Board has been advised that at the present time the Fire Branch of the Scottish Executive does not, as yet, have access to funding for PPP projects. When such funding becomes available the OBC will be reviewed by the Executive.

Financial Reporting Standard 17 (FRS 17) "Retirement Benefits"

In accordance with CIPFA/LASAAC guidance, FRS 17 is fully adopted in preparing the accounts of the Board for the year ended 31 March 2006. The standard prescribes how employing organisations are to account for pension benefits earned by employees in the year and the associated pension assets and liabilities.

The Board participates in two pension schemes:

- The Firefighters Pension Scheme – this is an unfunded scheme which means that no investment assets are built up to fund future liabilities. Instead, the net cost of pensions and other benefits (after allowing for contributions from firefighters) is borne annually by the Board;
- The Local Government Pension Scheme - this is a funded scheme which means that the Board and employees pay contributions into a fund, calculated at a level to balance the pension liabilities with the investment assets.

Note 9 to the Revenue Account details the expenditure charged to the Revenue Account under FRS17 in respect of both the Firefighters Pension Scheme and the Local Government Scheme, based upon actuarial valuations.

Note 10 to the Balance Sheet shows that the Board has a net pension liability of £70.292m as at 31 March 2006 (£59.604m as at 31 March 2005), comprising £68.200m in respect of Firefighters and £2.092m in respect of civilian staff (£57.100m in respect of Firefighters and

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£2.504m in respect of civilian staff as at 31 March 2005). This liability is accounted for within the balance sheet and through the creation of a pension reserve.

Due to the accrual of these pension liabilities the balance sheet shows an excess of liabilities over assets of £56.229m (31 March 2005 £47.385m). The Board has adopted a going concern basis of accounting for the preparation of the statement of accounts as future actuarial valuations of the Local Government Pension Scheme will consider the appropriate employer's rate to meet the commitments of the fund and constituent authorities are liable to fund the liabilities of the Board as they fall due.

Acquisition and disposal of Assets

During 2005/06 new stations were completed at Durness, Lochcarron, Lochmaddy and Shawbost. There were no major asset disposals during the year.

Acknowledgement

I conclude my report by thanking the staff of my service for their support during the year and my colleagues, in other services, and the Highland and Islands Fire Board for their continued co-operation.

A Geddes CPFA
Treasurer
30 June 2006

STATEMENT OF ACCOUNTING POLICIES

1. General

The accounts have been prepared on an historic cost basis, modified by the revaluation of certain categories of fixed assets, and are, as far as practicable, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in The United Kingdom (the SORP), and the Best Value Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (BVACOP).

2. Revenue and Capital Transactions

All revenue and capital transactions have been recorded on an accruals basis. This includes employee costs, which are charged to the period that employees worked; and supplies and services, which are accounted for in the period in which they are consumed or received.

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis including improvement and structural work.

3. Leases

Rental payments under operating leases have been charged to revenue on a straight-line basis over the term of the lease. The Board do not have any finance leases.

4. Overheads

The costs of the directly employed administrative and professional staff are included within "Community Fire Safety, Fire Fighting and Rescue Operations". The charges made in relation to support services provided by The Highland Council are based on actual work undertaken, and are included within "Corporate and Democratic Core Costs".

5. Charges to Revenue for Fixed Assets

Under the Capital Accounting system, the Revenue Account is charged with a capital charge comprising depreciation, where appropriate, plus a capital financing charge of 3.5% for Other Land & Buildings and 4.95% for Vehicles, Plant & Equipment, as prescribed by the SORP. Capital charges on non-operational assets have been charged to non distributed costs in the revenue account.

6. Asset Management Revenue Account (AMRA)

The AMRA is not a trading account of the Board but rather it matches the credit for the reversal of capital charges with depreciation and external interest. The AMRA balance is charged or credited to the Revenue Account. This ensures that only the statutory loan charges are reflected in the Board's operating expenditure and the amount due from Constituent Authorities.

7. Fixed Assets

All fixed assets, which exceed the de minimis levels, have been identified, classified and valued. A de minimis level of £20,000 has been applied to 'Other Land and Buildings' and 'Non Operational Assets' with a £6,000 de minimis applying to the "Vehicles, Plant and Equipment". The valuation bases are as follows:

7. Fixed Assets (continued)

Other Land and Buildings – valued at depreciated replacement cost (as required for specialised buildings) by the Director of Property & Architectural Services, Highland Council as at 01 April 2004.

Vehicles, Plant and Equipment – Valued at historic cost where an asset has been acquired externally, and net realisable value where a bespoke asset has been built in the Brigade workshops.

Non Operational Properties - valued at open market value, by the Director of Property & Architectural Services, Highland Council as at 01 April 2004.

8. Depreciation

The following depreciation policies have been applied:

Land – no depreciation has been provided for as the land is not subject to depletion.

Operational Buildings – Depreciation has been provided on a straight-line basis over the useful life of the asset after allowing for a nil estimated residual value of the asset. Assets are depreciated in the year following acquisition with a full year's depreciation provided for in the year of disposal.

Vehicles, Plant and Equipment – depreciation has been provided on a straight-line basis over the useful life of the asset. Assets are depreciated in the year following acquisition with a full year's depreciation provided in the year of disposal.

9. Stocks

Stocks are included in the Balance Sheet at the lower of cost or net realisable value.

10. Debtors and Creditors

Debtors include all material amounts due to the Board at 31 March 2006.

Creditors include all material sums due by the Board at 31 March 2006 including salaries and wages earned but unpaid at the year-end and net requisition balances due to Constituent Authorities.

11. Highland Council Loans Fund

The Board may borrow from The Highland Council Loans Fund to finance capital expenditure in excess of the capital grant and useable capital receipts. The debt is repaid to the Loans Fund on an annuity basis, commencing in the year after the expenditure is incurred. In addition, the Loans Fund provides all the day to day banking requirements of the Board.

12. Fixed Asset Restatement Account (FARA)

This account initially reflected the difference between the net expenditure, prior to implementation of Capital Accounting, and the asset values under the new system. This account also reflects any surplus or deficit arising from any revaluation and the net book value of disposal. The balance on this account does not represent funds available for financing expenditure.

13. Capital Financing Account (CFA)

This account reflects the difference between the repayment of debt and the depreciation charge and all the capital financing transactions i.e. capital financed from current revenue (CFCR); capital receipts applied. The balance on this account does not represent funds available for financing expenditure.

14. Usable Capital Receipts Reserve

This reserve records the receipt and the application of capital receipts to finance expenditure. This is a cash reserve and any balance is available for financing capital expenditure.

15. Revenue Reserve

The Board is entitled to carry forward a cumulative underspend on GAE not exceeding 5% of the GAE level in the year to 2005/06. The revenue reserve can be used to supplement revenue expenditure in future years.

Within the revenue reserve the Board is permitted to earmark a further portion of revenue to provide for commuted pension payments payable to fire officers who are eligible to retire in the year but have chosen not to.

16. PFI Development Costs

PFI Development Costs represent expenditure on assets which do not result in the creation of a fixed asset for the Board. As a result the expenditure is charged to revenue in the year incurred. No PFI development costs were incurred in the year (2004/05 nil).

17. Deferred charges

Deferred charges represent expenditure on assets which does not result in the creation of a fixed asset for the board. There were no deferred charges during the year.

18. Pensions

In accordance with the SORP, Financial Reporting Standard 17 (FRS17) has been fully implemented in preparing the Board's statement of accounts for 2005/06. FRS17 requires that the statement of accounts reflect at fair value the assets and liabilities underlying the employer's obligations relating to retirement benefits, and that the true cost of these obligations is recognised in the period these benefits are earned by employees.

The Board participates in two schemes which provide employees with defined benefits related to pay and service. The Firefighters Pension Scheme is unfunded, meaning that no assets are built up to meet pension liabilities, and the Local Government Pension Scheme, which is a funded scheme accessed locally through the Highland Council Pension Fund administered by the Highland Council.

An assessment of the cost, income, assets and liabilities attributable to the Board as at 31 March 2006 of both these schemes was provided by an independent actuary. The actuary's assessment of the true cost of retirement benefits earned by employees during the year has been charged within Net Cost of Services in the Revenue Account whilst the pension assets and liabilities attributable to the Board are reflected within the Balance Sheet. Under the Local Government Pension Reserve Fund (Scotland) Regulations 2003, the Board has established a pensions reserve to account for its long term net pensions' liability.

In accordance with the SORP the discount rate employed for 2005/06 by the actuaries is the yield available on long-dated high quality corporate bonds (as measured by the yield on iBoxx Sterling Corporates Index, AA over 15 years) as at 31 March 2005.

19. Capital grants

Capital grants received are credited to the Government Grants Deferred Account and amortised over the expected useful life of the assets funded. Amortisation commences in the year following purchase.

REVENUE ACCOUNT
For the year ending 31 March 2006

2004-05			Gross	Gross	Net
Net		Notes	Expenditure	Income	Expenditure
Expenditure			£000	£000	£000
£000					
19,721	Community Fire Safety, Fire Fighting and Rescue Operations		23,895	(38)	24,242
373	Firefighters Pensions		1,931	(525)	1,406
37	Fire Service Emergency Planning and Civil Protection		35	-	35
608	Corporate & Democratic Core	7	702	-	702
63	Non Distributed Costs	8	51	-	51
20,802	Net Cost Of Services		26,614	(563)	26,051
(28)	Asset Management Revenue Account	4			(262)
(73)	Interest & Investment Income				(204)
2,133	Pension Interest Costs and Expected Return on Pension Assets	9			3,118
22,834	Net Operating Expenditure				28,703
11	Transfers to/from Capital Financing Account				(1,568)
(3,216)	Contribution to the Pension Reserve				(4,552)
19,629	Expenditure to be met by Constituent Authorities				22,583
	Requisitions:-				
(13,563)	Highland Council				(17,987)
(2,306)	Comhairle Nan Eilean Siar				(1,925)
(1,554)	Orkney Islands Council				(1,342)
(2,101)	Shetland Islands Council				(1,442)
105	Net fund (surplus)/deficit				(113)

NOTES TO THE REVENUE ACCOUNT

1. Analysis of employees earning over £40,000

Salary band	Number of employees	
	2005/06	2004/05
£40,000 - £49,999	25	28
£50,000 - £59,999	3	1
£60,000 - £69,999	1	1
£70,000 - £79,999	1	1
£80,000 - £89,999	1	0
£90,000 - £99,000	<u>0</u>	<u>1</u>

2. Manpower Statistics

	Actual	
	31/3/06	31/03/05
Wholetime	151	156
Community Response Units	142	-
Auxiliary	-	822
Retained	1,070	487
Civilian	<u>55</u>	<u>53</u>
Total	<u>1,418</u>	<u>1,518</u>

3. Members Allowances

The Board consists of 24 members comprising:

	2005/06	2004/05
The Highland Council	16	16
Comhairle Nan Eilean Siar	4	4
Orkney Islands Council	2	2
Shetland Islands Council	2	2
	<u>24</u>	<u>24</u>

The Board paid a total of £28,622 (2004/05 £33,627) to members for travel and subsistence with a further £7,210 (2004/05 £7,423) being paid by The Highland Council for responsibility allowance.

4. Transactions in the Asset Management Revenue Account (AMRA)

	2005/06	2004/05
	£000	£000
External interest payable	992	1,119
External premiums payable	64	-
External discounts	(6)	-
Depreciation	1,574	1,520
Loans fund expenses	9	6
Total expenditure	2,633	2,645
Capital charges	2,895	2,673
Surplus for the year	(262)	(28)

5. Publicity

Section 5 of the Local Government Act 1986 requires the Board to disclose an analysis of expenditure on publicity during the year.

	2005/06	2004/05
	£000	£000
Recruitment advertising	14	4
Other advertising	15	16
	29	20

6. Leases

Rental payments made in respect of operating leases in the year amount to £12,350, (2004/05 £10,019) while outstanding obligations at the year end amounted to £23,920 (2004/05 £28,727).

7. Corporate and Democratic Core

The BVACOP defines Corporate and Democratic Core costs as follows, and requires that these costs should be excluded from the accounts of individual services.

- The Corporate and Democratic Core (CDC) is henceforth defined as comprising two divisions of service: Democratic Representation and Management (DRM) and Corporate Management (CM).
- DRM concerns corporate policy making and all other member based activities. CM concerns those activities that relate to the general running of the Board.

7. Corporate and Democratic Core (continued)

The costs shown as Corporate and Democratic Core on the Revenue Account are as follows:

	2005/06	2004/05
	£000	£000
Democratic representation and management costs	221	196
Corporate management costs	<u>482</u>	<u>412</u>
	<u><u>703</u></u>	<u><u>608</u></u>

8. Non Distributed Costs

The BVACOP defines Non Distributable Costs as follows, and that these costs should be excluded from the accounts of individual Services.

- The whole amount of any past service contribution to meet a pension fund deficit, however arising.
- The whole amount of any reduction in contribution to apply a pension fund surplus.
- Charges (however calculated) for added years and early retirement.
- The costs associated with unused shares of IT facilities.
- The costs of shares of other long-term unused but unrealisable assets.

The Non Distributed Costs of £0.051m incurred in 2005/06 (£0.063m 2004/05) related to capital charges incurred on non-operational assets.

9. Pension costs

Financial Reporting Standard 17 (FRS 17) "Retirement Benefits" prescribes how pension costs and liabilities are to be disclosed in the Statement of Accounts. The standard requires employing organisations to account for retirement benefits in the period in which they are committed to give them, even if the actual payment of these benefits will be many years in the future.

The Board participates in two different pension schemes which meet the needs of employees. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

The Firefighters Pension Scheme - this is an unfunded scheme which means that no investment assets are built up to fund future liabilities. Instead, the net cost of pensions and other benefits (after allowing for contributions from firefighters) is borne annually by the Board. In 2005/06, these amounted to 28.2% of pensionable pay (2004/05 25.18%)

The Local Government Pension Scheme - other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme (LGPS). The LGPS is operated through a number of local Pension Funds with the Board and its employees contributing to the Highland Council Pension Fund administered by the Highland Council. The contributions paid by the Board into the Highland Council Pension Fund in 2004/05 represent 14.44% total pensionable pay (2004/05 14.96%)

9. Pension costs (continued)

In accordance with the SORP guidance on the application of FRS17, the Revenue Account on page 10 recognises the true economic cost of retirement benefits earned by firefighters and other employees in 2005/06 irrespective of when benefits are due to be paid. These costs based upon an actuarial assessment of the pension assets and liabilities attributable to the Board at 31 March 2006, are included within Net Operating Expenditure and comprise:

	Firefighters pension scheme £000	LGPS £000	Total 2005/06 £000	Total 2004/05 £000
Current service cost	2,300	253	2,553	2,262
Total within net cost of services	2,300	253	2,553	2,262
Interest on pension scheme liabilities	3,100	374	3,474	2,397
Expected return on assets	0	(356)	(356)	(264)
	3,100	18	3,118	2,133
Total within net operating expenditure	5,400	271	5,671	4,395

The cost of pension benefits included within Net Operating Expenditure differs from the cash payments charged against the Constituent Authorities. This has been adjusted for by reversing out FRS 17 pension costs after Net Operating Expenditure as a contribution to the pension reserve.

Note 10 to the Balance Sheet details the Board's liabilities in respect of the Firefighters Pension Scheme, the share of the Highland Council Pension Fund's assets and liabilities attributable to the Board and the assumptions used by the actuary in estimating the figures included within this note. The Note to the Statement of Total Movements in Reserves sets out the implications of accounting for pension costs under FRS 17 on the Board's reserves.

10. External Audit Fees

In 2005/06 the fees payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice were £15,770 (2004/05 £15,240). No fees were payable in respect of other services provided by Audit Scotland in either 2005/06 or 2004/05.

**BALANCE SHEET
 AS AT 31 MARCH 2006**

31 March 2005		31 March 2006	
£000		£000	£000
	Fixed Assets		
	Operational assets		
23,154	Other land and buildings	25,447	
8,387	Vehicles, plant & equipment	9,124	
<u>31,541</u>			34,571
	Non-operational assets		
1,775	Assets under construction	899	
63	Surplus assets	<u>-</u>	
<u>33,379</u>	Total Fixed Assets		<u>899</u>
			35,470
	Current Assets		
119	Stock	102	
186	Sundry debtors –general	204	
3	Cash in hand	3	
6,359	Temporary advance to loans fund	<u>2,325</u>	
40,046	Total Assets		<u>2,634</u>
			38,104
	Current Liabilities		
	Borrowing repayable in less than 1 year:		
1,538	Highland Council Loans Fund	1,525	
4,256	Sundry creditors - general	1,218	
1,519	- constituent authorities	<u>257</u>	
32,733	Total Assets less Current Liabilities		<u>(3,000)</u>
			35,104
	Less:		
	Borrowing Repayable in more than 1 year		
17,545	Highland Council Loans Fund	16,020	
2,969	Government grants deferred account	5,021	
59,604	Net pension liability	<u>70,292</u>	
<u>(80,118)</u>			<u>(91,333)</u>
<u>(47,385)</u>	Total Assets less Liabilities		<u>(56,229)</u>
	Financed By		
11,824	Fixed assets restatement account	11,481	
(522)	Capital financing account	1,396	
111	Usable capital receipts reserve	267	
806	Revenue reserve	919	
(59,604)	Pension reserve	<u>(70,292)</u>	
<u>(47,385)</u>			<u>(56,229)</u>

**A Geddes CPFA
 Treasurer
 30 June 2006**

NOTES TO THE BALANCE SHEET

1. Movement in Fixed Assets during 2005/06

	<i>Operational assets</i>		<i>Non-operational assets</i>		Total £000
	Other land and buildings £000	Vehicles, plant and equipment £000	Assets under construction £000	Surplus Assets £000	
Cost or valuation					
As at 01 April 2005	23,511	18,344	1,775	68	43,698
Additions	1,521	1,803	681	-	4,005
Revaluations	(118)	(18)	(60)	-	(196)
Reclassifications	1,285	212	(1,497)	-	-
Disposals	-	(93)	-	(68)	(161)
As at 31 March 2006	26,199	20,248	899	-	47,346
Accumulated depreciation					
As at 01 April 2005	357	9,957	-	5	10,319
Charge for year	395	1,178	-	-	1,573
On disposals	-	(11)	-	(5)	(16)
As at 31 March 2006	752	11,124	-	-	11,876
Net book value					
As at 31 March 2006	25,447	9,124	899	-	35,470
As at 31 March 2005	23,154	8,387	1,775	63	33,379

The Board has not suffered a reduction in the value of any assets as a result of impairment during the year.

2. Financing of Capital Expenditure

	2005/06 £000	2004/05 £000
Capital grants	2,402	2,969
Capital funded from current revenue	1,603	-
Disposal proceeds	156	69
Transfer (to)/from Useable Capital Receipts Reserve	(156)	12
Capital Expenditure in 2005/06	4,005	3,050

3. Information on Assets Held

	2005/06	2004/05
Headquarters	1	1
Fire Stations	43	40
Fire Station/House	1	1
Training Facility	1	1
Auxiliary Garages	97	97
Control Room	1	1
Workshop/Stores	3	3
Houses/Offices	3	3
Vehicles, and plant	263	240
IT equipment	45	36
TOTAL	458	423

Useful Lives –

Land & Buildings:	Thirty to sixty years, determined by Highland Council Property and Architects Department.
Vehicles & Plant:	Three to twenty years, determined by the Brigade Engineer.
IT & Comms Equipment:	Three to twenty years, determined by the Brigade Communications Manager.

4. Capital Commitments

As at 31 March 2005 the Board had outstanding capital commitments of £0.133m mainly in respect of prefabricated units (2004/05 total £0.742m).

5. Fixed Assets

- **Other Land and Buildings** – valued at depreciated replacement cost (as required for specialised buildings) by the Director of Property & Architectural Services, Highland Council as at 01 April 2004.
- **Vehicles, Plant and Equipment** – valued at historic cost where an asset has been acquired externally, and net realisable value where a bespoke asset has been built in the Brigade workshops.
- **Non Operational Properties** were also valued by the Director of Property & Architectural Services, Highland Council as at 01 April 2004.

6. Government Grants

From 1 April 2004 provisions in the Local Government Scotland Act 2003 have replaced Section 94 consents with cash grants for capital expenditure. Grants received in the year have been credited to the government grants deferred account. These grants will be amortised over the expected useful lives of the appropriate assets commencing in the year after acquisition.

7. Lease commitments

At 31 March 2006 the Board was committed to making payments of £16,600 under operating leases in 2006/07 as follows:

	Property leases £	Equipment leases £	Total £
Leases expiring in 2006/07	752	3,987	4,739
Leases expiring between 2007/08 and 2010/11	4,345	7,516	11,861
Total	<u>5,097</u>	<u>11,503</u>	<u>16,600</u>

8. Financial Reporting and the Euro

- 1) There are no commitments as at 31 March 2006 in respect of costs to be incurred.
- 2) The Board uses a Financial Information System which is euro compliant. The cost of being euro compliant is included within the overall cost of the service and it is therefore not possible to separately identify this cost. No further expenditure is anticipated.
- 3) No expenditure regarded as exceptional in accordance with FRS3 was incurred in the year.

9. Revenue Reserve

The movement and balances on the Board's revenue reserve for 2005/06 are summarised below:

	Balance as at 01 April 2005 £000	Surplus/ (deficit) for the year £000	Balance as at 31 March 2006 £000
General reserve	683	234	917
Commuted sums (earmarked)	123	(121)	2
Total	<u>806</u>	<u>113</u>	<u>919</u>

10. Retirement Benefits FRS 17

The SORP requires information to be provided in the notes to the accounts on the Board's assets and liabilities arising from its retirement benefit obligations as defined under Financial Reporting Standard 17 (FRS 17) "Retirement Benefits".

The Board participates in two pension schemes:

The Firefighters Pension Scheme – this is an unfunded scheme which means that no investment assets are built up to fund future liabilities. The Board determines the requisitions from constituent authorities which, together with contributions from firefighters, are required to meet the scheme's commitments.

The Local Government Pension Scheme - this is a funded scheme which means that the Board and employees pay contributions into a fund (the Highland Council Pension Fund), calculated at a level to balance the pension liabilities with the investment assets. The Highland Council Pension Fund (HCPF) is subject to triennial re-valuation with the last full review being at 31 March 2005. Under Pension regulations, employer's contribution rates are set to meet 100% of the overall liabilities of the Fund.

The Board's assets and liabilities in respect of retirement benefits were calculated by an independent actuary. As at 31 March 2006, the Board's assets and liabilities amounted to:

	Firefighters pension scheme £000	LGPS £000	Total 2005/06 £000	Total 2004/05 £000
Share of assets in the HCPF	-	6,518	6,518	4,303
Estimated liabilities	(68,200)	(8,610)	(76,810)	(63,907)
Net liabilities	<u>(68,200)</u>	<u>(2,092)</u>	<u>(70,292)</u>	<u>(59,604)</u>

The Board's share of assets in the Highland Council Pension Fund is valued at fair value, principally market value for investments, and consists of:

31 March 2005			31 March 2006		
Market Value £000	Proportion of fund %	Expected rate of return %	Market Value £000	Proportion of fund %	Expected rate of return %
3,050	70.88	7.7	4,684	71.86	7.4
790	18.36	4.8	1,044	16.02	4.6
372	8.65	5.7	663	10.17	5.5
91	2.11	4.8	127	1.95	4.6
<u>4,303</u>	<u>100.00</u>		<u>6,518</u>	<u>100.00</u>	

10. Retirement Benefits FRS 17 (continued)

Liabilities for both schemes are valued on an actuarial basis using the projected unit method, which assesses the future liabilities of the scheme discounted to their present value. The main assumptions used in the calculation are:

2005		2006
2.9%	Price Increases	3.1%
4.4%	Salary Increases	4.6%
2.9%	Pension Increases	3.1%
5.4%	Discount Rate	4.9%

The discount rate employed for 2004/05 is the yield available on long-dated high quality corporate bonds (as measured by the yield on iBoxx Sterling Corporates Index, AA over 15 years) at 31 March 2005 as required by the SORP.

The movement on the Net Pension Liability during the year to 31 March 2006 can be summarised as follows:

	Firefighters pension scheme £000	LPGS £000	Total 2005/06 £000	Total 2004/05 £000
Opening net liability	(57,100)	(2,504)	(59,604)	(39,712)
Current service cost	(2,300)	(253)	(2,553)	(2,262)
Employers contributions	900	219	1,119	1,180
Transfers in from other authorities	-	-	-	(1)
Net return on assets	(3,100)	(18)	(3,118)	(2,133)
Actuarial gains and losses	(6,600)	464	(6,136)	(16,676)
Closing net liability	<u>(68,200)</u>	<u>(2,092)</u>	<u>(70,292)</u>	<u>(59,604)</u>

HIGHLAND AND ISLANDS FIRE BOARD
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STATEMENT OF REQUISITIONS
AS AT 31 MARCH 2006

Constituent authority	Budgeted requisition £000	Actual requisition £000	Balance due to constituent authority £000
Highland Council	18,191	17,987	204
Comhairle Nan Eilean Siar	1,947	1,925	22
Orkney Islands Council	1,357	1,342	15
Shetland Islands Council	1,458	1,442	16
Total	22,953	22,696	257

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STATEMENT OF TOTAL MOVEMENTS IN RESERVES

	Fixed asset restatement account	Capital financing account	Usable capital receipts reserve	Pension reserve	Revenue reserve	Total reserves
Balance as at 01 April 2005	11,824	(522)	111	(59,604)	806	(47,385)
Net surplus/(deficit) for year	-	350	-	(4,552)	113	(4,089)
Unrealised gains/losses from revaluation of fixed assets	(197)	-	-	-	-	(197)
Actuarial losses	-	-	-	(6,136)	-	(6,136)
Cost or value of assets disposed of	(146)					
Proceeds of disposals			156			
Net surplus/(deficit)	(146)	-	156	-	-	10
Financing of fixed assets	-	1,568				1,568
Balance as at 31 March 2006	11,481	1,396	267	(70,292)	919	(56,229)

NOTE TO THE STATEMENT OF TOTAL MOVEMENTS IN RESERVES

History of Pension Reserve experience gains and losses

	Firefighters pension scheme £000	LPGS £000	Total 2005/06 £000	Total 2004/05 £000	Total 2003/04 £000	Total 2002/03 £000
Difference between the expected and actual return on assets	-	913	913	233	476	(1,125)
Value of assets	-	6,518	6,518	4,303	3,677	2,999
Percentage of assets	-	14%	14%	5.4%	12.9%	(37.5%)
Experience gains/(losses) on liabilities	400	650	1,050	(6,739)	(211)	(511)
Present value of liabilities	68,200	8,610	76,810	63,907	43,388	40,089
Percentage of the present value of liabilities	0.6%	7.6%	1.4%	(10.5%)	(0.5%)	(1.3%)
Actuarial gains/(losses) recognised in the STRGL	(6,600)	464	(6,136)	(16,676)	265	434
Present value of liabilities	68,200	8,610	76,810	63,907	43,388	40,089
Percentage of the present value of liabilities	(9.7%)	5.4%	(8.0%)	(26.1%)	0.6%	1.1%

CASH FLOW STATEMENT
for the year ended 31 March 2006

2004/05 £000		2005/06 £000	£000
	REVENUE ACTIVITIES		
	Cash outflows		
(12,567)	Cash paid to and on behalf of employees and pensioners	(17,720)	
<u>(2,790)</u>	Other operating cash payments	<u>(4,692)</u>	
(15,357)			(22,412)
	Cash inflows		
1,590	Pensions contributions and transfer values	525	
47	Other operating cash receipts	38	
<u>20,958</u>	Contributing authorities	<u>21,434</u>	
22,595			21,997
7,238	Net cash (outflow)/inflow from revenue activities		<u>(415)</u>
	SERVICING OF FINANCE		
	Cash outflows		
(1,124)	Interest Paid	(1,060)	
	Cash inflows		
73	Interest received	<u>204</u>	
(1,051)	Net cash outflow from servicing of finance		(856)
	CAPITAL ACTIVITIES		
	Cash Outflows		
(3,050)	Purchase of fixed assets	(3,967)	
	Cash Inflows		
2,969	Capital grants	2,586	
<u>69</u>	Sale of fixed assets	<u>156</u>	
(12)	Net cash outflow from capital activities		(1,225)
6,175	Net Cash inflow/(outflow) before financing		<u>(2,496)</u>
	FINANCING		
	Cash outflows		
(1,404)	Repayments of amounts borrowed	(1,538)	
	Net cash outflow from financing		<u>(1,538)</u>
<u>4,771</u>	Net (decrease)/increase in cash		<u><u>(4,034)</u></u>

NOTES TO THE CASH FLOW STATEMENT

1. Reconciliation of net cash inflow from revenue activities.

2004/05 £000		2005/06	
		£000	£000
	Non-cash items:		
(105)	Net surplus/(deficit) on the revenue account	113	
2,673	Capital charges	2,896	
(28)	Transfer from AMRA	(262)	
11	Contribution from CFA	1,568	
(73)	Interest received	(204)	
2,478			4,111
	Items on an accruals basis:		
(12)	(Increase)/decrease in stock	17	
(59)	(Increase)/decrease in debtors	(19)	
4,831	Increase/(decrease) in creditors	(4,524)	
4,760			(4,526)
7,238	Net cash (outflow)/inflow from revenue activities		(415)

2. Movement in Cash

2003/04 £000		01/04/05 £000	31/03/06 £000	Movement £000
-	Cash in hand	3	3	-
4,771	Temporary advance to/(from) Loans Fund	6,359	2,325	(4,034)
4,771		4,771	2,328	(4,034)

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Board's responsibilities

The Board 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 the Highland and Islands Fire Board that officer is the Treasurer to the Board.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Board'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 SORP').

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 SORP.

The Treasurer has also:

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

I, Alan Geddes, Treasurer to the Board, state that the Statement of Accounts for the year ended 31 March 2006 presents fairly the financial position of the Board at that date and its Income and Expenditure for the year then ended.

A Geddes CPFA
Treasurer
30 June 2006

STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

This statement is given in respect of the statement of accounts for Highland and Islands Fire Board. I acknowledge our responsibility for ensuring 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.

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. Development and maintenance of the system is undertaken by management within the Board. In particular, the system includes:

- comprehensive budgeting systems;
- regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts;
- setting targets to measure financial and other performance;
- the preparation of regular financial reports, which indicate actual expenditure against forecasts;
- clearly-defined capital expenditure guidelines; and
- as appropriate, formal project management disciplines.

The Treasurer to the Board has overall responsibility for Internal Audit in Highland and Islands Fire Board. The Highland Council's Head of Audit and Risk Management is responsible for the day to day management of the service and reports to the Treasurer on management and performance issues. In accordance with the principles of Corporate Governance an audit working group was established during 2004/05. The remit of this group includes:

- consideration of reports from the internal auditor on the adequacy of the Board's financial systems, policies and practices and their compliance with the relevant statutes, standards and guidance;
- consideration of management reports presented by the external auditor to the Board;
- review and approval of the internal audit programme; and
- consideration of Best Value issues.

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The Internal Audit Service operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom and therefore the Head of Audit and Risk Management prepares an Annual Report containing a view on the adequacy and effectiveness of the system of internal control. This report is then presented to the Audit Working Group for its consideration.

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

- the work of managers within the Board;
- the work of the internal auditors as described above; and
- the external auditors in their annual audit letter and other reports

During the past number of years, almost all major financial systems utilised by the Board, as provided by the Highland Council, have been the subject of change. Review of these systems, undertaken as part of the Council's audit, indicate that the Board can place reliance on their effectiveness.

The following areas are considered in need of improvement.

Weakness	Action.
Financial Regulations	A review of this document is now due. Such a review should include a section dealing with the reporting lines and communication arrangements between the Head of Audit, Highland Council and members of the Board.
Performance Indicators	The system for the production of Performance Indicators can be relied upon but there are a number of areas where improvement is required. This includes the need for an independent check to be introduced into the process, a review of the Guide available to staff and the introduction of a retention policy for information extracted for the calculations.

The agreed timescale for remedial action was agreed at 31 December 2006 for Financial Regulations and 31 March 2006 for Performance Indicators.

I am satisfied that the Board has in place a sound system of internal control. A review of which has identified the above weaknesses and agreed remedial actions. The system of internal controls will be further enhanced following implementation of the above improvements.

A Geddes CPFA
Treasurer
30 June 2006