

Annual

Governance

Report

Shropshire and Wrekin Fire & Rescue Authority

Audit 2008/09

Date September

Contents

Key messages	3
Next steps	4
Financial statements	5
Use of resources	8
Appendix 1 – Independent auditor’s report to Members of Shropshire and Wrekin Fire & Rescue Authority	10
Appendix 2 – Adjusted amendments to the accounts	13
Appendix 3 – Draft letter of representation	14
Appendix 4 – Use of resources key findings and conclusions	17
Appendix 5 – Action Plan	20
Appendix 6 – Pension and FRS 17 amendment - accounts extract	21
The Audit Commission	26

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	5
Financial statements free from error	Yes	5-7
Use of resources	Results	Page
Use of resources judgements	Yes	8
Arrangements to secure value for money	Yes	8

Audit opinion

- 1 I plan to give an unqualified opinion on the accounts by the end of September, subject to the clearance outstanding issues, being
 - the Authority obtaining a valuers report on asset values to assess any potential impairment. This may lead to material downward values being attributed to land and building held by the Authority
 - the clarification by the Audit Commission legal advice department in relation to the legal status of the statutory override provided by Regulation 30 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146) to Fire Authorities. There is a potential for a material charge to fall onto the general fund balance and hence reduce available financing.

Financial statements

- 2 Other than the issues noted above the financial statements have been amended for all errors identified as part of the audit process

Use of resources

- 3 The Authority has achieved level 3 overall which means it operates consistently above minimum expected requirements and is performing well. These scores are interim as the National Quality Assurance review is still on going and maybe subject to revision if challenged.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

-
- 4 I ask the Audit Committee to:
- consider the matters raised in the report before approving the financial statements (pages 5-8);
 - take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
 - take note of the VFM Conclusion and Use of Resources score;
 - approve the letter of representation on behalf of Shropshire and Wrekin Fire & Rescue Authority before I issue my opinion and conclusion (Appendix 3); and
 - agree your response to the proposed action plan (Appendix 5).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As Authority members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 5 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
- 6 The outstanding matters that need to be finalised before the audit opinion is given are given below.

Fixed asset valuation

- 7 Due to the economic downturn and the general drop fall in the values of land and building, the guidance provided for the preparation of the accounts requires that fixed assets are subject to an impairment review. Your Treasurer requested a view of the potential fall in value from your appointed valuer, but unfortunately the valuer has not yet provided a formal view on the year end values for land and buildings.
- 8 Audit standards require that I should seek to form a view based on the work of an expert, in this case your valuer, where such expertise is required in order to form my opinion on the material accuracy of balances involved. In the absence of your valuers report, I have reviewed available information from the Auditor Commission's valuers of the likely property movements in the Shropshire area. This information implies that a material fall in land and building values would be expected. Unfortunately in the absence of a view from your valuer, this leaves a potential for the accounts to be materially misstated.

Pensions

- 9 The Audit Commission have been notified that the statutory override provided by Regulation 30 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146) may not apply to the new police and fire pension schemes introduced in 2006. If so, there is no statutory backing for authorities to remove the charges from the General Fund. The Audit Commission is examining with CLG the implications of this for the accounts of police authorities and fire and rescue authorities and for the auditors' reports on them. It is expected that this issue will be clarified before the end of September 2009. There is a potential for a material charge to fall onto the general fund balance and hence reduce available financing. Unfortunately I can not give an opinion until this issues is cleared.

Recommendation

R1 The Authority should obtain a view from the valuer for value of land and buildings as at the 31 March 2009.

Errors in the financial statements

10 The following errors have been adjusted for and are reported here due to the significance of the overall change to the accounts.

Pensions and Financial Reporting Standard 17 requirements

11 The SORP and FRS17 require specific and somewhat technical disclosures in relation to pension costs. These disclosures, which were not fully included in the original draft accounts provided for audit, cover the following areas.

- a reconciliation of PV of the scheme liabilities;
- a reconciliation of FV of the scheme assets;
- the Scheme history;
- principal assumption of mortality rate;
- history of expenditure of gains and losses; and
- valuation approach for fire pension

12 The impact of the changes can be seen via a review of Note 2 to the accounts, pages 29 to 34.or at Appendix 6 to this report.

Financial Instrument

13 The SORP and FRS 25, 26 and 29, require specific disclosures which had been omitted from the accounts. These requirements covered:

- Policy notes on Financial Liabilities and Financial Assets;
- Notes to the accounts for;
 - Financial Instrument Balances for investments and loans;
 - Financial Instrument Gains And Losses; and the
- Nature and extent of risk arising from financial instruments, covering Credit Risk, Liquidity Risk and Market Risk

None of the above amendments altered the overall level of revenue reserves or the surplus or deficit on the Income and Expenditure account. Other amendments made are listed in appendix 2

Recommendation

R2 The Authority should introduce a checklist into the accounts closedown approach to capture updates to the SORP and cross reference this to the accounts as part of the working papers produced

Financial statements

Letter of representation

- 14 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

- 15 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
The on-going legal case related to retained fire-fighters & part time workers claiming access to the Firemen's Pension Scheme, equality on sick pay and additional duty payments under the retained fire-fighters & part time workers regulations. This will have a financial impact on the Authority.	An Employment Tribunal judgement in March 2008 resolved this issue in favour of the retained firefighters and part time workers and established their right to equal treatment with full time workers across a range of employment issues including pensions and sick pay. Although the financial implications are still unknown it is most likely to be significant. The Authority has currently set aside £270,000 within the reserves to cover part of the potential cost.
In Statutory Guidance the Secretary of State recommends that before the start of each financial year an authority prepares a statement of its policy on making MRP in respect of that financial year and submits it to members for approval. The statement should indicate how it is proposed to discharge the duty to make prudent MRP in the financial year. If it is ever proposed to vary the terms of the original statement during the year, a revised statement should be put to the Authority at that time.	No statements have been prepared in respect of the years 2007-08, but have been for 2008-09.
New requirements for FRS17 and pensions disclosures are required for 2008/09	The accounts have been amended to include the required amendments

Use of resources

I am required to consider how well the Authority is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also required to conclude whether the Authority put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 16** In forming my scored use of resources judgements, I have used the methodology set out in the use of resources framework. Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 17** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 18** The Authority's use of resources theme scores are shown in Table 2 below. These scores are interim as the National Quality Assurance review is still on going and maybe subject to revision if challenged. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 5.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	3

- 19** The Authority has achieved level 3 overall which means it operates consistently above minimum expected requirements and is performing well.

Value for money conclusion

- 20** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 5.

Use of resources

- 21 I intend to issue an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

Appendix 1 – Independent auditor’s report to Members of Shropshire and Wrekin Fire & Rescue Authority

Independent auditor’s report to the Members of Shropshire and Wrekin Fire & Rescue Authority

Opinion on the financial statements

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

This report is made solely to the members of Shropshire and Wrekin Fire & Rescue Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Treasurer and auditor

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

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

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

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

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

I read other information published with the accounting statements, the firefighters’ pension fund accounting statements and related notes and consider whether it is consistent with the audited accounting statements,

Appendix 1 – Independent auditor’s report to Members of Shropshire and Wrekin Fire & Rescue Authority

the firefighters’ pension fund accounting statements and related notes. This other information comprises the Explanatory Foreword and the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements, the firefighters’ pension fund accounting statements and related notes. My responsibilities do not extend to any other information.]

Basis of audit opinion

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

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

Opinion

In my opinion:

- The accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- The firefighters’ pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the firefighters’ pension fund during the year ended 31 March 2009 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s Responsibilities

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

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to

Appendix 1 – Independent auditor’s report to Members of Shropshire and Wrekin Fire & Rescue Authority

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

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for fire and rescue authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Shropshire and Wrekin Fire & Rescue Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

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

Tony Corcoran
District Auditor
(Officer of the Audit Commission)

Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 3

Adjusted misstatements	Nature of Adjustment
General Fund balance Brought forward £618,000	<p>Statement of Movement on the General Fund Balance (SMGFB)</p> <p>The General Fund Brought Forward on the SMGFB was stated as nil, as it had been given post the transfers to Earmarked reserves completed on the 1 April 2008. The disclosure in the accounts should have reflected the actual General Fund Balance b/f from 31/3/08, which was £618,000, with transfers made in year included in the accounts.</p> <p>This has been corrected</p>
Note 14 Capital Financing Requirement - £75,000	<p>Note 14 Capital Financing Requirement</p> <p>The closing capital financing requirement should be £6,331,000. Note 14 stated the closing balance of £6,258k. The reason is due finance leases being incorrectly stated at £94,000 rather than the correct balance for leases of £167,000.</p>

Appendix 3 – Draft letter of representation

Dear Sirs

Shropshire and Wrekin Fire Authority – Audit for the year ended 31 March 2009

We confirm to the best of our knowledge and belief, having made appropriate enquiries of officers of Shropshire and Wrekin Fire Authority, the following representations are given to you in connection with your audit of the Fire Authority's financial statements for the year ended 31 March 2009.

We acknowledge our responsibility for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom, which present fairly the financial position and financial performance of the Authority, and for making accurate representations to you.

The Fire Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision, other than those which have been properly recorded and disclosed in the financial statements.

The Fire Authority holds no intangible assets or financial instruments.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Fire Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Committee and Authority meetings have been made available to you.

Fair Values

We confirm the reasonableness of the significant assumptions within the financial statements.

Compensating Arrangements

Appendix 3 – Draft letter of representation

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Related party transactions

We confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and, where appropriate, adequately disclosed in the financial statements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Law, regulations and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Fire Authority.

In all material respects, the expenditure and income disclosed in the financial statements has been applied to purposes intended by Parliament and the financial transactions conform to the authorities, which govern them.

The Fire Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with the requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Irregularities

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees, who have significant roles in the system of internal accounting control;

- irregularities involving other employees that could have a material effect on the financial statements;
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices, which could have a material effect on the financial statements.

We have no knowledge of fraud, or suspected fraud, which could have a material effect on the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by Members of the Fire Authority no additional significant post balance sheet events have occurred, which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Shropshire and Wrekin Fire Authority

Signed

Name		Paul Raymond	Keith Dixon
Position	Chair of Audit and Performance Management Committee	Chief Fire Officer	Treasurer

Date 10 September 2009

Appendix 4 – Use of resources key findings and conclusions

22 The following tables summarise the key finding and conclusions for each of the three use of resources themes.

Table 4 Managing finances

Theme score	
Key findings and conclusions	
KLOE 1.1 (financial planning)	
Score	3
VFM criterion met	Yes
<p>The Authority:</p> <ul style="list-style-type: none"> continues to perform consistently above minimum standards in planning for financial health. can demonstrate financial planning contributes to improved outcomes in relation to priorities produces detailed budget monitoring reports on a monthly has a MTFP that is robust and realistic 	
KLOE 1.2 (understanding costs and achieving efficiencies)	
Score	3
VFM criterion met	Yes
<p>The Authority</p> <ul style="list-style-type: none"> performs consistently above minimum standards in understanding costs and performance has sought to increase its investment in CFS work, evidenced by a significant increase in non-firefighter positions over the last 8 years has VFM profiles show that the FRS is slightly above average cost per head of population, but this but needs to be measured against the service assessment score (joint highest in comparative group) 	
KLOE 1.3 (financial reporting)	
Score	3
VFM criterion met	Yes

Appendix 4 – Use of resources key findings and conclusions

<p>The Authority</p> <ul style="list-style-type: none"> performs above minimum standards. FRA can demonstrate financial planning contributes to improved outcomes in relation to priorities. produced accounts to the deadlines required; that were compliant with the majority of requirements and no material errors were noted in the main financial statements (I&E, BS, CF, STRGL)...
--

Table 5 Governing the business

Theme score	
Key findings and conclusions	
KLOE 2.1 (commissioning and procurement)	
Score	3
VFM criterion met	Yes
<p>The Authority</p> <ul style="list-style-type: none"> performs consistently above minimum standards in commissioning and procurement despite the more challenging assessment criteria. completes a full needs analysis that drives the long-term commissioning of the service. ensures the environmental impact is considered in every procurement decision. ensures IRMP provides the basis for understanding risk in the community makes a key contribution to the healthy ageing of people in Shropshire 	
KLOE 2.2 (data quality and use of information)	
Score	3
VFM criterion met	Yes
<p>Overall there is very strong performance management culture.</p> <ul style="list-style-type: none"> The Authority can demonstrate good performance in all areas, apart from 'no of secondary fires' Also The Authority has been involved in securing robust data sharing across partners is a LAA priority. <p>From our review and testing of the DQ arrangements on PI information, it was found that the system appears adequately designed to ensure the data is accurate, valid, reliable, timely, relevant and complete</p>	
KLOE 2.3 (good governance)	
Score	3
VFM criterion met	Yes
The authority can demonstrate	

Appendix 4 – Use of resources key findings and conclusions

<ul style="list-style-type: none"> • that its members and staff exhibit high standards of personal conduct • it has in place a robust strategic planning and IRMP process that aligns the Service to the needs of the community and local environment to address and manage risk. • That partnerships continue to be well managed with cost-effectiveness, plus the Authority received an award for excellence in international partnership working • officers and members work well together • that Member training needs are identified and addressed 	
KLOE 2.4 (risk management and internal control) Score VFM criterion met	3 Yes
<p>The Authority</p> <ul style="list-style-type: none"> • has a strong partnership approach to managing risk, demonstrated in proactive way the Local Resilience Forum ensures its readiness for emergency situations • an effective Audit and Performance committee • an effective Risk Manager and Risk Group • can demonstrate a strong counter fraud culture within the Authority. 	

Table 6 Managing resources

Theme score	
Key findings and conclusions	
KLOE 3.3 (workforce planning) Score VFM criterion met	1/2/3/4 Yes/No
<ul style="list-style-type: none"> • The Authority has recruited many specialists into community safety and other parts of the organization bringing expertise into key areas of work. • Sickness levels are low at wholtime firefighter, making it the second best performing Authority in England and the family group. • Both the officer and political leadership of the Authority continues to be effectively engaged with staff at all levels ensuring the organisation is able to respond to change. • The Authority has 5.8% of females within ‘senior management’ positions, but only 4.7% within the operational workforce (compared to a family group average of: 6.8% and a national average of 5.9%), an area is knows it needs to work on with clear plans to meet the Equality and Diversity strategy recruitment targets 	

Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2008/09 - Recommendations						
6	The Authority should obtain a view from the valuer for value of land and buildings as at the 31 March 2009.	3	Treasurer	Y		Sept 2009
6	The Authority should introduce a checklist into the accounts closedown approach to capture updates to the SORP and cross reference this to the accounts as part of the working papers produced	2	Treasurer	Y		Jun 2010

Appendix 6 – Pension and FRS 17 amendment - accounts extract

Participation in pension schemes

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

The Fire Authority participates in three pension schemes:

24 Local Government Pension Scheme: non operational staff are eligible for membership of the Shropshire County Pension Fund administered by Shropshire County Council. This is a funded defined benefit final salary scheme, meaning that the Fire Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

25 Firefighters Pension Schemes: on 1st April 2006 new financial arrangements were introduced for both the 1992 and the newly established 2006 Firefighter Pension Schemes.

26 Both schemes are unfunded, defined benefit schemes, and are regulated by the Department for Communities and Local Government (CLG). Contributions to the schemes are made by the Fire Authority and employees, and are paid into a separate Pensions Fund Account, from which most commutations and regular payments will be made. Any deficit on this account will be met by CLG, and any surplus at the end of the year will be paid back to CLG.

Transactions relating to retirement benefits

27 The costs of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are actually paid as pensions. However the required charge against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in General Fund Balance during the year:

Shropshire County Pension Fund		Fire Pension Schemes		Total
2008/09	2007/08	Old	New	Total
£'000	£'000	2008/09	2008/09	2007/08
£'000	£'000	£'000	£'000	£'000

Appendix 6 – Pension and FRS 17 amendment - accounts extract

I&E Account

Net Cost of Services:

Current service cost	339	318	2,668	452	2,919
Past service cost	0	81	0	0	0
Net operating expenditure:					
Interest cost	487	374	6,348	106	4,840
Expected return on assets	-328	-323	0	0	0
Net charge to I&E account	498	450	9,016	558	7,759

SoMoGFB

Reversal of net charges made for retirement benefits in accordance with FRS17	498	450	9,016	558	7,759
Actual amount charged against the General Fund Balance for pensions in the year:					
Employers contributions payable to the scheme	-298	-283			
Retirement benefits payable to pensioners			-2,983	172	-2,123

- 28** In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial gains and losses of £24.155m were included in the Statement of Recognised Gains and Losses.

Assets and Liabilities in Relation to Retirement Benefits

- 29** Reconciliation of present value of the scheme liabilities:

	Funded Liabilities: Shropshire County Pension Fund		Unfunded Liabilities: Fire Pension Schemes	
	2008/09 £'000	2007/08 £'000	2008/09 £'000	2007/08 £'000
1 April	2,829	1,835	105,648	89,245
Current service cost	339	318	3,120	2,919
Added years	17	16	0	0
Interest cost	159	51	6,454	4,840
Contributions	-298	-283	-2,811	-2,123
Actuarial gains and losses	-427	811	-23,728	10,767
Past service costs	0	81	0	0
31 March	2,619	2,829	88,683	105,648

- 30** Reconciliation of fair value of the scheme assets

Shropshire County
Pension Fund

Appendix 6 – Pension and FRS 17 amendment - accounts extract

	2008/09	2007/08
	£'000	£'000
1 April	5,088	5,114
Expected rate of return	328	323
Actuarial gains and losses	-1,482	-408
Employer contributions	298	283
Contributions by scheme participants	129	115
Benefits paid	-182	-339
31 March	4,179	5,088

- 31** 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.
- 32** The actual return on scheme assets in the year was £328,000 (2007/08 - £323,000).

Scheme History

	2004/05	2005/06	2006/07	2007/08	2008/09
	£'000	£'000	£'000	£'000	£'000
Present value of liabilities:					
Shropshire County Pension Fund	5,564	6,584	6,886	7,838	6,702
Fire Pension Schemes	78,375	88,872	89,245	105,648	88,683
Fair value of assets in the Shropshire County Pension Fund	3,564	4,605	5,119	5,088	4,179
Surplus/(deficit) in the scheme:					
Shropshire County Pension Fund	-2,000	-1,979	-1,767	-2,750	-2,523
Fire Pension Schemes	-78,375	-88,872	-89,245	-105,648	-88,683
Total	-80,375	-90,851	-91,012	-108,398	-91,206

- 33** The liabilities show the underlying commitments that the Fire Authority has in the long run to pay retirement benefits. The total liability of £91.206m has a substantial impact on the net worth of the Fire Authority as recorded in the balance sheet, resulting in a negative overall balance of £69.182m.
- 34** However, statutory arrangements for funding the deficit mean that the financial position of the Fire Authority remains healthy:

Appendix 6 – Pension and FRS 17 amendment - accounts extract

- 35 The deficit on the Local Government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary
- 36 Finance is only required to be raised to cover fire pensions when the pensions are actually paid.
- 37 The total contributions expected to be made to the Shropshire County Pension Fund by the Fire Authority in the year to 31 March 2010 is £297,000. Expected contributions for the Fire Pension Schemes in the year to 31 March 2010 are £2.71m.

Basis for Estimating Assets and Liabilities

- 38 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. Both the Fire Schemes and the Shropshire County Pension Fund liabilities have been assessed by Mercers, an independent firm of actuaries, estimates for the Shropshire County Pension Fund being based on the latest full valuation of the Scheme as at 31 March 2007.
- 39 The principal assumptions used by the actuary have been:

	Shropshire County Pension Fund		Fire Pension Schemes	
	2008/09	2007/08	2008/09	2007/08
Long term expected rate of return on assets in the scheme:				
Equity Investments	7.5%	7.5%	-	-
Bonds	5.0%	5.4%	-	-
Property	6.5%	6.5%	-	-
Other	*	6.4%	-	-
(*dependent on type of asset)				
Mortality Assumptions:				
Longevity at 60 (65 County) for current pensioners: men	21.1yrs	19.0yrs	25.9yrs	23.6yrs
women	24.0yrs	22.0yrs	28.8yrs	26.5yrs
Longevity at 60 (65 County) for future pensioners: men	22.2yrs	20.4yrs	27.0yrs	25.0yrs
Women	25.0yrs	23.3yrs	29.8yrs	27.9yrs
Rate of inflation	3.3%	3.6%	3.5%	3.6%
Rate of increase in salaries	5.1%	5.4%	5.0%	5.1%
Rate of increase in pensions	3.3%	3.6%	3.5%	3.6%
Rate for discounting scheme liabilities	7.1%	6.1%	6.6%	6.6%
Take up option to convert annual pension into retirement	50%	50%		

Appendix 6 – Pension and FRS 17 amendment - accounts extract

lump sum

- 40 The Fire Pension Schemes have no assets to cover their liabilities. The Shropshire County Pension Fund's assets consist of the following categories, by proportion of the total assets held.

	31 March 2009 %	31 March 2008 %
Equity Investments	60.7	65.2
Bonds	26.2	25.6
Property	5.9	4.8
Other Assets	7.2	4.4
	100.0	100.0

History of Experience Gains and Losses

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

	2004/05	2005/06	2006/07	2007/08	2008/09
Shropshire County Pension Fund:					
Differences between the expected and actual return on assets	2.5%	13.7%	0.6%	8%	35.5%
Experience gains and losses on liabilities	4.6%	0	0	1.3%	0
Old Fire Pension Scheme:					
Experience gains and losses on liabilities	8%	-3.3%	0	4.2%	0
New Fire Pension Scheme:					
Experience gains and losses on liabilities	-	-	-	17%	0

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2009

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
