

**WEST MIDLANDS FIRE AND RESCUE AUTHORITY
STATEMENT OF ACCOUNTS 2005/2006**

These accounts have been prepared in accordance with the Accounts and Audit Regulations 1996 and comply with all relevant accounting standards.



L Bateman, C.P.F.A

Treasurer to the Authority

Date: 26th June 2006

CONTENTS

Auditor's Report	Page 3
Explanatory Foreword	Page 7
Statement of Accounting Policies	Page 9
Statement of Responsibilities for the Statement Of Accounts	Page 13
Statement on the System of Internal Control	Page 14
Consolidated Revenue Account	Page 20
Notes to the Accounts	Page 21
Balance Sheet	Page 24
Notes to the Balance Sheet	Page 25
Statement of Total Movement in Reserves	Page 34
Notes to the Statement of Total Movement in Reserves	Page 35
Cash Flow Statement	Page 36
Notes to the Cash Flow Statement	Page 37
Glossary of Terms	Page 39

Auditors Report



Independent auditors' report to the Members of West Midlands Fire and Rescue Authority

Opinion on the financial statements

We have audited the financial statements of West Midlands Fire and Rescue Authority for the year ended 31 March 2006 under the Audit Commission Act 1998. The financial statements comprise the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, the Consolidated Revenue Account and the related notes. The financial statements have been prepared under the accounting policies set out within them.

This report is made solely to West Midlands Fire and Rescue Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to West Midlands Fire and Rescue Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than West Midlands Fire and Rescue Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

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

We report to you our opinion as to whether the financial statements and the pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005:

- the financial position of the Authority and its income and expenditure for the year; and

We review whether the statement on internal control reflects compliance with CIPFA's guidance The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003 published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in

Auditors Report

the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

KPMG LLP

KPMG LLP
Chartered Accountants
Birmingham
25 September 2006

Auditors Report

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 to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

We are 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 us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, West Midlands Fire and Rescue Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Best Value Performance Plan

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2005/06 on 22 December 2005. We did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Auditors Report

Certificate

We certify that we 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.

KPMG LLP

KPMG LLP
Chartered Accountants
Birmingham
25 September 2006

EXPLANATORY FOREWORD

1. The Authority's accounts for the year 2005-2006 are set out on the following pages. They consist of:
 - o The Consolidated Revenue Account, the Authority's main revenue account, covering income and expenditure on all services.
 - o The Consolidated Balance Sheet, which sets out the financial position of the Authority at 31st March 2006.
 - o The Statement of Total Movements in Reserves which brings together all the recognised gains and losses of the Authority during the year to 31st March 2006, separating the movements between revenue and capital reserves.
 - o The Cash Flow Statement showing movements in cash during the year and the cash position at the year-end.

These accounts are supported by the Statement of Accounting Policies, which follows this foreword and by various notes to the accounts.

2. This foreword provides a brief explanation of the financial aspects of the Authority's activities and draws attention to the main characteristics of the Authority's financial position.
3. The total income of the Authority in 2005-2006 was £117.7 million, which came from:

	Budget	Actual	
	£000's	£000's	
Revenue Support Grant	52,045	52,199	45 %
National Non-Domestic Rates	29,789	29,789	25 %
Precept/collection fund deficit	31,748	31,748	27 %
Interest and Other Income	3,193	3,930	3 %
	116,775	117,666	100 %

4. Net Operating Expenditure in 2005-2006 totalled £160.6 million of which £115.9 million was on the provision of Fire Services, £44.5 million on Pensions and £0.2 million on Emergency Planning. The types of costs incurred were:

Employees	65 %
Pensions	28 %
Running Costs	7 %
	100 %

5. The Authority made appropriations from earmarked reserves of £601k. An appropriation was made to general reserves amounting to £41k.
6. In 2005-2006, the Authority spent £4.097million on capital projects. £3.661 million of this expenditure was financed by borrowing and £0.098 million financed directly from revenue. The balance was funded by the application of grants. Note 2 to the Balance Sheet on page 25 lists the major items of capital expenditure incurred.
7. The accounting policies adopted by the Authority comply with the relevant accounting standards except where indicated in the notes to the accounts.

8. The Authority, at its February 2006 meeting, approved the 2005/06 authorised limit for external debt at £60.5m and the operational boundary for external debt at £54.0m. The Authority's actual long-term liabilities at 31st March 2006 are £42.8m, see Note 10 to the Balance Sheet on page 28.
9. The name of the Authority changed from the West Midlands Fire and Civil Defence Authority to the West Midlands Fire and Rescue Authority with effect from 1st April 2005.
10. Further information about the accounts is available from:

Finance Officer,
West Midlands Fire Service Headquarters,
Lancaster Circus,
Queensway,
Birmingham. B4 7DE.

Telephone : 0121-380-6919
or Fax : 0121-380-6942
or E-Mail : mike.griffiths@wmfs.net

Interested members of the public also have the right to inspect the accounts before the Audit is completed. The availability of the accounts for inspection is advertised in the local press.

STATEMENT OF ACCOUNTING POLICIES

The accounts have been prepared in accordance with the Chartered Institute of Public Finance Association Accounting Code of Practice 2005. A summary of the main principles is given below.

1. **Debtors and Creditors**

The accounts have been prepared on an accruals basis. The figure for creditors represents amounts owed by the Authority in respect of goods and services supplied but not paid for by 31st March. It also includes amounts received as payment for services to be provided in the following accounting period. These are known as receipts in advance.

The figure for debtors represents amounts due to the Authority, which have not been received by 31st March.

2. **Provisions, Reserves and Contingent Liabilities**

In accordance with the provisions of Financial Reporting Standard (FRS) 12 a provision is no longer maintained in respect of the contingent liability arising from Municipal Mutual Insurance Ltd's Scheme of Arrangement with its creditors. This provides for the clawback of payments in the event of the company being unable to achieve a solvent run off of its liabilities.

A provision is maintained in respect of bad and doubtful debts.

Earmarked reserves are maintained for a variety of policy purposes.

3. **Fixed Assets**

Fixed assets are included in the Balance Sheet at current values, either replacement cost in the case of buildings or depreciated historic cost in the case of vehicles, equipment and intangible assets. Differences arising from revaluations are written off to the Fixed Asset Restatement Account. The Authority has complied with the requirements of FRS15.

Other than land, which is not depreciated, assets are depreciated using the following methods and over the following periods:

Asset Type	Depreciation Method	Period of years
Tangible Assets		
Buildings	Straight line	Estimated life
Operational Vehicles	Straight line	10 years
Ancillary Vehicles	Straight line	5 years
Equipment	Straight line	5 years
Smoke Alarms	Full depreciation in the year of acquisition.	
Intangible Assets		
Software Licenses	Straight line	5 years

Expenditure on fixed assets are capitalised subject to a deminimus level of £6,000. The Authority treats capital receipts of less than £10,000 as revenue income.

4. Capital Accounting

Capital charges made to revenue accounts equal the sum of depreciation plus a specified notional interest charge based on the net amount at which the fixed asset was included in the Balance Sheet at 31st March 2005.

In 2005/06 the specified notional rate of interest was 3.5% for fixed assets included in the Balance Sheet.

External interest payments and actual depreciation charges are debited to the Asset Management Revenue Account. An appropriation to or from the Capital Financing Account ensures that the overall revenue charge for capital is in accordance with statutory requirements and is neutral in its effect on local taxation.

5. Loans Outstanding

Amounts owing in respect of advances to fund capital expenditure are owed to Sandwell M.B.C. the lead Authority. Interest was charged at a rate of 7.32%. Repayments of principal equate to the Minimum Revenue Provision required by Section 63 of the Local Government and Housing Act 1989.

Debt inherited from the former West Midlands County Council is managed by Dudley M.B.C. and redeemed over a period of 40 years from April 1st 1986. Interest was charged on this debt in 2005-06 at a rate of 6.85%.

6. Capital Receipts

At 31st March 2006 the Authority held no useable capital receipts.

7. Support Services

The costs of support services provided to the Authority by Sandwell M.B.C., the lead Authority, have been recharged in accordance with Service Level Agreements. These specify the level of service to be provided and the charge.

8. Stocks and Stores

Stocks and stores held at the year-end are shown in the balance sheet at latest price. Therefore the Authority does not comply with SSAP 9.

9. Government Grants and other Contributions

Government Grants and other Contributions are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to the appropriate revenue account or in the case of capital grants and contributions, to the Grants Deferred Account.

Amounts are released from the Grants Deferred Account to offset any provision for depreciation charged to the revenue account in respect of assets to which the grants relate, or the writing down of deferred charges. Grants relating to assets that are not depreciated remain on the Balance Sheet for the life of the asset.

10. Central Support Costs

Charges have been made for work undertaken by support services as agreed with respective Heads of Departments.

11. Pensions

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

Uniformed Firefighters

This scheme is unfunded and the charge to the accounts represents the net cost of pensions and other benefits after allowing for contributions made by the employees for the year.

Other Employees

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. The pension costs that are charged to the Fire Authority's accounts in respect of these employees are equal to the contributions paid to the funded pension scheme for these employees. Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis.

Pension costs are now included in the accounts to meet the requirements of FRS17 which requires an Authority to see beyond its commitment to pay contributions to the pension fund and to determine the full longer-term effect that the award of retirement benefits in any year has had on the authority's financial position.

A net pension asset indicates that an Authority has effectively overpaid contributions relative to the future benefits earned to date by its employees. A net liability shows an effective underpayment.

These accounting policies represent a change to those applied prior to April 2003. Previously policy was to recognise liabilities in relation to retirement benefits only when employer's contributions became payable to the pension fund or payments fell due to the pensioners for which we were directly responsible. The new policies better reflect our commitment in the long term to increase contributions to make up any shortfall in attributable net assets in the pension fund.

Further details of pension transactions can be found in note 17 to the Consolidated Balance Sheet and Notes to the Accounts number 1.

With effect from 1st April 2006 there will be new financial arrangements for the 1992 and a proposed 2006 Firefighters' Pension Schemes. Fire and Rescue Authority's will continue to administer and pay firefighters' pensions but from a new separate local firefighters' pension fund.

Both employee and employer contributions will be paid into the fund and annually the fund will be topped up by Government grant or recouped by the Government if it is in surplus.

The underlying principle is that these employee and employer contributions 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 employee and the new employer contributions.

12. Prudential Code

The Prudential Code provides a flexible framework within which the assets that the Authority uses for delivering its services can be procured, managed, maintained and developed. This enables the Authority to consider procurement options on an equal footing with finance in deciding how best to maintain, replace or provide fixed assets for service delivery.

The main implication of this code for the Authority's Statement of Accounts is to change its accounting policy regarding depreciation. Assets acquired under the code will be depreciated using the same life and on the same basis as before, but will be charged to services instead of the Asset Management Revenue Account.

The Code will not have an imminent impact on the Statement of Accounts, but over time, as the Code is used to finance new and replacement assets, the effect of the Code will become evident.

When considering its capital planning, the Authority makes its decisions with explicit regard to the following points:

- Option appraisal
- Asset management planning
- Strategic planning for the Authority
- Achievability of the forward plan through affordability and sustainability.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required to:

- (i) 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.
- (ii) manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.
- (iii) approve the statement of accounts.



Chair of the Authority

Date: 26th June 2006

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's statement of accounts in accordance with proper practices as set out in the C.I.P.F.A./L.A.A.S.A.C. Code of Practice on Local Authority Accounting in the United Kingdom (The Code of Practice).

In preparing this statement of accounts, the Treasurer has:

- (i) selected suitable accounting policies and then applied them consistently
- (ii) made judgements and estimates that were reasonable and prudent
- (iii) complied with the Code of Practice.

The Treasurer has also:

- (iv) kept proper accounting records, which were up to date.
- (v) taken reasonable steps for the prevention and detection of fraud and other irregularities.

The accounts set out in the following pages fairly present the financial position of the West Midlands Fire and Rescue Authority at 31st March 2006 and its income and expenditure for the year then ended.



L Bateman, C.P.F.A

Treasurer to the Authority

Date: 26th June 2006

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

1. Scope of Responsibility

- 1.1 West Midlands Fire and Rescue Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, the Authority is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.

2. The Purpose of the System of Internal Control

- 2.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.2 The system of internal control has operated throughout the year ended 31st March 2006 and up to the date of the approval of the annual accounts. It accords with proper practice and any significant internal control issues arising are covered in section 5 of this statement.

3. The Internal Control Environment

- 3.1 The Authority has an agreed constitution, which sets out how the Authority operates, how decisions are made, and the procedures, which are followed. This includes Standing Orders, delegations and financial and contract procedure rules.
- 3.2 As recommended by CIPFA (Chartered Institute of Public Finance and Accountancy)/SOLACE (Society of Local Authority Chief Executives), the Authority has adopted a Local Code of Corporate Governance that demonstrates its commitment to the principles of good corporate governance and the importance of operating in an open and accountable manner and demonstrating high standards of conduct. This is aimed at ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty.
- 3.3 The Authority has updated and streamlined its Committee structure and political governance arrangements to ensure it is able to respond to a range of internal and external issues and to deliver on its commitment to modernisation and other key objectives in the Authority's Best Value Performance Plan and Business Plan. Furthermore, decision making processes are open, transparent, accountable and inclusive and as such are in line with Government expectations on strengthening local democracy.

- 3.4 In 2004/05 the Authority established portfolios for the Chair and Vice Chair and for the Lead Members for Equality and Diversity and Performance Management as part of the modernisation process. The adoption of “portfolios” is consistent with the approach taken in local authorities generally under the modernisation of decision making structures as required by the Local Government Act 2000.
- 3.5 Lead Members have a key role to “champion” issues at the Policy Planning Forum, the Executive Committee and Authority meetings. Lead Members also meet with Officers on a regular basis to discuss progress on issues within their portfolio area. Both Lead Members are supported by deputies.
- 3.6 The Lead Members with portfolio responsibilities for Performance Management and Equality and Diversity are ex officio members of the Executive Committee. This ensures that these key issues are properly represented in the mainstream decision making processes and governance arrangements of the Authority.
- 3.7 The Authority’s Executive Committee provides a structure for speedy decision making to deal with key issues. All Members of the Authority are entitled to attend the Executive Committee and are involved in the discussion of key issues via the Policy Planning Forum.
- 3.8 In 2005/06 the Executive Committee comprised 7 Members as follows:
- Chair of the Authority
 - Vice Chair of the Authority
 - Lead Member for Performance Management
 - Lead Member for Equality and Diversity
 - 3 Additional Members (in accordance with proportionality)
- 3.9 In addition, the Authority undertakes regular Policy Planning Forums which are recognised as a particularly effective way of engaging Members and Officers in key discussions on major issues faced by the Authority. All Members of the Authority are involved in the Policy Planning Process. The Forum is not a decision making body and operates in a less formal setting than full Authority meetings.
- 3.10 The Authority has a Corporate Board (CB), which includes the Chief Fire Officer, Deputy Chief Fire Officer and Functional Directors who provide strategic support and guidance to the Authority, supported by Statutory Officers from the Lead Authority, Sandwell MBC.
- 3.11 The Corporate Board is responsible for producing the Business Plan, which outlines the broad strategic direction and priorities for the Authority; it describes progress and charts the way ahead over the next 3 years. It is the top-level business-planning tool, which is updated annually and directs all Authority Managers to develop their service areas. It drives the medium term financial strategy and overall resource allocation to ensure that these reflect Authority priorities and needs.
- 3.12 It has two parts; the first sets the strategic context and operational focus for improvement supported by the second part, a detailed Appendix of performance indicators and targets. These two documents constitute the Best Value Performance and Business Plan.
- 3.13 Together these provide Managers throughout the organisation with clear direction on what is most important in improving services whilst giving trend and comparative data and targets to help them achieve their goals through their individual Action Plans.
- 3.14 The Authority sets its budget on an established planning cycle for policy development, budget setting and performance management through the business planning process. This process allows the allocation of resources to individual service areas to ensure that the priorities for improvement can be progressed.

- 3.15 The fundamental aim of the budget planning process is the practical implementation of policy and priority led allocation of resources over a 3-year period. This ensures that resources are aligned to priorities and that best value is secured from the resources that are made available.
- 3.16 The process is managed by Corporate Board via Policy Planning Forums which leads to recommendations about the allocation of resources (both capital and revenue) over a 3-year period being made to the Authority.
- 3.17 During the year, financial management information is reported regularly to Corporate Board, Members and all budget holders.
- 3.18 Members and the Corporate Board manage performance via a series of reporting mechanisms. These include Officer Personal Action Plan meetings and Member Portfolio review meetings.
- 3.19 Corporate risk management arrangements are in place supported by an approved Risk Management Strategy and toolkit enabling Managers to identify, assess and prioritise risks within their own work areas, impacting on the ability of the Authority and its services to meet objectives. The Authority is committed to the ongoing monitoring and reporting of risks.
- 3.20 The Authority's Strategic Risk Register, which identifies the principal risks to the achievement of the Authority's objectives, assesses the nature and extent of those risks (through assessment of impact and likelihood) and identifies risk owners whose responsibility includes the identification of controls and actions to manage them efficiently, effectively and economically.
- 3.21 Officers throughout the organisation are provided with guidance on the internal control environment in Financial Regulations, Standing Orders, the Confidential Reporting Code (whistle blowing), the Anti-Fraud and Corruption Policy and other procedural documents. These address, amongst others, the processes for financial management, accounting policies, accounting records and returns, financial planning, budgeting, resource allocation, capital programmes, audit, risk management, security of assets, income, expenditure, external funding and partnerships.
- 4. Review of Effectiveness**
- 4.1 The Authority has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Senior Managers within the Authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in their annual audit letter and other reports.
- 4.2 There are various sources of assurance the Authority has gained in order to underpin the Statement of Internal Control. These include:
- The Treasurer
- 4.3 The Treasurer is responsible for the preparation of the Authority's Statement of Accounts which in terms of the Code of Practice on Local Authority Accounting in Great Britain ("the Code"), is required to present fairly the financial position of the Authority at the accounting date and its income and spending for the year (ended 31st March 2006), including:
- Selecting suitable accounting policies and applies them consistently;
 Making judgments and estimates that are reasonable and prudent;
 Complying with the Code;
 Keeping proper, up to date accounting records; and
 Taking reasonable steps for the prevention and detection of fraud and other irregularities.

- 4.4 The Treasurer is also responsible for ensuring that there is an adequate and effective system of internal audit of the Authority's accounting records and of its systems of internal control.

The Monitoring Officer

- 4.5 Sandwell MBC's Head of Legal Services is the Authority's Monitoring Officer who has responsibility for maintaining the Authority's Constitution, the promotion and maintenance of high standards of conduct and has the status to provide advice and support and to co-ordinate training to Members.

Management

- 4.6 Directors, Section Heads and Managers provide assurance that:

The Authority's Core Values are met;
 Laws and Regulations are complied with;
 The Authority's policies are put into practice including compliance with the Corporate Risk Management Approach;
 Required processes (e.g. Financial Regulations, Standing Orders, Financial Guidance etc and various supporting procedures) are adhered to;
 Financial statements and other published information are accurate and reliable;
 Human, financial and other resources are managed efficiently and effectively.
 The Performance Management Framework

Internal Audit

- 4.7 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Authority on the control environment comprising internal control, risk management and governance by evaluating its effectiveness in achieving the Authority's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 4.8 Internal Audit operates in accordance with the standards in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.
- 4.9 There are a number of key factors for assessing the degree of risk within each auditable area. These have been used in Internal Audit's calculation and are based on the following factors: materiality, business impact, audit experience, risk and potential for fraud.
- 4.10 Internal Audit prepares a written report for each completed review. A key part of each report is to make recommendations in order to improve the control environment in which the systems operate. Each recommendation is categorised as either merits attention, significant or fundamental. Reports, including an assessment of the adequacy of control and action plans to address weaknesses are submitted where appropriate to Senior Officers. Each report gives an overall opinion (substantial, adequate or limited assurance) on how the risks material to the achievement of the objectives for the system are being managed and controlled. An Annual Report has also been produced and presented to the Authority which includes an 'opinion' on the standards of internal control, governance and risk management within the Authority.
- 4.11 Internal Audit leads on promoting a counter-fraud culture within the Authority. This includes the publication of a quarterly anti-fraud and corruption newsletter known as The FRAUDitor, the production of a Raising Fraud Awareness guide for Managers and running a series of Raising Fraud Awareness Seminars.

- External Audit**
- 4.12 The work of the Authority's external auditors includes an assessment of the Authority's overall control environment and controls within the Authority's major financial systems, as well as an examination of the underlying financial accounts. On completion of their work, the external auditors issue an Annual Audit and Inspection Letter to the Authority. The last Audit Letter (issued November 2006) for the financial year 2004/05 gave an unqualified opinion on the accounts and confirmed the following:

The Authority has made progress in developing its Performance Management arrangements.

The Authority continued to maintain satisfactory standards of control associated with financial aspects of corporate governance.

The Authority continues to maintain an effective system of internal control over the Authority's core financial systems and was able to rely on Internal Audit's work on the key financial systems.

The Authority continues to make progress in the area of risk management.

External Audit placed reliance on the work of Internal Audit wherever possible.

5. **Significant Internal Control Issues**

- 5.1 During 2005/06 Internal Audit identified a number of key issues, which are summarised below. Action plans have been completed to address these issues and Internal Audit will monitor progress against these action plans.

Freedom of Information

A pricing policy for information requests needed to be agreed and published and staff awareness of the legislation requirements needed to be increased.

Management of Morale

Review/target dates needed to be specified in key control records and tangible measures needed to be established to indicate the current level of morale and how this had changed.

Payroll

Appropriate segregation controls were required in some specific instances and evidencing of verification checks needed strengthening.

CPA Response Process

Items within the Service Improvement Plan were not prioritised and progress reporting on Departmental Action Plans needed some improvement.

Creditors

Appropriate segregation controls were required in some specific instances and payment input verification controls needed to be strengthened.

5.2 Strategic Risk Register

The Authority's strategic risk register has been further updated since it was first developed, capturing the risks that threaten the achievement of the Authority's core objectives. Whilst significant progress has been made in the last twelve months, there is still a need for the completion of the embedding process of a managed risk philosophy in the Authority's core culture. This issue is being actively managed through the Authority's Performance and Planning Section and actions of Lead Officers for risk management in each key area.

The constant change environment in which the Authority operates also requires on going review of the internal control environment. The Authority will continue to monitor change and take appropriate action to manage risk arising from future developments in service delivery.



Chair of the Authority



Treasurer

CONSOLIDATED REVENUE ACCOUNT

2004-05 £000s Net		2005-06 £000s Expenditure	2005-06 £000s Income	2005-06 £000s Net	note
95,649	Fire Fighting and Rescue Operations	105,098	(1,048)	104,050	
10,136	Community Fire Safety	14,571	(1,796)	12,775	
1,107	Corporate & Democratic Core	1,331	(133)	1,198	
117	Fire Service Emergency Planning & Civil Defence	194	0	194	
280	Non Distributed Costs	(508)	0	(508)	
107,289	Net Cost of Services	120,686	(2,977)	117,709	
(324)	Surplus on Asset Management Revenue Account			(613)	6
(1,650)	Transitional Funding			0	
39,206	Pensions Interest cost and expected return on pension assets			44,461	
(998)	Interest & Investment Income			(953)	
143,523	Net Operating Expenditure			160,604	
(3,332)	Contribution from Capital Account			(5,838)	7
(34,523)	Contribution from Pension Reserves			(40,470)	
2,428	Transfer to/ (from) Earmarked Reserves			(601)	
108,096	Amount to be met from Government Grants & Local Taxpayers			113,695	
(52,132)	Revenue Support Grant			(52,199)	
(24,946)	N.N.D.R.			(29,789)	
(30,109)	Precept			(31,796)	
2	Collection Fund Deficit			48	
911	Deficit/ (Surplus) for the Year			(41)	
4,425	General Fund Balance B/Fwd			3,514	
3,514	General Fund Balance C/Fwd			3,555	

NOTES TO THE ACCOUNTS

1. Pension Liability (FRS 17 disclosures)

As part of the terms and conditions of employment of its officers and other 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 that need to be disclosed at the time that employees earn their future entitlement.

The Authority participates in two pension schemes:

The West Midlands Metropolitan Authorities Pension Fund for civilian and fire control employees, administered by Wolverhampton City Council – this is a funded scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level estimated to balance the pensions liabilities with investment assets.

The Firefighters Pension Scheme for fire officers – this is an unfunded scheme, meaning that there are no investment assets built up to meet the pensions liabilities and cash has to be generated to meet actual pensions payments as they eventually fall due.

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 cash payable in the year, so the real cost of retirement benefits is reversed out of the Consolidated Revenue Account after Net Operating Expenditure.

	Fire Pension Scheme	Local Government Pension Scheme	Total
	£000's	£000's	£000's
Net Pensions liability at 31 March 2005	(816,380)	(15,198)	(831,578)
Movement in the year:			
Current Service cost	(21,270)	(1,646)	(22,916)
Employers' contributions payable to the scheme	-	1,368	1,368
Employees' contributions payable to the scheme	(5,710)	-	(5,710)
Retirement benefits payable to pensioners	31,100	-	31,100
Pension transfers-in	(360)	-	(360)
Past service costs	(340)	849	509
Net Interest/Expected return on assets	(44,000)	(461)	(44,461)
Actuarial gain/ (loss)	(145,000)	(922)	(145,922)
Net Pensions liability at 31 March 2006	<u>(1,001,960)</u>	<u>(16,010)</u>	<u>(1,017,970)</u>

Further information is given in note 17 to the Balance Sheet and note 1 to the Statement of Total Movement in Reserves.

2. Employees emoluments

The number of staff whose remuneration, excluding pension contributions, was £50,000 and over were: -

	<u>2004/05</u>	<u>2005/06</u>
£50,001 to £60,000	7	7
£60,001 to £70,000	0	1
£70,001 to £80,000	2	0
£80,001 to £90,000	3	4
£90,000 to £100,000	0	1
£100,000 to £110,000	0	0
£110,000 to £120,000	1	1
	13	14

3. Asset Rentals

The expenditure on Premises, Transport and Supplies and Services includes asset rentals in respect of land and buildings, vehicles and I.T. equipment respectively. Asset rentals are equal to depreciation plus an interest charge calculated on the value of the asset. The Authority does not depreciate its land.

Capital financing costs are debited either to the Asset Management Revenue Account or the Capital Financing Account.

4. Publicity

In accordance with Section 5c of the Local Government Act 1986, a separate account has been maintained of expenditure on publicity. This expenditure may be summarised as follows:

	<u>2004/05</u>	<u>2005/06</u>
	£	£
Recruitment Advertising	199,610	211,718
Press & Public Relations	485,532	476,265
	685,142	687,983

5. Members Allowances

Allowances paid to Members of the Authority were as follows.

	<u>2004/05</u>	<u>2005/06</u>
	£	£
Basic/Responsibility Allowance	118,029	133,763
Travel & Subsistence	4,723	4,420
Conference Expenses	1,612	1,340
	124,364	139,523

6. Asset Management Revenue Account

The transactions on the Asset Management Revenue Account were as follows;

	<u>2004/05</u>	<u>2005/06</u>
	£	£
Income – Capital Charges	(8,275,763)	(11,081,081)
Expenditure - Loan Interest	2,901,402	3,031,734
- Govt grants amortisation	(273,373)	(221,866)
- Finance Lease Interest	(902)	0
- Depreciation	5,324,615	7,658,630
Surplus	<u>(324,021)</u>	<u>(612,583)</u>

7. Capital Financing Account

The following appropriation was made from the Capital Financing Account:

	<u>2004/05</u>	<u>2005/06</u>
	£	£
Revenue Contributions to Capital Outlay	319,065	98,182
Depreciation	(5,324,615)	(7,658,630)
Government Grants Deferred	273,373	221,866
Repayment of Principal - MRP	1,327,520	1,420,739
Repayment of Principal - Ex WMCC	72,917	80,208
	<u>(3,331,740)</u>	<u>(5,837,635)</u>

8. Related Party Transactions

The following material transactions with related parties took place during the year:

Related Party	Nature of Transaction	Receipts £000's
Central Government	Revenue Support Grant	52,199
	N.N.D.R. Grant	29,789
West Midland Local Authorities	Precept	31,748

No member of the Authority or Chief Officer or parties related to them has undertaken any disclosable related party transactions during the year. Further information on related parties is included in the analysis of government grants on page 38.

9. External Audit Fees

	2004/05	2005/06
	£000's	£000's
Fees payable to the Audit Commission with regard to external audit services carried out by the external auditor.	62	64
	<u>62</u>	<u>64</u>

BALANCE SHEET AS AT 31ST MARCH

31/03/2005 £'000		31/03/2006 £'000	Note
	Fixed Assets		
	<i>Operational Assets</i>		
88,528	Land & Buildings	84,412	3
6,817	Vehicle, Plant & Equipment	7,179	3
22	Intangible Assets	225	
95,367		91,816	
	<i>Non Operational Assets</i>		
2,418	Land & Buildings	2,152	3
0	Vehicles, Plant & Equipment	267	
97,785	Total Fixed Assets	94,235	
5	Long term Debtors	1	8
97,790	Total Long-term Assets	94,236	
	 Current Assets		
532	Stocks	496	7
2,838	Debtors	2,819	9
20,460	Cash	20,860	
121,620	Total Assets	118,411	
	Current Liabilities		
(5,200)	Creditors	(6,154)	9
116,420	Total Assets Less Current Liabilities	112,257	
	Long-term Liabilities		
(40,652)	Long-term Borrowing	(42,812)	10
(831,578)	Liability Related to Defined Benefit Pension Schemes	(1,017,970)	17
(755,810)	Total Assets Less Liabilities	(948,525)	
	 Financed By		
70,503	Fixed Asset Restatement Account	70,514	11
(13,954)	Capital Financing Account	(19,792)	12
393	Government Grants Deferred	457	13
(831,578)	Pensions Reserve	(1,017,970)	17
15,312	Earmarked Reserves	14,711	14
3,514	General Fund Balances	3,555	15
(755,810)	Local Taxpayers Net Equity	(948,525)	

NOTES TO THE BALANCE SHEET

1. All Fixed Assets are shown in the balance sheet at latest values. The Authority has complied with the requirements of FRS11 which relate to impairment. FRS 11 sets out the principles and methodology for accounting for impairments of fixed assets and goodwill. The carrying amount of an asset is compared with its recoverable amount and, if the carrying amount is higher, the asset is written down. Recoverable amount is defined as the higher of the amount that could be obtained by selling the asset (net realisable value) and the amount that could be obtained through using the asset (value in use). Impairment tests are only required when there has been some indication that an impairment has occurred. No such indication has occurred during the year to 31st March 2006. These latest values were calculated as follows:

Vehicles & Equipment

The threshold for inclusion in the asset registers for both vehicles and equipment is a purchase cost of £6,000 per item.

Land and Buildings

In line with the Authority's policy of revaluing land and buildings at five yearly intervals, a comprehensive revaluation was carried out as at 31st March 2005. The valuation was carried out by Gerald Eve, Chartered Surveyors. Operational properties were valued on the basis of Open Market Value in Existing Use except where there is no market for the asset in question. In this case properties were valued on the basis of Depreciated Replacement Cost. Non-operational properties were valued on the basis of Open Market Value.

2. *Purchase of Fixed Assets*

During the year, the Authority incurred capital expenditure of £4.097 million as detailed below.

	£000s
Land & Buildings	1,685
Vehicles	1,083
Equipment	1,329

The major items of expenditure were as follows:

	£000s
ICT - System Enhancements	1,117
Vehicle Replacement Programme	1,071
Station Modifications	499
Station Refurbishments	493
Training Facilities	263
Asbestos Removal	200
Equality & Diversity	194
Security Measures	36

Disposal of Fixed Assets

Assets disposed during 2005-06 consisted of 8 x Pumps/Specialist Vehicles and 1 x Car/Van with a total net book value of Nil.

3. Movements in Fixed Assets 2005/06

	Operational Assets				Non-Operational Assets		Total Fixed Assets £000s
	Land & Buildings	Vehicles	Equipment	Intangible	Land & Buildings	Vehicles	
	£000s	£000s	£000s	£000s	£000s	£000s	
<u>Cost or Valuation</u>							
1 April 2005	105,682	17,980	1,957	45	2,915	70	128,649
Acquisitions	1,671	816	1,119	210	14	267	4,097
Disposals	-	(758)	-	-	-	(70)	(828)
Revaluations	-	11	-	-	-	-	11
Reclassifications	-	(327)	-	-	-	327	0
31 March 2006	107,353	17,722	3,076	255	2,929	594	131,929
<u>Accumulated Depreciation</u>							
1 April 2005	17,154	11,834	1,286	23	497	70	30,864
Depreciation	5,787	1,147	437	7	280	-	7,658
Disposals	-	(758)	-	-	-	(70)	(828)
Reclassifications	-	(327)	-	-	-	327	0
31 March 2006	22,941	11,896	1,723	30	777	327	37,694
<u>Net Book Value</u>							
31 March 2005	88,528	6,146	671	22	2,418	-	97,785
31 March 2006	84,412	5,826	1,353	225	2,152	267	94,235

The revaluation of Vehicles relates to an adjustment in the cost of three vehicles purchased in 2001/02.

4. Comparison of Capital Expenditure with Allocations

	£000s
Capital Outlay	4,097
Retentions	(52)
Revenue Contributions to Capital Outlay	(98)
Capital Receipts	-
Government Grants	(286)
Total to be funded from Borrowing	3,661
Supported Capital Expenditure	3,661

5. Assets Held

Major fixed assets owned by the Authority at 31st March 2006 were as follows:

	31/03/2005	31/03/2006
	Number	Number
<u>Buildings</u>		
Brigade Headquarters including Central Fire Station	1	1
Other Fire Stations / Fire Safety Centres	40	40
Training Centre	1	1
Potterton Way	1	1
Tower Street	1	1
Fire Behaviour Centre – Birmingham Airport	0	1
Vehicle Workshop	1	1
Stores	1	1
Non-residential Premises	5	5
Residential Dwellings	33	33
<u>Vehicles</u>		
Pumping and Special Appliances	113	110
Cars and Vans	103	104
Other (Trailer/Demountable Unit/Coach)	37	38

6. Outstanding Commitments under Capital Schemes

The Authority has authorised capital expenditure in future years of £31.7 million, of which £1.948 million has been contracted. The balance relates to schemes approved by the Authority in respect of which no contracts have yet been entered into. The largest scheme is the proposed relocation of the Brigades headquarters to a new, yet to be determined, site within the City of Birmingham. The move is planned to take place in 2008.

The amounts are represented by the following schemes:

	Expenditure Approved & Contracted at 31/03/06 £000s	Expenditure Approved But Not Contracted at 31/03/06 £000s
HQ Relocation	-	18,963
Vehicle Replacement Program	512	6,151
Integrated Computer System	23	1,536
Stourbridge Refurbishment	1,180	1,180
Home Fire Safety Checks	89	1,127
Bickenhill Refurbishment	-	960
Fire Control Relocation	-	750
Deep Lift Well Alterations	-	340
Rescue Equipment	-	200
Training Facility Upgrades	3	187
Mobile Data Transfers/Vehicle Locators	71	94
Appliance Relocation	-	50
Equality & Diversity	24	46
Asbestos Removal	30	49
Northfield Refurbishment	5	25
HCFS Fire Experience Facility	-	17
Security Measures	-	11
Retentions (Completed Schemes)	11	11
BA Service Rooms Upgrades	-	3
	<u>1,948</u>	<u>31,700</u>

7. Stocks and Stores

All stocks were valued at latest price and can be broken down into the following categories:

	<u>2004/05</u> £	<u>2005/06</u> £
General Stocks	300,307	250,153
Mechanical Stocks	146,715	148,480
Bar Stocks	383	320
Heating Oil/Petrol/Diesel	84,372	97,248
	<u>531,777</u>	<u>496,201</u>

8. Long term Debtors

A balance of £687 for long-term debtors relates to staff loans for the purchase of motorcars. These loans are all repayable by 31 March 2008.

9. Debtors and Creditors

The amounts shown for debtors and creditors can be broken down as follows:

		<u>2004/05</u>	<u>2005/06</u>
		£	£
Debtors:	General Debtors	315,520	884,069
	Debtors Accruals	1,929,583	1,547,417
	Car Loans Due within 12 Months	8,606	4,464
	VAT Due from H.M. Customs & Excise	613,236	406,043
	Provision for Bad Debts	(29,252)	(23,417)
		<u>2,837,693</u>	<u>2,818,576</u>
Creditors:	General Creditors	1,540,816	2,037,345
	Creditors Accruals	3,659,649	4,116,605
		<u>5,200,465</u>	<u>6,153,950</u>

10. Loans Outstanding

The Authority does not operate its own loans pool. Loans required to fund capital expenditure are advanced from the lead Authority Sandwell M.B.C. Loans are also outstanding to Dudley M.B.C. These represent the Authority's share of the outstanding loan debt of the West Midlands County Council abolished in 1986. The amounts owing to the two authorities are as follows:

	<u>2004/05</u>	<u>2005/06</u>
	£	£
Sandwell M.B.C.	35,518,480	37,758,741
Dudley M.B.C.	5,133,571	5,053,363
	<u>40,652,051</u>	<u>42,812,104</u>

11. Fixed Asset Restatement Account

	<u>2004/05</u>	<u>2005/06</u>
	£000's	£000's
Balance at 1 st April	56,078	70,503
Disposal of Fixed Assets	(20)	-
Revaluations	14,445	11
Balance at 31 st March	<u>70,503</u>	<u>70,514</u>

12. Capital Financing Account

	<u>2004/05</u> £000's	<u>2005/06</u> £000's
Balance at 1 st April	(10,662)	(13,954)
Capital Financing	319	98
Capital Receipts	39	-
Write down of Assets	273	222
Depreciation	(5,324)	(7,659)
Repayment of Principal	1,401	1,501
Balance at 31 st March	<u>(13,954)</u>	<u>(19,792)</u>

13. Government Grants Deferred

This account holds various Government, other capital grants and other contributions. These will be written off to revenue over the life of the relevant assets where these are depreciated. New grants amounted to £286k and £222k was written off during 2005-06.

14. Reserves

The following earmarked reserves have been created.

	Balance at 31/03/05 £000s	Contribution during year £000s	Applied during year £000s	Not utilised £000s	Balance at 31/03/06 £000s
Insurance	8,666		480	800	7,386
HQ Relocation		2,000			2,000
Capital Slippage	595	767			1,362
Repayment of Transitional Funding	1,650			825	825
Control room resilience	500	250			750
IBO Project		490			490
Project management	250	477	295		432
Underspend Carried Forward	342	321	342		321
Pension Reserves	1,728	266	1,728		266
Capital works	703	198	311	393	197
Training Facilities		172			172
Innovation Fund	197	166	260	6	97
Uniforms	85	52	45	11	81
Regional Funding	59	88	97		50
Rest Chairs		48			48
Stress Audit		45			45
New Burdens		44			44
ADC Developments		43			43
Trauma Packs		30			30
Rostering System		20			20
HQ Balcony	85		70		15
HQ Parking		13			13
A4 works		10			10
Leadership Training/ People Mgmt		14			14
ICT	136	3	59	80	0
Equality & Diversity Awareness Training	121		121		0
Equipment	81		52	29	0
Mapping Licenses	52		50	2	0
Working at Height	32		32		0
Training	30		30		0
TOTAL	15,312	5,517	3,972	2,146	14,711

15. General Fund Balances

The following Fund movements took place in the year:

	<u>2004/05</u> £000's	<u>2005/06</u> £000's
Balance Brought Forward	4,425	3,514
Surplus/ (Deficit) transferred from Revenue Account	(911)	41
Balance Carried Forward 31st March	<u>3,514</u>	<u>3,555</u>

16. Pensions Liability

At 31st March 2006, 192 employees of the Authority who are members of the Firefighters' Pension Scheme were eligible for voluntary retirement, having reached age 50 and completed 25 years' service. If all were to exercise their right to retire in the 2006-07 financial year, the Authority would have to make commutation payments amounting to £14.9 Million.

17. Pension Liability (FRS disclosures)

In accordance with the requirements of Financial Reporting Standard No 17 – Retirement Benefits (FRS 17) the Authority has to disclose its share of assets and liabilities related to pension schemes for its employees. As explained in Note 11 of the Accounting Policies the Authority participates in two schemes, the Fire Pension Scheme for Firefighters which is unfunded and the West Midlands Metropolitan Authorities Pension Fund for other employees which is administered by Wolverhampton City Council. In addition the Authority has made arrangements for the payment of added years to certain retired employees outside of the schemes.

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March 2006 are as follows

	31 March 2005 £000's	31 March 2006 £000's
Estimated liabilities in the Firefighters Pension Scheme	816,380	1,001,960
Estimated liabilities in the Local Government Pension Scheme	40,949	49,231
Total liabilities	<u>857,329</u>	<u>1,051,191</u>
Share of assets in the Local Government Pension Scheme	(25,751)	(33,221)
Net pensions deficit	<u>831,578</u>	<u>1,017,970</u>

Liabilities have been assessed on an actuarial basis to give an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc. The Firefighters Pension Scheme has been assessed using an approach and model supplied by the Government Actuary's Department and certified by them on 19 May 2006. The West Midlands Metropolitan Authorities Pension Fund has been based on triennial actuarial valuations, the last review being 31 March 2004 and assessed by Mercer Human Resource Consulting. The main assumptions used in their calculations are:

	Local Government Pension Scheme		Firefighters Pension Scheme	
	31 March 2005	31 March 2006	31 March 2005	31 March 2006
Rate of inflation	2.90%	2.90%	2.90%	3.20%
Rate of increase in salaries	4.65%	4.65%	4.40%	4.70%
Rate of increase in pensions	2.90%	2.90%	2.90%	3.20%
Proportion of employees opting to take a commuted sum	50.00%	N/A	N/A	N/A
Rate for discounting scheme liabilities	5.40%	4.90%	5.40%	4.90%

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have assumed that 50% of employees retiring after 6 April 2006 will take advantage of this change to the pension scheme. Our actuaries have advised that this will reduce the value of the Council's pension liabilities by £0.849 million and this has been included within Non-Distributed Costs on the face of the Consolidated Revenue Account.

The Firefighters Pension Scheme has no assets to cover its liabilities. Assets in the West Midlands Metropolitan Authorities Pension Fund are valued at fair value, principally market value for investments and consists of:

	Proportion of Total Assets	Proportion of Total Assets
	31 March 2005	31 March 2006
	%	%
Equities	75	77
Government Bonds	9	8
Other Bonds	5	5
Property	7	7
Cash/Liquidity	4	3
	100.0	100.0

STATEMENT OF TOTAL MOVEMENT IN RESERVES

	CAPITAL RESERVES			REVENUE RESERVES			Total of All Reserves £000s
	Fixed Asset Restatement Account £000s	Capital Financing Account £000s	Government Grants Deferred £000s	General Fund Reserves £000s	Earmarked Reserves £000s	Pensions Reserves £000s	
Balance at 1 April 2005	70,503	(13,954)	393	3,514	15,312	(831,578)	(755,810)
Net Surplus or Deficit for the year	-	(5,838)	286	41	(601)	-	(6,112)
Gains on Revaluation of Fixed Assets	11	-	-	-	-	-	11
Appropriation from pensions reserve	-	-	-	-	-	(40,470)	(40,470)
Actuarial gains and losses relating to pensions	-	-	-	-	-	(145,922)	(145,922)
Movement on government grants deferred	-	-	(222)	-	-	-	(222)
Balance at 31 March 2006	70,514	(19,792)	457	3,555	14,711	(1,017,970)	(948,525)

The Fixed Asset Restatement Account and the Capital Financing Account are not cash backed and do not represent resources available to the Authority.

Notes to the Statement of Total Movement in Reserves

1. Pension Liability (FRS disclosures)

The actuarial gain/(loss) identified as movements on the Pensions Reserve can be analysed into the following categories:

	Fire Pension Scheme £000s	Local Government Pension Scheme £000s
2003/04		
Experience gains and losses arising on the pension liabilities	(49,690)	2,488
Changes in assumptions underlying the present value of the pension liabilities	(86,540)	-
	(136,230)	2,488
2004/05		
Experience gains and losses arising on the pension liabilities	(6,520)	-
Asset Gain	-	980
Liability Gain	-	1,136
Changes in assumptions underlying the present value of the pension liabilities	(176,960)	(7,975)
	(183,480)	(5,859)
2005/06		
Experience gains and losses arising on the pension liabilities	(1,260)	-
Asset Gain	-	4,862
Liability Gain/(Loss)	-	(1,253)
Changes in assumptions underlying the present value of the pension liabilities	(143,740)	(4,531)
	(145,000)	(922)

CASH FLOW STATEMENT

2004-2005 £000s				2005-2006 £000s
		REVENUE ACTIVITIES		
		Cash Outflows		
93,144		Cash paid to & on behalf of Employees		98,839
13,173		Other Operating Costs		13,473
	106,317	Cash Inflows		112,312
(52,132)		Revenue Support Grant		(52,199)
(24,946)		National Non Domestic Rates		(29,789)
(30,109)		Precept Income		(31,796)
(1,913)		Government Grants		(1,161)
(12)		Other Grants		0
2		Collection Fund (Surplus)/Deficit		48
(1,756)	(110,866)	Cash Received for Goods & Services		(1,633)
	(4,549)	Revenue Activities Net Cash (Inflow) / Outflow		(4,218)
		Cash Outflows		
2,901		Interest Paid		3,032
		Interest Element of Finance Leases		
		Cash Inflows		
(998)	1,903	Interest Received		(953)
		CAPITAL ACTIVITIES		
		Cash Outflows		
4,239		Purchase of Fixed Assets		4,184
		Cash Inflows		
(256)		Other Capital Cash Receipts		(286)
(39)		Sale of Fixed Assets		
	3,944	Capital Activities Net Cash (Inflow) / Outflow		3,898
	1,298	Net Cash (Inflow) / Outflow Before Financing		1,759
		FINANCING		
		Cash Outflows		
	1,400	Repayment of Loans		1,502
		Capital Element of Finance Leases		
		Cash Inflows		
(3,658)		New Loans raised		(3,661)
960		Net Increase / (Decrease) in Cash		400

NOTES TO THE CASH FLOW STATEMENT

1. Reconciliation to Revenue Account Surplus

	£'000s	
(Surplus) /Deficit for Year	(41)	
Appropriations	601	560
<hr/>		
Items on an Accrual Basis		
Increase/(Decrease) in Stock	(36)	
Increase/(Decrease) in Debtors incl. Long term	(23)	
(Increase)/Decrease in Revenue Creditors	(1041)	(1,100)
<hr/>		
Items Included Under Another Classification		
Payment of Loan Principal	(1,501)	
Direct Revenue Financing	(98)	
Interest Paid	(3,032)	
Interest Received	953	(3,678)
<hr/>		
Revenue Activities Net Cash (Inflow) / Outflow		(4,218)
<hr/>		

2. Reconciliation to Net Debt

	31/03/2005	31/03/2006
	£000s	£000s
Long-term Borrowing	40,652	42,812
Creditors Due within 12 Months	5,200	6,154
	<hr/>	<hr/>
Total	45,852	48,966
Deferred Debtors	(5)	(1)
Investments	0	0
Debtors	(2,837)	(2,818)
	<hr/>	<hr/>
Net Debt	43,010	46,147
	<hr/>	<hr/>
Movement in Net Debt	3,137	
	<hr/> <hr/>	
Net Cash Flow	1,759	
Movement in Cash Flow	400	
	<hr/>	
Cash Flow Funded by Borrowing	2,159	
Movements in:		
Debtors	20	
Creditors	954	
Long Term Debtors	4	
	<hr/>	
Movement in Net Debt	3,137	
	<hr/> <hr/>	

3. Analysis of Government Grants-

	31/03/2005	31/03/2006
	£000s	£000s
Transitional Funding	1,650	
Home Fire Risk Assessment	244	190
Innovation Fund	165	165
New Dimension Training & Crewing		718
Civil Defence	60	
Pay Verification	21	
Integrated Personal Development Scheme	10	
Wolverhampton Youth Mentoring Scheme	5	
RMB Fire Control New Burdens		165
Arson Task Force		113
Sheldon YFA Building		40
Urban Search & Rescue		25
Coventry FS Disabled Access		19
Handsworth Mini Bus	2	
	<hr/>	<hr/>
	2,157	1,435
	<hr/>	<hr/>

GLOSSARY OF TERMS

Asset Management Revenue Account

An account maintained to record the costs of the Authority's Fixed Assets. It is credited with rentals charged to individual services for the use of those assets.

Balance Sheet

A statement of assets, liabilities and other balances at the end of an accounting period. The Consolidated Balance Sheet combines all the accounts of an authority.

Capital Financing Account

An account maintained to hold the transactions relating to the financing of capital expenditure. The amounts appropriated to it from the Revenue Account Surplus were formerly charged directly to the Consolidated Revenue Account.

Chartered Institute of Public Finance and Accountancy (CIPFA)

The only leading professional accountancy body in the UK specialising in the public sector. It has responsibility for setting accounting standards for local government.

Creditor

An amount owed by an authority for work done, goods received or services rendered but for which payment has not been made.

Current Assets

Items from which the authority derives a benefit but which will be consumed or realised during the next accounting period, e.g. stocks, debtors, cash.

Current Liabilities

Amounts falling due for payment in the next accounting period.

Debtor

A sum due but not received at the financial year end.

Financial Reporting Standards (FRS's)

Accounting standards issued or adopted by the Accounting Standards Board and are based on the Statement of Principles for Financial Reporting, currently in issue, which addresses the concepts underlying the information presented in financial statements. The objective of this Statement of Principles is to provide a framework for the consistent and logical formulation of individual accounting standards. The framework also provides a basis on which others can exercise judgement in resolving accounting issues.

Long term Debtors

Amounts due to the Authority to be paid in predetermined instalments over more than one accounting period; e.g. car loans to staff.

Deferred Liability

Amounts owed to outside bodies to be paid in predetermined instalments over more than one accounting period; e.g. leasing charges.

Fixed Asset

An item from which the Authority will derive a benefit over several accounting periods.

Fixed Asset Restatement Account

An account which holds the adjustments arising from the revaluation of Fixed Assets.

Minimum Revenue Provision

An amount set aside from revenue towards the repayment of loan debt. This is currently 4% of the initial credit ceiling (outstanding loan debt less reserved capital receipts).

Provisions

Amounts set aside to meet future liabilities arising from past events.

Reserves

Amounts set aside to meet future contingencies but whose use does not affect the Authority's net expenditure in a given year. Appropriations to and from reserves may not be made directly from the revenue account. This is a crucial distinction between provisions and reserves.