

WEST MIDLANDS FIRE  
AND RESCUE AUTHORITY

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**STATEMENT OF  
ACCOUNTS**

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**2006/2007**

**WEST MIDLANDS FIRE AND RESCUE AUTHORITY  
STATEMENT OF ACCOUNTS 2006/2007**

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: 24<sup>th</sup> September 2007

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

### **Opinion on the financial statements**

We have audited the financial statements and the Firefighters' pension fund accounting statements of West Midlands Fire and Rescue Authority for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, Income and Expenditure Account, 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 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 Treasurer and auditors**

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 Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 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 Firefighters' pension fund accounting statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006:

- 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.

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' issued in 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.

**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 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 2006, the financial position of the Authority as at 31 March 2007 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 2006, the financial transactions of the Firefighters' pension fund during the year ended 31 March 2007 and the amount and disposition of the fund's assets and liabilities as at other than liabilities to pay pensions and other benefits after the end of the scheme year.

KPMG LLP  
Chartered Accountants  
Birmingham  
27 September 2007

KPMG LLP.

**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 Council'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 performance improvement observations 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, 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 2007.

**Best Value Performance Plan**

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 18 December 2006. We did not identify any matters to be reported to the authority and did not make any performance improvement observations on procedures in relation to the plan.

**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

27 September 2007

## EXPLANATORY FOREWORD

1. The Authority's accounts for the year 2006/2007 are set out on the following pages. They consist of:
  - The Income and Expenditure Account, the Authority's main revenue account, covering income and expenditure on all services.
  - The Balance Sheet, which sets out the financial position of the Authority at 31st March 2007.
  - The Statement of the Movement on the General Fund Balance and The Note of Reconciling Items for the Statement of Movement on the General Fund Balance.
  - 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 2006/2007 was £114.1 million, which came from:

	Budget	Actual		
	£000's	£000's		
Revenue Support Grant	12,186	13,369	12	%
National Non-Domestic Rates	63,126	63,087	55	%
Precept/collection fund surplus/ deficit	33,537	33,561	29	%
Interest and Other Income	2,171	4,043	4	%
	111,020	114,060	100	%

4. Net Operating Expenditure in 2006/2007 totalled £164.3 million of which £114.4 million was on the provision of Fire Services, £49.5 million on Pensions and £0.4 million on Emergency Planning. The types of costs incurred were:

Employees	68	%	
Pensions	28	%	
Running Costs	4	%	
	100	%	

5. The Authority made appropriations to earmarked reserves of £2,790k. An appropriation was made to general reserves amounting to £78k.
6. In 2006/2007, the Authority spent £8.034 million on capital projects. £3.732 million of this expenditure was financed by borrowing and £3.233 million financed directly from revenue. The balance was funded by the application of grants and the utilisation of capital receipts. Note 2 to the Balance Sheet on page 27 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 2006/07 authorised limit for external debt at £65.0m and the statutory limit for external debt at £57.5m. The Authority's actual long-term liabilities at 31st March 2007 are £44.9m, see Note 10 to the Balance Sheet on page 31.

9. Further information about the accounts is available from:

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

Telephone : 0121-380-6920  
or Fax : 0121-380-6942  
or E-Mail : Dennis.Bishop@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 Accounting Code of Practice 2006. 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 scheme provides for the clawback of payments in the event of the company being unable to meet its liabilities in full.

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
<b>Tangible Assets</b>		
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.	
<b>Intangible Assets</b>		
Software Licenses	Straight line	5 years

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

**4. 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 7.09%. 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 2006-07 at a rate of 6.90%.

**5. Capital Receipts**

At 31st March 2007 the Authority held no useable capital receipts.

**6. 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.

**7. 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.

**8. 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.

**9. Central Support Costs**

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

## 10. Pensions

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

### ***Uniformed Firefighters- Original Scheme i.e. 1992 Scheme***

On 1 April 2006 the firefighters' pension scheme changed to a funded pension scheme and the pension costs that are charged to the Authority's accounts in respect of these employees are equal to the contributions paid to the pension fund for these employees. The scheme was only open to those firefighters currently in the scheme as at 31 March 2006 and the employers contribution was higher than for the new firefighters pension scheme. All contributions are made into a pension fund and equally the payments to pensioners are paid out of the same fund. This is then balanced by a contribution to or from the fund by the government each year.

### ***Uniformed Firefighters- New Scheme i.e. 2006 Scheme***

On 1 April 2006 a new firefighters' pension scheme was established for new firefighters, retained firefighters and for uniformed employees carrying out operational duties in the old pension scheme who wished to transfer to the new scheme. This scheme is also a funded scheme and operates in exactly the same way as the old scheme except for the reduced level of contribution from employees and employers which reflects the different conditions and benefits of the new scheme.

The pension fund as at 31 March had a net deficit value of £996.645m.

### ***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 Authority's accounts (£1.515m) 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. The scheme is, however, funded.

Pension costs are now included in the accounts to meet the requirements of FRS 17 which requires the Authority to see beyond its commitment to pay contributions to the pension fund and to determine the full longer-term affect that the award of retirement benefits in any year has had on the Authority's financial position.

**11. 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: 24<sup>th</sup> September 2007

### ***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 2007 and its income and expenditure for the year then ended.



L Bateman, C.P.F.A

Treasurer to the Authority

Date: 24<sup>th</sup> September 2007

## 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 31<sup>st</sup> March 2007 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.
- 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 2006/07 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. (Following a review of the Business Planning Process, a Corporate Strategy and Annual Service Plan will be produced from 2007/2008 onwards).
- 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 2007), 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. Quarterly updates on the work of Internal Audit have been presented at Policy Planning Forums throughout the year and 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 and findings in relation to the Comprehensive Performance Assessment Process. On completion of their work, the external auditors issued an 'Audit Memorandum – report to those charged with Governance' and an Annual Audit and Inspection Letter to the Authority in relation to 2006/2007.

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

## 5. Significant Internal Control Issues

- 5.1 During 2006/07 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.

Partnership Working

The review raised the issue of the delayed partnership database which is necessary to enable the 'partnerships position' to be readily transparent and to enable appropriate partnership monitoring, although it was acknowledged that the implementation date for the new database is determined by the ICT Prioritisation List.

Debtors/Accounts Receivable

The management of Debtors is split between WMFS and Sandwell MBC with each side carrying out different aspects of the service both using the Debtors Module of the Oracle based SBS system. A review of the process to manage fire Service Debtors revealed the need on both sides to further improve segregation controls and the management of the Service Level Agreement.

Absence Management

The review of Absence Management raised significant issues in relation to:

Lack of compliance with requirements to complete/maintain manual records.  
Lack of understanding of procedures.  
Lack of adequate Management Information.

One 'fundamental' recommendation was made relating to the need to introduce an appropriate Management Information System with automated monitoring processes, which integrates with existing systems. Two 'significant' recommendations were made relation to the need to carry out a 'root and branch' review of Absence Management Procedures and subsequently to provide appropriate training to managers and staff.

- 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 assessment and Improvement Department 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 to the Authority

## INCOME AND EXPENDITURE ACCOUNT

Restated 2005-06 £000s Net		2006-07 £000s Expenditure	2006-07 £000s Income	2006-07 £000s Net
100,679	Fire Fighting and Rescue Operations	97,604	(52)	97,552
12,527	Community Fire Safety	16,378	(2,458)	13,920
1,178	Corporate & Democratic Core	1,558	(155)	1,403
193	Fire Service Emergency Planning & Civil Defence	354	0	354
(512)	Non Distributed Costs	98	0	98
<b>114,065</b>	<b>Net Cost of Services</b>	<b>115,992</b>	<b>(2,665)</b>	<b>113,327</b>
(42)	Surplus on the disposal of fixed assets			(223)
3,031	Interest payable and similar charges			3,104
44,461	Pensions Interest cost and expected return on pension assets			49,503
(953)	Interest & Investment Income			(1,378)
<b>160,562</b>	<b>Net Operating Expenditure</b>			<b>164,333</b>
(52,199)	General Government Grant			(13,369)
(29,789)	Non-domestic rates redistribution N.N.D.R.			(63,087)
(31,796)	Precepts			(33,537)
48	Collection Fund (Surplus)/Deficit			(24)
<b>46,826</b>	<b>Deficit/ (Surplus) for the Year</b>			<b>54,316</b>

## STATEMENT OF THE MOVEMENT ON THE GENERAL FUND BALANCE

<b>31/03/2006</b>		<b>31/03/2007</b>
<b>£'000</b>		<b>£'000</b>
46,826	Deficit for the year on the Income and Expenditure Account	54,316
(46,867)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(54,394)
<hr style="width: 100%;"/>		<hr style="width: 100%;"/>
(41)	Increase in General Fund Balance for the year	(78)
<hr style="width: 100%;"/>		<hr style="width: 100%;"/>
(3,514)	General Fund Balance B/Fwd	(3,555)
<hr style="width: 100%;"/>		<hr style="width: 100%;"/>
(3,555)	General Fund Balance C/Fwd	(3,633)
<hr style="width: 100%;"/>		<hr style="width: 100%;"/>

## NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

31/03/2006 £'000		31/03/2007 £'000
	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year.</b>	
0	Amortisation of intangible fixed assets	0
(7,659)	Depreciation and impairment of fixed assets	(8,211)
222	Government grants deferred amortisation	535
0	Write down of deferred charges to be financed from capital resources	0
42	Net gain on sale of fixed assets	223
(72,938)	Net charges made for retirement benefits in accordance with FRS 17	(85,517)
(80,333)		(92,970)
	<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the movement on the General Fund Balance for the year.</b>	
1,501	Minimum revenue provision for capital financing	1,598
98	Capital expenditure charged in-year to the General Fund Balance	3,233
32,468	Employer's contributions payable to the Pensions Account and retirement benefits payable direct to pensioners	30,955
34,067		35,786
	<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>	
0	Voluntary revenue provision for capital financing	0
(601)	Net transfer to or from earmarked reserves	2,790
(601)		2,790
(46,867)	<b>Net additional amount required to be credited to the General Fund balance for the year</b>	(54,394)

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (STRGL)

31/03/2006 £'000		31/03/2007 £'000
46,910	Deficit for the year on the Income and Expenditure Account	54,316
(11)	Surplus arising on revaluation of fixed assets	0
145,922	Actuarial (gains)/losses on pension fund assets and liabilities	(75,947)
0	Any other (gains)/losses for the year	83
<u>192,821</u>	Total recognised (gains)/losses for the year	<u>(21,548)</u>

## NOTES TO THE INCOME AND EXPENDITURE ACCOUNTS

### 1. Prior Period Adjustments

In the 2006/07 Statement of Accounts, the Authority has adopted three significant new accounting policies that impact on the comparatives figures for 2005/06 in the Income and Expenditure Account:

Capital financing charges for the use of fixed assets are no longer made to service revenue accounts and support service accounts.

Credits for government grants deferred are now posted to service revenue accounts and support service accounts.

Gains and losses on the disposal of fixed assets are now shown as a separate line in the Income and Expenditure Account.

These changes have had the following impact on the comparative figures for 2005/06 compared with those published in the 2005/06 Statement of Accounts (only those figures that have changed are included in the table):

	<b>Consolidated Revenue Account in 2005/06 Statement of Accounts £000's</b>	<b>Removal of capital financing charges £000's</b>	<b>Relocation of government grants deferred credits £000's</b>	<b>Recognition of gains and losses on disposal of fixed assets £000's</b>	<b>2005/06 comparatives in Income and Expenditure Account £000's</b>
Firefighting & Rescue Operations	104,050	(3,343)	(28)	0	100,679
Community Fire Safety	12,775	(54)	(194)	0	12,527
Corporate & Democratic Core	1,198	(20)	0	0	1,178
Emergency Planning & Civil Defence	194	(1)	0	0	193
Non Distributed Costs	(508)	(4)	0	0	(512)
<b>Impact on Net Cost of Services</b>	<b>117,709</b>	<b>(3,422)</b>	<b>(222)</b>	<b>0</b>	<b>114,065</b>
Gains on Disposal	0	0	0	(42)	(42)
AMRA (now Interest Payable)	(613)	3,422	222	0	3,031
<b>Impact on Net Operating Expenditure</b>	<b>117,096</b>	<b>0</b>	<b>0</b>	<b>(42)</b>	<b>117,054</b>

**2. 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 three 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 1992 and 2006 Firefighters Pension Schemes for fire officers – these are unfunded schemes, meaning that there are no investment assets built up to meet the pensions liabilities. Fund Accounts have been set up, into which the Authority and scheme members make contributions and pension payments are made from the fund.

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.

	Firefighters Pension Scheme 1992 £000's	Firefighters Compensation Scheme 2006 £000's	Firefighters Pension Scheme 2006 £000's	Local Government Pension Scheme £000's	Total £000's
Net Pensions liability at 31 March 2006	(1,001,960)	0	0	(16,010)	(1,017,970)
Removal of Provision for injury award	25,220	(25,220)	0	0	0
Removal of Liability under Recharge Arrangements	280	0	0	0	280
Net deficit at the start of the current year	(976,460)	(25,220)	0	(16,010)	(1,017,690)
Movement in the year:					
Current Service cost	(27,400)	0	(790)	(2,051)	(30,241)
Employers' contributions payable to the scheme	0	0	0	1,515	1,515
Employees' contributions payable to the scheme	(5,580)	0	(170)	0	(5,750)
Retirement benefits payable to pensioners	28,110	1,330	0	0	29,440
Pension transfers-in	(120)	0	(220)	0	(340)
Past service costs	0	(10)	0	(13)	(23)
Net Interest/Expected return on assets	(47,970)	(1,200)	(30)	(303)	(49,503)
Actuarial gain/ (loss)	71,800	630	180	3,337	75,947
Net Pensions liability at 31 March 2007	(957,620)	(24,470)	(1,030)	(13,525)	(996,645)

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

**3 Employees emoluments**

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

	<u>2005/06</u>	<u>2006/07</u>
£50,001 to £60,000	7	15
£60,001 to £70,000	1	0
£70,001 to £80,000	0	2
£80,001 to £90,000	4	2
£90,000 to £100,000	1	1
£100,000 to £110,000	0	1
£110,000 to £120,000	1	0
£120,000 to £130,000	0	1
	14	22

**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>2005/06</u>	<u>2006/07</u>
	£	£
Recruitment Advertising	211,718	202,871
Press & Public Relations	476,265	562,712
	687,983	765,583

**5. Members Allowances**

Allowances paid to Members of the Authority were as follows.

	<u>2005/06</u>	<u>2006/07</u>
	£	£
Basic/Responsibility Allowance	133,763	145,800
Travel & Subsistence	4,420	4,644
Conference Expenses	1,340	207
	139,523	150,651

**6. Related Party Transactions**

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

<b>Related Party</b>	<b>Nature of Transaction</b>	<b>Receipts £000's</b>
Central Government	Revenue Support Grant	13,369
	N.N.D.R. Grant	63,087
West Midland Local Authorities	Precept/collection fund surplus/deficit	33,561

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.

**7. External Audit Fees**

	<b>2005/06 £000's</b>	<b>2006/07 £000's</b>
Fees payable to the Audit Commission with regard to external audit services carried out by the external auditor.	64	75
	64	75

BALANCE SHEET AS AT 31<sup>ST</sup> MARCH

Restated 31/03/2006 £'000		31/03/2007 £'000	Note
	<b>Fixed Assets</b>		
225	<b>Intangible Fixed Assets</b>	448	
	<b>Tangible Fixed Assets</b>		
	<i>Operational Assets</i>		
84,412	Land & Buildings	80,188	3
7,179	Vehicle, Plant & Equipment	7,475	3
91,816		88,111	
	<i>Non Operational Assets</i>		
281	Assets Under Construction	3,989	
2051	Investment Properties	1,809	3
87	Surplus Assets held for Disposal	0	
94,235	<b>Total Fixed Assets</b>	93,909	
1	Long term Debtors	0	7
94,236	<b>Total Long-term Assets</b>	93,909	
	<b>Current Assets</b>		
496	Stocks	567	8
2,819	Debtors	5,232	9
20,860	Cash	21,111	
118,411	<b>Total Assets</b>	120,819	
	<b>Current Liabilities</b>		
(6,154)	Creditors	(6,097)	9
112,257	<b>Total Assets less Current Liabilities</b>	114,722	
	<b>Long-term Liabilities</b>		
(42,812)	Long-term Borrowing	(44,946)	10
(457)	Government Grants Deferred	(565)	11
(1,017,970)	Liability Related to Defined Benefit Pension Schemes	(996,645)	16
(948,982)	<b>Total Assets less Liabilities</b>	(927,434)	
	<b>Financed By</b>		
70,514	Fixed Asset Restatement Account	70,365	12
(19,792)	Capital Financing Account	(22,287)	13
(1,017,970)	Pensions Reserve	(996,645)	16
14,711	Earmarked Reserves	17,501	14
3,555	General Fund Balances	3,632	
(948,982)	<b>Local Taxpayers Net Equity</b>	(927,434)	

## 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 impairment has occurred. No such indication has occurred during the year to 31st March 2007. 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 31<sup>st</sup> 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 £8.036 million as detailed below.

	£000s
Land & Buildings	5,310
Vehicles	1,716
Equipment	1,010

The major items of expenditure were as follows:

	£000s
H Q Replacement	3,525
Vehicle Replacement Programme	1,716
Station Modifications	1,451
Home Fire Safety Checks	508
ICT - Enhancements	484
Training Facilities	192
Asbestos Removal	101
Equality & Diversity	42
Rescue Equipment	17

**Disposal of Fixed Assets**

Assets disposed during 2006-07 consisted of the Tower Street site (old Dudley FS), Land at Walsall FS, 6 x Pumps/Specialist Vehicles and 8 x Vans and a Trailer with a total net book value of £150,000.

**3. Movements in Fixed Assets 2006/07**

	Operational Assets				Non-Operational Assets			Total Fixed Assets
	Land & Buildings	Vehicles	Equipment	Intangible	Assets Under Construction	Surplus Assets	Investment Properties	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<u>Cost or Valuation</u>								
1 April 2006	107,355	17,722	3,076	255	281	452	2,790	131,931
Acquisitions	1,782	1,490	740	270	3,752	0	0	8,034
Disposals	(100)	(179)	0	0	0	(422)	0	(701)
Reclassifications	0	31	0	0	(44)	13	0	0
31 March 2007	109,037	19,064	3,816	525	3,989	43	2,790	139,264
<u>Accumulated Depreciation</u>								
1 April 2006	22,941	11,896	1,723	30	0	365	739	37,694
Depreciation	5,908	1,144	833	47	0	37	242	8,211
Disposals	0	(178)	0	0	0	(372)	0	(550)
Reclassifications	0	(13)	0	0	0	13	0	0
31 March 2007	28,849	12,849	2,556	77	0	43	981	45,355
<u>Net Book Value</u>								
31 March 2006	84,412	5,826	1,353	225	281	87	2,051	94,235
31 March 2007	80,188	6,215	1,260	448	3,989	0	1,809	93,909

**4. Comparison of Capital Expenditure with Allocations**

	£000s
Capital Outlay	8,036
Retentions	(76)
Revenue Contributions to Capital Outlay	(3,233)
Capital Receipts	(350)
Government & Other Grants	(643)
Total to be funded from Borrowing	3,732
Supported Capital Expenditure	3,732

**5. Assets Held**

Major fixed assets owned by the Authority at 31st March 2007 were as follows:

	31/03/2006 Number	31/03/2007 Number
<u>Land</u>		
Vauxhall Road (site of new Headquarters)		1
<u>Buildings</u>		
Brigade Headquarters	1	1
Other Fire Stations / Fire Safety Centres	40	40
Training Centre	1	1
Potterton Way	1	1
Tower Street	1	0
Fire Behaviour Centre – Birmingham Airport	1	1
Vehicle Workshop	1	1
Stores	1	1
Non-residential Premises	5	5
Residential Dwellings	33	33
<u>Vehicles</u>		
Pumping and Special Appliances	110	117
Cars and Vans	104	103
Other (Trailer/Demountable Unit/Coach)	38	38

**6. Outstanding Commitments under Capital Schemes**

The Authority has authorised capital expenditure in future years of £26.899 million, of which £11.04 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 site within the City of Birmingham. The move is planned to take place in 2008.

The amounts are represented by the following schemes:

	<b>Expenditure Approved &amp; Contracted at 31/03/07 £000s</b>	<b>Expenditure Approved But Not Contracted at 31/03/07 £000s</b>
HQ Relocation	9,225	5,299
Stourbridge Refurbishment	40	0
Deep Lift Well Alterations	0	330
Integrated Computer System	10	1,464
Bickenhill – USAR	0	950
Retentions (Completed Schemes)	42	0
Home Fire Safety Checks	213	421
Rescue Equipment	379	5
Vehicle Replacement Programme	1,103	5,614
Bickenhill Refurbishment	0	1,560
Asbestos Removal	0	216
Drill Tower/Training Facility Upgrades	28	0
	<b>11,040</b>	<b>15,859</b>

**7. Long term Debtors**

There are no longer any long-term debtors relating to staff loans for the purchase of motorcars as in previous years. The remaining staff loan, which is classified as a current debtor, is repayable by 31 March 2008.

**8. Stocks and Stores**

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

	<u>2005/06</u>	<u>2006/07</u>
	£	£
General Stocks	250,153	343,330
Mechanical Stocks	148,480	147,731
Bar Stocks	320	189
Heating Oil/Petrol/Diesel	97,248	76,191
	<b>496,201</b>	<b>567,441</b>

**9. Debtors and Creditors**

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

		<u>2005/06</u>	<u>2006/07</u>
		£	£
Debtors:	General Debtors	884,069	678,339
	Debtors Accruals	1,547,417	3,820,354
	Car Loans Due within 12 Months	4,464	688
	VAT Due from H.M. Customs & Excise	406,043	812,078
	Provision for Bad Debts	(23,417)	(79,526)
		<u>2,818,576</u>	<u>5,231,933</u>
Creditors:	General Creditors	2,037,345	2,158,457
	Creditors Accruals	4,116,605	3,938,971
		<u>6,153,950</u>	<u>6,097,428</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>2005/06</u>	<u>2006/07</u>
	£	£
Sandwell M.B.C.	37,758,741	39,980,391
Dudley M.B.C.	5,053,363	4,965,132
	<u>42,812,104</u>	<u>44,945,523</u>

**11. 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 £643k and £535k was written off during 2006-07.

**12. Fixed Asset Restatement Account**

	<u>2005/06</u>	<u>2006/07</u>
	£000's	£000's
Balance at 1 <sup>st</sup> April	70,503	70,515
Disposal of Fixed Assets	0	(150)
Revaluations	11	0
Balance at 31 <sup>st</sup> March	<u>70,514</u>	<u>70,365</u>

**13. Capital Financing Account**

	<u>2005/06</u> £000's	<u>2006/07</u> £000's
Balance at 1 <sup>st</sup> April	(13,954)	(19,792)
Capital Financing	98	3,233
Capital Receipts	0	350
Write down of Assets	222	535
Depreciation	(7,659)	(8,211)
Repayment of Principal/MRP	1,501	1,598
Balance at 31 <sup>st</sup> March	<u>(19,792)</u>	<u>(22,287)</u>

**14. Reserves**

The following earmarked reserves have been created.

	Balance at 31/03/06 £000s	Contribution during year £000s	Applied during year £000s	Not utilised £000s	Balance at 31/03/07 £000s
Insurance	7,386	500	428	0	7,458
Capital Works	4,481	3,536	3,233	0	4,784
Project Management	922	308	199	0	1,031
BA Sets & Accessories	0	658	0	0	658
Command & Control Systems	0	500	0	0	500
BTC Building Alterations	0	485	0	0	485
Budget Carry Forwards	321	427	321	0	427
System Enhancements/Upgrades	20	465	60	0	425
Station Works	25	335	0	15	345
Rest Facilities	47	202	13	0	236
Pensions Reserve	266	0	0	32	234
Haymills Environmental Costs	0	210	0	0	210
Fire Prevention/Innovation Grant	97	172	75	0	194
Water Hydrants	0	96	0	0	96
Fire Control Support	0	94	0	0	94
Fire Ground Equipment	0	80	0	0	80
Document Scanning	0	55	0	0	55
Training	59	20	30	5	44
Operational Response Consultants	0	43	0	0	43
Regional Funding	94	6	70	0	30
Pensions Server Replacement	0	25	0	0	25
Removal Expenses	0	25	0	0	25
Firefighter Selection Tests	0	22	0	0	22
Repayment of Transitional Funding	825	0	0	825	0
Uniforms	81	0	31	50	0
ADC Developments	43	1	44	0	0
Trauma Packs	30	26	56	0	0
HQ Car Parking	14	0	14	0	0
	<b>14,711</b>	<b>8,291</b>	<b>4,574</b>	<b>927</b>	<b>17,501</b>

**15. Pensions Liability**

At 31st March 2007, 174 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 2007/08 financial year, the Authority would have to make commutation payments amounting to £13.7 Million.

**16. Pension Liability (FRS 17 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 10 of the Accounting Policies the Authority participates in three schemes, the Fire Pension Scheme for Firefighters 1992 and 2006 which are 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 2007 are as follows

	<b>31 March 2006 £000's</b>	<b>31 March 2007 £000's</b>
Estimated liabilities in the Firefighters Pension Schemes	1,001,960	983,120
Estimated liabilities in the Local Government Pension Scheme	49,231	50,356
<b>Total liabilities</b>	<b>1,051,191</b>	<b>1,033,476</b>
Share of assets in the Local Government Pension Scheme	(33,221)	(36,831)
<b>Net pensions deficit</b>	<b>1,017,970</b>	<b>996,645</b>

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:

	<b>Local Government Pension Scheme</b>		<b>Firefighters Pension Scheme</b>	
	<b>31 March 2006</b>	<b>31 March 2007</b>	<b>31 March 2006</b>	<b>31 March 2007</b>
Rate of inflation	2.90%	3.10%	3.20%	3.40%
Rate of increase in salaries	4.65%	4.85%	4.70%	4.90%
Rate of increase in pensions	2.90%	3.10%	3.20%	3.40%
Proportion of employees opting to take a commuted sum	N/A		N/A	
Rate for discounting scheme liabilities	4.90%	5.40%	4.90%	5.40%

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.

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:

	<b>Proportion of Total Assets 31 March 2006</b>	<b>Proportion of Total Assets 31 March 2007</b>
	%	%
Equities	77	71.5
Government Bonds	8	8.4
Other Bonds	5	3.9
Property	7	7.6
Cash/Liquidity	3	1.1
Other	0	7.5
	<u>100.0</u>	<u>100.0</u>

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

	<b>1992 Fire Pension Scheme</b>	<b>2006 Fire Pension &amp; Injury Award Schemes</b>	<b>Local Government Pension Scheme</b>
	£000s	£000s	£000s
<b>2003/04</b>			
Experience gains and losses arising on the pension liabilities	(49,690)	0	2,488
Changes in assumptions underlying the present value of the pension liabilities	(86,540)	0	0
	<u>(136,230)</u>	<u>0</u>	<u>2,488</u>
<b>2004/05</b>			
Experience gains and losses arising on the pension liabilities	(6,520)	0	0
Asset Gain	0	0	980
Liability Gain	0	0	1,136
Changes in assumptions underlying the present value of the pension liabilities	(176,960)	0	(7,975)
	<u>(183,480)</u>	<u>0</u>	<u>(5,859)</u>
<b>2005/06</b>			
Experience gains and losses arising on the pension liabilities	(1,260)	0	0
Asset Gain	0	0	4,862
Liability Gain/(Loss)	0	0	(1,253)
Changes in assumptions underlying the present value of the pension liabilities	(143,740)	0	(4,531)
	<u>(145,000)</u>	<u>0</u>	<u>(922)</u>
<b>2006/07</b>			
Experience gains and losses arising on the pension liabilities	11,340	(220)	0
Asset Gain	0	0	327
Liability Gain/(Loss)	0	0	0
Changes in assumptions underlying the present value of the pension liabilities	60,460	1,030	3,010
	<u>71,800</u>	<u>810</u>	<u>3,337</u>

## CASH FLOW STATEMENT

2005006 £000s			2006007 £000s	
		<b>REVENUE ACTIVITIES</b>		
		<b>Cash Outflows</b>		
98,839		Cash paid to & on behalf of Employees	100,029	
13,473		Other Operating Costs	15,665	115,694
	112,312	<b>Cash Inflows</b>		
(52,199)		Revenue Support Grant	(13,369)	
(29,789)		National Non Domestic Rates	(63,087)	
(31,796)		Precept Income	(33,537)	
(1,161)		Government Grants	(9,735)	
0		Other Grants		
48		Collection Fund (Surplus)/Deficit	(24)	
(1,633)	(116,530)	Cash Received for Goods & Services	(2,913)	(122,665)
	(4,218)	<b>Revenue Activities Net Cash (Inflow) / Outflow</b>		(6,971)
		<b>Cash Outflows</b>		
3,032		Interest Paid	3,104	
		Interest Element of Finance Leases		
		<b>Cash Inflows</b>		
(953)	2,079	Interest Received	(1,378)	1,726
		<b>CAPITAL ACTIVITIES</b>		
		<b>Cash Outflows</b>		
4,184		Purchase of Fixed Assets	7,814	
		<b>Cash Inflows</b>		
(286)		Other Capital Cash Receipts	(336)	
		Sale of Fixed Assets	(350)	
	3,898	<b>Capital Activities Net Cash (Inflow) / Outflow</b>		7,128
	1,759	<b>Net Cash (Inflow) / Outflow Before Financing</b>		1,883
		<b>FINANCING</b>		
		<b>Cash Outflows</b>		
1,502		Repayment of Loans	1,598	
		Capital Element of Finance Leases		
		<b>Cash Inflows</b>		
(3,661)	(2,159)	New Loans raised	(3,732)	(2,134)
	400	<b>Net Increase / (Decrease) in Cash</b>		251

## NOTES TO THE CASH FLOW STATEMENT

1. *Reconciliation to Revenue Account Surplus*

	£'000s	
Increase in General Fund Balance for the year	(78)	
Appropriations	(2,790)	
Other items	(1)	(2,869)
<hr/>		
<b><i>Items on an Accrual Basis</i></b>		
Increase/(Decrease) in Stock	71	
Increase/(Decrease) in Debtors incl. Long term	2,304	
(Increase)/Decrease in Revenue Creditors	80	2,455
<hr/>		
<b><i>Items Included Under Another Classification</i></b>		
Payment of Loan Principal	(1,598)	
Direct Revenue Financing	(3,233)	
Interest Paid	(3,104)	
Interest Received	1,378	(6,557)
<hr/>		
<b><i>Revenue Activities Net Cash (Inflow) / Outflow</i></b>		<b><u>(6,971)</u></b>

**2. Reconciliation to Net Debt**

	<b>31/03/2006</b>	<b>31/03/2007</b>
	<b>£000s</b>	<b>£000s</b>
Long-term Borrowing	42,812	44,946
Creditors Due within 12 Months	6,154	6,097
<b>Total</b>	<b>48,966</b>	<b>51,043</b>
Deferred Debtors	(1)	0
Investments	0	0
Debtors	(2,819)	(5,232)
<b>Net Debt</b>	<b>46,146</b>	<b>45,811</b>
<b>Movement in Net Debt</b>	<b>(335)</b>	
Net Cash Flow	1,883	
Movement in Cash Flow	251	
<b>Cash Flow Funded by Borrowing</b>	<b>2,134</b>	
<b>Movements in:</b>		
Debtors	(2,413)	
Creditors	(57)	
Long Term Debtors	1	
<b>Movement in Net Debt</b>	<b>(335)</b>	

**3. Analysis of Government Grants**

	<b>31/03/2006</b>	<b>31/03/2007</b>
	<b>£000s</b>	<b>£000s</b>
Pensions Top-up	0	8,448
New Dimension Training & Crewing	718	564
Innovation Fund	165	356
Home Fire Risk Assessment	190	310
Fire Projects Implementation	165	357
Erdington VICE	0	26
Use of Resources supplementary audit fees	0	10
Arson Task Force	113	0
Sheldon YFA Building	40	0
Urban Search & Rescue	25	0
Coventry FS Disabled Access	19	0
	<b>1,435</b>	<b>10,071</b>

## THE WEST MIDLANDS FIREFIGHTERS PENSION FUND

### FUND ACCOUNT 1 APRIL 2006 to 31 MARCH 2007

	£000's
<b>Contributions Receivable</b>	
From Employer	
Normal	10,821
Early Retirements	0
Other	0
From Members	5,582
<b>Transfers in</b>	
Individual	116
Other	
<b>Benefits Payable</b>	
Pensions	(20,848)
Commutations and lump sum retirement benefits	(6,750)
Lump sum death benefits	(54)
Other	0
<b>Payments to and on account of leavers</b>	
Refund of contributions	(14)
Individual transfers	(449)
Other	0
<b>Net amount payable/receivable*</b>	<u><u>(11,596)</u></u>

### NET ASSET STATEMENT AT 31 MARCH 2007\*

<b>Net Current assets and liabilities</b>	
Contributions due from employer	0
Unpaid pension benefits	0
Other	0

\* Before any top-up grant receivable or amount payable to the sponsoring department.

## THE WEST MIDLANDS FIREFIGHTERS PENSION FUND

## Firefighters Pension Scheme 2006

## FUND ACCOUNT 1 APRIL 2006 to 31 MARCH 2007

	£000's
<b>Contributions Receivable</b>	
From Employer	
Normal	218
Early Retirements	0
Other	0
From Members	172
<b>Transfers in</b>	
Individual	223
Other	0
<b>Benefits Payable</b>	
Pensions	0
Commutations and lump sum retirement benefits	0
Lump sum death benefits	0
Other	
<b>Payments to and on account of leavers</b>	
Refund of contributions	(4)
Individual transfers	0
Other	0
<b>Net amount payable/receivable*</b>	<u>609</u>

## NET ASSET STATEMENT AT 31 MARCH 2007\*

<b>Net Current assets and liabilities</b>	
Contributions due from employer	0
Unpaid pension benefits	0
Other	0

\* Before any top-up grant receivable or amount payable to the sponsoring department.

## GLOSSARY OF TERMS

**Accruals**

Income and expenditure are recognised as they are earned or incurred, not as money is received or paid (see Debtors and Creditors).

**Balance Sheet**

A statement of assets, liabilities and other balances at the end of an accounting period.

**Capital Expenditure**

Expenditure on the acquisition of a fixed asset, or expenditure which adds to, and not merely maintains the value of an existing fixed asset.

**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.

**Capital Receipt**

Money received from the disposal of land and other assets.

**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 at the end of the year.

**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 to the authority but not received at the financial year end.

**Deferred Liability**

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

**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.

**Fixed Asset**

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

**Fixed Asset Restatement Account**

The account which reflects the amount by which the value of the Authority's assets have been revised following revaluation or disposal.

**General Fund**

The total services of the Authority, the net cost of which is met by Precepts, Government Grants and NNDR.

**Government Grants**

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfer of assets to an authority, in return for past or future compliance with certain conditions relating to the activities of the Authority.

**Government Grants Deferred Account**

Grants and other external contributions towards capital expenditure are written off to the revenue account as the assets to which they relate are depreciated. The balance on this account represents grants not yet written off.

**Impairment**

A diminution in value of a fixed asset resulting from, inter alia, obsolescence or physical damage.

**Liabilities**

Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are payable within one year of the balance sheet date.

**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.

**Materiality**

An item is material if its omission, non-disclosure or mis-statement in financial statements could be expected to lead to a distortion of the view given by the financial statements.

**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).

**National Non-Domestic Rates (NNDR)**

Rates which are levied on business properties.

**Net Book Value**

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**Precept**

The amount levied upon local authorities in the West Midlands by the Fire Authority.

**Provisions**

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

**Related Party**

There is a detailed definition of related parties in FRS 8. For the Authority's purposes, related parties are deemed to include:

- Central Government.
- West Midland Local Authorities.
- Members of the Authority or parties related to them.
- Chief Officer or parties related to them.

**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.

**Revenue Support Grant (RSG)**

A grant from central Government towards the cost of providing services.