

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

7TH JULY 2008

1. **STATEMENT OF ACCOUNTS 2007/2008**

Report of the Treasurer.

RECOMMENDED

THAT the Committee considers the Authority's 2007/2008 Statement of Accounts.

2. **PURPOSE OF REPORT**

This report is submitted for Members to consider the Authority's 2007/2008 Statement of Accounts.

3. **BACKGROUND**

3.1 One of the elements within the Audit Committee's Work Programme is that the Committee would consider the Authority's 2007/2008 Statement of Accounts.

3.2 The Statement of Accounts was approved by the Authority at the meeting held on 23rd June 2008 and is attached as Appendix 1 to this report. A summary of the Accounts is attached as Appendix 2.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out as the matters contained in this report do not relate to a policy change.

5. **LEGAL IMPLICATIONS**

The course of action recommended in this report does not raise issues which should be drawn to the attention of the Authority's Monitoring Officer.

6. **FINANCIAL IMPLICATIONS**

These are contained on the attached Appendices.

L. BATEMAN
TREASURER

WEST MIDLANDS FIRE SERVICE

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

STATEMENT OF ACCOUNTS

2007/2008

**WEST MIDLANDS FIRE AND RESCUE AUTHORITY
STATEMENT OF ACCOUNTS 2007/2008**

These accounts have been prepared in accordance with the Accounts and Audit Regulations 2003 and comply with all relevant accounting standards.

L Bateman, C.P.F.A

Treasurer to the Authority

Date: 23rd June 2008

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EXPLANATORY FOREWORD

1. The Authority's accounts for the year 2007/2008 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 2008.
 - 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 Statement of Total Recognised Gains and Losses which brings together all the recognised gains and losses of the Authority.
 - 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 2007/08 was £131.6m, which came from:

	Budget	Actual	
	£000's	£000's	
Revenue Support Grant	11,122	11,122	9 %
National Non-Domestic Rates	66,275	66,275	50 %
Precept/collection fund surplus/deficit	34,753	34,754	26 %
Interest and Other Income	2,574	19,477	15 %
	<u>114,7244</u>	<u>131,6288</u>	<u>100 %</u>

4. Net Operating Expenditure in 2007/08 totalled £146.9m of which £111.1m was on the provision of Fire Services, £44.4m on Pensions, £0.4m on Emergency Planning less £9.0m surplus on the disposal of fixed assets. The types of costs incurred were:

Employees	64 %
Pensions	30 %
Running Costs	6 %
	<u>100 %</u>

5. The Authority made appropriations to earmarked reserves of £1.62m. An appropriation was made to general reserves amounting to £0.427m.
6. In 2007/08, the Authority spent £15.668m on capital projects. £3.732m of this expenditure was financed by borrowing and £2.093m 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 35 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 2007 meeting, approved the 2007/08 authorised limit for external debt at £66m and the statutory limit for external debt at £61m. The Authority's actual long-term liabilities at 31st March 2008 are £46.981m, see Note 9 to the Balance Sheet on page 39.
9. Further information about the accounts is available from:

Principal Accountant,
West Midlands Fire Service Headquarters,
Lancaster Circus,
Queensway,
Birmingham. B4 7DE.

Telephone : 0121-380-6944
or Fax : 0121-380-6942
or E-Mail : carl.guest@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

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2007/08 financial year and its position at the year-end of 31st March 2008. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007 – A Statement of Recommended Practice (SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

2. 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 2008. 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 2008.

3. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax for the expenditure.

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

From the 1st April 2007 the Fixed Asset Restatement Account and Capital Financing Account were replaced by a Revaluation Reserve and a Capital Adjustment Account.

4. Government Grants and Contributions (Revenue)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the Authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred.

Revenue grants are matched in the revenue account with the expenditure to which they relate.

Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

5. Retirement Benefits

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 (1992) Scheme

On 1st April 2006 the firefighters' pension scheme changed. This is an unfunded scheme, which is administered by the Authority in accordance with Communities and Local Government regulations. For such schemes as there are no investment assets, the FRS17 requires recognition of the liability and pension reserve in the Balance Sheet and transactions in the income and Expenditure Account for movements in the liability and reserve. 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 in the scheme as at 31st 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 (2006) Scheme

On 1st 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 an unfunded 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 combined pension fund for uniformed firefighters as at 31st March 2008 had a net deficit value of £855.64m.

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 (£1.631m) in 2007/08 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.

6. *Value Added Tax (VAT)*

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT is recoverable from it.

7. *Support Services*

The costs of support services are charged to those that benefit from the supply or service in accordance with the costing principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) Best Value Accounting Code of Practice (BVACOP) 2007. The total absorption costing principle is used – the full cost of support services are shared between users in proportion to benefits received, with the exception of:-

Corporate and Democratic Core: costs relating to the general running of the Authority, corporate policy making and all other member based activities.

Non Distributed Costs: the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties which are either under construction or held for disposal.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

The basis for charging support services to service revenue accounts for work undertaken is as agreed by respective Section Heads.

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. *Intangible Fixed Assets*

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Authority (e.g. software licenses) is capitalised when it will bring benefits to the Authority for more than one financial year. The balance is amortised to the revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

Software licenses are depreciated on a straight line method for a period of five years.

9. *Tangible Fixed Assets*

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition: expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Authority and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

Expenditure on fixed assets are capitalised subject to a de minimus level of £6,000.

Measurement: assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. 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 and equipment. Differences arising from revaluations are written off to the Revaluation Reserve. The Authority has complied with the requirements of FRS15.

Assets are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to the service revenue account.

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

Impairment: the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account.
- otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals: when an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 are categorised as capital receipts.

The balance of capital receipts are credited to the Usable Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

At 31st March 2008 the Authority held £3.130m in useable capital receipts.

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

Depreciation: depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

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

<u>Asset Type</u>	<u>Depreciation Method</u>
Buildings	Straight line over estimated life
Operational Vehicles	Straight line over 10 Years
Ancillary Vehicles	Straight line over 5 Years
Equipment	Straight line over 5 Years
Home Fire Safety Equip.	Full depreciation in the year of acquisition

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

Grants and contributions: where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the service revenue account, in line with the depreciation policy applied to them.

10. Charges to Revenue for Fixed Assets

Service revenue accounts and support services are debited with the following amounts to record the real cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off
- amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise a precept for council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

11. Operational Leases

Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

12. Financial Liabilities - Loans Outstanding

Amounts owing in respect of advances to fund capital expenditure are owed to Sandwell M.B.C. the lead Authority. Annual charges to the Income and Expenditure Account for interest payable in 2007/08 was charged at a rate of 6.94%. 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 1st April 1986. Annual charges to the Income and Expenditure Account for interest payable was charged on this debt in 2007/08 at a rate of 6.81%.

13. Stocks

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

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.

Peter Howard
Chairman

Date: 23rd June 2008

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 2008 and its income and expenditure for the year then ended.

Lynda Bateman, C.P.F.A
Treasurer

Date: 23rd June 2008

ANNUAL GOVERNANCE STATEMENT

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 duty, the Authority is also responsible for putting in place proper arrangements for the governance of its affairs which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.
- 1.3 This statement explains how the Authority has complied with the code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2006 in relation to the publication of a Governance Statement. The Authority has produced its Governance Statement which is consistent with the principles of the CIPFA/SOLACE Framework – Delivering Good Governance in Local Government. The Authority's recently established Audit Committee will be considering the Framework and its implementation as part of its work programme.

2. The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems and processes, culture and values for the direction and control of the Authority and its activities through which it accounts and engages with the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, value for money services.
- 2.2 The system of internal control is a significant part of the framework and 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.

- 2.3 The system of governance has operated throughout the year ended 31st March 2008 and up to the date of the approval of the annual report and accounts. An Audit Committee was established during the year to enhance the Governance Framework and met for the first time in January 2008.

3. The Governance Framework

The key elements of the systems and processes that comprise the Authority's governance arrangements include the following:-

- 3.1 The Authority has produced a Corporate Strategy Plan setting out its objectives and there is regular performance monitoring in which achievement of the Authority's objectives is measured and monitored.
- 3.2 The Authority has established clear channels of communication with the community and stakeholders regarding the production of the Annual Report, consultation on the Annual Service Plan and the development of its Internet site. This also encourages open communication.
- 3.3 The Authority facilitates policy and decision-making via regular Policy Planning Forums and Authority and Executive Committee meetings. Since January 2008, an Audit Committee provides independent assurance to the Authority on risk management and internal control and the effectiveness of the arrangements the Authority has for these matters. The constitution of the Committee, including terms of reference for them and the Lead Members is reviewed annually and is available on the Internet.
- 3.4 The Authority ensures compliance with established strategies, procedures, laws and regulations – including risk management. The Authority also maintains and reviews regularly its code of conduct and whistleblowing policy.

There is a comprehensive induction programme in place and information regarding strategies and procedures are held on the intranet, which will continue to be developed. The Authority has a strong Internal Audit function and established protocols for working with External Audit. The Audit Commission through its inspectorate functions also reviews compliance with policies, procedures, laws and regulations within their remit.

- 3.5 West Midlands Fire and Rescue Authority has continued to enhance and strengthen its internal control environment through the introduction of new policies and procedures (for example, the introduction of an Audit Committee).
- 3.6 The Authority has corporate risk management arrangements in place which are supported by an approved Risk Management Strategy enabling managers and other senior officers to identify, assess and prioritise risks within their own work areas which impact on the ability of the Authority and its services to meet objectives. To consider the effectiveness of the Authority's risk management arrangements is a specific term of reference for the Executive Committee and risk management is a specific responsibility of both the Chairman and Vice Chairman.
- 3.7 The Authority's Strategic Risk Register identifies the principal risks to the achievement of the Authority's objectives and assesses the nature and extent of those risks (through assessment of impact and likelihood). The Register identifies risk owners whose responsibility includes the identification of controls and actions to manage them efficiently, effectively and economically. Further improvements have been made in this area following Internal Audit recommendations.
- 3.8 The Authority ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. The Authority plans its spending on an established planning cycle for policy development, budget setting and performance management through the business planning process. This ensures that resources are aligned to priorities and secures best value from the resources that are available.

- 3.9 The Authority's Financial system was enhanced four years ago with the implementation of an ORACLE based general ledger and management information system, which integrates the general ledger function with those of budgetary control and payments. Financial Regulations and Contract Procedure Rules form part of the Constitution. A rigorous system of monthly financial monitoring ensures that any significant budget variances are identified in a timely way, and corrective action initiated.
- 3.10 The Authority's performance management and reporting of performance management continues to be improved with a more focused Corporate Strategy, the setting of priorities and is supported by regular performance monitoring. Corporate performance is reported on a quarterly basis and this process provides officers and Members with the opportunity to share knowledge and understanding about key performance issues affecting services.
- 3.11 The Authority has a Standards Committee which promotes high ethical standards amongst Members. This Committee is independently chaired and leads on developing policies and procedures to accompany the revised Code of Conduct for Members.

4. **Review of Effectiveness**

- 4.1 The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review is informed by the work of the internal auditors and the statutory officers and principal managers of the Authority who have responsibility for the development and maintenance of the governance environment and also by comments made by the external auditors in their annual audit letter and other reports.
- 4.2 Department and section unit business plans contain a variety of performance indicators and targets that are regularly reviewed.
- 4.3 The Authority's constitution, which is appropriately reviewed by officers, sets out the responsibilities of both Members and senior managers. In particular the Authority has identified the following statutory post holders: -

- Chief Fire Officer
- Treasurer

- Clerk
 - Monitoring Officer
- 4.4 The Authority continues to assess how its overall corporate governance responsibilities are discharged. In particular the Authority has adopted the CIPFA/Solace guidance, has developed a local code of corporate governance and is working towards the National Good Governance Standard.
- 4.5 The arrangements for the provision of internal audit are contained within the Authority's Financial Regulations. The Treasurer is responsible for ensuring that there is an adequate and effective system of internal audit of the Authority's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2003 as amended in 2006. The internal audit provision operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government 2006. The Authority's Audit Plan is prioritised by a combination of the key internal controls, assessment and review on the basis of risk and the Authority's corporate governance arrangements, including risk management. The work is further supplemented by reviews around the main financial systems, scheduled visits to Authority establishments and fraud investigations. 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 and Surgeries.
- 4.6 The resulting Audit Plan is discussed and agreed with Corporate Board officers and the Audit Committee and shared with the Authority's external auditor. Regular meetings between the internal and external auditor ensure that duplication of effort is avoided. All Authority Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any areas needing improvement.
- 4.7 The Authority's review of the effectiveness of the system of internal control is informed by:
- The work undertaken by Internal Audit during the year;
 - The work undertaken by the external auditor reported in their annual audit and inspection letter;
 - Other work undertaken by independent inspection bodies.

- 4.8 From the work undertaken by Internal Audit in 2007/08 the Internal Audit has given a 'reasonable assurance' on the key areas of risk management, corporate governance and financial control. In this context 'reasonable assurance' means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Authority's standing or Annual Accounts.

5. **Significant governance arrangements within the Authority**

- 5.1 West Midlands Fire and Rescue Authority has set out **four key priorities**:

- Communities and Partnerships
- Response
- People
- Value for Money

- 5.2 These form the basis of the Authority's Corporate Strategy 2008-11 and Performance Plans referred to above and provide the focus for the improvements, which are being made in all areas of the Authority.

- 5.3 The Comprehensive Performance Assessment (CPA) in 2007 identified the Authority as improving well and scored a '2' in the overall service assessment. The Audit Commission noted that "Good progress is being made in improving priority areas and there are sound arrangements in place to ensure further improvements in future". A specific area for improvement identified by the CPA was to develop the understanding of the relationship between resources and performance and ensure the resources are in place to support the operational structures in delivering against key priorities.

- 5.4 The review of internal control also highlights the following:

5.4.1 **Risk Management**

To further embed risk management, recommendations were made covering:

- Approval of the Risk Management Standing Order which has been introduced.
- Recording and reporting of changes to the Corporate Risk Register.

- Introduction of a formal assurance process, which draws together the strands of assurance for each risk.

5.4.2 Debtors

The key issues arising were:

- Finance management to identify large and longstanding debts, and ascertain what action has and is being taken by SMBC debt recovery section to recover the debts.
- Finance management to use reporting mechanisms to confirm that appropriate segregation exists when invoices and adjustments are raised.
- SMBC debt recovery should be advised not to carry out amendments to debtor accounts, as per the terms of the SLA.

5.4.3 Procurement

The main issues raised were that:

- A risk assessment to be carried out for all procurement activities.
- The procurement policy to be reviewed in order to include the objectives of the National Procurement Strategy.
- Where contracts exceed £20,000, the list of suppliers to be appropriately approved ensuring compliance with Standing Order 1/8 and the Procurement Policy.

5.4.4 Payroll

The key issues arising were:

- There was no effective way of verifying that an appropriate member of staff had checked and authorised changes notified by Personnel to Payroll.
- There was a lack of an adequate level of segregation of duties by Personnel when completing information for starters and leavers.
- There was a need for a risk register to highlight potential risks to the section and the controls put in place to mitigate them.

5.4.5 Human Resources Management System (HRMS)

The HRMS was introduced in December 2007 although its functionality needed to be expanded. As a result of this it was recommended that key constraints in the Oracle e-Business Suite needed to be addressed as part of the implementation plan including the need to establish a strategy for linking data from the Sickness Management and

Rostering System and the Duty Management and Rostering System with the HRMS without compromising data integrity.

All of the above issues have been raised with relevant managers and actions are being taken to achieve improvements.

- 5.5 The Authority continues to be actively involved in developing the way it works with partners and organises itself to deliver services. Developments of this nature require careful management and the Authority has sought to identify and minimise the impact of risks associated with this change. During 2007/2008 improvements were made to the partnership framework and an evaluation toolkit was introduced, which provides guidance for officers and members working in and managing partnerships throughout the lifecycle of a partnership. In addition, an Officer Work Group was established to consider how the Authority needed to respond to the increasingly important issue of Local Area Agreements.

Peter Howard
Chairman

Susan Phelps
Clerk

Lynda Bateman
Treasurer

Neeraj Sharma
Monitoring Officer

Frank Sheehan
Chief Fire Officer

INCOME AND EXPENDITURE ACCOUNT

2006/07 £000s Net		2007/08 £000s Expenditure	2007/08 £000s Income	2007/08 £000s Net
107,032	Firefighting and Rescue Operations	107,840	(1,863)	105,977
14,753	Community Safety	18,173	(1,844)	16,329
1,403	Corporate and Democratic Core	1,484	(165)	1,319
389	Fire Service Emergency Planning and Civil Defence	462	(15)	447
98	Non Distributed Costs	600	(13,780)	(13,180)
123,675	Net Cost of Services	128,559	(17,667)	110,892
(223)	Surplus on the disposal of fixed assets			(9,033)
3,104	Interest payable and similar charges			3,183
49,503	Pensions Interest cost and expected return on pension assets			53,363
(1,378)	Interest and investment income			(1,810)
(10,348)	Gain in relation to Government Grant payable to the Pension Fund on the Authority's behalf			(9,650)
164,333	Net Operating Expenditure			146,945
(13,369)	General Government Grant			(11,122)
(63,087)	Non-domestic rates redistribution N.N.D.R.			(66,275)
(33,537)	Precepts			(34,767)
(24)	Collection Fund (Surplus)/Deficit			13
54,316	Deficit/ (Surplus) for the Year			34,794

STATEMENT OF THE MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the Authority's actual financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. However, the Authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Authority's spending against the council tax it has received for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summaries the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

31/03/2007		31/03/2008
£'000		£'000
54,316	Deficit for the year on the Income and Expenditure Account	34,794
(54,394)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(35,221)
<hr/>		<hr/>
(78)	Increase in General Fund Balance for the year	(427)
(3,555)	General Fund Balance B/Fwd	(3,633)
<hr/>		<hr/>
(3,633)	General Fund Balance C/Fwd	(4,060)
<hr/>		<hr/>

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

31/03/2007 £'000		31/03/2008 £'000
	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.	
(8,211)	Depreciation and impairment of fixed assets	(6,007)
535	Government grants deferred amortisation	664
223	Net gain on sale of fixed assets	9,124
(79,767)	Net charges made for retirement benefits in accordance with FRS 17	(68,572)
10,348	Gain in relation to Government Grant payable to the Pension Fund on the Authority's behalf	9,650
<hr/> (76,872) <hr/>		<hr/> (55,141) <hr/>
	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.	
1,598	Minimum revenue provision for capital financing	1,696
3,233	Capital expenditure charged in-year to the General Fund Balance	2,093
14,857	Employer's contributions payable to the Pensions Account and retirement benefits payable direct to pensioners	14,511
<hr/> 19,688 <hr/>		<hr/> 18,300 <hr/>
	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	
2,790	Net transfer to or from earmarked reserves	1,620
<hr/> 2,790 <hr/>		<hr/> 1,620 <hr/>
<hr/> (54,394) <hr/>	Net additional amount required to be credited to the General Fund balance for the year	<hr/> (35,221) <hr/>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (STRGL)

31/03/2007 £'000	31/03/2008 £'000
54,316 Deficit for the year on the Income and Expenditure Account	34,794
(75,947) Actuarial (gains)/losses on pension fund assets and liabilities	(166,796)
83 Any other (gains)/losses for the year	0
<hr/> (21,548) Total recognised (gains)/losses for the year <hr/>	<hr/> (132,002) <hr/>

NOTES TO THE INCOME AND EXPENDITURE 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 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.

	Firefighters' Pension Schemes	Firefighters' Compensation Scheme 2006	Local Government Pension Scheme	Total
	£000's	£000's	£000's	£000's
Net Pensions liability at 31 st March 2007	(958,650)	(24,470)	(13,525)	(996,645)
<u>Movement in the year:</u>				
Current Service cost	(26,480)	0	(1,946)	(28,426)
Employers' contributions payable to the scheme	11,540	0	1,631	13,171
Retirement benefits payable direct to pensioners	0	1,340	0	1,340
Gain in relation to Government grant payable to the Pension Fund on the Authority's behalf	9,650	0	0	9,650
Past service costs	13,780	0	(563)	13,217
Net Interest/Expected return on assets	(51,910)	(1,290)	(163)	(53,363)
Actuarial gain/(loss)	169,210	1,640	(4,054)	166,796
Net Pensions liability at 31 st March 2008	(832,860)	(22,780)	(18,620)	(874,260)

The analysis of movement in the Firefighters' Pension Schemes liability records a gain of £13.780m against the line past service costs. This gain relates to the introduction of two tier ill health arrangements and reduces the scheme liability.

Further information is given in notes 15 and 16 to the Balance Sheet on Page 42.

2. Employees emoluments

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

	<u>2006/07</u>	<u>2007/08</u>
£50,000 to £59,999	15	22
£60,000 to £69,999	0	1
£70,000 to £79,999	2	1
£80,000 to £89,999	2	0
£90,000 to £99,999	1	2
£100,000 to £109,999	1	3
£110,000 to £119,999	0	0
£120,000 to £129,999	1	0
£130,000 to £139,999	0	1
	<u>22</u>	<u>30</u>

3. 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>2006/07</u>	<u>2007/08</u>
	£	£
Recruitment Advertising	202,871	192,294
Press & Public Relations	562,712	531,137
	<u>765,583</u>	<u>723,431</u>

4. Members Allowances

Allowances paid to Members of the Authority were as follows.

	<u>2006/07</u>	<u>2007/08</u>
	£	£
Basic/Responsibility Allowance	145,800	153,078
Travel & Subsistence	4,644	4,647
Conference Expenses	207	1,947
	<u>150,651</u>	<u>159,672</u>

5. 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	11,112
	N.N.D.R. Grant	66,275
West Midland Local Authorities	Precept/collection fund surplus/deficit	34,754

One Member of the Authority during 2007/08 declared a prejudicial interest in tenders for the supply, fitment and maintenance services for tyres and withdrew from the Executive Committee meeting during the consideration of that item.

No other members' 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 49.

6. External Audit Fees

	2006/07	2007/08
	£000's	£000's
Fees payable to the Audit Commission with regard to external audit services carried out by the external auditor.	75	83
	<hr/> 75	<hr/> 83

7. West Midlands Fire and Rescue Services Regional Control Centre Company

The national Fire Control project is working towards the migration of English fire and rescue control functions into nine regional control centres. One of these centres being within the West Midlands region.

The Centre will be operated by a Local Authority Controlled Company (LACC) of which the 5 regional Fire and Rescue Services are Members. The company was incorporated on 19th February 2007.

At 31st March 2008 the company held no assets or liabilities and in 2007/08 incurred expenditure of £49,842 all of which was funded by government grant paid to West Midlands Fire Service.

BALANCE SHEET AS AT 31ST MARCH

31/03/2007		31/03/2008	Note
£'000		£'000	
	<i>Fixed Assets</i>		
	<i>Intangible Fixed Assets</i>		
448	Software Licences	452	
	<i>Tangible Fixed Assets</i>		
	<i>Operational Assets</i>		
80,188	Land & Buildings	76,234	3
7,475	Vehicle, Plant & Equipment	8,575	3
<u>88,111</u>		<u>85,261</u>	
	<i>Non Operational Assets</i>		
3,989	Assets Under Construction	14,852	3
1,809	Surplus Assets	1,700	3
<u>93,909</u>	<i>Total Fixed Assets</i>	<u>101,813</u>	
	<i>Current Assets</i>		
567	Stocks	728	7
5,232	Debtors	3,265	8
21,111	Cash	28,532	
<u>120,819</u>	<i>Total Assets</i>	<u>134,338</u>	
	<i>Current Liabilities</i>		
(6,097)	Creditors	(6,904)	8
<u>114,722</u>	<i>Total Assets less Current Liabilities</i>	<u>127,434</u>	
	<i>Long-term Liabilities</i>		
(44,946)	Long-term Borrowing	(46,981)	9
(565)	Government Grants Deferred	(1,625)	10
(996,645)	Liability Related to Defined Benefit Pension Schemes	(874,260)	15/16
<u>(927,434)</u>	<i>Total Assets less Liabilities</i>	<u>(795,432)</u>	
	<i>Financed By</i>		
0	Revaluation Reserve	0	
48,078	Capital Adjustment Account	52,517	11
(996,645)	Pensions Reserve	(874,260)	15/16
0	Usable Capital Receipts Reserve	3,130	12
17,501	Earmarked Reserves	19,121	14
3,632	General Fund Balance	4,060	
<u>(927,434)</u>	<i>Local Taxpayers Net Equity</i>	<u>(795,432)</u>	

NOTES TO THE BALANCE SHEET

1. *Fixed Assets*

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 2008. 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 £15.668m as detailed below.

	£m
Land & Buildings	12.567
Vehicles	1.734
Equipment	1.270
Software Licences	0.097

The major items of expenditure were as follows:

	£m
H Q Replacement	11.110
Vehicle Replacement Programme	1.734
Station Modifications	1.204
Home Fire Safety Checks	0.620
Rescue Equipment	0.470
ICT Enhancements	0.277
Asbestos Removal	0.201
Training Facilities	0.052

Disposal of Fixed Assets

Assets disposed during 2007/08 consisted of the Aston Street site (old Fire Service Headquarters), Oughton Road Site (Brigade Stores), 5 x Pumps/Specialist Vehicles and 14 x Vans and 4 x Pods/Trailers with a total net book value of £1,756,498.

3. Movements in Fixed Assets 2007/08

	Operational Assets				Non-Operational Assets		Total Fixed Assets
	Land & Buildings	Vehicles	Equipment	Intangible Software Licences	Assets Under Construction	Surplus Assets	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<u>Cost or Valuation</u>							
1 April 2007	91,884	19,064	3,816	525	3,989	2,335	121,613
Acquisitions	1,457	1,254	1,270	97	11,590	0	15,668
Disposals	(6,069)	(689)	0	0	0	(420)	(7,178)
Reclassifications	0	641	0	0	(727)	86	0
31 March 2008	87,272	20,270	5,086	622	14,852	2,001	130,103
<u>Accumulated Depreciation</u>							
1 April 2007	11,696	12,849	2,556	77	0	526	27,704
Depreciation	3,691	1,217	934	93	0	72	6,007
Disposals	(4,349)	(689)	0	0	0	(383)	(5,421)
Reclassifications	0	(86)	0	0	0	86	0
31 March 2008	11,038	13,291	3,490	170	0	301	28,290
<u>Net Book Value</u>							
31 March 2007	80,188	6,215	1,260	448	3,989	1,809	93,909
31 March 2008	76,234	6,979	1,596	452	14,852	1,700	101,813

4. **Capital Expenditure and Financing in year**

	2007/08 £000's	2007/08 £000's
<u>Expenditure</u>		
Intangible Fixed Assets	97	
Fixed Assets		
- Land and Buildings	12,567	
- Vehicles	1,734	
- Equipment	1,270	15,668
<u>Financing</u>		
Revenue Contributions to Capital Outlay	(2,093)	
Capital Grants	(1,724)	
Capital Receipts	(10,880)	
Supported Capital Expenditure	(3,732)	(18,429)
Surplus in Capital Finance		(2,761)

The surplus capital resources will be carried forward in future years

5. **Assets Held**

Major fixed assets owned by the Authority at 31st March 2008 were as follows:

	31/03/2007 Number	31/03/2008 Number
<u>Land & Buildings</u>		
Brigade Headquarters	1	0
Vauxhall Road–Land (site of new Headquarters)	1	1
Fire Stations/Fire Safety Centres	40	40
Training Centre	1	1
ICT Support Centre (Potterton Way)	1	1
Fire Behaviour Centre – Birmingham Airport	1	1
Vehicle Workshop	1	1
Brigade Stores	1	0
Non-residential Premises	5	5
Residential Dwellings	33	28
<u>Vehicles</u>		
Pumping and Special Appliances	117	118
Cars and Vans	103	106
Other (Trailer/Demountable Unit/Coach)	38	37

6. Outstanding Commitments under Capital Schemes

The Authority has authorised capital expenditure in future years of £17.565m, of which £1.797m has been contracted. The balance relates to schemes approved by the Authority in respect of which no contracts have yet been entered into.

The amounts are represented by the following schemes:

	Expenditure approved and contracted at 31/03/08 £000s	Expenditure approved but not contracted at 31/03/08 £000s	Grand Total £000s
Retentions/Completed	41	0	41
HQ Relocation	1,260	2,789	4,049
Deep Lift Well Alterations	0	220	220
Stourbridge Refurbishment	10	0	10
Asbestos Removal	1	15	16
Bickenhill – USAR Facility	42	80	122
Bilston Modifications	7	3	10
Rescue Equipment	63	0	63
Command & Control System	50	400	450
E-Business Systems	0	1,809	1,809
Pensions System Replacement	0	20	20
Vehicle Replacement	177	7,002	7,179
Oracle Licences	146	0	146
Bickenhill Refurbishment	0	1,600	1,600
Sheldon Refurbishment	0	1,700	1,700
Thermal Image Cameras	0	130	130
	1,797	15,768	17,565

7. Stocks and Stores

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

	<u>2006/07</u>	<u>2007/08</u>
	£	£
General Stocks	343,330	482,265
Mechanical Stocks	147,731	153,805
Bar Stocks	189	258
Heating Oil/Petrol/Diesel	76,191	91,963
	<u>567,441</u>	<u>728,291</u>

8. Debtors and Creditors

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

	<u>2006/07</u>	<u>2007/08</u>
	£	£
<u>Debtors:</u>		
General Debtors	678,339	809,060
Debtors Accruals	3,820,354	2,150,499
Car Loans Due within 12 Months	688	0
VAT Due from H.M. Customs & Excise	812,078	383,984
Provision for Bad Debts	(79,526)	(86,975)
	<u>5,231,933</u>	<u>3,256,568</u>
<u>Creditors:</u>		
General Creditors	2,158,457	2,192,758
Creditors Accruals	3,938,971	4,711,303
	<u>6,097,428</u>	<u>6,904,061</u>

9. 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>2006/07</u>	<u>2007/08</u>
	£	£
Sandwell M.B.C.	39,980,391	42,113,175
Dudley M.B.C.	4,965,132	4,868,080
	<u>44,945,523</u>	<u>46,981,255</u>

10. 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 £1.724m and £0.664m was written off during 2007/08.

11. *Capital Adjustment Account*

The purpose of this reserve is to store capital resources set aside to meet past expenditure.

	<u>2007/08</u> £000's
Balance at 1 st April	48,078
Capital Financing	2,093
Capital Receipts	7,750
Write down of Assets	664
Depreciation	(6,007)
Disposal of Fixed Assets	(1,757)
Repayment of Principal/MRP	1,696
Balance at 31 st March	<u>52,517</u>

The repayment of Principal/MRP represents £1.599m for repayments of principal to Sandwell M.B.C. that equate to the Minimum Revenue Provision required by section 63 of the Local Government and Housing Act 1989 and £0.097m principal paid to Dudley M.B.C. for the debt inherited from the former West Midlands County Council.

12. *Usable Capital Receipts Reserve*

This reserve holds the proceeds of fixed assets sales available to meet future capital investment.

	<u>2007/08</u> £000's
Balance at 1 st April	0
<i>Sale of Fixed Assets Exceeding £10k:</i>	
- Aston Street Site (Old Headquarters)	10,030
- Oughton Road Site (Brigade Stores)	850
<i>Capital Receipts Applied in Year</i>	<u>(7,750)</u>
Balance at 31 st March	<u>3,130</u>

13. *Finance and Operating Leases*

The Authority does not own any assets acquired under Finance Leases.

The Authority has one operating lease for the rent of Premises for Stores which commenced on the 11th May 2007. The lease is for 2 years with the option to extend for 1 year. A rental payment of £28,728 was charged to the income and expenditure account for the year 2007/08.

14. Earmarked Reserves

The following earmarked reserves have been created.

	Balance at 31/03/07 £000s	Contribution during year £000s	Applied during year £000s	Not utilised £000s	Balance at 31/03/08 £000s
Insurance	7,458	346	0	0	7,804
Capital Works	4,784	1365	1818	0	4,331
BA Sets & Accessories	658	613	61	11	1,199
BTC Building Alterations	485	563	0	0	1,048
Project Management	1,031	193	290	38	896
Budget Carry Forwards	404	677	404	0	677
System Enhancements/Upgrades	425	198	0	0	623
Command & Control Systems	500	0	50	0	450
Legal Costs	210	236	20	0	426
Boiler Replacement Program	0	400	0	0	400
Training & Development	44	302	8	0	338
Station Works	368	189	237	78	242
LAA Match Funding	0	200	0	0	200
Firefighting & Rescue Equipment	0	115	0	0	115
Fire Prevention & Education	0	115	0	0	115
Fire Control Support	94	26	49	0	71
Birmingham Resilience Team	0	52	0	0	52
Vehicles	0	47	0	0	47
Document Scanning	80	7	18	27	42
Fire Ground Equipment	80	0	55	0	25
Removal Expenses	25	15	25	0	15
Rest Facilities	236	0	216	15	5
Pensions Reserve	234	0	234	0	0
Fire Prevention/Innovation Grant	194	0	194	0	0
Water Hydrants	96	0	46	50	0
Operational Response Consultants	43	0	43	0	0
Firefighter Selection Tests	22	0	22	0	0
Regional Funding	30	0	30	0	0
	17,501	5,659	3,820	219	19,121

15. Pensions Liability

At 31st March 2008, 173 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 2008/09 financial year, the Authority would have to make commutation payments amounting to £14.1m.

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 6 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 31st March 2008 are as follows:

	31 March 2007 £000's	31 March 2008 £000's
Estimated liabilities in the Firefighters' Pension Schemes	983,120	855,640
Estimated liabilities in the Local Government Pension Scheme	50,356	58,158
Total liabilities	1,033,476	913,798
Share of assets in the Local Government Pension Scheme	(36,831)	(39,538)
Net pensions deficit	996,645	874,260

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 12th May 2008. The West Midlands Metropolitan Authorities Pension Fund has been based on triennial actuarial valuations, the last review being 31st March 2007 and assessed by Mercer Human Resource Consulting. In calculating the FRS17 figures for the West Midlands Metropolitan Authorities Pension Fund the actuary assumed an investment return of -3.63% (this is based on actuals to 31st December 2007 and an estimate based on market index returns for the final quarter). The actual return for the year to the 31st March 2008 was -1.46%. The main assumptions used in their calculations are:

	Local Government Pension Scheme		Firefighters' Pension Scheme	
	31 March 2007	31 March 2008	31 March 2007	31 March 2008
Rate of inflation	3.10%	3.60%	3.40%	3.70%
Rate of increase in salaries	4.85%	5.35%	4.90%	5.20%
Rate of increase in pensions	3.10%	3.60%	3.40%	3.70%
Rate for discounting scheme liabilities	5.40%	6.10%	5.40%	6.90%

Changes to the Local Government Pension Scheme permit employees retiring on or after 6th 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 6th 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:

	Proportion of Total Assets 31st March 2007	Proportion of Total Assets 31st March 2008
	%	%
Equities	71.5	65.3
Government Bonds	8.4	9.4
Other Bonds	3.9	3.7
Property	7.6	7.0
Cash/Liquidity	1.1	4.1
Other	7.5	10.5
	<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:

	1992 Fire Pension Scheme	2006 Fire Pension & Injury Award Schemes	Local Government Pension Scheme
	£000s	£000s	£000s
2003/04			
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></u>	<u>2,488</u>
2004/05			
Experience gains and (losses) arising on the pension liabilities	(6,520)	0	0
Asset Gain/(Loss)	0	0	980
Liability Gain/(Loss)	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>
2005/06			
Experience gains and (losses) arising on the pension liabilities	(1,260)	0	0
Asset Gain/(Loss)	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>
2006/07			
Experience gains and (losses) arising on the pension liabilities	11,340	(220)	0
Asset Gain/(Loss)	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>
2007/08			
Experience gains and (losses) arising on the pension liabilities	7,600	(340)	0
Asset Gain/(Loss)	0	0	(3,956)
Liability Gain/(Loss)	0	0	2,029
Changes in assumptions underlying the present value of the pension liabilities	160,760	2,830	(2,127)
	<u>168,360</u>	<u>2,490</u>	<u>(4,054)</u>

17. Firefighter's Pension Scheme 1992 – Revised commutation factors

Revised commutation factors prepared by the Government Actuary for the purposes of calculating the lump sums payable to persons who commute part of their firefighter's pension under Rule B7 of the Firefighters' Pension Scheme 1992 were issued on the 21st May 2008. The effect of the new factors is backdated to 1st October 2007. This means that the new factors apply to any member of the Firefighters' Pension Scheme who retired with an immediate pension on that date or later or whose deferred pension came into payment on that date or later. This will require the payment of interest in some cases. The effect of these payments for 2007/2008 is £572,000.

Under the firefighter pension financing arrangements, Communities Local Government reimburses the Authorities firefighters' pension funds using a Central Government top-up grant, to cover any deficits incurred. This will now include the additional expenditure needed to increase lump sums in the light of revised commutation factors.

18. Nature and extent of risks arising from financial instruments.

The authority's activities expose it to a variety of financial risks:

Credit risk – the possibility that other parties might fail to pay amounts due to the authority.

Liquidity risk – the possibility that the authority might not have the funds available to meet its commitments to make payments.

Market risk – the possibility that financial loss might arise for the authority as a result of changes in such measurements as interest rates.

Credit risk

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

The authority does not generally allow credit for customers, such that £820,000 of the £3.3m Debtors balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£000's
Less than three months	668
Three to six months	29
Six months to one year	30
More than one year	93
	<hr/>
	820

Liquidity risk

As the authority has ready access to borrowings, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

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

Market risk

The authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments.

During 2007/08, if interest rates had been 1% lower with all other variables held constant, the impact on the Income and Expenditure Account would be a fall in interest of £312,000. The impact of a 1% increase in interest rates would be the same but reversed, interest would increase by £312,000.

CASH FLOW STATEMENT

2006/07 £000s			2007/08 £000s	
		REVENUE ACTIVITIES		
		Cash Outflows		
100,029		Cash paid to & on behalf of Employees	103,829	
15,665	115,694	Other Operating Costs	14,232	118,061
		Cash Inflows		
(13,369)		Revenue Support Grant	(11,122)	
(63,087)		National Non Domestic Rates	(66,275)	
(33,537)		Precept Income	(35,067)	
(9,735)		Government Grants	(13,285)	
		Other Grants		
(24)		Collection Fund (Surplus)/Deficit	14	
(2,913)	(122,665)	Cash Received for Goods & Services	(2,157)	(127,892)
	(6,971)	Revenue Activities Net Cash (Inflow) / Outflow		(9,831)
		Cash Outflows		
3,104		Interest Paid	3,090	
		Interest Element of Finance Leases		
		Cash Inflows		
(1,378)	1,726	Interest Received	(1,381)	1,709
		CAPITAL ACTIVITIES		
		Cash Outflows		
7,814		Purchase of Fixed Assets	15,190	
		Cash Inflows		
(350)		Sale of Fixed Assets	(10,921)	
(336)		Capital Grants Received	(1,533)	
	7,128	Capital Activities Net Cash (Inflow) / Outflow		2,736
	1,883	Net Cash (Inflow) / Outflow Before Financing		(5,386)
		FINANCING		
		Cash Outflows		
1,598		Repayment of Loans	1,697	
		Capital Element of Finance Leases		
		Cash Inflows		
(3,732)	(2,134)	New Loans raised	(3,732)	(2,035)
	251	Net Increase / (Decrease) in Cash		7,421

NOTES TO THE CASH FLOW STATEMENT

1. Reconciliation to Revenue Account Surplus

	£'000s	
Increase in General Fund Balance for the year	(427)	
Appropriations	(1,620)	
Other items	6	(2,041)
		<hr/>
Items on an Accrual Basis		
Increase/(Decrease) in Stock	161	
Increase/(Decrease) in Debtors incl. Long term	(2,123)	
(Increase)/Decrease in Revenue Creditors	(329)	(2,291)
		<hr/>
Items Included Under Another Classification		
Payment of Loan Principal	(1,697)	
Direct Revenue Financing	(2,093)	
Interest Paid	(3,090)	
Interest Received	1,381	(5,499)
		<hr/>
Revenue Activities Net Cash (Inflow) / Outflow		<hr/> (9,831)

2. Reconciliation to Net Debt

	31/03/2007 £000s	31/03/2008 £000s
Long-term Borrowing	44,946	46,981
Creditors Due within 12 Months	6,097	6,904
Total	<hr/> 51,043	<hr/> 53,885
Deferred Debtors	0	0
Investments	0	0
Debtors	(5,232)	(3,265)
Net Debt	<hr/> 45,811	<hr/> 50,620
Movement in Net Debt	<hr/> 4,809	
Net Cash Flow	(5,386)	
Movement in Cash Flow	<hr/> 7,421	
Cash Flow Funded by Borrowing	2,035	
Movements in:		
Debtors	1,967	
Creditors	807	
Long Term Debtors	0	
Movement in Net Debt	<hr/> 4,809	

3. Analysis of Government Grants

	31/03/2007 £000s	31/03/2008 £000s
Pensions Top-up	8,448	11,179
New Dimension Training, Crewing & Accommodation	564	1,534
Fire Control Projects Implementation	357	786
Home Fire Risk Assessment	310	620
Community Fire Safety	0	356
National Resilience	0	124
Urban Safety Village	0	100
Local Area Agreements	0	84
Centro	0	35
Innovation Fund	356	0
Erdington VICE	26	0
Use of Resources supplementary audit fees	10	0
	<hr/> 10,071	<hr/> 14,818

4. Local Area Agreements (LAA)

The Authority is a participant in LAA – a partnership with other public bodies involving the pooling of government grants to finance work towards jointly agreed objectives for local public services.

In LAA, the entire grant is initially paid to the accountable body and it is then responsible for passing it on to the partner organisations. The Authority is a partner organisation and is classed as a non-accountable body.

The table below is a summary of grant received from each accountable body for the year to 31st March 2008:-

Accountable body	Total grant received by accountable body £000s	Total grant received by the Authority £000s
Dudley Metropolitan Borough Council	6,386	48
Sandwell Metropolitan Borough Council	18,349	15
Solihull Metropolitan Borough Council	4,115	0
Walsall Metropolitan Borough Council	7,913	21
Total	<hr/> 36,763	<hr/> 84

**THE WEST MIDLANDS FIRE AND RESCUE AUTHORITY
PENSION FUND ACCOUNT**

2006/07		2007/08
£000's		£000's
	Contributions Receivable	
	From Fire Authority	
(11,039)	Normal	(11,402)
(749)	Early Retirements	(140)
(5,754)	From Firefighters' Contributions	(6,026)
	Transfers in	
(223)	Individual	(187)
	Benefits Payable	
20,850	Pensions	22,434
6,750	Commutations and lump sum retirement benefits	4,729
54	Lump sum death benefits	0
	Payments to and on account of leavers	
9	Refund of contributions	0
450	Individual transfers	242
10,348	Net amount payable for the year	9,650
(10,348)	Top up Grant payable by the Government	(9,650)
0		0
31/03/2007	NET ASSETS STATEMENT	31/03/2008
£000's		£000's
1,900	Top-up receivable from the Government	371
(1,900)	Amount owing to General Fund	(371)
0		0

Notes to Pension Fund Account

The fund was established at 1st April 2006 under the Firefighters' Pension Scheme (Amendment) England) Order 2006 and covers both the 1992 and 2006 Firefighters' Pension Schemes. Before 1st April 2006 the Authority was responsible for paying the pensions of its own former employees on a pay as you go basis. The Firefighters' Pension Schemes remain unfunded and consequently the Fund has no investment assets. Benefits are funded by contributions from the Authority and employees and any difference between benefits payable and contributions receivable is met by top-up grant from the CLG.

Government funding by top-up grant is paid in two instalments, 80% of the estimated annual amount is received in August of the relevant year with the balance paid once actual figures have been determined.

Employees' and employer's contribution levels are based on percentages of pensionable pay set nationally by the CLG and are subject to triennial revaluation by the Government Actuary's Department. The contribution rates for 2007/08 are shown in the table below.

	<u>2006 Scheme</u>	<u>1992 Scheme</u>
Employer's	11.0%	21.3%
Employees'	8.5%	11%

The Fund is administered by the Authority. Benefits are paid to retired officers, their survivors and others who are eligible for benefits under both the 1992 and 2006 Firefighters' Pension Schemes.

The Net Assets Statement does not include liabilities to pay pensions and other benefits after the 31st March 2008. For further information on the liability to pay pensions see Balance Sheet Note 16, page 42.

The account is prepared in accordance with the same code of practice and accounting policies as outlined in the Statement of Accounting Policies on page 10.

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 Adjustment Account

The fundamental principal of capital accounting is that accounting for fixed assets is separated from accounting for their financing. This is one of two reserves that help to manage this separation. It provides a balancing mechanism between the different rates at which assets are depreciated under the SORP and are financed through the capital controls system.

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 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.

Current Service Cost (Pensions)

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current 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.

Defined Benefit Pension Scheme

A scheme in which the rules specify the benefits to be paid and the scheme is financed accordingly.

Depreciation

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

Financial Reporting Standards (FRS)

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.

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.

Interest Cost (Pensions)

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

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 that is considered prudent which must be set aside from revenue as provision for the repayment of loan debt.

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.

Net Realisable Value

The open market value of the asset in its existing use (or market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

Non Operational Assets

Fixed assets held by the Authority but not used or consumed in the delivery of

services.

Operational Assets

Fixed assets held and occupied, used or consumed by the Authority in the delivery of services for which it has either a statutory or discretionary responsibility.

Past Service Cost (Pensions)

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in the prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

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.

Revaluation Reserve

The fundamental principal of capital accounting is that accounting for fixed assets is separated from accounting for their financing. This is one of two reserves that help to manage this separation. It records unrealised revaluation gains arising (since 1st April 2007) from holding fixed assets.

Revenue Support Grant (RSG)

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

West Midlands Fire and Rescue Authority

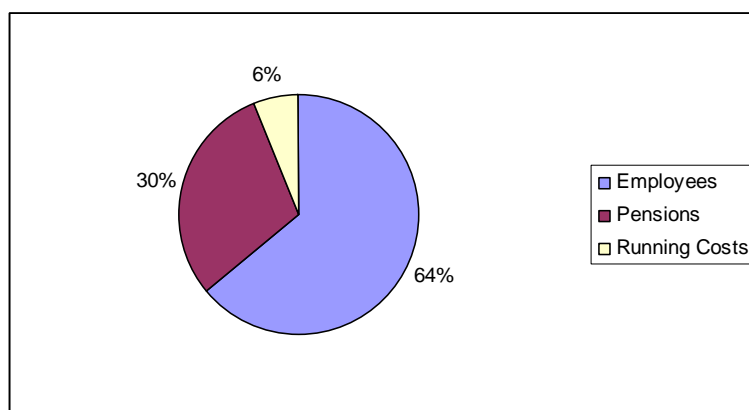
Statement of Accounts 2007/08 Summary

How much did the Service cost in 2007/08?

The majority of the net cost of Fire Service expenditure relates to firefighting and rescue operations (£106m) and community fire safety work (£16.3m).

The total Net Operating expenditure for the Fire Service for 2007/08 was approximately £146.9m. This figure includes pension costs of £53.4m which need to be shown in accordance with specific accounting requirements.

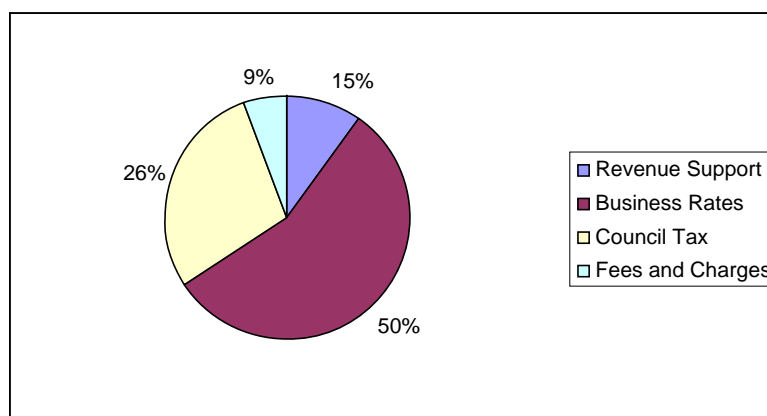
The types of costs can be broken down as follows:



How was the Service funded in 2007/08?

The total income of the Authority in 2007/08 was £132.7m. The majority of funding comes from the Government in the form of grant and a share of business rates.

The various sources of funding are shown below:



Balances and Reserves

The Fire Authority must consider the level of general balances it wishes to maintain before it can decide the level of Council Tax to charge in any year.

In order to set a balanced budget in 2007/08 the Authority assumed no movement in general balances. The actual level of general balances increased in the year by £0.427m, leaving £4.060m general balances at the end of the financial year. The Authority holds general balances as funding to meet any unforeseen events which it may need to respond to. Interest is earned on any unused balances.

In addition, as part of the closedown of accounts process, consideration needs to be given to the level of earmarked reserves required. These are amounts set aside to meet specific anticipated future demands. The level of earmarked reserves increased by the end of the year by £1.62m. This brought the total level of these reserves to £19.121m. Interest is earned on any balances until expenditure is committed against the demands identified.

Capital Expenditure and Funding

In 2007/08, the Authority spent £15.668 million on capital projects.

The expenditure was incurred on the following:

	£000s
Land & Buildings	12,567
Vehicles	1,734
Equipment	1,270
Software Licences	97

A considerable amount of this expenditure was financed by capital receipts (49%) and by borrowing (24%). The balance was funded by grants and direct revenue funding.

In the same way that borrowing was used to help purchase assets during 2007/08, borrowing in earlier years meant that at the end of 2007/08, the Authority had total loans of £46.981m (the interest and principal on any loans needs to be met from future revenue budgets). The value of fixed assets held by the Authority as at 31st March 2008 which the loans had helped fund was £101.8m, of which approximately 91% related to land and buildings and 9% related to vehicles and equipment.

Further information can be found by contacting the Principal Accountant at West Midlands Fire Service Headquarters, Lancaster Circus Queensway, Birmingham B4 7DE. Telephone No. 0121 380 6944 or e-mail: carl.quest@wmfs.net.

This information can also be made available in other languages and formats including large print, Braille and audiotape. Please phone 0121 380 6007.