

# West Midlands Fire and Rescue Authority

## Audit and Risk Committee

You are summoned to attend the meeting of Audit and Risk Committee to be held on Monday, 23 July 2018 at 10:30

at Fire Service HQ, 99 Vauxhall Road, Nechells, Birmingham B7 4HW

for the purpose of transacting the following business:

### Agenda – Public Session

- |   |   |                  |
|---|---|------------------|
| 1 | To receive apologies for absence (if any)                       |                  |
| 2 | Declarations of interests in contracts or other matters         |                  |
| 3 | Minutes of the Audit Committee held on 4 June 2018              | <b>3 - 8</b>     |
| 4 | Audit Findings 2017-2018  | <b>9 - 30</b>    |
| 5 | Statement of Accounts 2017 - 2018                               | <b>31 - 134</b>  |
| 6 | Treasury Management Annual Report 2017-2018                     | <b>135 - 148</b> |
| 7 | Draft Audit Committee Work Programme 2018-19                    | <b>149 - 154</b> |
| 8 | Update on Topical, Legal and Regulatory Issues (Verbal Report). |                  |

#### **Distribution:**

Stephen Craddock - Member, Jasbinder Dehar - Member, Zafar Iqbal - Member, Kerry Jenkins - Vice Chair, Catherine Miks - Chairman

**Agenda prepared by Julie Connor**

**Strategic Hub, West Midlands Fire Service**

**Tel: 0121 380 6906 email: [strategichub@wmfs.net](mailto:strategichub@wmfs.net)**

**This agenda and supporting documents are also available electronically on the West Midlands Fire Service website at [www.wmfs.net](http://www.wmfs.net)**

Minutes of the Audit Committee

4 June 2018  
at Fire Service Headquarters, Vauxhall Road, Birmingham B7 4HW

**Present:** Councillors Aston (Chair), Barlow, Brackenridge and Mr Ager (Independent)

**Apology:** Councillor Barrie

21/18 **Appointment of a Chair**

In the absence of the Chair and Vice Chair, the Committee agreed that Councillor Adam Aston should act as Chair on this occasion.

22/18 **Declarations of Interest in contracts or other matters**

There were no declarations of interest.

23/18 **Minutes of the Audit Committee held on 26 March 2018**

**Resolved** that the minutes of the meeting held on the 26 March 2018 be approved as a correct record.

24/18 **Governance Statement**

The Committee received the Governance Statement for 2017/18.

It is a requirement for every Local Authority to produce a Governance Statement with its Statement of Accounts.

It was noted that the Governance Statement was 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 Governance Statement 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.

The Governance Statement covered the following areas:

- Scope of Responsibility

Item 3

- Purpose of the Governance Framework

- The Governance Framework, including specific reference to audit arrangements, corporate risk management arrangements and performance management

- Review of Effectiveness, including the Authority's political governance arrangements, the provision of internal audit, and the development of the Audit Plan

- Significant Governance Arrangements within the Authority, including the Authority's Corporate Strategy 'The Plan' and effectiveness of the Service Delivery Model, external audit work undertaken during 2017/18, and reference to the external environment that the Authority is operating in.

The Committee noted the Audit Work that had been undertaken during 2017/18 and issues had been identified in the reviews of Absence Management, Fire Stations – Management of Fuel and Partnerships issues highlighted in the Annual Internal Audit Report had been raised with relevant managers and actions had been taken to achieve improvements.

25/18 **Monitoring Policies on Raising Concerns at Work – Whistle Blowing Standing Order 2/20 and Regulation of Investigatory Powers Act 2000**

The Committee received and noted the report on Monitoring Policies on Raising Concerns at Work – Whistle Blowing Standing Order 2/20 and Regulation of Investigatory Powers Act 2000.

It was reported that there had been no allegations of whistle blowing reported through the Whistle Blowing Policy Standing Order 2/20,

It was reported that there had been no requests to enact the Regulation of Investigatory Powers Act 2000 in the last year up to 31 March 2018.

Standing Order 2/20 was currently under review and was due to be published by 2018. The Auditor had pointed out that the Order had references to previous Officers and it was confirmed that the information would be updated during the review.

It was noted that the European Union General Data Protection Regulations came into force from 25 May 2018 and any future fines would rise to 4% of turnover of income circa Euro 20m for serious breaches.

Approval was sought for the Annual Internal Audit Report 2017/18 which had been compiled by the internal auditors

The report detailed the work of the internal audit service undertaken in 2017/18, providing an opinion on the adequacy and effectiveness of the Authority's governance, risk management and internal control process. The contents of the report also provide one element of the evidence that is required to underpin the Authority's Governance Statement.

The report summarised the audit work undertaken during the year, including:

- the areas subject to review during the year (Auditable Area)
- the level of risk to the Authority assigned to each auditable area (high, medium or low)
- the number of recommendations made as a result of each audit review
- details of any work undertaken outside of the original plan

The report also provided a summary of the key control issues that arose during the year.

Customer satisfaction questionnaires were issued for all audits carried out. From the responses returned, the average scores were 4.5, which compared favourably with the target score of four (equalling good), representing a positive opinion.

The report provided a summary of the work completed to inform the 2017/18 Internal Audit Opinion:

13 areas were audited, one Area, Absence Management, had a limited level of assurance and had been reported to the previous Audit Committee. This was the result of a system issue and had been addressed. The vast majority of audits had received a substantial level of assurance.

Based on the work undertaken during the year and the implementation of the recommendations made, Internal Auditor provided "reasonable assurance" that the Fire Authority had strong risk management and controls and provided an unqualified opinion and the highest level of assurance available to them. The overall opinion could be used by the Authority in its preparation of the Governance Statement.

In answer to a question from the Independent Member, the DCFO confirmed that all staff were aware of the GDPR regulations and its impact. A number of policies had been combined into one Standing Order 01/05 Management of Information and information had been provided on protective marking. Investment had been provided to introduce software for automatic protective marking and awareness sessions had been undertaken with staff.

The Manager responsible for the project worked in the ICT Department and was responsible for changing people's attitudes to protective marking. In future, all reports would have a Standing Item of Information Impact Assessments.

**Resolved** that the Annual Internal Audit Report 2017/18 be approved.

#### **27/18 Audit Committee Annual Report 2017-18**

Approval was sought for the Annual Internal Audit Report 2017/18 which had been compiled by the internal auditors.

Following approval the report is submitted to the Annual Meeting of the Authority. The report provided an overview of the business of the Committee during 2017/18, meetings held, Committee Members and attendance record and the business undertaken. Information flows through to the Committee, following a lot of work being undertaken and no issues of real concern had been identified. Adequate systems were in place to identify risks.

Going forward to the reformed Fire Authority, the number of members of the Audit Committee would be reduced to 5 from 6 members and the Committee would be retitled Audit and Risk Committee to better reflect the work of the Committee.

Resolved that the Annual Report of the Audit Committee be approved and submitted to the Annual Meeting of the Authority.

#### **28/18 Pensions Board Amended Terms of Reference 2018-19**

The People Support Services Manager stated that the Pensions Board had been in place for three years and it was felt prudent to look at the Terms of Reference particularly, in light of the outcome of the Scheme Advisory Committee Survey.

The Terms of Reference had been reviewed and it is proposed that the number of meetings should be increased from two to four per year. The reason for this proposal was that if a meeting was missed or cancelled the momentum of the Board would not be lost.

The Board had an Independent Chair and it was proposed that the number of Employee and Representatives should be increased from two to three. One of the Employee Representatives should be a retired pension member as their interests are different.

In answer to a Member's enquiry, it was confirmed that an election process was held for Employee Representatives. Nominations would again be requested for the positions and a vote would take place.

The DCFO confirmed that the Legislation sets out how Members should be appointed and also the training that should be provided to Members of the Pension Board.

**Resolved** that the Amended Terms of Reference of the West Midlands Fire and Rescue Authority Pensions Board be agreed.

**29/18 Audit Committee Work Programme 2017/18**

The Committee noted the Work Programme for 2017/18.

**30/18 Update on Corporate Risk**

The Committee received a verbal update from the Deputy Chief Fire Officer on the impact of the Trade Dispute on the Corporate Risk Register.

The DCFO stated that arrangements were in place if Industrial action took place, and confirmed that this was a statutory duty. A number of official sites, mainly Territorial Army centres had been arranged and training of staff on fire control systems was taking place. Resilience arrangements were in place for provide a service to community. Members would be informed of developments, but key areas of the Risk Assurance Map had been altered to reflect this.

In answer to the Independent Member's query it was confirmed that both the ability to carry out its function and industrial relations risks, Corporate Risks 2.1, 6.1 and 9.1 had been increased and the situation would become clearer following an Emergency Meeting of the Executive Committee scheduled to take place on Wednesday 6 June 2018.

**31/18 Audit Committee Update from External Auditors**

The Committee received a verbal update from Grant Thornton. The audit of accounts had commenced and nothing unusual had been found and the Auditor expected a clean set of accounts. The audit was currently in week 3 and would be finalised on site during the following week. A draft audit findings report would then be produced.

The Auditor stated that West Midlands Fire Service were the best set of accounts that they audited. Item 3

In answer to a question from the Independent member on the basis for materiality, the External Auditor confirmed that they used 2% of expenditure, just under £2.5m. The Fire Service were considered low risk as errors were rarely found and there were less complex accounting arrangements such as Private Finance Initiatives.

The Chair thanked Kal Shoker and the Financial Management Team, for the information and assistance provided to the Auditors.

**33/18 Update on Topical, Legal and Regulatory Issues (Verbal Report)**

There were no new issues to report.

**33/18 Private Meeting with External Auditors**

The Members of the Audit Committee met in private with the External Auditors.

**34/18 Workshop for Members on Statement of Accounts 2017/18**

The Members of the Audit Committee attended a Workshop on the Statement of Accounts.2017/18.

The meeting finished at 1309 hours.

Julie Connor Strategic Hub 0121 380 6906 Julie.Connor@wmfs.net
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**WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

**AUDIT & RISK COMMITTEE**

**23 JULY 2018**

1. **AUDIT FINDINGS 2017/2018**

Report of the Treasurer.

RECOMMENDED

THAT the content of the Audit Findings Report (AFR) be noted.

2. **PURPOSE OF REPORT**

This report is submitted to advise the Audit & Risk Committee that Grant Thornton has produced the AFR. The AFR is submitted to inform Member of the audit work undertaken by the external auditors and the findings as a consequence of this work.

3. **BACKGROUND**

3.1 The AFR sets out and reports the key messages arising from the external audit work undertaken during the year. The AFR is designed to support the Auditor's opinions and conclusions and is a requirement of the Code of Audit Practice.

3.2 Representatives from Grant Thornton will present and explain the findings detailed in the AFR to the Authority.

3.3 The AFR is attached as Appendix A.

4. **EQUALITY IMPACT ASSESSMENT**

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

5. **LEGAL IMPLICATIONS**

Item 4

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**

The scale of fees for undertaking West Midlands Fire and Rescue Authority's external audit work for 2017/2018 is £38,636.

**BACKGROUND PAPERS**

Statement of Accounts 2017/2018 located in the Financial Management Section.

The contact officer for this report is Deputy Chief Fire Officer Phil Hales, telephone number 0121 380 6907.

MIKE GRIFFITHS  
TREASURER

# Audit Findings

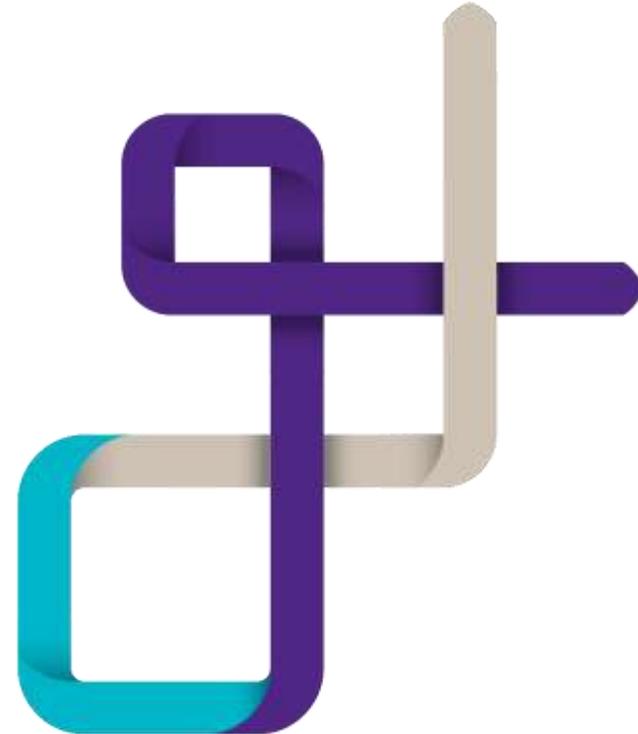
*Year ending 31 March 2018*

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West Midlands Fire and Rescue Authority  
July 2018

**DRAFT**

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY



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## Your key Grant Thornton team members are:

Richard Percival  
Engagement Lead

T: 0121 232 5434

E: richard.d.percival@uk.gt.com

Emily Mayne  
Senior Manager

T: 0121 232 5309

E: emily.j.mayne@uk.gt.com

Steph Quartermaine  
Executive

T: 0121 232 5238

E: steph.quartermaine@uk.gt.com

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

## Introduction

This table summarises the key issues arising from the statutory audit of West Midlands Fire & Rescue Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2018 for those charged with governance.

<b>Financial Statements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> <li>the Authority's financial statements give a true and fair view of the financial position of the Authority and its income and expenditure for the year, and have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting;</li> <li>other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), are consistent with the financial statements</li> </ul>	<p>Our audit work was completed on site during May and June. We have not identified any adjustments affecting the Authority's reported financial position. We did identify a small number of disclosure errors and requested some adjustments to improve the presentation of the financial statements. These changes were agreed and have been made in the final version of the accounts. Those of note are detailed in Appendix A.</p> <p>We anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 23 July 2018, as detailed in the committee agenda. Our audit is substantially complete although we are finalising our procedures in the following areas.</p> <p>These outstanding items include:</p> <ul style="list-style-type: none"> <li>receipt of management representation letter;</li> <li>updating our post balance sheet events review to the date of signing the opinion; and</li> <li>review of the final set of financial statements,</li> </ul> <p>We have concluded that the other information published with the financial statements, which includes the Annual Governance Statement and Narrative Report are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> <li>the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')</li> </ul>	<p>We have completed our risk based review of the Authority's value for money arrangements. We have concluded that West Midlands Fire &amp; Rescue Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C. Our findings are summarised from page 9.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>certify the closure of the audit</li> </ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

# Financial Statements Summary

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Authority's business and is risk based, and in particular included:

- An evaluation of the Authority's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

## Conclusion

We have substantially completed our audit of your financial statements and subject to any outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 23 July 2018, as detailed in the committee agenda. These outstanding items include:

- receipt of management representation letter;
- updating our post balance sheet events review to the date of signing the opinion; and
- review of the final set of financial statements,

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for West Midlands Fire & Rescue Authority.

	Authority Amount (£)	Qualitative factors considered
Materiality for the financial statements	£2,489,000	Financial performance of the Authority focusing on expenditure.
Performance materiality	£1,867,000	Previous quality of the working papers and response to audit processes. Quality of financial systems and internal controls.
Trivial matters	£124,000	The amount below which matters would be considered trivial to the reader of the accounts.
Materiality for specific transactions, balances or disclosures	£100,000	Materiality has been reduced for remuneration disclosures to £100k due to its sensitive nature and public interest.

# Significant audit risks

Risks identified in our Audit Plan	Commentary
<p><b>1. Improper revenue recognition</b></p> <p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p><b>Auditor commentary</b></p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition,</li> <li>• opportunities to manipulate revenue recognition are very limited, and</li> <li>• the culture and ethical frameworks of local authorities, including West Midlands Fire &amp; Rescue Authority, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore we do not consider this to be a significant risk for West Midlands Fire &amp; Rescue Authority.</p>
<p><b>2. Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• reviewed entity controls,</li> <li>• reviewed journal entry processes and selected unusual journal entries for testing back to supporting documentation,</li> <li>• reviewed accounting estimates, judgements and decisions made by management,</li> <li>• reviewed unusual significant transactions, and</li> <li>• reviewed significant related party transactions outside the normal course of business.</li> </ul> <p>Our audit work has not identified any issues in respect of management override of controls. In particular, the findings of our review of journal controls and testing has not identified any significant issues.</p>
<p><b>3. Valuation of pension fund net liability</b></p> <p>The Authority's LGPS pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>The Firefighters Pension schemes pension fund liability as reflected in the balance sheet and notes to the accounts represent significant estimates in the financial statements.</p> <p>These estimates by their nature are subject to significant estimation uncertainty, being sensitive to small adjustments in the assumptions made.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement,</li> <li>• reviewed the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation,</li> <li>• gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made, and</li> <li>• reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul> <p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liabilities.</p>

## Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
<p><b>4. Employee remuneration</b></p> <p>Payroll expenditure represents a significant percentage (58%) of the Authority's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.</p>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle,</li> <li>• undertaken a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding,</li> <li>• review the reconciliation of the payroll system to the general ledger and to the financial statements to agree completeness of costs, and</li> <li>• performed a trend analysis and detailed substantive testing of pay costs to ensure employee remuneration costs were accurate and complete.</li> </ul> <p>Our audit work has not identified any issues in respect of employee remuneration.</p>
<p><b>5. Operating expenses</b></p> <p>Non-pay expenses on other goods and services also represents a significant percentage of the Authority's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non-pay expenses as a risk requiring particular audit attention.</p>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• evaluated the Authority's accounting policy for recognition of non-pay expenditure for appropriateness,</li> <li>• gained an understanding of the Authority's system for accounting for non-pay expenditure and evaluate the design of the associated controls, and</li> <li>• performed expenditure cut-off testing by agreeing to source documentation to ensure that expenditure is recorded in the correct financial year.</li> </ul> <p>Our audit work has not identified any issues in respect of operating expenses.</p>
<p><b>6. Firefighters pension scheme</b></p> <p>The Authority administers the firefighters pension schemes, with the Firefighters Pension Fund Account being included in the financial statements.</p> <p>We identified completeness and accuracy of pension benefits payable as a risk requiring particular audit attention.</p>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• gained an understanding of the Authority's systems for calculating, accounting for and monitoring pension benefit payments and evaluated the design of the associated controls, and</li> <li>• performed detailed testing on new firefighters pension benefit payments.</li> </ul> <p>Our audit work has not identified any issues in respect of firefighter pension benefits payable.</p>

## Accounting policies

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Authority's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Activity is accounted for in the year that it takes place, not simply when cash payments are made or received.</li> <li>Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.</li> <li>Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.</li> <li>Government grants and contributions are recognised in the CIES when conditions attached to the grant or contribution have been satisfied. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as receipts in advance.</li> <li>The precept included in the CIES is the Authority's share of accrued income for the year.</li> </ul>	<p>The majority of the Authority's income is from government grants and contributions therefore the revenue recognition policies included within the accounts are appropriate for the Authority's activities.</p> <p>The policies are also consistent with the CIPFA code.</p>	 Green
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include:             <ul style="list-style-type: none"> <li>Useful life of PPE</li> <li>Revaluations</li> <li>Impairments</li> <li>Accruals</li> <li>Valuation of pension fund net liability</li> <li>Provisions</li> </ul> </li> </ul>	<p>We have reviewed the Authority's accounting policies in relation to judgements and estimates made in the financial statements against the requirements of the CIPFA code. The policies are consistent with the requirements.</p>	 Green
<b>Other critical policies</b>	<ul style="list-style-type: none"> <li>Accounting policies are detailed in note 1 to the financial statements. There are 19 policies covering the material disclosures in the accounts.</li> </ul>	<p>We have reviewed the Authority's policies against the requirements of the CIPFA Code of Practice. The Authority's accounting policies are appropriate and consistent with previous years.</p>	 Green

### Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

## Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Authority.</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send a bank confirmation request. This permission was granted and the requests were sent. These requests were returned with positive confirmation.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
⑦ <b>Significant difficulties</b>	<ul style="list-style-type: none"> <li>There were no significant difficulties encountered whilst undertaking our audit work.</li> </ul>
⑧ <b>Matters on which we report by exception</b>	<p>We have not identified any issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Authority acquired in the course of performing our audit, or otherwise misleading.</li> </ul>
⑨ <b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> <li>Work is not required as the Authority does not exceed the threshold.</li> </ul>

# Value for Money

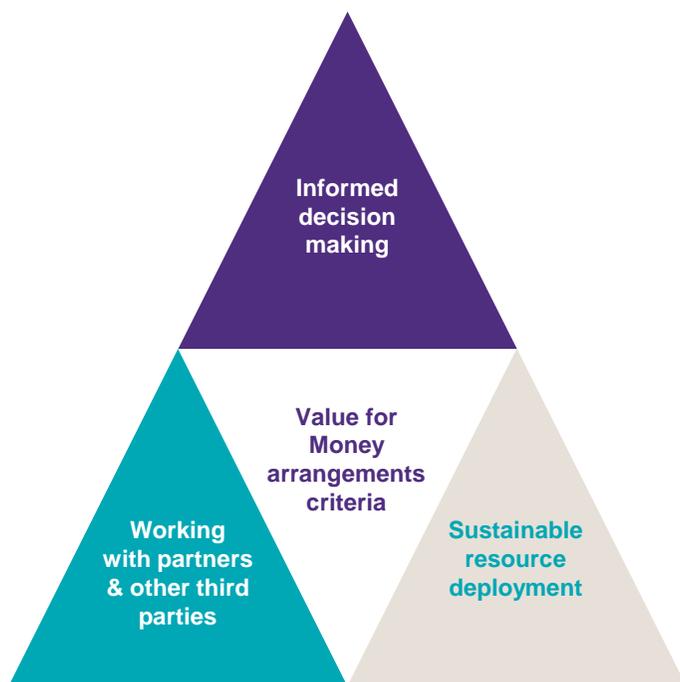
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

*“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in February 2018 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. This risk is in relation to the development of governance arrangements with the West Midlands Combined Authority (WMCA). We communicated this risk to you in our Audit Plan dated March 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Whilst we have not identified any further significant risks for 2017/18. We do however recognise that the Authority is operating within a dynamic environment as part of the West Midlands.

# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Authority's arrangements. In arriving at our conclusion, our main considerations were:

- the Authority's progress towards preparing governance arrangements to join the WMCA.
- the financial strategy and assumptions relating to the Authority once it has joined the WMCA, including income streams and use of reserves.

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work on pages 11 and 12.

## Background

The governance model being implemented in the West Midlands is similar to the model used in Greater Manchester. The West Midlands Combined Authority (WMCA) will be responsible for the fire service, including all employment responsibilities, all properties, and all rights and liabilities. The Mayor will have the power to 'exercise' these fire and rescue functions and the ability to delegate decision making and operation of functions, as appropriate. It is anticipated that the Mayor will delegate these functions to the CFO.

Scrutiny will be provided by a Mayoral Fire Advisory Committee, with membership from each constituent authority. This Committee will report back to the WMCA Board on the impact of the decisions made by the Mayor.

The intended benefits are to:

- Improve the accountability of the Fire and Rescue Service through an elected Mayor.
- Allow Fire and Rescue to work more effectively with other West Midlands bodies to improve services for local people.
- Save public money by sharing corporate services such as human resources, finance and IT.

This arrangement is still subject to Home Office approval. The target date for implementation is 1 April 2019.

Since April 2018 the Authority has been seeking to settle its dispute with the Fire Brigades Union. As part of its response the Authority's Executive Committee has decided that the 'Plan', (the Authority's service and financial strategy for the three years 2018 to 2021), should be revised. In particular the revised employment contract has been withdrawn, resulting in the Authority no longer being able to provide "Wider Health Related" services as planned. This impacts on the delivery of the Financial Efficiency Plan (FEP), reducing projected income generation by £2.0 million.

The Authority has a significant funding issue to respond to. It is likely in the short term that there will be a call on working balances to balance the 2018/19 financial position. Over the medium term the FEP will need a significant re-assessment to ensure a deliverable sustainable financial plan is in place.

It is clearly important that the Fire Authority can demonstrate to the WMCA Board that it has a realistic financial strategy in place to deliver a financially sustainable service as part of the new governance framework.

## Overall conclusion

We have gained sufficient assurance that there are no significant VFM risks relating to the proposed WMCA governance arrangements which adversely impact on our VFM conclusion for 2017/18.

Based on the work we performed to address the significant risk, we have concluded that the Authority had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix C. We have discussed our findings from our work with management.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	<b>Governance</b>	<u>Delivering efficiencies</u>	<b>Auditor view</b>
	Development and implementation of combined governance arrangements for WMFRA and WMCA.	<p>The Authority considers that being part of the Mayoral WMCA will create further opportunities to progress transformation and create greater efficiencies enabled through a single structure with potential for efficiencies across all the governance models which were appraised considering opportunities such as (but not restricted to) emergency planning, shared estates, data sharing.</p> <p>Progressing transformation and delivering greater efficiencies is challenging. The outcome of the recent Fire Brigades Union (FBU) ballot illustrates this. The delivery of the Authority's workforce reform programme included the introduction of revised employment contracts for new firefighters. These are designed to enable sustainable service delivery including wider health activities. Over 100 firefighters have been recruited on this revised contract.</p> <p>The FBU dispute has focused on this new contract, with 74% of FBU members voting to take industrial action over this issue. In June 2018 the Authority's Executive Committee (comprising of Members from constituent authorities) decided to withdraw the new entrant contract. This requires the Authority to reconsider service changes, workforce planning and options to close the funding gap to ensure it delivers its service and financial priorities.</p> <p>The "wider health related" services are a key element of the Authority's wider integration strategy, increasing its role in delivering outcomes in conjunction with other public sector services, including Police, Health bodies and Local Government bodies. The FEP includes £2.0 million of income generated by wider health related services. This is an integral part of the financial strategy and the new entrant contract was a key part of the delivery of this. If the Authority is no longer able to provide the service as planned the ability to expand and grow this strand of the business model will be curtailed.</p>	<p><u>Delivering efficiencies</u></p> <p>It is vital that the fire service remains open and flexible to opportunities for delivering service requirements with limited resources. Partnership working will be key to this which has been recognised by the Senior Leaders of both the Fire Service and the Authority.</p> <p>The Authority needs to demonstrate how financial sustainability is deliverable with the withdrawal of the new entrant contract.</p> <p>It is likely that a use of working balances will be required to support 2018/19 budget delivery. However, the continued use of balances is not sustainable. In our view significant funding alternatives or service reductions should be identified by the Authority before the transfer to WMCA.</p> <p>Without the expansion of wider health related services there will be significant limitations on the level of integration possible with the WMCA constituent Local Authorities, Health partners and West Midlands Police.</p> <p>The Authority needs to re-assess its wider integration strategy.</p>

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	<b>Governance</b>	<p data-bbox="354 322 526 351"><u>Pace of change</u></p> <p data-bbox="354 365 1535 501">WMCA is a key driver of public service reform in the region. In 2016/17 WMFRA signalled its intention to become part of WMCA's overall governance structure. The Policing and Crime Act 2017 was prime legislation for facilitating closer collaboration between the police and fire and rescue services. However, the West Midlands PCC has not exercised this power to take on responsibility for Fire services. This enabled the Authority and WMCA to pursue and progress joint future structural and governance arrangements.</p> <p data-bbox="354 522 1535 601">There is continuous reporting through WMCA Board. This ensures that members are aware of progress and engages Leaders from the seven constituent West Midlands Local Authorities to enable informed decision making on this key structural issue.</p> <p data-bbox="354 622 1535 701">WMFRA is managing the 'Future Governance Project' which is in the initial phases of setting up a 'governance implementation project'. To date key milestones have been achieved, but full implementation is dependent on approval of the Parliamentary Order in December 2018. There is a risk that this may be delayed.</p> <p data-bbox="354 722 733 751"><u>Revised governance arrangements</u></p> <p data-bbox="354 772 1307 801">The proposed model submitted to the Home Office for approval in May 2018 sets out that:</p> <ul data-bbox="354 801 1535 936" style="list-style-type: none"> <li data-bbox="354 801 1535 879">• WMCA will be the employer of WMFS staff and will own all properties, rights and liabilities, having the appropriate structures in place to support the requirements of employer status, as well as any liabilities that result from this.</li> <li data-bbox="354 879 1535 936">• The Mayor (only) will have the power to 'exercise' fire and rescue functions and the ability to delegate decision making and operation of functions, as appropriate.</li> </ul> <p data-bbox="354 958 1535 1065"><b>Accountability</b> – the Mayor will delegate functions to the Chief Fire Officer (CFO) enabling the CFO to be directly accountable for managing staff, employee relations, workforce development, resources and assets to support the delivery of day to day functions, as well as the development of future delivery of services aligned to the strategy agreed with the Mayor.</p> <p data-bbox="354 1086 1535 1165"><b>Scrutiny</b> – development of a proposed Mayoral Fire Advisory Committee, reflecting the membership of each constituent authority. It is proposed that the WMCA Board delegates the role of reviewing decisions made by the Mayor to the committee and receives reports back on these matters.</p> <p data-bbox="354 1186 1535 1353">This proposed model seeks to create an efficient and effective decision making structure, which will support the Mayor in focusing on strategy and setting direction for the fire service. A governance review was undertaken with a scheme setting out the roles, accountabilities and powers required by each individual and body in the proposed new governance model. This was followed by consultation with constituent councils and a public consultation. This sets out the importance of a clear split between the advisory/review responsibilities of the Mayoral Fire Advisory Committee and the statutory scrutiny responsibilities of Overview &amp; Scrutiny Committee.</p>	<p data-bbox="1551 322 1701 351"><b>Auditor view</b></p> <p data-bbox="1551 365 1721 394"><u>Pace of change</u></p> <p data-bbox="1551 401 1989 565">There is continuous reporting through WMCA Board to engage Leaders from the seven constituent West Midlands Local Authorities to enable informed decision making on this key structural issue.</p> <p data-bbox="1551 579 1989 658">There is a risk that full implementation may be delayed by the Parliamentary timetable.</p> <p data-bbox="1551 679 1929 708"><u>Revised governance arrangements</u></p> <p data-bbox="1551 722 1989 886">The Governance arrangements should provide a clear split between the roles of holding to account and scrutinising. The proposed sets this out in the roles of the Mayoral Fire Advisory Committee and Overview &amp; Scrutiny Committee.</p>

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	<b>Governance</b>	<u>Managing risk</u>	<b>Auditor view</b>
	Development and implementation of combined governance arrangements for WMFRA and WMCA.	<p>In response to this changing agenda (both politically and structurally), the Authority has continued to report progress against its strategic risks which includes Public Service Reform. There is an acceptance that to meet the complex and diversifying needs of the public, more cross sector working is required.</p> <p>The Corporate Risk Assurance Map reported to the Audit Committee focuses on key strategic risks for the Authority. Whilst this broadly touches on the governance reform, the project of driving structural and governance change has a separate risk register. This is reported to the Authority's internal programme board and/or the Executive team, depending on the level of risk and its status. General monitoring takes place via project meetings.</p> <p>Our review has identified additional risks for which there is currently no resolution. These are known to the Authority and will be addressed as part of the 'getting into the detail' once the overarching governance structure is approved. In summary, they relate to financial, people, governance and wider public sector risks.</p> <p>Financial risks – these include the financial impact of the decision to withdraw the new entrant contract, revenue funding and precepting, funding of pension liabilities, budget setting responsibilities and the discharge of the Chief Finance Officer role under section 151 of the Local Government Act 1972, management of assets and the impact of harmonising accounting policies.</p> <p>People risks – these include staff management and liaising with trade unions.</p> <p>Governance risks – includes managing tensions between fire service objectives and the broader Combined Authority priorities where these are not consistent.</p> <p>Wider public sector risks – including the impact of the likely curtailment of wider health related services on further integration with public sector partners, and opportunities to extend and develop partnerships with other emergency service organisations including Warwickshire Fire and Rescue Service and West Midlands Ambulance Service.</p>	<p><u>Managing risk</u></p> <p>Risks are being managed at an Authority level and at a project level but the detail of how arrangements will be delivered is not yet being worked through due to the uncertainty of the over-arching governance arrangements. This will be addressed as part of the next phase of the project, but should not be over-looked as there are significant issues which remain unresolved.</p> <p>The CFO should continue to ensure that risks are appropriately managed and reported on to those with oversight of the arrangements.</p>

# Independence and ethics

## **Independence and ethics**

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

## **Audit and Non-audit services**

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No non-audit services were identified.

# Audit Adjustments

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Detail	Auditor recommendations	Adjusted?
Disclosure	<ul style="list-style-type: none"> <li>Note 15.4.4 – Fair value hierarchy for financial assets and financial liabilities</li> </ul>	<p>The following amendments were made to page 57:</p> <ul style="list-style-type: none"> <li>Total liabilities were amended from £4,955k to £69,779k.</li> <li>Total assets were amended from £6,741k to £58,120k.</li> </ul> <p>The correction to the totals within the disclosure note did not require any changes to the core financial statements</p>	✓
Disclosure	<ul style="list-style-type: none"> <li>Note 5 – Material Items of Income and Expenditure</li> </ul>	<p>Note 5 was updated to include commentary that the Authority took the option of making a 3 year lump sum pension payment to West Midlands Pension Fund.</p> <p>This provided savings above that which could have been obtained by investing the surplus funds. The decision to invest was agreed with us as auditors prior to any transaction being made. A number of members of the West Midlands Pension Fund took this option.</p>	✓
Disclosure	<ul style="list-style-type: none"> <li>Note 6 – Events after the reporting period</li> </ul>	<p>Note 6 was updated to include commentary on the recently balloted industrial dispute.</p> <p>Since the financial year end, the Fire Brigade Union has balloted its members to determine whether industrial action would be taken. Following a ballot which voted in favour of industrial action by members, discussions between Senior Management and the Union are on-going.</p>	✓
Disclosure	<ul style="list-style-type: none"> <li>Various</li> </ul>	<p>A small number of other presentational and disclosure amendments have been made.</p>	✓

## Fees

We confirm below our final fees charged for the audit.

### Audit Fees

	Proposed fee	Final fee
Authority Audit	£38,636	£38,636
<b>Total audit fees (excluding VAT)</b>	<b>£38,636</b>	<b>£38,636</b>

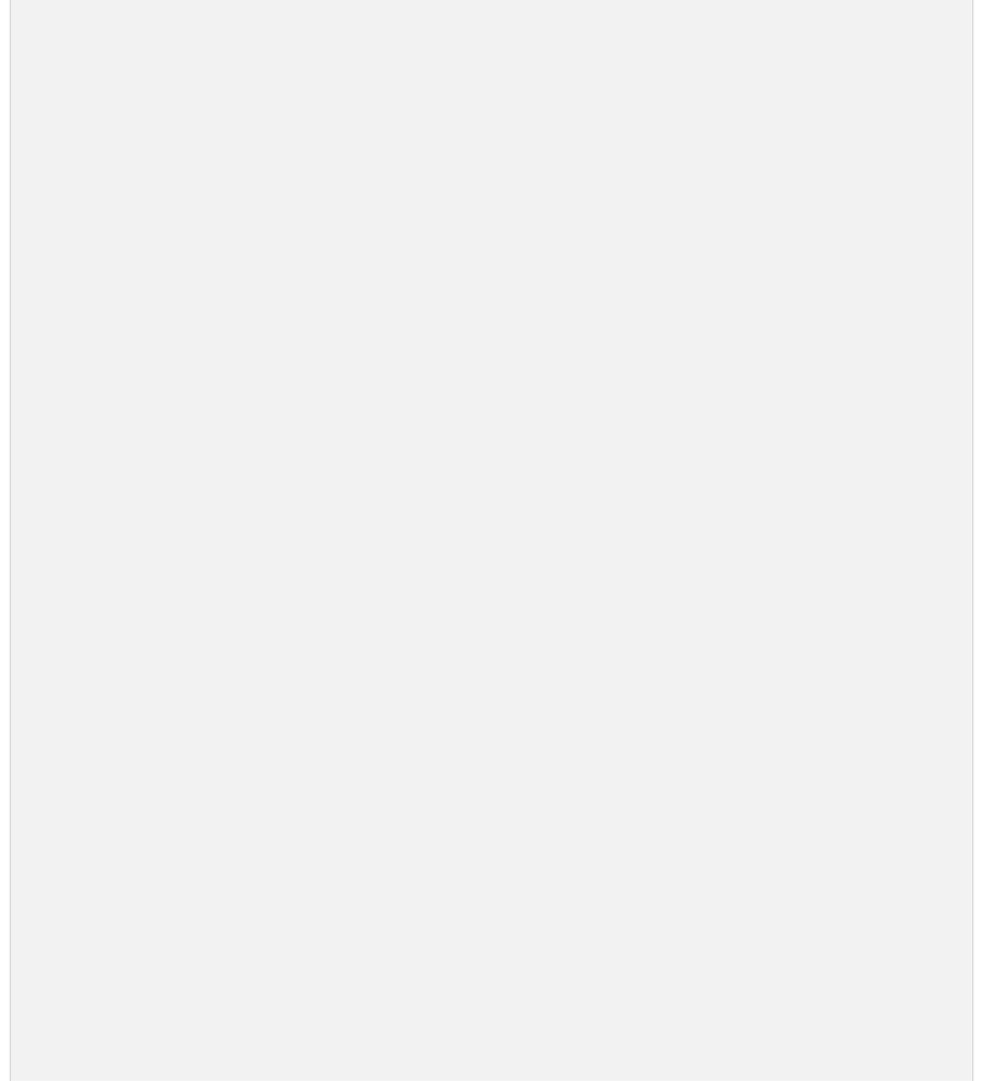
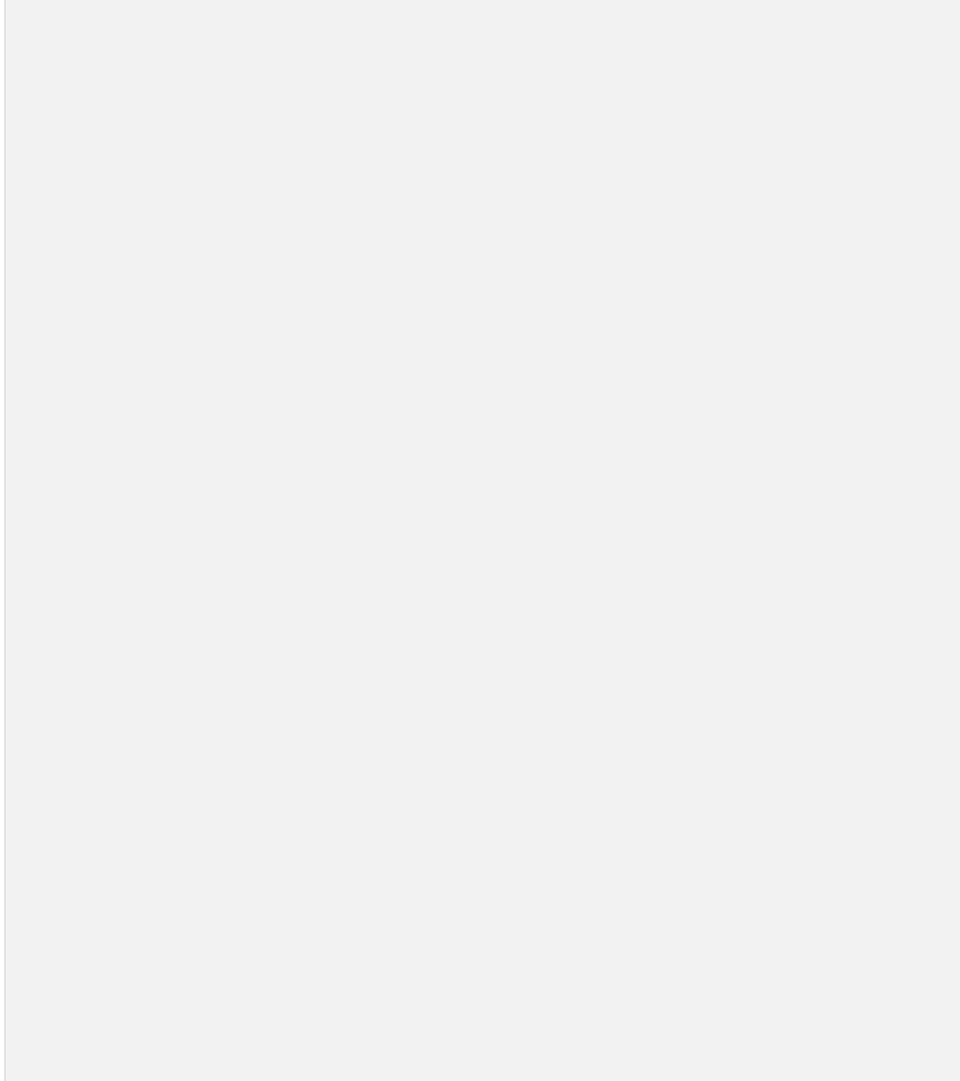
The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

No non-audit or audit related services were undertaken for the Authority.

# Audit opinion

We anticipate we will provide the Authority with an unmodified audit report

INSERT FULL TEXT OF THE PROPOSED OPINION BASED ON THE TEMPLATE OPINIONS





Item 4

**WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

**AUDIT & RISK COMMITTEE**

**23 JULY 2018**

1. **STATEMENT OF ACCOUNTS 2017/2018**

Report of the Treasurer.

RECOMMENDED

1.1 THAT the Statement of Accounts for 2017/2018 as set out in Appendix A be approved.

1.2 THAT the Statement of Accounts summary for 2017/2018 set out in Appendix B be noted.

2. **PURPOSE OF REPORT**

This report is submitted for Members of the Audit & Risk Committee to approve the Authority's Statement of Accounts for the financial year ended 31 March 2018.

3. **BACKGROUND**

3.1 The Accounts and Audit Regulations 2015 require that the accounts be submitted to Members for approval by the end of July.

3.2 It is a further requirement of the Regulations that Members are informed of any material changes required by the external auditors. Audit work on the Statement of Accounts has been substantially completed.

3.3 The Accounts show net cost of services in 2017/2018 of £118.445 million which includes the use of £5.596 million General Fund Balances. Earmarked Reserves have decreased by £4.750 million to £38.984 million and General Reserves have decreased by £0.846 million to £8.390 million.

- 3.4 The total Provision of Services in 2017/2018 shows a deficit of £67.439 million, after allowing for the required accounting treatment of pensions governed by International Accounting Standard – Nineteen (IAS19). Capital expenditure totalled £4.527 million.
- 3.5 A Statement of Accounts is attached as Appendix A and a Summary of Accounts is attached as Appendix B, both are also available on the Fire Service Internet and can be viewed at <https://www.wmfs.net/your-fire-service/openness/documents>.
- 3.6 A hard copy of the full Statement of Accounts can be supplied to individual Members on request and will be available to view at the Audit & Risk Committee meeting.

#### 4. **EQUALITY IMPACT ASSESSMENT**

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

#### 5. **LEGAL IMPLICATIONS**

The course of action recommended in this report will enable the Authority to meet its statutory obligations under the Accounts and Audit Regulations 2015.

#### 6. **FINANCIAL IMPLICATIONS**

These are contained in the report and the Statement of Accounts.

### **BACKGROUND PAPERS**

Accounts and Audit Regulations 2015  
Code of Practice on Local Authority Accounting 2017/2018  
Final Accounts Files – Finance Office

The contact officer for this report is Deputy Chief Fire Officer Phil Hales, telephone number 0121 380 6907.

MIKE GRIFFITHS  
TREASURER

Ref. AU/AC/2018/Jul/92006183

**WEST MIDLANDS FIRE SERVICE**

# **WEST MIDLANDS FIRE & RESCUE AUTHORITY**



## **Financial Statements & Notes to the Accounts**

# **2017/2018**

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**Independent Auditor's Report to the Members of the  
West Midlands Fire and Rescue Authority**

Item 5

Item 5

Item 5

# NARRATIVE REPORT BY THE TREASURER

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## 1. Introduction

Item 5

The West Midlands Fire Service (WMFS) covers an area approaching 92,000 hectares (350 sq. miles) and provides a fire and rescue service to a population of approximately 3 million people living in a million dwellings. It covers the cities of Birmingham, Coventry and Wolverhampton and the Metropolitan Boroughs of Dudley, Sandwell, Solihull and Walsall.

WMFS is accountable to the public via the West Midlands Fire and Rescue Authority, made up of 27 Elected Members of the seven Councils in the West Midlands. Headed by the Chair of the Fire Authority they set the direction for the Service in the best interests of the community. The Service is managed directly by three Brigade Managers – the Chief Fire Officer (CFO), Deputy Chief Fire Officer and Assistant Chief Fire Officer.

The Service's activities are governed by the Home Office and legislative responsibilities are set out in the Fire and Rescue Services Act 2004 and the Fire and Rescue National Framework for England.

WMFS works towards 'Making the West Midlands Safer, Stronger and Healthier'. The Chief Fire Officer together with the Strategic Enabling Team (SET) and Authority work towards achieving three priorities:

### Prevention: Safer and Healthier Communities

- The number of people killed or seriously injured by fire-related incidents will reduce as we focus, with our partners, on the risks faced by the most vulnerable people in our communities.
- Arson related incidents will fall, supporting safer and stronger communities, as a result of our partnership working.
- Fewer people will be killed or seriously injured on West Midlands roads, as we work with the West Midlands Combined Authority and other organisations to develop and deliver interventions that support the West Midlands Regional Road Safety Strategy.
- The safety, health and well-being of the most vulnerable people in our communities will improve through our interventions delivered to tackle the effects of an increasing demand in health and social care services.

### Protection: Stronger Businesses and Safer Communities

- We will ensure high risk buildings including residential high rise, are assessed to ensure public safety and provide reassurance from the risks of fire.
- We will ensure Businesses become safer from fire through interaction with our people delivering integrated Prevention, Protection and Response services.
- We will enhance economic growth by providing clear advice and flexible support in collaboration with other regulators and partner agencies.

6

- We will utilise an evidence based approach to risk reduction to enable effective engagement with the most vulnerable businesses and members of the community.
- Item 5
- We will reduce the impact of Automatic Fire Alarms, to minimise unnecessary disruption and costs to businesses, other organisations and our communities.

#### Response: Dealing Excellently with Emergency Incidents

- The most serious emergency incidents will be attended, on average, within 5 minutes to save life, protect homes and businesses and keep our transport networks moving.
- Our commitment to Operational Excellence will reduce risk to life and property and enable an assertive, effective and safe emergency response to all incidents whilst supporting firefighter safety.
- At all incidents, we attend we will lead and co-ordinate rescue operations whilst working collaboratively with other agencies to deliver an excellent response and meet public safety and expectations.
- We will enhance resilience & deliver a local, national and international response to major incidents, emerging threats, and humanitarian situations through our specialist response teams.

We deliver our priorities with effective delivery through collaboration outcomes:

#### Value for Money

- Government funding reductions will be met and our Service Delivery Model, which focuses on public safety and vulnerability, will be maintained.
- Assets will be used effectively and efficiently in support of delivering Service priorities.
- Alternative funding and efficiency opportunities will be identified and delivered through collaborative activities and by exploring Commercial, Social Value and Sponsorship commissioned opportunities, to support the delivery of our strategy and public safety, through targeting the most vulnerable.

#### People

- Ensure an agile, flexible and accountable workforce to enable the sustained delivery of our strategy by individuals and teams through adaptability, authenticity and cohesion.
- An environment where benefits of physical, emotional and mental health and wellbeing are understood and valued equally to enable our staff to respond positively to opportunities for change.

- Diversity, Inclusion, Cohesion and Equality will be enabled for the most vulnerable people in our communities by addressing social and health inequalities.
- Item 5
- Have a workforce reflective of the communities we serve. Through an approach known as 'positive action' we will attract, recruit and support progression for individuals with protected characteristics.

#### Information & Communication Technology (ICT)

- Provide assurance and intelligence for evidence based decisions with accurate, useful and timely information provided to our communities and our mobile workforce.
- The secure and reliable sharing of data with our partners will enable the cost-effective and joined-up delivery of services to the most vulnerable people in our communities.
- Our Digital Strategy will enable us to improve user experience and enable assertive, effective and safe delivery of services through collaboration with individuals, teams and partners.

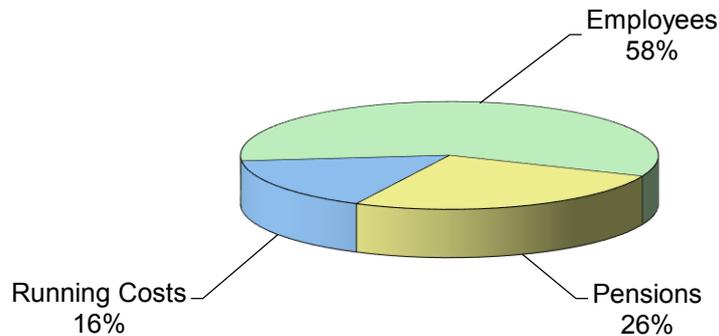
Further information can be found on our website [www.wmfs.net](http://www.wmfs.net)

2. This narrative report 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 Authority's accounts for the financial year 2017/2018 are set out on the following pages and consist of:
  - The Comprehensive Income and Expenditure Statement (CIES), the Authority's main revenue account, covering income and expenditure on all services.
  - The Movement in Reserves Statement (MIRS), which shows the movement in the year on the different reserves held by the Authority.
  - The Balance Sheet, which sets out the financial position of the Authority at 31<sup>st</sup> March 2018.
  - The Cash Flow Statement, showing movements in cash and cash equivalents during the year and the cash position at the year-end.
  - The Pension Fund Account, which summarises the movements relating to the firefighters' pension schemes.

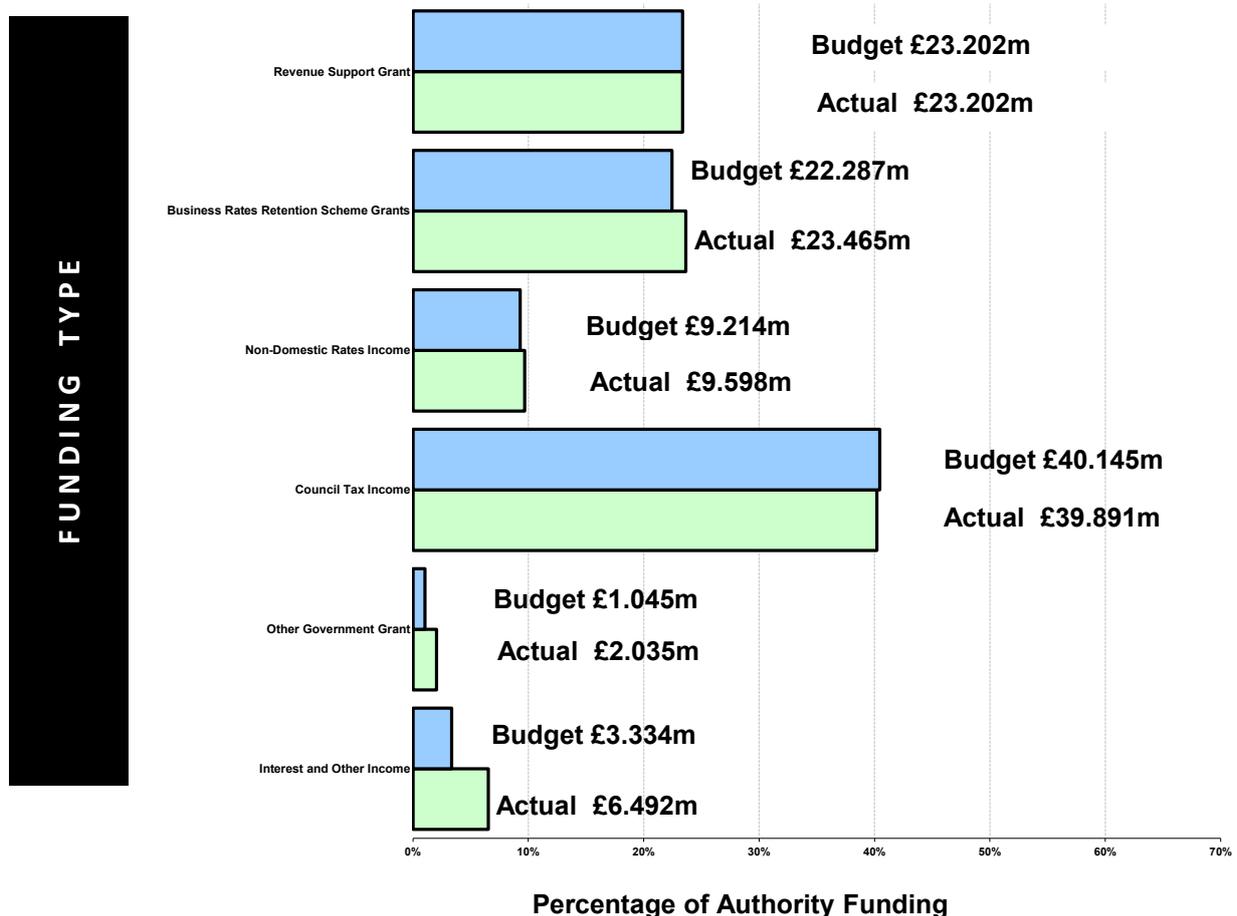
The accounts are supported by notes to the core financial statements.

4. The accounting policies adopted by the Authority comply with the relevant accounting standards except where indicated in notes to the accounts.

- The CIES shows a deficit on provision of services of £67.439m. After statutory adjustments, such as the removal of depreciation and impairments and applying International Accounting Standard Nineteen (IAS19) entries in relation to pension costs, the Authority shows an overall deficit of £10.367m.
- The total expenditure of the Authority in 2017/18 was £172.122m. The types of costs incurred were:



- The total income of the Authority to fund expenditure in 2017/18 was £104.683m, which came from:



- In 2017/18 the Authority spent £4.527m on capital projects, the largest of these being £2.089m on the redevelopment of Coventry Fire Station, £0.805m on vehicle replacements and £0.308m on the installation of energy saving windows & doors. The total expenditure on capital schemes was financed by a combination of Capital Grants and Direct Revenue Financing. Note 29 provides details of capital expenditure and capital financing.

9. In 2017/18 appropriations of £4.750m were made from earmarked general fund reserves and £0.846m from un-earmarked general fund reserves | Item 5
10. The Authority, at its February 2017 meeting authorised the limit for external debt at £42m and the statutory limit for external debt at £46m. As at 31<sup>st</sup> March 2018, the Authority's actual long-term principal borrowing was £36.002m and short-term principal borrowing was £1.361m as per Note 15.3.
11. The 2017/18 accounts include the impact of IAS19. The effects of IAS19 are shown within the CIES and Balance Sheet. There is no effect on council tax from the implementation of this standard. The figures disclosed represent a snapshot in time. The accounts show that there is a significant shortfall between the forecast cost of pensions and the current level of assets built up in the pension fund. The Government Actuaries Department (GAD) review the defined benefit arrangements and appropriate levels of employer & employee contributions.
12. During 2017/18 only extremely limited recruitment activity for some essential support staff has taken place. Recruitment of firefighters has taken place during the year due to the need to maintain staffing levels in line with the numbers required for the operational staffing level (1,220) to meet the Authority's SDM. Funding levels in future years mean that the situation will need to be closely monitored and reviewed.
13. **Financial Outlook**

As part of the settlement for 2016/17, an offer was made for a multi-year funding settlement. Any Authority wishing to take up the four year funding settlement to 2019/20 was required to set out their proposals in an Efficiency Plan to qualify for the four year settlement from April 2016. The settlement offer (provisional for 2018/19 and 2019/20) would result in a cumulative budget deficit of circa £10m if the Service did not make any efficiency savings. The Authority at its meeting on 19 September 2016 considered and approved the Efficiency Plan which was submitted to the Home Office.

The areas where savings are anticipated and reflected within the medium term financial strategy are:

- £4m – Staffing
- £2m – Alternative funding
- £1m – Internal restructures
- £1m – Service reductions
- £2m – Council tax base

Further details of the Efficiency Plan can be found at <http://94.236.33.181/cm15/>.

On 19 December 2017, the Ministry of Housing, Communities and Local Government (MHCLG) announced the provisional Finance Settlement for 2018/19 at £53.030m, resulting in a core funding reduction of £1.673m. The Government also proposed a council tax referendum threshold of 3% for Fire and Rescue Authorities. On 6 February 2018, MHCLG confirmed the Authority's 2018/19 total core funding.

The Authority set its 2018/19 budget on 19<sup>th</sup> February 2018, setting a council tax requirement of £41.305m which resulted in a council tax increase of (2.99%), £1.70 at Band D.

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The projected budget includes a number of efficiency measures which were set out in the Efficiency Plan as well as enabling any actions to be undertaken arising out of the Authority's Corporate Risk Register. The Corporate Risk Register has identified a number of major risks that would seriously affect the Authority's ability to carry out its functions. The very nature of the risks have made it extremely difficult to quantify any funding impact that would arise were the risk to materialise and in the short term would result in a demand on the Authority's General Fund Balance.

Due to the estimated scale of Government funding reductions in future years, increased budget pressures (particularly the impact of higher pay award assumptions) and the need to assist with transformational service changes, the further use of the General Fund Balance is anticipated in 2019/20 and 2020/21. Whilst the Government settlement figures up to 2019/20 have provided some greater funding certainty than previously, additional budget pressures, e.g. anticipated increases in firefighter pension employer rates, further anticipated Government funding reductions beyond this time period and a lack of any direct capital and transformation funding being available, means that the level of the Un-earmarked General Fund Reserves is estimated to be approximately £5 million by the end of 2020/21.

#### 14. **West Midlands Combined Authority**

In September 2015 the Government released a consultation entitled "Enabling Closer Working between the Emergency Services". This was followed by a move of government department for the Fire and Rescue Service on 5 January 2016 from the Department of Communities and Local Government to the Home Office. The outcomes to the consultation introduced the Policing and Crime Bill, which received Royal Assent in January 2017, and proposed a new duty to collaborate on each of the blue light emergency services.

A statement made by the Home Secretary in May 2016 clearly outlined a desire from central government to affect a change which would create an impetus for further reform of Fire and Rescue Authorities. The Government and Home Office are committed to implementing governance structures which provide more scrutiny, transparency and accountability of decision making.

In view of Home Office expectations around the reform of the Fire Service, and as the Government pushes forward local devolution and public sector reform, the West Midlands Fire & Rescue Authority (WMF&RA) has considered how it works with, responds to and influences these changes.

To support this a Future Governance Working Group was commissioned incorporating a number of stakeholders from the West Midlands and independently chaired. Its focus was to understand the current and future potential for the delivery of collaborative services which increase efficiency, effectiveness and public safety as well as providing the evidence base to understand the most appropriate future governance model which would enable this to be achieved.

At its Authority meeting in February 2017, approval was given to pursue a strategy which would reform the WMF&RA. A combination of consultation outcomes, the Future Governance Working Group final report and the Authority's strategy supported the proposed route required for the Mayoral West Midlands Combined Authority (WMCA) to assume governance of West Midlands Fire and Rescue Service from the Authority. Subsequently in March 2017 the Authority secured the support of the WMCA for the proposed strategy to assume governance of the Service.

Following further engagement with the WMCA, a report was presented at the WMCA board in September 2017. The report's recommendation to prepare a Governance Review and Scheme pursuant to Sections 111 and 112 (1d) of Local Democracy, Economic Development & Construction Act 2009, and timelines for the proposed governance route were approved.

A formal public consultation on the proposed scheme was launched on 11<sup>th</sup> January 2018 for a period of eight weeks to 8<sup>th</sup> March 2018. The consultation sought views on the detail of the proposed scheme. This included the roles of the Mayor and WMCA, the proposed Mayoral Fire Advisory Committee (MFAC) and the Chief Fire Officer. The consultation also sought the views of the communities of the combined authority's area on the stated benefits of the proposed governance change and the transfer of powers to the Combined Authority.

The seven West Midlands Councils considered the outcomes of the public consultation after which the Authority at its June 2018 meeting approved the submission of the governance proposal to the Home Secretary. Receipt of the draft order from the Home Office is anticipated following the 2018 summer recess.

## 15. **Performance Indicators (PI)**

The Authority has an established Scrutiny Committee whose role is to scrutinise performance information including progress made against the 'The Plan'.

The setting of targets against operational and other performance indicators enables the Service to identify key areas for improvement which contribute to making the West Midlands safer, stronger and healthier. During 2017/18 the Scrutiny Committee received quarterly updates of the organisation's performance.

The five-minute attendance standard lies at the heart of the SDM which shows how staff based mainly at fire stations deliver the three strategic objectives of prevention, protection and response.

A summary of the performance indicators for prevention, protection and response is provided below and further details of Authority's performance monitoring through the Scrutiny Committee can be found at <http://94.236.33.181/cm5/>.

<b>Key:</b>
<b>Blue</b>
<b>Green</b>
<b>Red</b>

**Over performance against the tolerance levels**

**Performance is within the tolerance levels**

**Under performance against the tolerance levels**

Response

Item 5

<b>PI 1</b>		<p><b>The Risk Based Attendance Standard</b>                  Target: under 5 minutes                  Actual: 4 minutes 46 seconds</p>
<p>Attendance times for Category 2, 3 &amp; 4 incidents remain well within target:</p> <ul style="list-style-type: none"> <li>• Category 2: 5 minutes 36 seconds (target is under 7 minutes)</li> <li>• Category 3: 5 minutes 01 seconds (target is under 10 minutes)</li> <li>• Category 4: 6 minutes 38 seconds (target is under 20 minutes)</li> </ul>		

Prevention

<b>PI 2</b>		<p><b>The number of accidental dwelling fires</b>                  Annual Forecast: 1583 (1504 – 1614 tolerance)                  Actual for year: 1631</p>
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<b>PI 3</b>		<p><b>Injuries from accidental fires in dwellings (taken to hospital for treatment)</b>                  Annual Forecast: 62 (50 – 67 tolerance)                  Actual for year: 51</p>
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<b>PI 4</b>		<p><b>The number of deaths from accidental dwelling fires</b>                  Annual Forecast: Not applicable                  Actual for year: 9</p>
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<b>PI 5</b>		<p><b>The percentage of Safe and Well visits referred by our partners</b>                  Annual Forecast: 50% (50% - 52.5% tolerance)                  Actual to date: 50.3%</p>
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<b>PI 6</b>		<p><b>The number of people killed or seriously injured (KSI) in Road traffic collisions</b>          Annual Forecast: Not applicable          Actual for year: 226,395</p>
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<b>PI 8</b>		<p><b>The number of arson fires in dwellings</b>          Annual Forecast: 190 (169 – 196 tolerance)          Actual for year: 220</p>
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<b>PI 9</b>		<p><b>The number of arson fires in non-domestic premises</b>          Annual Forecast: 158 (143 – 165 tolerance)          Actual for year: 202</p>
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<b>PI 10</b>		<p><b>The number of arson vehicle fires</b>          Annual Forecast : 904 (816 – 951 tolerance)          Actual for year: 867</p>
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<b>PI 11</b>		<p><b>The number of arson rubbish fires</b>          Annual Forecast: 1909 (1814 – 1946 tolerance)          Actual for year: 1924</p>
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<b>PI 12</b>		<p><b>The number of arson fires in derelict buildings</b>          Annual Forecast: 145 (130 – 151 tolerance)          Actual for year: 132</p>
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**Protection**

<b>PI 13</b>		<b>The number of accidental fires in non-domestic premises</b> Annual Forecast: 426 (383 – 447 tolerance) Item 5 Actual for year: 437
<b>PI 14</b>		<b>The number of false alarm calls due to fire alarm equipment in dwellings and non-domestic premises</b> Annual Forecast: 5457 (5184 – 5565 tolerance) Actual for year: 5408

16. Further information about the accounts is available from:

Finance Manager,  
West Midlands Fire Service Headquarters,  
99 Vauxhall Road,  
Birmingham. B7 4HW.

Telephone : 0121-380-6920  
or E-Mail : [kal.shoker@wmfs.net](mailto:kal.shoker@wmfs.net)

17. 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 on the Authority's website.

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

Item 5

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### ***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 safeguard its assets.
- (iii) approve the statement of accounts.

### ***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.S.A.A.C. Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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 local authority Code.

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.

I certify that this statement of accounts gives a true and fair view of the financial position and expenditure and income of the West Midlands Fire and Rescue Authority for the year ending 31<sup>st</sup> March 2018.

Mike Griffiths, C.P.F.A  
Treasurer

Date: 23<sup>rd</sup> July 2018

## STATEMENT OF APPROVAL FOR THE STATEMENT OF ACCOUNTS

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The statement of accounts for the year 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2018 <sup>Item 5</sup> was approved by the West Midlands Fire and Rescue Authority's Audit Committee on 23<sup>rd</sup> July 2018.

Cllr Catherine Miks  
Chair of the Audit and Risk Committee

Date: 23<sup>rd</sup> July 2018

## **COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

This shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the MIRS and the Expenditure Funding Analysis (EFA).

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2016/2017				2017/2018		
Gross Exp. £000	Gross Income £000	Net Exp. £000		Gross Exp. £000	Gross Income £000	Net Exp. £000
77,077	(2,885)	74,192	Service Delivery	85,499	(3,322)	82,177
21,677	(2,888)	18,789	Service Support	24,339	(2,147)	22,192
2,618	(15)	2,603	Corporate Management	3,264	(407)	2,857
11,638	(27)	11,611	Corporate Charges	11,337	(118)	11,219
113,010	(5,815)	107,195	<b>Cost of Services</b>	124,439	(5,994)	118,445
60	(86)	(26)	Other Operating Expenditure (Note 32)	1,520	(2,208)	(688)
50,354	(282)	50,072	Financing and investment income & expenditure (Note 12)	46,163	(251)	45,912
		(98,360)	Taxation and non-specific grant income (Note 13)			(96,230)
		58,881	(Surplus)/Deficit on Provision of Services			67,439
16,448	(15,388)	1,060	Surplus or deficit on revaluation of Property, Vehicles, Plant and Equipment assets (Note 11.1)	11,817	(13,976)	(2,159)
		246,933	Re-measurements of the net defined benefit liability/(asset)			(54,913)
		247,993	Other Comprehensive Income and Expenditure			(57,072)
		306,874	<b>Total Comprehensive Income and Expenditure</b>			10,367

## MOVEMENT IN RESERVES STATEMENT

This shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory amounts required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

	Un-earmarked General Fund Reserves £000	Earmarked General Fund Reserves £000	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2016	(9,233)	(40,165)	(49,398)	(1,122)	(2,593)	(53,113)	1,248,036	1,194,923
Movement in Reserves During 2016/17								
Total Comprehensive Income and Expenditure *	58,881	-	58,881	-	-	58,881	247,993	306,874
Adjustments between accounting basis and funding basis under regulations (Note 9)	(62,453)	-	(62,453)	1,061	2,034	(59,358)	59,358	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(3,572)	-	(3,572)	1,061	2,034	(477)	307,351	306,874
Transfers to/from Earmarked Reserves (Note 10)	3,569	(3,569)	-	-	-	-	-	-
(Increase)/Decrease in 2016/17	(3)	(3,569)	(3,572)	1,061	2,034	(477)	307,351	306,874
Balance at 31 March 2017	(9,236)	(43,734)	(52,970)	(61)	(559)	(53,590)	1,555,387	1,501,797
Movement in Reserves During 2017/18								
Total Comprehensive Income and Expenditure *	67,439	-	67,439	-	-	67,439	(57,072)	10,367
Adjustments between accounting basis and funding basis under regulations (Note 9)	(61,843)	-	(61,843)	(2,131)	98	(63,876)	63,876	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	5,596	-	5,596	(2,131)	98	3,563	6,804	10,367
Transfers to/from Earmarked Reserves (Note 10)	(4,750)	4,750	-	-	-	-	-	-
(Increase)/Decrease in 2017/18	846	4,750	5,596	(2,131)	98	3,563	6,804	10,367
Balance at 31 March 2018	(8,390)	(38,984)	(47,374)	(2,192)	(461)	(50,027)	1,562,191	1,512,164

- \* The total comprehensive income and expenditure is now shown as one line on the basis that the columnar analysis of the usable and unusable reserves automatically separates the movements between the surplus and deficit on the provision of services and other comprehensive income and expenditure.

## BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences shown in the MIRS line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2017 £000		Note	31 March 2018 £000
146,158	<b>Property, Vehicles, Plant &amp; Equipment</b>	14	144,008
66	<b>Heritage Assets</b>		66
20	<b>Intangible Assets</b>		13
<b>146,244</b>	<b>Long Term Assets</b>		<b>144,087</b>
1,200	<b>Assets Held For Sale</b>	14	-
629	<b>Inventories</b>	16	725
15,098	<b>Short Term Debtors</b>	17	13,100
57,428	<b>Cash and Cash Equivalents</b>	18	51,379
<b>74,355</b>	<b>Current Assets</b>		<b>65,204</b>
(1,461)	<b>Short Term Borrowing</b>	15	(1,537)
(10,926)	<b>Short Term Creditors</b>	19	(11,637)
(405)	<b>Grant Receipts in Advance – Revenue</b>	28	(331)
<b>(12,792)</b>	<b>Current Liabilities</b>		<b>(13,505)</b>
(426)	<b>Provisions</b>	20	(722)
(37,363)	<b>Long Term Borrowing</b>	15	(36,002)
(1,671,815)	<b>Other Long Term Liabilities</b>	30	(1,671,226)
<b>(1,709,604)</b>	<b>Long Term Liabilities</b>		<b>(1,707,950)</b>
<b>(1,501,797)</b>	<b>Net Assets</b>		<b>(1,512,164)</b>
(53,590)	<b>Usable Reserves</b>		(50,027)
1,555,387	<b>Unusable Reserves</b>	11	1,562,191
<b>1,501,797</b>	<b>Total Reserves</b>		<b>1,512,164</b>

Mike Griffiths C.P.F.A (Treasurer)  
23<sup>rd</sup> July 2018

## CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2016/2017 £000		2017/2018 £000
58,881	<b>Net (surplus) or deficit on the provision of services</b>	67,439
(64,706)	<b>Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 21.2)</b>	(66,795)
75	<b>Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 21.3)</b>	2,131
(5,750)	<b>Net cash flows from Operating Activities</b>	2,775
3,318	<b>Investing Activities (Note 22)</b>	2,010
1,073	<b>Financing Activities (Note 23)</b>	1,264
(1,359)	<b>Net (increase)/decrease in cash and cash equivalents</b>	6,049
56,069	<b>Cash and cash equivalents at the beginning of the reporting period</b>	57,428
57,428	<b>Cash and cash equivalents at the end of the reporting period (Note 18)</b>	51,379

# NOTES TO THE CORE FINANCIAL STATEMENTS

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## 1. ACCOUNTING POLICIES

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### **1.1. General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2017/18 financial year and its position as at the year-end, 31<sup>st</sup> March 2018. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require the Accounts to be prepared in accordance with proper accounting practices.

It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under the Local Government Act 2003.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Statement of Accounts has been prepared on a going concern basis.

### **1.2. Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed — where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as Income and Expenditure.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Accruals of Income and expenditure are subject to a deminimis level of £1,000.

### **1.3. Cash and Cash Equivalents**

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Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in a specified period; no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

### **1.4. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### **1.5. Charges to Revenue for Non-Current Assets**

Services and support services are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance within England.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting Minimum Revenue Provision (MRP) transaction with the Capital Adjustment Account in the MIRS for the difference between the two. Item 5

## **1.6. Council Tax and Non-domestic Rates (NDR)**

Billing authorities act as agents, collecting council tax and NDR on behalf of the major preceptors. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

The council tax and NDR included in the CIES is the Authority's share of accrued income for the year. Regulations determine the amount of council tax and NDR that must be included in the Authority's General Fund. The difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the MIRS. The effect on the Surplus or Deficit on the Provision of Services for the year 2017/18 in the CIES is a surplus of £0.297m which is also reflected in the MIRS.

The Balance Sheet includes the Authority's share of the year end balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

## **1.7. Employee Benefits**

### **1.7.1 Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services but then reversed out through the MIRS so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

### **1.7.2 Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the MIRS, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### 1.7.3 Post Employment Benefits

Employees of the Authority are members of four separate pension schemes:

- Uniformed Firefighters – Original (1992) Scheme

This is an unfunded scheme, which is administered by the Authority in accordance with the MHCLG regulations. For such schemes, as there are no investment assets, IAS19 requires recognition of the liability and pension reserve in the Balance Sheet and transactions in the CIES 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 31<sup>st</sup> March 2006 and the employer's contribution is 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 – (2006) Scheme

On 1<sup>st</sup> 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. 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.

On 1<sup>st</sup> April 2015 a new modified section was established for employees who were employed as retained firefighters between 1<sup>st</sup> April 2000 and 5<sup>th</sup> April 2006.

- Uniformed Firefighters – (2015) Scheme

On 1<sup>st</sup> April 2015 a new firefighters' pension scheme was established. This scheme is a career average revalued earnings scheme for members starting after the 1<sup>st</sup> April 2015. Members of the 1992 and 2006 final salary schemes moved into this scheme, unless protection applied. This scheme is an unfunded 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.

The combined pension fund for uniformed firefighters as at 31<sup>st</sup> March 2018 had a net deficit value of £1,629,080m.

- The Local Government Pensions Scheme

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme, administered by Wolverhampton City Council. The pension costs that are charged to the Authority's accounts, £2.846m in 2017/18 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.

These schemes provide defined benefits to members (retirement lump sums and pensions), which are earned as employees work for the Authority.

These schemes are accounted for as defined benefits schemes:

- The liabilities of the West Midlands Metropolitan Authorities Pension Fund and the liabilities of the Firefighters Pension Schemes attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method — i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and estimates of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.55% for the Firefighters' Pension Schemes and for the Local Government Pension Scheme.
- The assets of West Midlands Metropolitan Authorities Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - quoted securities — current bid price
  - unquoted securities — professional estimate
  - unitised securities — current bid price
  - property — market value.
- The change in the net pensions liability is analysed into the following components:
  - Service cost comprising:
    - Current service cost - the increase in liabilities as a result of years of service earned this year — allocated in the CIES to the services for which the employees worked.
    - Past service cost — the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years — debited to the Surplus or Deficit on the Provision of Services in the CIES within the corporate charges Service line.

- Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority — the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
  - Remeasurements comprising:
    - The return on plan assets — excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
    - Changes in demographic and financial assumptions — changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions — charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - Contributions paid to the Pension Fund — cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the MIRS, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The top up grant is accounted for as an actuarial gain.

#### **1.7.4 Discretionary Benefits**

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## **1.8. Events after the Reporting Period**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period — the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period — the Statement of Accounts is not adjusted to reflect such events but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## **1.9. Financial Instruments**

### **1.9.1 Financial Liabilities**

The Authority has its own portfolio of loans payable directly to the Public Works Loan Board (PWLB); these are initially measured at fair value and carried at their amortised cost with the exception of Other Local Authority debt inherited from the former West Midlands County Council (WMCC) which is held at historic cost. Annual charges are made to the CIES based on the carrying value of the liability multiplied by the effective rate of interest for the instrument.

Debt inherited from the former WMCC is managed by Dudley MBC and redeemed over a period of 40 years from 1<sup>st</sup> April 1986. Annual charges to the CIES for interest payable were charged on this debt in 2017/18 at a rate of 6.043%.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the CIES as they occur. Any premium or discount arising on restructured borrowing is respectively deducted from, or added to, the amortised cost of the new or modified loan and charged to the CIES over the life of the loan by an adjustment to the effective interest rate.

Creditors are carried on the balance sheet at contract amount.

### **1.9.2 Financial Assets**

Debtors are carried on the balance sheet at contract amount.

### **1.9.3 Fair Value Measurement**

IFRS 13 requires that local authorities measure some of their non-financial and some of their financial instruments at fair value.

The objective of the fair value approach is to estimate the price at which an orderly transaction to sell an asset or transfer a liability would take place between market participants at the measurement date. The measurement assumes that the transaction takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, the most advantageous market.

The Authority measures fair value using the same assumptions that market participants would use when pricing an asset or liability assuming that they will act in their own economic best interest.

For non-financial assets the Authority takes into account the participant's ability to generate economic benefits by using the asset in its highest and best use.

When determining fair value the Authority's valuers use techniques that are appropriate in the circumstances and for which sufficient data is available maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

These inputs are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can assess at the measurement date.
- Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

## **1.10. Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the CIES until conditions attached to the grant or contribution has been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as Receipts in Advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the General Fund Balance in the MIRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital Expenditure.

### **1.11. Inventories**

Inventories are included in the Balance Sheet at the latest price. This does not comply with the standard which requires the lower of cost and net realisable value. The total value of stocks held is approximately £725k (2016/17 £629k) and therefore any difference in accounting treatment will not materially affect the reasonableness of the figures disclosed within the accounts.

### **1.12. Overheads and Support Services**

The costs of overheads and support services are charged to service segments in accordance with the Authority's arrangements for accountability and financial performance.

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

### **1.13. Property, Vehicles, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, vehicles, plant and equipment.

#### **1.13.1 Recognition**

Expenditure on the acquisition, creation or enhancement of property, vehicles, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Expenditure along with associated grant income on non-current assets are capitalised subject to a de minimis level of £10,000.

### 1.13.2 Measurement

Item 5

Assets are initially measured at cost, comprising:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the CIES, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the CIES, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the MIRS.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction — held at historical cost.
- Residential Homes — the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective. The Authority no longer provides residential homes to new tenants and any properties which become or are vacant, are held as surplus assets.
- All other assets — current value, determined on the basis of market value.

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued annually to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. If an event occurs, such as a dramatic fall in land and property prices, which mean the current values are no longer appropriate, the assets will be revalued again. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the corporate charges service line in the CIES.

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.

### **1.13.3 Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the corporate charges service line in the CIES.

Where an impairment loss is reversed subsequently, the reversal is credited to the corporate charges service line in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### **1.13.4 Depreciation**

Depreciation is provided for on all property, vehicles, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction).

The following depreciation policies have been adopted:

- Operational Vehicles - straight line over 10 years.
- Ancillary Vehicles - straight line over 5 years.
- Equipment - straight line over 5 years.
- All property assets have been depreciated in line with their life expectancies.
- Freehold land is not depreciated.
- No depreciation is accounted for in the year of acquisition but is accounted for in the year of disposal.

Wilkes Head & Eve (WHE), of 55 New Oxford Street, London, WC1A 1HB is a RICS (Royal Institution of Chartered Surveyors) Regulated Firm, are the Authority's valuers and were instructed to provide valuations for all land and property assets and recommend the appropriate life expectancies. A full valuation of all land and property assets was completed as at 31<sup>st</sup> March 2018. The Code requires that land and property assets must be revalued every five years as a minimum but must be revalued more regularly where a five year valuation is insufficient to keep pace with material changes in fair value.

WHE also provide valuations for splitting land and building assets into individual components. Where an asset has major components whose cost is significant in relation to the total cost of the item and which have differing estimated useful lives, these components are depreciated separately. The Authority has adopted this as the basis for depreciation from 1<sup>st</sup> April 2011.

Where an asset it is deemed to be material for component accounting purposes, i.e. valued in excess of £1m, the following individual components have been identified:

- Main structure
- Roof
- Heating and associated systems
- Tower and associated functions
- Electrical
- Lift
- External

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.

### **1.13.5 Non-Current Assets Held for Sale**

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continued use. The following criteria have to be met before an asset can be classified as held for sale under this section of the Code:

- The asset must be available for immediate sale in its present condition.
- The sale must be highly probable; with an active programme to dispose of the asset.
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value
- The sale should be expected to complete within one year of the date of classification.

Assets Held for Sale are valued at the lower of their carrying amount and fair value (market value) less costs to sell at initial reclassification and at the end of each reporting date, and are not subject to depreciation. Investment Properties that are to be disposed of are not reclassified as an Asset Held for Sale and remain as Investment Properties until disposed of, reclassified to short term investment properties where they are expected to be disposed of within a year of the balance sheet date.

## **1.14. Minimum Revenue Provision**

Under the Local Government Act 2003, the Authority is required to set aside an amount from revenue as a provision for debt repayment. This amount is known as the MRP.

The calculation is based on Asset Life Method, which is to make a provision over the estimated life of the asset for which borrowing was undertaken.

From 2015/16 onwards the proposed MRP policy was amended to an Annuity base.

The Treasurer has the discretion to make an additional provision.

## **1.15. Provisions and Contingent Liabilities**

### **1.15.1 Provisions**

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Authority becomes aware of the obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year — where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

### **1.15.2 Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

## **1.16. Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the Un-earmarked General Fund Balance in the MIRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then transferred back into the Un-earmarked General Fund Balance in the MIRS so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, local taxation, retirement and employee benefits and do not represent usable resources for the Authority — these reserves are explained in the relevant policies.

## **1.17. Value Added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## **1.18. Restated Figures**

For comparative purposes, 2016/2017 figures are provided.

Note 10 Earmarked reserves show 2016/17 restated figures as the note has been reformatted to match how these reserves are reported to SET.

Note 24 Officers' remuneration show 2016/17 restated figures as the Strategic Enabler People Support Services and a redesignated post with effect from 25 May 2017 Strategic Enabler Portfolio report to the Chief Fire Officer.

## **1.19. Roundings**

Unless otherwise stated, the figures that follow have been rounded to the nearest £'000.

## **2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED**

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The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Authority. <sup>Item 5</sup>

The standards introduced in the 2018/19 Code that are relevant to the above are:-

- IFRS 9 Financial Instruments. This introduces extensive changes to the classification and measurement of financial assets and a new expected credit loss model for impairing financial assets. The impact will be to reclassify loans and receivable assets and available for sale to amortised cost and fair value through other comprehensive income respectively based on the contractual cashflows and business model for holding the assets. There are not expected to be any changes in the measurement of financial assets. Assessment of the Authority's financial assets does not anticipate any impairment.
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15 Clarifications to IFRS 15 Revenue from Contracts with Customers. This presents new requirements for the recognition of revenue based on a control based revenue recognition model. The Authority does not have any material revenue streams within the scope of IFRS15.
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses. This applies to deferred tax assets related to debt instruments measured at fair value. The Authority does not have these debt instruments.
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative. This requires some additional analysis of cash flows from financing activities in future years.

The Code requires implementation from 1 April 2018 and there is therefore no impact on the 2017/18 Statement of Accounts.

The Authority has concluded that there will be no material impact upon the 2018/19 Statement of Accounts.

### **3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

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In applying the accounting policies set out in the Accounts, the Authority has had to make certain judgments about complex transactions or those involving uncertainty about future events. The critical judgments made in the Statement of Accounts are:-

- Insurance – The Authority continues to operate a self-insure scheme for all of its property and vehicle assets.
- No Residual Value of Assets – The Authority assumes that the residual value of plant and equipment will be nil when they are de-commissioned, as the assets are held to provide a service rather than for resale at the end of their useful life. The Authority has determined that the amounts received when assets are decommissioned are negligible and depend on the market demand for the assets at time of disposal.
- Property valued at Current Value – The Authority has had all its land and property assets valued on the basis of current value as at 31<sup>st</sup> March 2018. The Code requires that land and property assets must be revalued every five years as a minimum but must be revalued more regularly where a five year valuation is insufficient to keep pace with material changes in fair value. In 2011 the Authority introduced component accounting to its land and property assets as part of its valuations.
- Government Funding - There remains a degree of uncertainty about future levels of core funding for local government although the offer of a provisional four year settlement by MHCLG is considered to be a reasonable basis to formulate medium term financial planning. The Authority has however determined that the level of uncertainty is not yet sufficient to indicate that the assets of the Authority may be significantly impaired as a result of a need to close facilities and reduce levels of service provision.

#### **4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

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Item 5

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31<sup>st</sup> March 2018 for which there is a risk of a material adjustment in the following financial year are:

- Pensions Liability – Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes to retirement age, mortality rates and expected return on pension fund assets. The Government Actuary's Department (GAD) and Barnett Waddingham provide the Authority with expert advice about the assumptions to be applied (Note 30).
- Provisions – The Authority has made an insurance provision for employee and public liability claims. The provision is based on the advice of the Authority's Risk Management advisor. However, the figure could increase or decrease based on the final settlement.
- Property, Plant and Equipment – The Authority's assets are depreciated over the useful life assigned by the external valuer. Assumptions are made about the level of repairs and maintenance which could affect the useful lives assigned to assets.

#### **5. MATERIAL ITEMS OF INCOME AND EXPENDITURE**

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##### **Local Government Pension Scheme Contributions 2017/18 - 2019/20**

On 28 April 2017 the Authority made a payment of £7.9m to the West Midlands Pension Fund in respect of pension contributions for the three years from 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2020. The full payment has been accounted for as a reduction in the Authority's net pension liability and accounting regulations require that only the amount due in relation to 2017/18 of £2.7m is recognised as a cost to the General Fund this year. Until 2019/20, there will be a difference between the net pension liability and the pension reserve, equal to the amount that has been paid in relation to future years. This difference will remain until the 2019/20 accounts.

## **6. EVENTS AFTER THE REPORTING PERIOD**

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The Fire Brigade Union (FBU) lodged a trade dispute with the Authority on 11<sup>th</sup> April 2018. <sup>Item 5</sup> Following a ballot for industrial action, the Authority was notified on 29<sup>th</sup> May 2018 that the outcome of the ballot supported a mandate for the FBU to commence industrial action.

The Executive Committee considered options on 6<sup>th</sup> June 2018 and resolved to revise “The Plan”, in a manner which was intended to resolve the trade dispute. It was recognised that as part of this decision there would be an impact upon the Service’s ability to deliver prevention, protection and response services against the requirements of the Integrated Risk Management Plan (IRMP), The ongoing Comprehensive Spending Review and the financial constraints this places on the Authority means that this decision would require a change to the Strategy, the associated budget and Financial Efficiency Plan.

The Authority would therefore need to consider alternative Service changes to meet the funding gap before the next budget setting exercise to ensure the ongoing budget was set on an appropriate basis.

## 7. EXPENDITURE AND FUNDING ANALYSIS

This shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by the Authority in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Authority's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the CIES.

2016/2017				2017/2018		
Net Expenditure Chargeable to the General Fund * £000	Adjustments between Funding and Accounting Basis (Note 7.1) £000	Net Expenditure in the CIES £000		Net Expenditure Chargeable to the General Fund * £000	Adjustments between Funding and Accounting Basis (Note 7.1) £000	Net Expenditure in the CIES £000
67,368	6,824	74,192	Service Delivery	67,908	14,269	82,177
17,598	1,191	18,789	Service Support	19,962	2,230	22,192
2,274	329	2,603	Corporate Management	2,445	412	2,857
4,161	7,450	11,611	Corporate Charges	3,907	7,312	11,219
91,401	15,794	107,195	Cost of Services	94,222	24,223	118,445
(94,973)	46,659	(48,314)	Other Income and Expenditure	(88,626)	37,620	(51,006)
(3,572)	62,453	58,881	(Surplus)/Deficit on Provision of Services	5,596	61,843	67,439
(49,398)			Opening General Fund Balance	(52,970)		
(52,970)			Closing General Fund Balance @ 31 March	(47,374)		

\* As reported to SET.

## 7.1 Adjustments between funding and accounting

Item 5

2016/2017	Adjustments for capital purposes (Note 7.2)	Net change for the pension adjustments (Note 7.3)	Other statutory differences (Note 7.4)	Total Adjustments
	£000	£000	£000	£000
Service Delivery	-	8,580	(1,756)	6,824
Service Support	-	1,170	21	1,191
Corporate Management	-	211	118	329
Corporate Charges	9,432	(1,982)	-	7,450
<b>Cost of Services</b>	<b>9,432</b>	<b>7,979</b>	<b>(1,617)</b>	<b>15,794</b>
Other Income and Expenditure	(1,265)	48,171	(247)	46,659
<b>Total</b>	<b>8,167</b>	<b>56,150</b>	<b>(1,864)</b>	<b>62,453</b>

2017/2018	Adjustments for capital purposes (Note 7.2)	Net change for the pension adjustments (Note 7.3)	Other statutory differences (Note 7.4)	Total Adjustments
	£000	£000	£000	£000
Service Delivery	-	14,303	(34)	14,269
Service Support	-	2,206	24	2,230
Corporate Management	-	450	(38)	412
Corporate Charges	8,842	(1,530)	-	7,312
<b>Cost of Services</b>	<b>8,842</b>	<b>15,429</b>	<b>(48)</b>	<b>24,223</b>
Other Income and Expenditure	(6,146)	44,063	(297)	37,620
<b>Total</b>	<b>2,696</b>	<b>59,492</b>	<b>(345)</b>	<b>61,843</b>

## 7.2 Adjustments for capital purposes

This column adds in depreciation and impairment and revaluation gains and losses in the corporate charges services line, and within other income and expenditure item 5

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. MRP and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. The taxation and non-specific grant income line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

## 7.3 Net change for the pension adjustments

Net change for the removal of pension contributions and the addition of IAS19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the Authority as allowed by statute and the replacement with current service costs and past service costs.
- For financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

## 7.4 Other statutory differences

Other statutory differences between amounts debited/credited to the CIES and amounts payable/receivable to be recognised under statute:

- For services this represents the impact of accruals for accumulating compensated absences.
- The adjustment under other income and expenditure for taxation and non-specific grant income represents the difference between what is chargeable under statutory regulations for council tax and non-domestic rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

## 8. EXPENDITURE AND INCOME ANALYSED BY NATURE

Item 5

The Authority's expenditure and income is analysed as follows:

2016/2017 £000		2017/2018 £000
	<b>Expenditure</b>	
90,469	Employee expenses	100,054
13,108	Other services expenses	15,543
9,433	Depreciation, amortisation and impairment	8,842
48,171	Pensions interest cost and expected return on pension assets	44,063
2,183	Interest payments	2,100
60	Other operating expenditure	1,520
163,424	<b>Total Expenditure</b>	<b>172,122</b>
	<b>Income</b>	
(3,034)	Fees, charges and other service income	(4,033)
(282)	Interest and investment income	(251)
(38,602)	Council tax income	(39,891)
(9,760)	Non-domestic rates income from West Midlands Local Authorities	(9,598)
(52,779)	Government grants and contributions	(48,702)
(86)	Disposal of non-current assets	(2,208)
(104,543)	<b>Total Income</b>	<b>(104,683)</b>
58,881	<b>(Surplus)/Deficit on the provision of services</b>	<b>67,439</b>

## **9. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS**

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This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure. <sup>Item 5</sup>

The following sets out a description of the reserves that the adjustments are made against.

### **General Fund Balance**

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Authority is required to recover) at the end of the financial year.

### **Capital Receipts Reserve**

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

### **Capital Grants Unapplied**

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Authority has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

2016/2017	Usable Reserves Item 5		
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
<b>Adjustments to Revenue Resources</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:</b>			
Pension costs transferred to/(from) the Pensions Reserve	(56,150)	-	-
Council tax and NDR transfers to/(from) Collection Fund Adjustment Account	247	-	-
Holiday pay transferred to the Accumulated Absences Reserve	1,617	-	-
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(9,139)	-	-
<b>Total Adjustments to Revenue Resources</b>	<b>(63,425)</b>	<b>-</b>	<b>-</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	61	(61)	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	744	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	167	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>972</b>	<b>(61)</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	1,122	-
Application of capital grants to finance capital expenditure	-	-	2,034
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>1,122</b>	<b>2,034</b>
<b>Total Adjustments</b>	<b>(62,453)</b>	<b>1,061</b>	<b>2,034</b>

2017/2018	Usable Reserves		
	General Fund Balance	Item 5 Capital Receipts Reserve	Capital Grants Unapplied
Adjustments to Revenue Resources	£000	£000	£000
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:			
Pension costs transferred to/(from) the Pensions Reserve	(59,492)	-	-
Council tax and NDR transfers to/(from) Collection Fund Adjustment Account	297	-	-
Holiday pay transferred to the Accumulated Absences Reserve	48	-	-
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(9,968)	-	-
<b>Total Adjustments to Revenue Resources</b>	<b>(69,115)</b>	<b>-</b>	<b>-</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	2,131	(2,131)	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	787	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	4,354	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>7,272</b>	<b>(2,131)</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	-
Application of capital grants to finance capital expenditure	-	-	98
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>(2,131)</b>	<b>98</b>
<b>Total Adjustments</b>	<b>(61,843)</b>	<b>(2,131)</b>	<b>98</b>

## 10. MOVEMENTS IN EARMARKED RESERVES

This note sets out the amounts set aside within the General Fund Balance for earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in both 2016/17 and 2017/18.

	Balance at 1 <sup>st</sup> April 2016	Transfers out 2016/17	Transfers in 2016/17	Balance at 31 <sup>st</sup> March 2017	Transfers out 2017/18	Transfers in 2017/18	Balance at 31 <sup>st</sup> March 2018
	£000	£000	£000	£000	£000	£000	£000
<b>General Fund:</b>							
<b>Business Development</b>	Restated	Restated	Restated				
Project Management/Support	100	76	127	151	129	45	67
<b>Communications</b>							
Community Engagement	9	4	3	8	6	20	22
Communications/Media Events	51	26	27	52	60	24	16
<b>Finance &amp; Resources</b>							
Property Maintenance	1,381	346	191	1,226	182	166	1,210
Procurement of Operational Equip.	263	144	110	229	93	82	218
Loss of Use Recovery	37	-	3	40	-	10	50
Procurement Collaboration	-	-	65	65	43	1	23
<b>ICT</b>							
ESMCP-Local Transition	45	54	1,758	1,749	-	167	1,916
IT Equipment & System Upgrades	2,397	604	869	2,662	1,588	331	1,405
Firelink	-	-	223	223	223	278	278
<b>Intelligence &amp; Innovation</b>							
Distributed Training Model (DTM)				-	-	1,000	1,000
Project Management/Support	104	103	178	179	159	139	159
Legal Services	25	25	100	100	4	-	96
Care Quality Commission	-	-	60	60	1	-	59
Firefighting & Rescue Equipment	16	15	56	57	47	-	10
<b>People Support Services</b>							
Staff Training & Development	173	72	135	236	181	315	370
Health & Wellbeing	50	23	134	161	33	41	169
Training Equipment/Facilities	402	186	10	226	99	9	136
Time Management System	-	-	29	29	-	-	29
Project Management/Support	11	11	77	77	77	-	-
Ridership	-	-	400	400	400	-	-
<b>Prevention</b>							
Community Partnerships	496	269	158	385	197	258	446
Education Materials/Facilities	50	19	49	80	37	22	65
Youth Services	11	8	19	22	12	-	10
<b>Protection</b>							
Fire Safety	14	-	5	19	8	-	11
<b>Response</b>							
Tech Rescue	849	95	80	834	295	284	823
Service Delivery	585	406	131	310	815	912	407
Project Management/Support	46	38	-	8	120	112	-
<b>Capital</b>							
Capital Program Shortfall	8,562	15	90	8,637	2,214	4,528	10,951
Fire Station Investment	15,487	510	-	14,977	5,908	-	9,069
<b>Insurance</b>							
Insurance Reserve	7,443	140	-	7,303	584	468	7,187
<b>Corporate</b>							
Service Review	1,530	404	1,830	2,956	885	17	2,088
Digital Transformation	-	-	272	272	95	147	324
Gains Share	-	-	-	-	-	250	250
Holiday Pay	-	-	-	-	-	107	107
Seconded Staff	3	503	501	1	1,006	1,018	13
Personal Protective Equipment	25	73	48	-	33	33	-
<b>TOTAL</b>	<b>40,165</b>	<b>4,169</b>	<b>7,738</b>	<b>43,734</b>	<b>15,534</b>	<b>10,784</b>	<b>38,984</b>

## 11. UNUSABLE RESERVES

31 March 2017 £000		31 March 2018 Item 5 £000
(58,009)	Revaluation Reserve	(58,720)
(59,378)	Capital Adjustment Account	(56,096)
1,671,815	Pensions Reserve	1,676,394
(383)	Collection Fund Adjustment Account	(680)
1,342	Accumulated Absences Account	1,293
1,555,387	<b>Total Unusable Reserves</b>	<b>1,562,191</b>

### 11.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its property, vehicles, plant, and intangible assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost,
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

2016/2017 £000		2017/2018 £000
(60,751)	Balance 1 April	(58,009)
(15,388)	Upward revaluation of assets	(13,976)
16,448	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	11,817
(59,691)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(60,168)
1,682	Amount written off to the Capital Adjustment Account	1,448
(58,009)	Balance 31 March	(58,720)

### 11.2 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the CIES (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and subsequent costs.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

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The note below provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2016/2017 £000		2017/2018 £000
<b>(62,768)</b>	<b>Balance 1 April</b>	<b>(59,378)</b>
	<b>Reversal of items relating to capital expenditure debited or credited to the CIES:</b>	
<b>4,960</b>	<b>Charges for depreciation and impairment of non-current assets</b>	<b>4,830</b>
<b>4,466</b>	<b>Revaluation losses on Property, Vehicles, Plant and current assets</b>	<b>4,007</b>
<b>7</b>	<b>Amortisation of intangible assets</b>	<b>6</b>
<b>60</b>	<b>Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES</b>	<b>1,200</b>
<b>(53,275)</b>		<b>(49,335)</b>
<b>(1,682)</b>	<b>Adjusting amounts written out of the Revaluation Reserve</b>	<b>(1,448)</b>
<b>(54,957)</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>(50,783)</b>
	<b>Capital financing applied in the year:</b>	
<b>(1,122)</b>	<b>Use of the Capital Receipts Reserve to finance new capital expenditure</b>	<b>-</b>
<b>(354)</b>	<b>Capital grants and contributions credited to the CIES that have been applied to capital financing</b>	<b>(74)</b>
<b>(2,034)</b>	<b>Application of grants to capital financing from the Capital Grants Unapplied Account</b>	<b>(98)</b>
<b>(744)</b>	<b>Statutory provision for the financing of capital investment charged against the General Fund</b>	<b>(787)</b>
<b>(167)</b>	<b>Capital expenditure charged against the General Fund and HRA balances</b>	<b>(4,354)</b>
<b>(59,378)</b>	<b>Balance 31 March</b>	<b>(56,096)</b>

### 11.3 Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to the pension fund or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

<b>2016/2017 £000</b>		<b>2017/2018 £000</b>
<b>1,368,732</b>	<b>Balance 1 April</b>	<b>1,671,815</b>
<b>246,933</b>	<b>Re-measurements of the net defined benefit liability/(asset)</b>	<b>(54,913)</b>
<b>68,407</b>	<b>Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES</b>	<b>71,256</b>
<b>(12,257)</b>	<b>Employer's pensions contributions and direct payments to pensioners payable in the year</b>	<b>(11,764)</b>
<b>1,671,815</b>	<b>Balance 31 March</b>	<b>1,676,394</b>

On 28 April 2017 the Authority made a payment of £7.9m to the West Midlands Pension Fund. This payment was based on Barnett Waddingham's Rates and Adjustments Certificate for the amounts due for Employer Pension Contributions 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2020. There is a difference between the pension reserve and pension liability on the balance sheet of £5.168m for Employer Pension Contributions 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2020.

### 11.4 Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and NDR in the CIES as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. The balance at the 31 March 2018 is (£0.680m) and was (£0.383m) as at 31 March 2017.

## 11.5 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2016/2017			2017/2018	
£000	£000		£000	£000
	2,959	Balance 1 April		1,342
(2,959)		Settlement or cancellation of accrual made at the end of the preceding year	(1,342)	
1,342		Amounts accrued at the end of the current year	1,294	
	(1,617)	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(48)
	1,342	Balance 31 March		1,294

## 12. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2016/2017 £000		2017/2018 £000
2,183	Interest payable and similar charges	2,100
48,171	Net interest on the net defined benefit liability/(asset)	44,063
(282)	Interest receivable and similar income	(251)
50,072	Total	45,912

## 13. TAXATION AND NON SPECIFIC GRANT INCOMES

2016/2017 £000		2017/2018 £000
(38,603)	Council tax income	(39,891)
(9,760)	NDR income from West Midland Local Authorities	(9,598)
(27,794)	Revenue support grant	(23,202)
(21,849)	Business rates retention scheme grants	(23,465)
(354)	Capital grants and contributions	(74)
(98,360)	Total	(96,230)

## 14. PROPERTY, VEHICLES, PLANT AND EQUIPMENT

### 14.1 Comparative Movements in 2016/2017

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2016/17	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Surplus Assets	Assets Under Construction	Total Property, Vehicles, Plant and Equipment
Cost or Valuation	£000	£000	£000	£000	£000
At 1 April 2016	143,506	31,516	1,674	1,850	178,546
Additions	1,408	795	-	1,474	3,677
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(4,343)	-	30	-	(4,313)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(4,468)	-	2	-	(4,466)
De-recognition – Disposals	-	(996)	(129)	-	(1,125)
Assets reclassified (to) / from Held for Sale	(1,200)	-	-	-	(1,200)
Other movements in cost or valuation	-	665	1,020	(1,685)	-
At 31 March 2017	134,903	31,980	2,597	1,639	171,119
Accumulated Depreciation and Impairment					
At 1 April 2016	-	24,190	129	-	24,319
Depreciation charge	3,229	1,707	24	-	4,960
Depreciation written out to the Revaluation Reserve	(3,229)	-	(24)	-	(3,253)
De-recognition – Disposals	-	(936)	(129)	-	(1,065)
De-recognition – Other	-	(1,020)	1,020	-	-
At 31 March 2017	-	23,941	1,020	-	24,961
<b>Net Book Value</b>					
At 31 March 2016	143,506	7,326	1,545	1,850	154,227
At 31 March 2017	134,903	8,039	1,577	1,639	146,158

## 14.2 Movements on Balances 2017/2018

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2017/18	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
Cost or Valuation	£000	£000	£000	£000	£000
At 1 April 2017	134,903	31,980	2,597	1,639	171,119
<b>Additions</b>	<b>1,037</b>	<b>434</b>	<b>-</b>	<b>3,056</b>	<b>4,527</b>
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(971)	-	94	-	(877)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(4,000)	-	(7)	-	(4,007)
De-recognition – Disposals	-	(2,012)	(800)	-	(2,812)
Assets reclassified (to) / from Held for Sale	-	-	-	-	-
Other movements in cost or valuation	-	1,932	-	(1,932)	-
<b>At 31 March 2018</b>	<b>130,969</b>	<b>32,334</b>	<b>1,884</b>	<b>2,763</b>	<b>167,950</b>
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2017	-	23,941	1,020	-	24,961
Depreciation charge	3,012	1,793	25	-	4,830
Depreciation written out to the Revaluation Reserve	(3,012)	-	(25)	-	(3,037)
De-recognition – Disposals	-	(2,012)	(800)	-	(2,812)
De-recognition – Other	-	-	-	-	-
<b>At 31 March 2018</b>	<b>-</b>	<b>23,722</b>	<b>220</b>	<b>-</b>	<b>23,942</b>
<b>Net Book Value</b>					
At 31 March 2017	134,903	8,039	1,577	1,639	146,158
At 31 March 2018	130,969	8,612	1,664	2,763	144,008

### 14.3 Depreciation

The depreciation rates used in the table above are consistent with those described in the accounting policies statement.

### 14.4 Capital Commitments

As at the 31<sup>st</sup> March 2018, the Authority approved capital expenditure in future years of £24.631m of which £7.027m has been contractually committed leaving £17.604m as the uncommitted sum which relates to expenditure on property, plant and equipment.

The largest of these contractual commitments represents:

	£000
• Coventry Fire Station	3,983
• Vehicle Replacement Programme	2,448

### 14.5 Revaluations

The Authority had all of its property assets valued as at 31<sup>st</sup> March 2018 on the basis of current value. The work was completed by qualified external valuers, WHE. Valuations were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors valuation manual 2014 edition which was effective from 6th January 2014 and is International Valuation Standards compliant. The use of the manual means there is certainty with the valuation process.

Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

## 15. FINANCIAL INSTRUMENTS

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### 15.1 Balance Sheet

The following categories of financial instrument are carried in the Balance Sheet:

	Long Term		Current	
	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000
<b>Debtors</b>				
Financial assets carried at contract amounts	-	-	9,048	6,741
<b>Total included in Debtors</b>	-	-	9,048	6,741
<b>Investments</b>				
Cash and Cash Equivalents	-	-	57,428	51,379
<b>Total included in Investments</b>	-	-	57,428	51,379
<b>Borrowings</b>				
Financial liabilities at amortised cost	(34,196)	(33,112)	(1,264)	(1,361)
Financial liabilities at historical cost	(3,167)	(2,890)	(197)	(176)
<b>Total included in Borrowings</b>	<b>(37,363)</b>	<b>(36,002)</b>	<b>(1,461)</b>	<b>(1,537)</b>
<b>Creditors</b>				
Financial liabilities carried at contract amount	-	-	(4,054)	(4,955)
<b>Total included in Creditors</b>	-	-	(4,054)	(4,955)

Debtors excludes payments in advance, Collection Fund and Her Majesty's Revenue and Customs receipts of £6.359m (2016/2017 £6.050m).

Creditors excludes receipts in advance, Collection Fund and Her Majesty's Revenue and Customs payments of £6.682m (2016/2017 £6.872m).

## 15.2 Income, Expense, Gains and Losses

	2016/17			2017/18 <span style="float: right;">Item 5</span>		
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Total £000	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and Receivables £000	Total £000
Interest expense	2,183	-	2,183	2,100	-	2,100
Total expense in Surplus or Deficit on the Provision of Services	2,183	-	2,183	2,100	-	2,100
Interest income	-	(282)	(282)	-	(251)	(251)
Gains on de-recognition	(26)	-	(26)	(996)	-	(996)
Total income in surplus or Deficit on the Provision of Services	(26)	(282)	(308)	(996)	(251)	(1,247)
Net (gain)/loss for the year	2,157	(282)	1,875	1,104	(251)	853

## 15.3 Loans Outstanding

The Authority has its own portfolio of loans payable directly to the PWLB. Loans are also outstanding to Dudley MBC, which represent the Authority's share of the outstanding loan debt of the WMCC abolished in 1986.

Under accounting requirements, the financial instruments shown in the balance sheet are shown at "amortised cost". This is the carrying amount and comprises the principal amount borrowed and adjusted for breakage costs or stepped interest loans (measured by an effective interest rate calculation) and includes accrued interest.

The amounts owing are as follows:

	2016/2017		2017/2018	
	Long-Term £000	Short-Term £000	Long-Term £000	Short-Term £000
<b>PWLB</b>	<b>34,196</b>	<b>1,012</b>	<b>33,112</b>	<b>1,084</b>
<b>Dudley MBC</b>	<b>3,167</b>	<b>252</b>	<b>2,890</b>	<b>277</b>
<b>Total Principal Amount</b>	<b>37,363</b>	<b>1,264</b>	<b>36,002</b>	<b>1,361</b>
<b>Plus Accrued Interest</b>	<b>-</b>	<b>197</b>	<b>-</b>	<b>176</b>
<b>Total Amortised Cost</b>	<b>37,363</b>	<b>1,461</b>	<b>36,002</b>	<b>1,537</b>

## 15.4 Fair Value Measurement

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IFRS 13 requires that local authorities measure some of their financial instruments at fair value and to apply the relevant input levels of the fair value hierarchy that are detailed in 1.9.3 of the Authority's accounting policies.

### 15.4.1 Fair Value of Assets and Liabilities at Amortised Costs

Financial Liabilities and financial assets represented by loans and receivables and long-term creditors and debtors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of cash flows that will take place over the remaining life of the instruments, using the following assumptions:

- Actual ranges of interest rates at 31<sup>st</sup> March 2018 of 9.75% to 3.95% for loans from the PWLB;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than twelve months, the fair value is taken to be the principal outstanding or the billed amount.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

### 15.4.2 Financial Liabilities

The fair values are as follows:

	2016/2017		2017/2018	
	Carry Amount £000	Fair Value £000	Carry Amount £000	Fair Value £000
<b>PWLB Short &amp; Long Term Loans</b>	<b>35,208</b>	<b>63,372</b>	<b>34,196</b>	<b>61,481</b>
<b>Dudley MBC (WMCC)</b>	<b>3,419</b>	<b>3,419</b>	<b>3,167</b>	<b>3,167</b>
<b>Total</b>	<b>38,627</b>	<b>66,791</b>	<b>37,363</b>	<b>64,648</b>

Overall, the fair value for 2017/2018 is greater than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

The fair values for the financial liabilities have been determined by reference to the PWLB redemption rules and prevailing PWLB redemption rates as at each balance sheet date and include accrued interest. The fair value of WMCC debt is taken to be the same as the amount of principal outstanding.

### 15.4.3 Financial Assets

The carrying amount and the fair value of the Authority's financial assets are the same due to the short term nature of the transactions.

### 15.4.4 Fair Value Hierarchy for Financial Assets and Financial Liabilities

The fair value for financial liabilities and financial assets that are not measured at fair value included in Levels 2 in the table below have been arrived at using a discounted cash flow analysis with the most significant inputs being the discount rate.

	Quoted prices in active markets for identical assets  (Level 1) £000	Other significant observable inputs  (Level 2) £000	Significant unobservable inputs  (Level 3) £000	TOTAL 31 March 2017  £000
<b><u>LIABILITIES</u></b>				
Financial Liabilities (Loans)	-	66,791	-	66,791
Plus Accrued Interest	-	197	-	197
<b>Total Borrowing</b>	-	66,988	-	66,988
Creditors	-	4,054	-	4,054
<b>Total Liabilities</b>	-	71,042	-	71,042
<b><u>ASSETS</u></b>				
Cash & Cash Equivalents	-	57,428	-	57,428
<b>Total Investments</b>	-	57,428	-	57,428
Debtors	-	9,048	-	9,048
<b>Total Assets</b>	-	66,476	-	66,476

	Quoted prices in active markets for identical assets	Other significant observable inputs	Significant unobservable inputs	Item 5  TOTAL 31 March 2018
	(Level 1) £000	(Level 2) £000	(Level 3) £000	£000
<b><u>LIABILITIES</u></b>				
Financial Liabilities (Loans)	-	64,648	-	64,648
Plus Accrued Interest	-	176	-	176
<b>Total Borrowing</b>	-	64,824	-	64,824
Creditors	-	4,955	-	4,955
<b>Total Liabilities</b>	-	69,779	-	69,779
<b><u>ASSETS</u></b>				
Cash & Cash Equivalents	-	51,379	-	51,379
Total Investments	-	51,379	-	51,379
Debtors	-	6,741	-	6,741
<b>Total Assets</b>	-	58,120	-	58,120

## 15.5 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.

### 15.5.1 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 £1.163m of the £13.100m Debtors balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31 March 2017 £000	31 March 2018 £000
<b>Less than three months</b>	<b>312</b>	<b>1,148</b>
<b>Three to six months</b>	<b>21</b>	<b>6</b>
<b>Six months to one year</b>	<b>18</b>	<b>6</b>
<b>More than one year</b>	<b>44</b>	<b>3</b>
<b>Total</b>	<b>395</b>	<b>1,163</b>

### 15.5.2 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.

### 15.5.3 Market risk

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

During 2017/18, if interest rates on investments had been 0.25% lower with all other variables held constant, the impact on the CIES would be a fall in interest received of £0.155m (2016/2017 £0.168m). The impact of a 0.25% increase in interest rates would be the same but reversed, interest would increase by £0.155m (2016/2017 £0.168m).

The Authority's borrowing is at fixed rates, therefore there is little flexibility for any movement and impact on the CIES.

## 16. INVENTORIES

	General Stores		Mechanical Stocks		Heating Oil Petrol/ Diesel		Item 5 Total	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Balance outstanding at start of year	339	366	170	168	73	95	582	629
Purchases	470	832	332	280	496	494	1,298	1,606
Recognised as an expense in the year	(443)	(732)	(334)	(283)	(474)	(495)	(1,251)	(1,510)
Written off balances	-	-	-	-	-	-	-	-
Balance outstanding at year-end	366	466	168	165	95	94	629	725

Inventories are valued at the year end and included in the balance sheet at latest price.

## 17. SHORT TERM DEBTORS

31 March 2017 £000		31 March 2018 £000
7,411	Central government bodies	5,177
6,747	Other local authorities	6,529
72	National Health Service bodies	4
14	Public corporations and trading funds	14
854	Other entities and individuals	1,376
15,098	<b>Total Short Term Debtors</b>	<b>13,100</b>

## 18. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2017 £000		31 March 2018 £000
11	Cash held by the Authority	10
57,417	Bank current accounts	51,369
57,428	<b>Total Cash and Cash Equivalents</b>	<b>51,379</b>

## 19. CREDITORS

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Item 5

31 March 2017 £000		31 March 2018 £000
	<b>Creditors - Revenue</b>	
<b>2,399</b>	<b>Central government bodies</b>	<b>2,465</b>
<b>5,264</b>	<b>Other local authorities</b>	<b>5,235</b>
<b>2,877</b>	<b>Other entities and individuals</b>	<b>3,165</b>
<b>10,540</b>	<b>Total Creditors - Revenue</b>	<b>10,865</b>
	<b>Creditors – Capital</b>	
<b>386</b>	<b>Other entities and individuals</b>	<b>772</b>
<b>386</b>	<b>Total Creditors – Capital</b>	<b>772</b>
<b>10,926</b>	<b>Total Creditors</b>	<b>11,637</b>

## 20. PROVISIONS

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### 20.1 Insurance

An insurance provision of £0.426m has been provided for previous years' employee and public liability claims, it is held in line with recommendations of the actuarial valuation. Whilst the Actuary can give advice about the total value of claims they are not able to confirm when these will be submitted.

### 20.2 Holiday Pay – Normal Remuneration

The principle that all employees are entitled to a minimum amount of holiday leave was first confirmed by the European Working Time Directive in 1993. The Directive has been amended many times since its original publication to strengthen the rights of employees and to clarify the payment that should be received. A court ruling judgement made on 31 July 2017 has the effect that during a period of directive leave an employee should receive normal remuneration. It has been agreed with representative bodies that a solution will be implemented to meet the requirements of this court ruling and payments will be backdated to 1 July 2015. A provision of £0.296m has been provided for these payments.

## 21. CASH FLOW STATEMENT – OPERATING ACTIVITIES

21.1 The cash flows for operating activities include the following items. <sup>Item 5</sup>

2016/2017 £000		2017/2018 £000
(304)	Interest received	(283)
2,217	Interest paid	2,121

21.2 The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2016/2017 £000		2017/2018 £000
(4,960)	Depreciation	(4,830)
(4,466)	Impairment and downward valuations	(4,007)
(7)	Amortisation	(6)
-	(Increase)/decrease in impairment for bad debts	41
606	(Increase)/decrease in Creditors	(230)
33	Increase/(decrease) in Debtors	(2,038)
47	Increase/(decrease) in Inventories	95
(56,150)	Movement in pension liability	(54,324)
251	Contributions to Provisions	(296)
(60)	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(1,200)
(64,706)	Net cash (inflows)/outflows from adjustments to net surplus or deficit on the provision of services for non-cash movements	(66,795)

21.3 The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2016/2017 £000		2017/2018 £000
61	Proceeds from the sale of property, vehicles, plant and equipment, investment property and intangible assets	2,131
14	Capital Grants credited to Surplus or Deficit on the provision of services	-
75	Net cash (inflows)/outflows from adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	2,131

## 22. CASH FLOW STATEMENT - INVESTING ACTIVITIES

Item 5

2016/2017 £000		2017/2018 £000
3,393	Purchase of property, vehicles, plant and equipment, investment property and intangible assets	4,141
(61)	Proceeds from the sale of property, vehicles, plant and equipment, investment property and intangible assets	(2,131)
(14)	Capital Grants Received	-
3,318	Net cash (inflows)/outflows from investing activities	2,010

## 23. CASH FLOW STATEMENT - FINANCING ACTIVITIES

2016/2017 £000		2017/2018 £000
1,073	Repayments of short and long term borrowing	1,264

## 24. OFFICERS' REMUNERATION

The remuneration paid to the Authority's senior employees is as follows: <sup>Item 5:</sup>

Total (Inc. pension) 2016/2017 (Restated) £		Salary £	Expenses Allowances £	Total (excluding pension) £	Pension £	Total (including pension) 2017/2018 £
	<b>Senior Officer whose salary is £150,000 or more per year:</b>					
203,700	Chief Fire Officer – Phil Loach	175,046	1,339	176,385	36,443	212,828
	<b>Senior Officers' whose salary is less than £150,000 but equal or more than £50,000 per year:</b>					
164,054	Deputy Chief Fire Officer - Director Service Support	139,685	1,435	141,120	29,199	170,319
153,446	Assistant Chief Fire Officer - Director Service Delivery	131,554	1,397	132,951	27,389	160,340
112,906	Strategic Enabler of Finance and Resources	100,520	-	100,520	18,697	119,217
86,877	Strategic Enabler People Support Services (Note 1)	76,306	1,339	77,645	9,933	87,578
76,173	Strategic Enabler Portfolio (Note 2)	70,681	1,342	72,023	9,712	81,735
63,969	Strategic Enabler Strategic Hub	57,126	-	57,126	10,625	67,751
861,125		750,918	6,852	757,770	141,998	899,768

Note 1: This post now reports to the Chief Fire Officer and not the Deputy Chief Fire Officer.

Note 2: This is a redesignated post with effect from 25 May 2017.

The Authority's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Item 5

Remuneration band	2016/17 Number of employees (Restated)	2017/18 Number of employees
£ 50,000 to £ 54,999	41	40
£ 55,000 to £ 59,999	5	12
£ 60,000 to £ 64,999	9	12
£ 65,000 to £ 69,999	3	1
£ 70,000 to £ 74,999	1	4
£ 75,000 to £ 79,999	0	0
£ 80,000 to £ 84,999	0	0
£ 85,000 to £ 89,999	0	0
<b>Total</b>	<b>59</b>	<b>69</b>

The table above excludes the senior officers who are reported separately.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band [(b) +(c)]		(e) Total cost of exit packages in each band	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
£0 - £20,000	2	-	1	-	3	-	£37,763	-
£20,001 - £40,000	-	-	1	-	1	-	£39,100	-
£40,001 - £60,000	-	-	-	1	-	1	-	£40,949
£60,001 - £80,000	-	-	-	-	-	-	-	-
£80,001 - £100,000	-	-	1	-	1	-	£90,102	-
£100,001 - £150,000	-	-	-	1	-	1	-	£117,674
£150,001 - £200,000	-	-	-	-	-	-	-	-
<b>Total</b>	<b>2</b>	<b>-</b>	<b>3</b>	<b>2</b>	<b>5</b>	<b>2</b>	<b>£166,965</b>	<b>£158,623</b>

The Authority agreed to terminate the contracts of 2 employees in 2017/18, incurring costs of £159k (£167k in 2016/17).

## 25. MEMBERS' ALLOWANCES

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The Authority paid the following amounts to Members of the Authority during the year: <sup>Item 5</sup>

2016/2017 £000		2017/2018 £000
247	Allowances	251
7	Expenses	8
254	Total	259

## 26. EXTERNAL AUDIT COSTS

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Fees payable to external auditors:

2016/2017 £000			2017/2018 £000
39	Grant Thornton	Fees payable for the external planned audit work	38
3		Non-audit services	-
-	Public Sector Audit Appointments	Public Sector refund – Closure of Audit Commission	(5)
42		Total	33

## 27. RELATED PARTIES

The Authority is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

Letters have been sent to Brigade Managers, Statutory Officers and current and former Councillors asking them to identify whether they have any relationships with related parties. No members' of the Authority or Chief Officer or parties related to them have undertaken any disclosable related party transactions during the year.

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

2016/2017 £000	Related Party	Nature of Transaction	2017/2018 £000
27,794	Central Government	Revenue Support Grant	23,202
21,849		Business Rates Retention Scheme Grants	23,465
354		Capital Grant	74
38,603	West Midland Local Authorities	Council Tax Income	39,891
9,760		NDR Income	9,598

Grants received are set out in Note 28.

## 28. GRANT INCOME

28.1 The Authority credited the following grants, contributions and donations to the CIES in 2017/2018: Item 5

	2016/2017 £000	2017/2018 £000
<i>Credited to Taxation and Non Specific Grant Income:</i>		
Revenue Support Grant	27,794	23,202
Business Rates Retention Scheme Grants	21,849	23,465
Capital Grants and Contributions	354	74
<b>Total</b>	<b>49,997</b>	<b>46,741</b>
<i>Credited to Services:</i>		
New Dimension Training Crewing and Accommodation	899	1,133
Fire Control Project	430	325
MHCLG Pre-Transitional Funding (ESMCP)	1,126	167
Fire Reduction Partnership	190	135
Project Management (ESMCP)	-	112
CFOA Seconded Officer National Procurement	55	52
New Risks Section 29	20	28
New Burdens	8	8
Sandwell Partnerships	-	1
Migration Impact Fund	36	-
Fire Control Project (Staffs. collaboration)	11	-
MHCLG Oxford Power Station (NRAT)	7	-
<b>Total</b>	<b>2,782</b>	<b>1,961</b>

### 28.2 Grants – Receipts in Advance

The Authority has received the following grant that has yet to be recognised as income as it has conditions attached to it that could require the monies to be returned to the giver. The balance at the year-end is as follows:

Current Liabilities	31 March 2017 £000	31 March 2018 £000
<i>Grants - Receipts in Advance (Revenue Grants):</i>		
Fire Control Project	405	331

Following the termination of the Fire Control project, any surplus of grant held as at the 31<sup>st</sup> March 2018 by the Authority has been reflected as a Receipt in Advance.

## 29. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the CFR, a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The movement in the CFR is analysed in the second part of this note.

	2016/2017 £000	2017/2018 £000
<i>Opening CFR</i>	39,508	38,764
<b>Capital investment:</b>		
Property, Vehicles, Plant and Equipment	3,677	4,527
<b>Sources of finance:</b>		
Capital Receipts	(1,122)	-
Government grants and other contributions	(2,388)	(173)
<b>Sums set aside from revenue:</b>		
Direct Revenue Contributions	(167)	(4,354)
MRP/the Statutory Repayment of Loans Fund Advances	(744)	(787)
<i>Closing CFR</i>	38,764	37,977

<i>Movements in year</i>	2016/2017 £000	2017/2018 £000
MRP/the Statutory Repayment of Loans Fund Advances	(744)	(787)
<i>Increase/(decrease) in CFR</i>	(744)	(787)

## **30. DEFINED BENEFIT PENSION SCHEMES**

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### **30.1 Participation in Pension Schemes**

Item 5

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

At the 31<sup>st</sup> March 2018 the Authority participated in four post-employment schemes:

- The West Midlands Metropolitan Authorities Pension Fund for civilian and fire control employees, administered locally by Wolverhampton City Council — this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.
- The 1992, 2006 and 2015 Firefighters' Pension Schemes for fire officers — these are unfunded defined benefit arrangements, 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.

### **30.2 Transactions Relating to Post-employment Benefits**

We recognise the cost of retirement benefits in the reported 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 post-employment/retirement benefits is reversed out of the General Fund via the MIRS. The following transactions have been made in the CIES and the General Fund Balance via the MIRS during the year:

2016/2017	Local Government Pension Scheme £000	Firefighters'				Total £000
		Pension Scheme 1992 £000	Pension Scheme 2006 £000	Pension Scheme 2015 £000	Compensation Scheme £000	
<b>CIES</b>						
<b>Cost of services:</b>						
Current service cost	2,524	7,000	160	8,690	430	18,804
Past service costs, including curtailments	165	1,090	130	10	-	1,395
Administration Expenses	37	-	-	-	-	37
<b>Financing and Investment Income and Expenditure:</b>						
Net interest expense	1,431	43,340	1,550	630	1,220	48,171
<b>Total post-employment benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>4,157</b>	<b>51,430</b>	<b>1,840</b>	<b>9,330</b>	<b>1,650</b>	<b>68,407</b>
<b>Other post-employment benefits charged to the CIES:</b>						
<b>Remeasurement of the net defined benefit liability comprising:</b>						
Changes in demographic assumptions	(2,305)	(19,480)	10	-	(1,690)	(23,465)
Changes in financial assumptions	32,102	260,810	21,710	10,880	5,620	331,122
Experience gains and losses	(8,744)	(2,180)	700	(1,250)	(470)	(11,944)
Return on fund assets in excess of interest	(12,861)	-	-	-	-	(12,861)
Other actuarial gains/losses on assets	(3,328)	(40,168)	(21)	7,598	-	(35,919)
<b>Total post-employment benefits charged to the CIES</b>	<b>9,021</b>	<b>250,412</b>	<b>24,239</b>	<b>26,558</b>	<b>5,110</b>	<b>315,340</b>
<b>MIRS</b>						
<b>Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code</b>	<b>(4,157)</b>	<b>(51,430)</b>	<b>(1,840)</b>	<b>(9,330)</b>	<b>(1,650)</b>	<b>(68,407)</b>
<b>Actual amount charged against the General Fund Balance for Pensions in the year:</b>						
Employers' contributions payable to the scheme	2,733	3,772	69	4,058		10,632
Retirement benefits payable to pensioners	55				1,570	1,625

2017/2018	Local Government Pension Scheme £000	Firefighters'				Total £000
		Pension Scheme 1992 £000	Pension Scheme 2006 £000	Pension Scheme 2015 £000	Compensation Scheme £000	
<b>CIES</b>						
<i>Cost of services:</i>						
Current service cost	4,291	7,030	160	14,100	420	26,001
Past service costs, including curtailments	102	1,040	-	-	10	1,152
Administration Expenses	40	-	-	-	-	40
<b>Financing and Investment Income and Expenditure:</b>						
Net interest expense	1,183	38,930	1,800	1,140	1,010	44,063
<b>Total post-employment benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>5,616</b>	<b>47,000</b>	<b>1,960</b>	<b>15,240</b>	<b>1,440</b>	<b>71,256</b>
<b>Other post-employment benefits charged to the CIES:</b>						
<b>Remeasurement of the net defined benefit liability comprising:</b>						
Changes in demographic assumptions	-	(36,690)	(1,160)	(2,240)	(1,350)	(41,440)
Changes in financial assumptions	(4,194)	40,320	5,190	270	310	41,896
Experience gains and losses	-	(29,450)	(1,910)	(1,260)	3,980	(28,640)
Return on fund assets in excess of interest	2,577	-	-	-	-	2,577
Other actuarial gains/losses on assets	-	(37,440)	88	8,046	-	(29,306)
<b>Total post-employment benefits charged to the CIES</b>	<b>3,999</b>	<b>(16,260)</b>	<b>4,168</b>	<b>20,056</b>	<b>4,380</b>	<b>16,343</b>
<b>MIRS</b>						
<b>Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code</b>	<b>(5,616)</b>	<b>(47,000)</b>	<b>(1,960)</b>	<b>(15,240)</b>	<b>(1,440)</b>	<b>(71,256)</b>
<b>Actual amount charged against the General Fund Balance for Pensions in the year:</b>						
Employers' contributions payable to the scheme	2,846	2,950	58	4,276		10,130
Retirement benefits payable to pensioners	54				1,580	1,634

### 30.3 Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the balance sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

<b>2016/2017</b>	<b>Funded liabilities: Local Government Pension Scheme</b>	<b>Unfunded liabilities: Local Government Pension Scheme</b>	<b>Unfunded liabilities: Firefighters' Pension Scheme 1992</b>	<b>Unfunded liabilities: Firefighters' Pension Scheme 2006</b>	<b>Unfunded liabilities: Firefighters' Pension Scheme 2015</b>	<b>Unfunded liabilities: Firefighters' Compensation Scheme</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Present value of the defined benefit obligation</b>	<b>(136,485)</b>	<b>(743)</b>	<b>(1,485,120)</b>	<b>(67,650)</b>	<b>(34,280)</b>	<b>(38,550)</b>	<b>(1,762,828)</b>
<b>Fair value of plan assets</b>	<b>91,013</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>91,013</b>
<b>Net liability arising from defined benefit obligation</b>	<b>(45,472)</b>	<b>(743)</b>	<b>(1,485,120)</b>	<b>(67,650)</b>	<b>(34,280)</b>	<b>(38,550)</b>	<b>(1,671,815)</b>

<b>2017/2018</b>	<b>Funded liabilities: Local Government Pension Scheme</b>	<b>Unfunded liabilities: Local Government Pension Scheme</b>	<b>Unfunded liabilities: Firefighters' Pension Scheme 1992</b>	<b>Unfunded liabilities: Firefighters' Pension Scheme 2006</b>	<b>Unfunded liabilities: Firefighters' Pension Scheme 2015</b>	<b>Unfunded liabilities: Firefighters' Compensation Scheme</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Present value of the defined benefit obligation</b>	<b>(138,945)</b>	<b>(700)</b>	<b>(1,465,910)</b>	<b>(71,760)</b>	<b>(50,060)</b>	<b>(41,350)</b>	<b>(1,768,725)</b>
<b>Fair value of plan assets</b>	<b>97,499</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>97,499</b>
<b>Net liability arising from defined benefit obligation</b>	<b>(41,446)</b>	<b>(700)</b>	<b>(1,465,910)</b>	<b>(71,760)</b>	<b>(50,060)</b>	<b>(41,350)</b>	<b>(1,671,226)</b>

### 30.4 Reconciliation of the movements in the fair value of scheme (plan) assets:

<b>2016/2017</b>	<b>Funded assets: Local Government Pension Scheme £000</b>	<b>Unfunded assets: Local Government Pension Scheme £000</b>	<b>Unfunded assets: Firefighters' Pension Scheme 1992 £000</b>	<b>Unfunded assets: Firefighters' Pension Scheme 2006 £000</b>	<b>Unfunded assets: Firefighters' Pension Scheme 2015 £000</b>	<b>Unfunded assets: Firefighters' Compensation Scheme £000</b>	<b>Total £000</b>
Opening fair value of scheme assets	72,133	-	-	-	-	-	72,133
Interest income	2,670	-	-	-	-	-	2,670
<b>Remeasurement gain/(loss):</b>							
Return on assets less interest	12,861	-	-	-	-	-	12,861
Other actuarial gains/(losses)	3,328	-	40,168	21	(7,598)	-	35,919
Contributions from Employer	2,733	55	3,772	69	4,058	1,570	12,257
Contributions from employees into the scheme	737	-	2,180	60	3,540	-	6,517
Benefits paid	(3,412)	(55)	(46,120)	(150)	-	(1,570)	(51,307)
Administration expenses	(37)	-	-	-	-	-	(37)
<b>Closing fair value of scheme assets</b>	<b>91,013</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>91,013</b>

<b>2017/2018</b>	<b>Funded assets: Local Government Pension Scheme £000</b>	<b>Unfunded assets: Local Government Pension Scheme £000</b>	<b>Unfunded assets: Firefighters' Pension Scheme 1992 £000</b>	<b>Unfunded assets: Firefighters' Pension Scheme 2006 £000</b>	<b>Unfunded assets: Firefighters' Pension Scheme 2015 £000</b>	<b>Unfunded assets: Firefighters' Compensation Scheme £000</b>	<b>Total £000</b>
Opening fair value of scheme assets	91,013	-	-	-	-	-	91,013
Interest income	2,638	-	-	-	-	-	2,638
<b>Remeasurement gain/(loss):</b>							
Return on assets less interest	(2,577)	-	-	-	-	-	(2,577)
Other actuarial gains/(losses)	-	-	37,440	(88)	(8,046)	-	29,306
Contributions from Employer	8,014	54	2,950	58	4,276	1,580	16,932
Contributions from employees into the scheme	776	-	1,710	60	3,790	-	6,336
Benefits paid	(2,325)	(54)	(42,100)	(30)	(20)	(1,580)	(46,109)
Administration expenses	(40)	-	-	-	-	-	(40)
<b>Closing fair value of scheme assets</b>	<b>97,499</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>97,499</b>

### 30.5 Reconciliation of present value of the scheme liabilities (defined benefit obligation):

2016/2017	Funded liabilities: Local Government Pension Scheme £000	Unfunded liabilities: Local Government Pension Scheme £000	Unfunded liabilities: Firefighters' Pension Scheme 1992 £000	Unfunded liabilities: Firefighters' Pension Scheme 2006 £000	Unfunded liabilities: Firefighters' Pension Scheme 2015 £000	Unfunded liabilities: Firefighters' Compensation Scheme £000	Total £000
Opening balance at 1 April	(111,379)	(736)	(1,238,480)	(43,480)	(11,780)	(35,010)	(1,440,865)
Current service cost	(2,524)	-	(7,000)	(160)	(8,690)	(430)	(18,804)
Interest cost	(4,075)	(26)	(43,340)	(1,550)	(630)	(1,220)	(50,841)
Contributions from scheme participants	(737)	-	(2,180)	(60)	(3,540)	-	(6,517)
Remeasurement gains and (losses):							
Changes in demographic assumptions	2,247	58	19,480	(10)	-	1,690	23,465
Changes in financial assumptions	(32,016)	(86)	(260,810)	(21,710)	(10,880)	(5,620)	(331,122)
Experience gains/(losses)	8,752	(8)	2,180	(700)	1,250	470	11,944
Past service costs, including curtailments	(165)	-	(1,090)	(130)	(10)	-	(1,395)
Benefits paid	3,412	55	46,120	150	-	1,570	51,307
Closing balance at 31 March	(136,485)	(743)	(1,485,120)	(67,650)	(34,280)	(38,550)	(1,762,828)

<b>2017/2018</b>	<b>Funded liabilities: Local Government Pension Scheme</b>	<b>Unfunded liabilities: Local Government Pension Scheme</b>	<b>Unfunded liabilities: Firefighters' Pension Scheme 1992</b>	<b>Unfunded liabilities: Firefighters' Pension Scheme 2006</b>	<b>Unfunded liabilities: Firefighters' Pension Scheme 2015</b>	<b>Unfunded liabilities: Firefighters' Compensation Scheme</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Opening balance at 1 April</b>	<b>(136,485)</b>	<b>(743)</b>	<b>(1,485,120)</b>	<b>(67,650)</b>	<b>(34,280)</b>	<b>(38,550)</b>	<b>(1,762,828)</b>
<b>Current service cost</b>	<b>(4,291)</b>	<b>-</b>	<b>(7,030)</b>	<b>(160)</b>	<b>(14,100)</b>	<b>(420)</b>	<b>(26,001)</b>
<b>Interest cost</b>	<b>(3,801)</b>	<b>(20)</b>	<b>(38,930)</b>	<b>(1,800)</b>	<b>(1,140)</b>	<b>(1,010)</b>	<b>(46,701)</b>
<b>Contributions from scheme participants</b>	<b>(776)</b>	<b>-</b>	<b>(1,710)</b>	<b>(60)</b>	<b>(3,790)</b>	<b>-</b>	<b>(6,336)</b>
<b>Remeasurement gains and (losses):</b>							
<b>Changes in demographic assumptions</b>	<b>-</b>	<b>-</b>	<b>36,690</b>	<b>1,160</b>	<b>2,240</b>	<b>1,350</b>	<b>41,440</b>
<b>Changes in financial assumptions</b>	<b>4,185</b>	<b>9</b>	<b>(40,320)</b>	<b>(5,190)</b>	<b>(270)</b>	<b>(310)</b>	<b>(41,896)</b>
<b>Experience gains/(losses)</b>	<b>-</b>	<b>-</b>	<b>29,450</b>	<b>1,910</b>	<b>1,260</b>	<b>(3,980)</b>	<b>28,640</b>
<b>Past service costs, including curtailments</b>	<b>(102)</b>	<b>-</b>	<b>(1,040)</b>	<b>-</b>	<b>-</b>	<b>(10)</b>	<b>(1,152)</b>
<b>Benefits paid</b>	<b>2,325</b>	<b>54</b>	<b>42,100</b>	<b>30</b>	<b>20</b>	<b>1,580</b>	<b>46,109</b>
<b>Closing balance at 31 March</b>	<b>(138,945)</b>	<b>(700)</b>	<b>(1,465,910)</b>	<b>(71,760)</b>	<b>(50,060)</b>	<b>(41,350)</b>	<b>(1,768,725)</b>

### 30.6 Local Government Pension Scheme assets comprised:

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Asset category	Quoted £000	Unquoted £000	31 March 2017 £000	%
<b>Equity Instruments:</b>				
UK quoted	7,571	-	7,571	8.3
UK unquoted	-	1,102	1,102	1.2
Global quoted	10,861	-	10,861	11.9
Global unquoted	-	7,512	7,512	8.3
Europe	7,789	-	7,789	8.6
Japan	4,023	-	4,023	4.4
Pacific Basin	4,396	-	4,396	4.8
North America	8,525	-	8,525	9.4
Emerging markets	7,484	-	7,484	8.2
<b>Total Equity Instruments</b>	<b>50,649</b>	<b>8,614</b>	<b>59,263</b>	<b>65.1</b>
<b>Bonds:</b>				
UK Government	-	6,614	6,614	7.3
Other	5,086	3,288	8,374	9.2
<b>Total Bonds</b>	<b>5,086</b>	<b>9,902</b>	<b>14,988</b>	<b>16.5</b>
<b>Property:</b>				
UK	-	4,844	4,844	5.3
Property funds	-	2,069	2,069	2.3
<b>Total Property</b>	<b>-</b>	<b>6,913</b>	<b>6,913</b>	<b>7.6</b>
<b>Alternatives:</b>				
Infrastructure	104	2,525	2,629	2.9
Absolute return	-	4,662	4,662	5.1
<b>Total Alternatives</b>	<b>104</b>	<b>7,187</b>	<b>7,291</b>	<b>8.0</b>
<b>Cash:</b>				
Cash instruments	-	2,308	2,308	2.5
Cash accounts	-	250	250	0.3
<b>Total Cash</b>	<b>-</b>	<b>2,558</b>	<b>2,558</b>	<b>2.8</b>
<b>Total Assets</b>	<b>55,839</b>	<b>35,174</b>	<b>91,013</b>	<b>100</b>

Asset category	Quoted £000	Unquoted £000	31 March 2018 £000	Item 5 %
<b>Equity Instruments:</b>				
UK quoted	9,559	-	9,559	9.7
UK unquoted	-	1,353	1,353	1.4
Global quoted	9,245	-	9,245	9.5
Global unquoted	-	6,290	6,290	6.5
Europe	8,465	-	8,465	8.7
Japan	4,231	-	4,231	4.3
Pacific Basin	4,359	-	4,359	4.5
North America	8,630	-	8,630	8.9
Emerging markets	7,906	-	7,906	8.1
<b>Total Equity Instruments</b>	<b>52,395</b>	<b>7,643</b>	<b>60,038</b>	<b>61.6</b>
<b>Bonds:</b>				
UK Government	-	6,667	6,667	6.8
Other	4,396	4,621	9,017	9.3
<b>Total Bonds</b>	<b>4,396</b>	<b>11,288</b>	<b>15,684</b>	<b>16.1</b>
<b>Property:</b>				
UK	-	5,536	5,536	5.6
Property funds	-	2,202	2,202	2.3
<b>Total Property</b>	<b>-</b>	<b>7,738</b>	<b>7,738</b>	<b>7.9</b>
<b>Alternatives:</b>				
Infrastructure	-	4,052	4,052	4.1
Absolute return	-	3,860	3,860	4.0
<b>Total Alternatives</b>	<b>-</b>	<b>7,912</b>	<b>7,912</b>	<b>8.1</b>
<b>Cash:</b>				
Cash instruments	-	5,290	5,290	5.4
Cash accounts	-	837	837	0.9
<b>Total Cash</b>	<b>-</b>	<b>6,127</b>	<b>6,127</b>	<b>6.3</b>
<b>Total Assets</b>	<b>56,791</b>	<b>40,708</b>	<b>97,499</b>	<b>100</b>

### 30.7 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Firefighters' Pension Scheme has been assessed using an approach and model supplied by GAD and certified by them on 20 April 2018. The West Midlands Metropolitan Authorities Pension Fund has been based on triennial actuarial valuations, the last review being 31 March 2016 and assessed by Barnett Waddingham. In calculating the IAS19 figures for the West Midlands Metropolitan Authorities Pension Fund the actuary assumed an investment return of 0%. The actual return for the year to the 31 March 2018 was 3.24%.

The significant assumptions used by the actuary have been:

	Local Government Pension Scheme		Firefighters' Pension Schemes	
	2016/2017	2017/2018	2016/2017	2017/2018
<b>Mortality assumptions:</b>				
<b>Longevity at 65 for current pensioners:</b>				
• Men	21.8	21.9	22.4	21.9
• Women	24.2	24.3	22.4	21.9
<b>Longevity at 65 for future pensioners:</b>				
• Men	23.9	24.0	24.7	23.9
• Women	26.5	26.6	24.7	23.9
<b>Rate of inflation CPI</b>	2.7%	2.3%	2.35%	2.3%
<b>Rate of increase in salaries</b>	4.2%*	3.8%*	4.35%**	4.3%
<b>Rate of increase in pensions</b>	2.7%	2.3%	2.35%	2.3%
<b>Rate for discounting scheme liabilities</b>	2.8%	2.55%	2.65%	2.55%

\* Allowed for short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI. This is consistent with the 2016 valuation of the Fund.

\*\* Allowed for short-term pay restraint by limiting the nominal rate of salary growth to 1.00% each year until the end of 2019/20 accounting year in line with stated Government policy on short-term pay.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the schemes i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

A sensitivity analysis for the West Midlands Metropolitan Authorities Pension Fund as at 31 March 2018 is shown below:

Sensitivity analysis	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	(136,934)	(139,645)	(142,413)
Projected service cost	(4,014)	(4,109)	(4,207)
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	(139,982)	(139,645)	(139,311)
Projected service cost	(4,109)	(4,109)	(4,109)
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	(142,080)	(139,645)	(137,260)
Projected service cost	(4,207)	(4,109)	(4,013)
Adjustment to life expectancy assumptions	+1 year	None	-1 Year
Present value of total obligation	(144,746)	(139,645)	(134,730)
Projected service cost	(4,240)	(4,109)	(3,982)

The tables below show the sensitivity of the defined benefit obligation to changes in the significant actuarial assumptions and the impact on the total liability as at 31 March 2018 for the Firefighters' Pension Schemes:

Firefighters' Pension Scheme 1992 Change in assumption*	Approximate % increase to Employer liability	Approximate effect on total liability £m
0.5% increase in real discount rate	-9.0%	132
0.5% increase in long term salaries rate	1.0%	(15)
0.5% increase in the pensions increase rate	7.5%	(110)
1 year increase in member life expectancy	2.5%	(37)

The weighted average duration of the defined benefit obligation for scheme members is approximately 18 years.

Firefighters' Pension Scheme 2006 Change in assumption*	Approximate % increase to Employer liability	Approximate effect on total liability £m
0.5% increase in real discount rate	-18.0%	13
0.5% increase in salaries rate	8.5%	(6)
0.5% increase in the pensions increase rate	10.0%	(7)
1 year increase in member life expectancy	3.0%	(2)

The weighted average duration of the defined benefit obligation for scheme members is approximately 34 years.

<b>Firefighters' Pension Scheme 2015 Change in assumption*</b>	<b>Approximate % increase to Employer liability</b>	<b>Approximate effect on total liability Item 5 £m</b>
<b>0.5% increase in real discount rate</b>	<b>-18.0%</b>	<b>9</b>
<b>0.5% increase in salaries rate</b>	<b>8.0%</b>	<b>(4)</b>
<b>0.5% increase in the pensions increase rate</b>	<b>10.0%</b>	<b>(5)</b>
<b>1 year increase in member life expectancy</b>	<b>2.0%</b>	<b>(1)</b>

The weighted average duration of the defined benefit obligation for scheme members is approximately 34 years.

\* Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

### **30.8 Impact on the Authority's Cash Flows**

The objective of the Local Government Pension scheme is to keep employers' contributions at as constant a rate as possible. The West Midlands Metropolitan Authorities Pension Fund has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed for 31 March 2019.

The Local Government Pension scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings scheme to pay pensions and other benefits to certain public servants.

The £7.9m payment to the West Midlands Pension Fund on 28 April 2017 for employer pension contributions for the Local Government Pension Scheme, included payments for the 1st April 2017 to 31<sup>st</sup> March 2018 £2.72m, 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2019 £2.63m and 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020 £2.54m.

Expected employers' contributions for the firefighters' pension schemes in the year to 31 March 2019 are approximately £7m.

## 31. CONTINGENT LIABILITIES

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### 31.1 Municipal Mutual Insurance Limited (MMI)

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MMI, through which the Authority had part of its insurance, ceased writing new insurance business in 1992 and is currently using its available resources to meet outstanding claims. MMI may not know the full extent of its liability claims as it may take a number of years for them to arise, however the Company has continued to settle claims in an orderly manner. To prevent the costs associated with an insolvent run off, the Company entered into a scheme of arrangement with its creditors. Following a Supreme Court judgement on 28<sup>th</sup> March 2012 which found against the Company, it is now highly likely that the scheme of arrangement will be triggered. Once the scheme is implemented, the Authority and others will be called upon to reimburse the company with a proportion (up to 100%) of its claims settled since 1<sup>st</sup> October 1993. The Contingent Liability is for approximately 50% (£2.060m). Payments of £0.402m (2013/14) & £0.268m (2016/17) have been made and an earmarked reserve is provided for £0.037m. The balance is held in the insurance earmarked reserve (£1.353m).

### 31.2 Firefighters' Pension Scheme (FPS) 2015 – Transitional Protection

The Fire Brigade Union filed a Notice of Appeal on 17 March 2017, seeking to set aside the decision made by the Employment Tribunal (ET) in the age discrimination claims made by more than 6,000 firefighters regarding the introduction of the 2015 FPS.

The Employment Tribunal's decision has now been overturned by the Employment Appeal Tribunal (EAT). The case will now be returned or 'remitted' to the ET, which will have to weigh up properly the Government's alleged need to implement the 2015 transitional arrangements against the damage that they did to firefighters who missed out on protection just because of their age. The EAT agreed that the ET had to conduct this balancing exercise and failed to do so.

### 31.3 Walker v Innospec Limited

In July 2017 the Supreme Court handed down judgement in the case of Walker v Innospec Limited and others. The Supreme Court found that it is unlawful to restrict the survivor's pension payable to a surviving civil partner or same sex spouse so that it reflects only the member's pensionable service since 5 December 2005 (the date on which the Civil Partnership Act 2004 came into force). The full implications of the judgement for public pension schemes are unclear.

## 32. OTHER OPERATING EXPENDITURE

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2016/2017 £000		2017/2018 £000
(26)	<b>(Gains)/losses on the disposal of non-current assets</b>	<b>(996)</b>
-	<b>Levies</b>	<b>308</b>
(26)	<b>Total</b>	<b>(688)</b>

## PENSION FUND ACCOUNT

2016/2017 £000					2017/2018 £000			
1992	2006	Modified	2015		1992	2006	Modified	2015
				<b>Contributions Receivable</b>				
				<b>From Fire Authority</b>				
(3,291)	(47)	(22)	(4,058)	<b>Contributions in relation to pensionable pay</b>	(2,623)	(36)	(22)	(4,276)
(481)	-	-	-	<b>Ill health retirements</b>	(327)	-	-	-
(2,183)	(43)	(24)	(3,538)	<b>From firefighters' contributions</b>	(1,712)	(33)	(24)	(3,792)
				<b>Transfers in</b>				
-	(133)	-	(6)	<b>Individual</b>	-	-	-	-
				<b>Benefits Payable</b>				
36,968	16	7	-	<b>Pensions</b>	37,741	9	7	-
8,084	-	-	-	<b>Commutations and lump sum retirement benefits</b>	4,397	-	-	-
1,095	-	-	-	<b>Lump sum employee contributions holiday</b>	10	-	-	-
-	99	-	-	<b>Lump sum death benefits</b>	-	-	-	-
				<b>Payments to and on account of leavers</b>				
-	32	-	-	<b>Individual transfers</b>	20	5	-	25
40,192	(76)	(39)	(7,602)	<b>Net amount payable for the year</b>	37,506	(55)	(39)	(8,043)
(40,192)	76	39	7,602	<b>Top up Grant payable by the Government</b>	(37,506)	55	39	8,043
-	-	-	-		-	-	-	-

2016/2017 £000	NET ASSETS STATEMENT	2017/2018 £000
-	Ill health retirements	44
-	Commutations and lump sum retirement benefits	(68)
(371)	Lump sum employee contributions holiday	-
7,347	Top-up receivable from the Government	4,767
(6,976)	Amount owing to General Fund	(4,743)
-		-

## NOTES TO THE PENSION FUND ACCOUNT

The fund was established at 1<sup>st</sup> April 2006 under the Firefighters' Pension Scheme (Amendment) England Order 2006 and covered both the 1992 and 2006 Firefighters' Pension Schemes. From 1<sup>st</sup> April 2015, a new firefighters' pension scheme and a modified section in the 2006 scheme was established. The fund now includes the 1992, 2006 and 2015 schemes. Before 1<sup>st</sup> 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 MHCLG.

Government funding by top-up grant is paid in two installments, 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 MHCLG and are subject to revaluation every four years' by GAD. The contribution rates for 2017/18 are shown in the tables below:

	1992 Scheme %	2006 Scheme %	Modified %
<b>Employer's</b>	<b>21.7</b>	<b>11.9</b>	<b>21.7</b>
<b>Employees' Pensionable pay band</b>			
Up to £15,454	11.0	8.5	11.0
> £15,454 to £21,636	12.2	9.4	12.2
> £21,636 to £30,909	14.2	10.4	14.2
> £30,909 to £41,212	14.7	10.9	14.7
> £41,212 to £51,515	15.2	11.2	15.2
> £51,515 to £61,818	15.5	11.3	15.5
> £61,818 to £103,030	16.0	11.7	16.0
> £103,030 to £123,636	16.5	12.1	16.5
> £123,636	17.0	12.5	17.0

	2015 Scheme %
<b>Employer's</b>	<b>14.3</b>
<b>Employees' Pensionable pay band</b>	
Up to £27,543	10.5
£27,544 to £51,005	12.7
£51,006 to £142,500	13.5
£142,501 or more	14.5

The fund is administered by the Authority and managed by the Strategic Enabler of Finance and Resources. Benefits are paid to retired officers, their survivors and others who are eligible for benefits under both the 1992, 2006 and 2015 Firefighters' Pension Schemes.

Item 5

The fund is statutorily prevented from including interest on cashflows and administration expenses in the pension fund. These expenses are borne by the Authority in its main accounts.

The Net Assets Statement does not include liabilities to pay pensions and other benefits after the 31<sup>st</sup> March 2018. For further information on the liability to pay pensions see Note 30.

The account is prepared in accordance with the same code of practice and accounting policies as outlined in the Statement of Accounting Policies, with one exception that accounting for transfer values are on a cash basis rather than accruals basis.

# ANNUAL GOVERNANCE STATEMENT

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Item 5

## 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, that public money is safeguarded and properly accounted for. 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 The Authority has complied with the code of corporate governance which is consistent with the principles of the revised CIPFA/SOLACE Framework 2016 published by CIPFA in association with the International Federation of Accountants (IFAC) – Delivering Good Governance in Local Government. The Authority has also complied with the requirements of CIPFA's statement on the role of the Chief Financial Officer in Local Government. This Annual Governance Statement explains how the Authority has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2015, regulation 6 which require the Authority to prepare an Annual Governance Statement.

## 2. The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems and processes, culture and values by which the Authority is directed and controlled and its activities through which it accounts to 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. It cannot eliminate all risk of failure to achieve policies, aims and objectives and 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 and potential impact of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place for the year ended 31<sup>st</sup> March 2018 and up to the date of the approval of the annual report and statement of accounts.

### **3. The Governance Framework**

The key elements of the systems and processes that comprise the Authority's governance arrangements include the following:- Item 5

- 3.1 The Authority has produced a Corporate Strategy 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 and consultation on the key priorities of the Service. 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. 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 Committees including the terms of reference is reviewed annually and 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 whistle blowing policy. There is a comprehensive induction programme in place and information regarding strategies and procedures are held on the intranet, which continues to be developed. The Authority has a strong Internal Audit function and established protocols for working with External Audit.
- 3.5 West Midlands Fire and Rescue Authority will continue to enhance and strengthen its internal control environment through the review of current policies and procedures.
- 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 Audit Committee and risk management is a specific responsibility of both the Chairman and Vice Chairman.
- 3.7 The Authority's Corporate 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 likelihood and impact). The Register identifies risk owners whose responsibility includes the identification of controls and actions to manage them efficiently, effectively and economically.
- 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.

#### Item 5

- 3.9 The Chief Financial Officer is a key member of the leadership team, helping to develop and implement the Authority's strategy. The Authority's financial system is 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 are approved and regularly reviewed by the Authority. 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 within its committee framework has a Standards Committee to promote high ethical standards amongst Members. This Committee leads on developing policies and procedures to accompany the Code of Conduct for Members and is responsible for local assessment and review of complaints about members' conduct. The Authority also has a Scrutiny Committee which undertakes performance management functions and informs policy development.
- 3.12 The Fire and Rescue National Framework for England sets out a requirement for Fire and Rescue Authorities to publish 'Statements of Assurance'. Specifically, Fire and Rescue Authorities must provide assurance on financial, governance and operational matters and show how they have had due regard to the expectations set out in their integrated risk management plan and the requirements included in this Framework. The Authority has approved the Statement of Assurance which is available on the Service's website.

## **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 of effectiveness is informed by the work of the statutory officers and principal managers of the Authority who have responsibility for the development and maintenance of the governance environment, the internal audit annual report and comments made by the external auditors in their annual audit letter and other reports.
- 4.2 Section unit business plans contain a variety of performance indicators and targets that are regularly reviewed.

4.3 The Authority's political governance arrangements, which are appropriately reviewed by officers, set out the responsibilities of both Members and senior managers. In particular the Authority has identified the following statutory post holders:-

Item 5

- Chief Fire Officer
- Treasurer
- Monitoring Officer

In addition to the statutory posts, the post of Clerk to the Authority has been maintained.

4.4 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 2015. The internal audit provision operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government. 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.

4.5 The resulting Audit Plan is discussed and agreed with officers of the Strategic Enabling Team and the Audit Committee and shared with the Authority's external auditor. 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.

4.6 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;
- Other work undertaken by independent inspection bodies.

4.7 From the work undertaken by Internal Audit in 2017/2018 the Internal Audit has given a 'reasonable assurance' that the Authority has adequate and effective governance, risk management and internal control processes. This represents an unqualified opinion and the highest level of assurance available to Audit Services. In giving this opinion it is recognised that assurance can never be absolute. The most that internal audit can provide is reasonable assurance that there are no major weaknesses in the Authority's governance, risk management and control processes.

4.8 The Authority is able to confirm that its financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

4.9 Audit Services have reported and advised on the implications of the result of the review of effectiveness of the governance framework by the sources noted above and that the arrangements continue to be regarded as fit for purpose in accordance with the Authority's governance framework. The areas to be specifically addressed are outlined in 5.5.

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

5.1 West Midlands Fire & Rescue Authority has a legal duty to provide an efficient, safe and effective fire and rescue service. The key priorities are:-

- Prevention – Safer and healthier communities
- Protection – stronger business communities
- Response – dealing effectively with emergencies

5.2 These form the basis of the Authority's Corporate Strategy known as The Plan 2017-2020 which sets out the outcomes and priorities based on the Community Safety Strategy. The five-minute attendance standard lies at the heart of the Service Delivery Model. The model shows how staff provide the core prevention, protection and response services to make the West Midlands safer, stronger and healthier.

5.3 Grant Thornton, the Authority's External Auditors, published the Audit Findings Report for its 2016/2017 audit work which reported an unqualified opinion on the financial statements. It also issued an unqualified value for money conclusion stating that the Authority had proper arrangements in all significant respects to ensure it delivered value for money in the use of resources.

5.4 Based on audit work undertaken during the year an Annual Internal Audit Report was presented to the Audit Committee on 4 June 2018, Audit work which was completed in 2017/2018 included:-

- Risk Management
- Fixed Asset Accounting
- Fire Stations – Management of Fuel
- Accounts Receivable
- Partnerships
- Accounts Payable
- Absence Management
- Budgetary Control
- Payroll
- Governance
- Environmental Protection Targets
- Data Protection / IT
- Pensions Certification

## 5.5 As a result of these audits the following were identified as the main issues:-

### Absence Management

A review was undertaken to provide assurance on the level of compliance with the requirements of the absence management policy. One fundamental and one significant issue was identified relating to:

- examples were found of managers uploading copies of fit notes to HMRS. The sharing of data without the specific consent of the employee is a breach of the data protection regulations and could lead to action being taken by the Information Commissioner's Office (ICO) and fines applied. The introduction of the new General Data Protection Regulations (GDPR), effective from 25 May 2018, will have a greater impact in terms of fines, as the maximum potential fine per breach will increase from £500,000 to £17million.
- during the review, one manager reported that they still received absence triggers/alerts in respect of staff for whom they no longer had operational responsibility. Again, the sharing of this data is a breach.

### Fire Stations – Management of Fuel

The procedures for management of fuel are contained within Standing Order 9/1. The purpose of the review was to provide assurance on compliance with established controls relating to ordering, receipt and dispensing of fuel at a sample of stations. Issues of significance identified related to:

- fuel being ordered when the tank was below the re-order level. In addition, it is a requirement that fuel is delivered within two days. This target was not always achieved. This exposes the Authority to the risk of having insufficient fuel to provide the level of service required.
- it is a requirement of the standing order to report variances between fuel book stock and physical stock, which exceed 150 litres. Examples were found where such variances were not reported and as such, not investigated.

### Partnerships

A review was undertaken to provide assurance that partnership agreements had been properly established and that effective governance and monitoring arrangements were in place to ensure that expected outcomes were achieved. Two issues of significance were identified relating to:

- the "Partnerships Governance Arrangements and Framework" document, which details the key processes to be followed in setting up a partnership, states that the Partnerships Team will undertake quality assurance checks and provide assurance that:
  - each partnership agreement has clearly defined roles and responsibilities and strong governance arrangements in place.
  - effective partnership monitoring arrangements are in operation.

These quality assurance checks had yet to commence. As such, there was a risk that the initial momentum generated by the Partnership Team could stall, resulting in a lack of consistency in approach by partnership facilitators and learning opportunities missed. Thus, undermining a key goal of the Authority of establishing effective partnership arrangements.

- it is a policy of the Authority, that as part of the governance and planning of all partnership arrangements and partnership activity, that as a minimum an Initial Equality Impact Assessment (IEIA) is undertaken. However, the IEIAs were not being completed and the authority could therefore, be in breach of the Equality Act 2010. This could expose the Authority to the risk of enforcement action being taken by the Equality and Human Rights Commission or result in a legal challenge.

5.6 The main issues outlined above, together with any other issues highlighted in the Annual Internal Audit Report have been raised with relevant managers and actions have been taken to achieve improvements.

5.7 As part of the Finance Settlement for 2016/17, an offer was made for a multiyear funding settlement. Any Authority wishing to take up the four year funding settlement to 2019/20 was required to set out their proposals in an Efficiency Plan to qualify for the four year settlement from April 2016. The Authority considered and approved the Efficiency Plan which was submitted to the Home Office. In February 2018, the Secretary of State for Ministry of Housing, Communities and Local Government confirmed the Authority's funding settlement for 2018/19. The core funding reduction of approximately £1.7m in 2018/2019 is broadly in line with the provisional four year settlement. At this stage the provisional four year settlement is considered to be a reasonable basis to formulate medium term financial planning although a further core funding reduction of £1m has been assumed in year 3 (2020/21) of the medium term financial plan, given that it extends beyond the Efficiency Plan timescales.

5.8 With the anticipation of cuts to government funding continuing into future years, the Authority faces considerable financial pressures which could result in difficulties to deliver an efficient and effective service, which in turn would increase the risk to the communities of the West Midlands. A key aim for the Authority is to therefore identify and deliver further Service efficiencies to ensure the ongoing stability of the Authority's financial position.

## 6. Certification

6.1 To the best of our knowledge, the governance arrangements, as outlined above have been effectively operating during the year with the exception of those areas identified as requiring improvement. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness and will monitor their implementation and operation as part of our annual review.

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John Edwards  
Chairman

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Phil Loach  
Chief Fire Officer

## GLOSSARY OF TERMS

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### **Accruals**

Item 5

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

### **Accumulated Absences Account**

The estimated cost of any untaken employee benefits.

### **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 non-current 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 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. Capital receipts can only be used to fund capital expenditure.

### **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.

### **Code – code of practice on local authority accounting**

The rules and regulations governing the information and layout of the financial reporting statement of the Authority.

### **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.

Item 5

**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.

**Emoluments**

These are payments received from employment, usually in the form of wages, salaries or fees.

**Employee Benefits**

This is the net cost of any untaken benefit e.g. annual leave at the end of the financial year. This figure is shown in the Provision for Accumulated Absences and Accumulated Absences Accounts. The difference between the amounts held on the two balance sheet dates represents the movement in the Comprehensive Income and Expenditure Account.

**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 Council Tax, NDR and Government Grants.

**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.

**Heritage Assets**

Assets which are primarily held and maintained for knowledge and cultural purposes.

**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.

## ***International Financial Reporting Standards (IFRS)***

The set of accounting standards that has been introduced across the private and public sector from 1<sup>st</sup> April 2010.

Item 5

### ***Inventories***

The value of those items of raw materials and stores the Authority has procured to use on a continuing basis, but which are not used at the balance sheet date.

### ***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 Borrowing***

The total amounts borrowed from external lenders for capital purposes but not repaid at 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.

### ***NDR***

Rates which are levied on business properties.

### ***Net Book Value***

The amount at which non-current 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***

Non-current assets held by the Authority but not used or consumed in the delivery of services.

### ***Operational Assets***

Non-current 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.

**Payment in Advance**

Amounts actually paid in a given accounting period prior to the period for which they were payable

Item 5

**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 but the exact amount and date on which it will arise is uncertain.

**Receipts in Advance**

Amounts actually received in a given accounting period prior to the period for which they were receivable.

**Related Party**

The Authority is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority, related parties are deemed to include:

Central Government.

West Midlands 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 non-current 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 1<sup>st</sup> April 2007) from holding non-current assets.

**Revenue Expenditure**

Revenue Expenditure is money spent on the day-to-day running costs of providing services. It is usually of a constantly recurring nature and produces no permanent assets.

**Revenue Support Grant (RSG)**

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

**Temporary Loans**

This represents money borrowed for a period of less than one year

**Useful Life**

The period over which the Authority will derive benefits from the use of a fixed asset.

# SUMMARY OF ACCOUNTS



# 2017-2018

# INTRODUCTION

Item 5



This document is a summary of the Authority's Statement of Accounts for 2017/18.

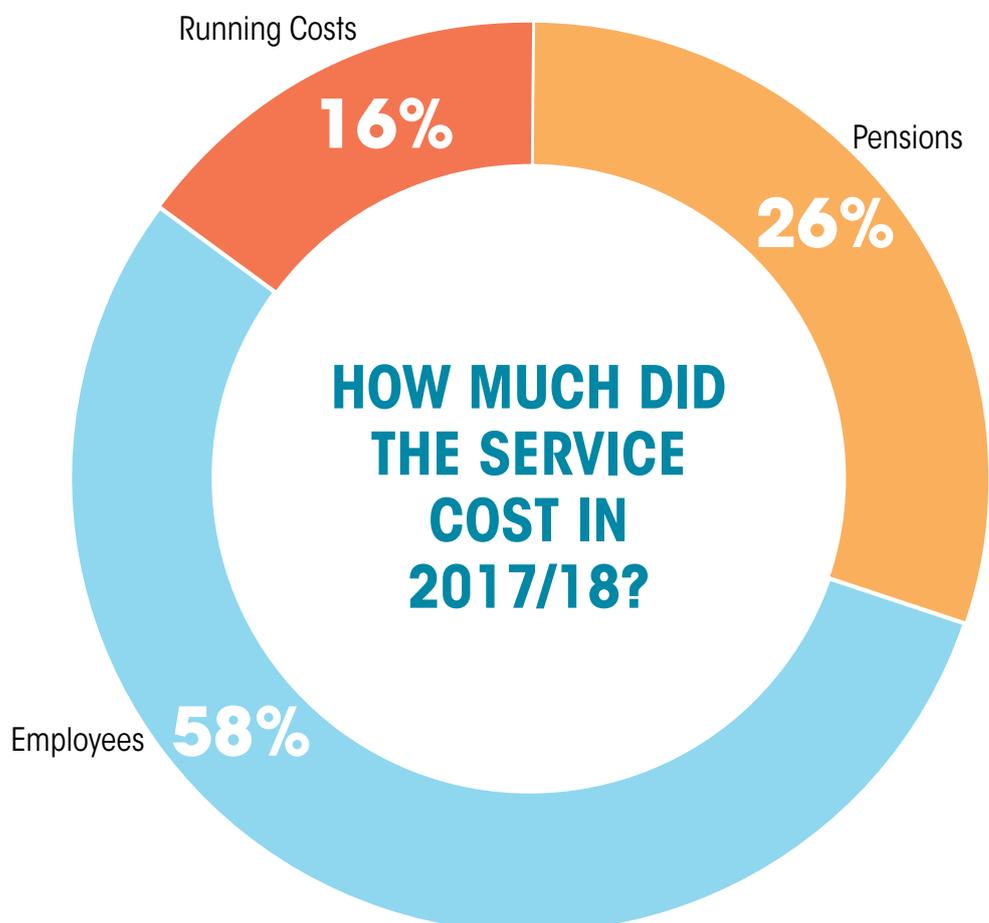
The Authority is responsible for the stewardship of public money and the production of summary accounts allows it to enhance its accountability to the residents of the West Midlands.

The Authority's 2017/18 Statement of Accounts is prepared in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, under International Financial Reporting Standards (IFRS).

These summary accounts have no legal standing and are not subject to external audit.

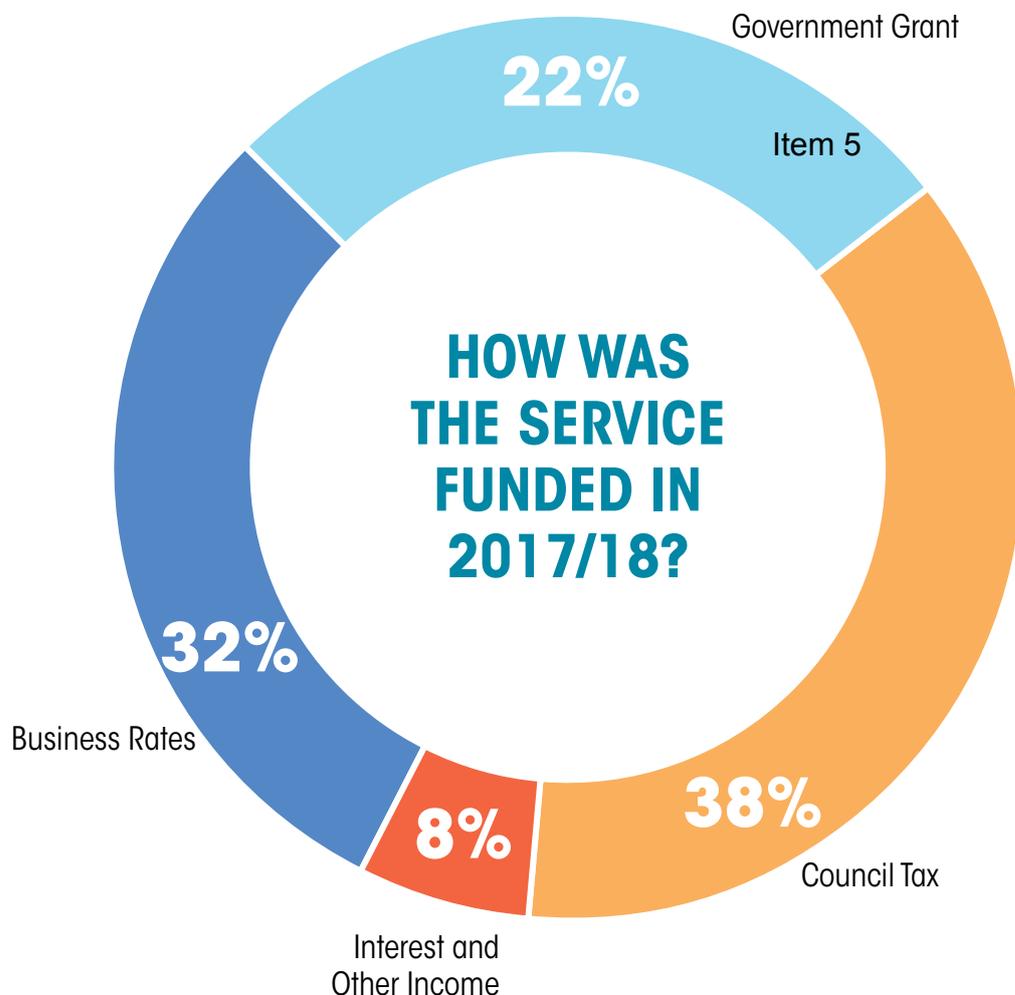
The majority of the net cost of Fire Service expenditure relates to service delivery (£82m) and service support (£22m).

The total Provision of Services in 2017/18 shows a deficit of £67.439m. Within this deficit is the expenditure of the authority which for 2017/18 was £172.122m. The type of costs can be broken down as shown opposite:



The total income of the Authority in 2017/18 was £104.683m. The majority of funding came from the government in the form of grant and a share of business rates.

The main sources of funding are shown opposite.



## 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 2017/18 the Authority assumed no movement in general balances. The actual level of general balances decreased in the year by £0.846m, leaving £8.390m 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 decreased by £4.750m, this brought the total level of these reserves to £38.984m. Interest is earned on any balances until expenditure is committed against the demands identified.

# CAPITAL EXPENDITURE AND FUNDING

## Item 5

In 2017/18, the Authority spent £4.527 million on capital projects.

The expenditure was incurred on the following:

	<b>£m</b>
Land and buildings	3.328
Vehicles	0.805
ICT & Equipment	0.394

The total expenditure was financed directly by the application of direct revenue contributions (£4.354m) and capital grants (£0.173m)

No borrowing was undertaken to assist with purchase of assets during 2017/18. Borrowing in earlier years meant that at the end of 2017/18 the Authority had total loans of £37.4m (the interest and principal on any loans needs to be met from future revenue budgets). The value of long-term assets held by the Authority as at 31 March 2018 which the loans had helped fund was £144.1m, of which approximately 94% related to land and buildings and 6% related to vehicles and equipment.

Further information can be found by contacting the Finance Manager at West Midlands Fire Service Headquarters,  
99 Vauxhall Road,  
Birmingham, B7 4HW.

Telephone: 0121 380 6920 or e-mail [kal.shoker@wmfs.net](mailto:kal.shoker@wmfs.net)

The Authority's full 2017/18 audited Statement of Accounts can be found on our website [www.wmfs.net/](http://www.wmfs.net/)

**WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

**AUDIT & RISK COMMITTEE**

**23 JULY 2018**

1. **TREASURY MANAGEMENT – ANNUAL REPORT 2017/2018**

Report of the Treasurer.

RECOMMENDED

THAT the report and Appendix are noted and the prudential and treasury indicators approved.

2. **PURPOSE OF REPORT**

2.1 The Authority agreed its 2017/2018 Treasury Management Strategy Statement and Annual Investment Strategy and its Prudential indicators in February 2017. Part of the requirements of the Treasury Strategy and Prudential Code are that periodic reports are presented to Members.

2.2 The annual treasury report covers the treasury activity during 2017/2018 and the actual Prudential Indicators for 2017/2018.

3. **BACKGROUND**

3.1 The Authority is required to produce an annual treasury management report of activities and the actual prudential and treasury indicators for 2017/2018.

3.2 Appendix A, the Annual Treasury Management Report 2017/2018 meets the requirement of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code of Capital Finance in Local Authorities (the Prudential Code). The Authority is required to comply with both Codes through regulation issued under the Local Government Act 2003.

4. **EQUALITY IMPACT ASSESSMENT**

Item 6

In preparing this report, an initial Equality Impact Assessment is required and has not been carried out because 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 in the body of the report and the attached Appendix.

7. **ENVIRONMENTAL IMPLICATIONS**

There are no environmental implications arising from this report.

**BACKGROUND PAPERS**

Authority's Budget and Precept Report – February 2017  
Treasury Management Mid-Year Report – Audit Committee November 2017  
Link Treasury Services – Treasury Management Bulletins and Newsletters

The contact officer for this report is Deputy Chief Fire Officer Phil Hales, telephone number 0121 380 6907.

MIKE GRIFFITHS  
TREASURER

**WEST MIDLANDS FIRE SERVICE**



**Annual Treasury Management Review  
2017/18**

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Item 6

## 1. Introduction

Item 6

This Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2017/18 the minimum reporting requirements were that the Authority should receive the following reports:

- an annual treasury strategy in advance of the year (Authority 20/02/2017)
- a mid-year treasury update report (Audit Committee 13/11/2017)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

This report provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by Members.

During 2017/18 the Authority complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2016/17	2017/18
Actual capital expenditure	£3.677m	£4.527m
Total Capital Financing Requirement	£38.764m	£37.977m
Financing costs to net revenue stream	2.7%	2.7%

The Treasurer confirms that no borrowing was undertaken for any capital purpose during 2017/18 and that the statutory borrowing limit (the authorised limit), was not breached.

As at 31<sup>st</sup> March 2018, the Authority's external debt was £37.363m (£38.627m as at 31<sup>st</sup> March 2017) and its investment totalled £51.905m (£58.022m as at 31<sup>st</sup> March 2017).

## 2. The Economy and Interest Rates

Item 6

During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year which meant that growth was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn, rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The minutes of the MPC meeting of 14<sup>th</sup> September indicated that the MPC was likely to raise Bank Rate very soon. The 2<sup>nd</sup> November MPC quarterly Inflation Report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%.

The 8<sup>th</sup> February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected.

Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017/18 and resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

PWLB borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to US treasuries. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

The major UK landmark event of the year was the inconclusive result of the general election on 8 June 2017. However, this had relatively little impact on financial markets.

### 3. The Authority's Capital Expenditure and Financing Item 6

The Authority undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Authority's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

	2016/17 Actual £m	2017/18 Actual £m
<b>Total capital expenditure</b>	<b>3.677</b>	<b>4.527</b>
Resourced by:		
• Capital receipts	1.122	0.000
• Capital grants	2.388	0.173
• Revenue Contribution to Capital	0.167	4.354
<b>Capital Expenditure Financed from Borrowing</b>	<b>0</b>	<b>0</b>

#### 4. Overall Treasury Position as at 31 March 2018 Item 6

The Authority's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Authority's debt position. The CFR results from the capital activity of the Authority and what resources have been used to pay for the capital spend. It represents the 2017/18 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Authority's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Authority's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources.

**Reducing the CFR** – the Authority's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Authority is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts);
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Authority's Treasury Management Strategy Report for 2017/18 was approved 20<sup>th</sup> February 2017.

The Authority's CFR for the year is shown below, and represents a key prudential indicator.

CFR	31 March 2017 Actual £m	31 March 2018 Actual £m
Opening balance	39.508	38.764
Add unfinanced capital expenditure	0	0
Less MRP	(0.744)	(0.787)
Less VRP	0	0
Closing balance	38.764	37.977

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit. Item 6

**Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017/18) plus the estimates of any additional capital financing requirement for the current (2017/18) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. This indicator allows the Authority some flexibility to borrow in advance of its immediate capital needs in 2017/18.

	31 March 2017 Actual £m	31 March 2018 Actual £m
External Debt	38.627	37.363
Investments	58.022	51.905
Net Borrowing Position	(19.395)	(14.542)
CFR	38.764	37.977

**The authorised limit** - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The Authority does not have the power to borrow above this level. The table below demonstrates that during 2017/18 the Authority has maintained gross borrowing within its authorised limit.

**The operational boundary** – the operational boundary is the expected borrowing position of the Authority during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

**Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2016/17	2017/18
Authorised limit	£47m	£46m
Operational boundary	£43m	£42m
Maximum gross borrowing position	£40m	£39m
Financing costs as a proportion of net revenue stream	2.7%	2.7%

## 5. Overall Treasury Position as at 31 March 2018 Item 6

The Authority's debt and investment position is organised with the treasury management service at Sandwell MBC with whom a pooling of bank accounts arrangement exists in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.

Procedures and controls to achieve these objectives are well established both through Member reporting, and through officer activity detailed in the Authority's Treasury Management Practices.

At the beginning and the end of 2017/18 the Authority's position was as follows:

	31 March 2017 Principal £m	Rate/ Return	31 March 2018 Principal £m	Rate/ Return
Fixed Rate Loans:				
PWLB	£35.2	5.5%	£34.2	5.4%
Ex WMCC	<u>£3.4</u>	<u>6.8%</u>	<u>£3.2</u>	<u>6.1%</u>
Total Debt	£38.6	5.6%	£37.4	5.5%
CFR	£38.8		£38.0	
Over / (under) borrowing	(£0.2)		(£0.6)	
Investments:				
Sandwell MBC	£58.0	0.4%	£51.9	0.4%
Net Debt	(£19.4)		(£14.5)	

The maturity structure of the debt portfolio was as follows:

	31 March 2017 Actual £m	31 March 2018 Actual £m
Under 12 months	1.264	1,361
12 months and within 24 months	1.361	305
24 months and within 5 years	4.467	4,990
5 years and within 10 years	4.033	4,007
10 years and above	27.502	26,700

## 6. The Strategy for 2017/18

Item 6

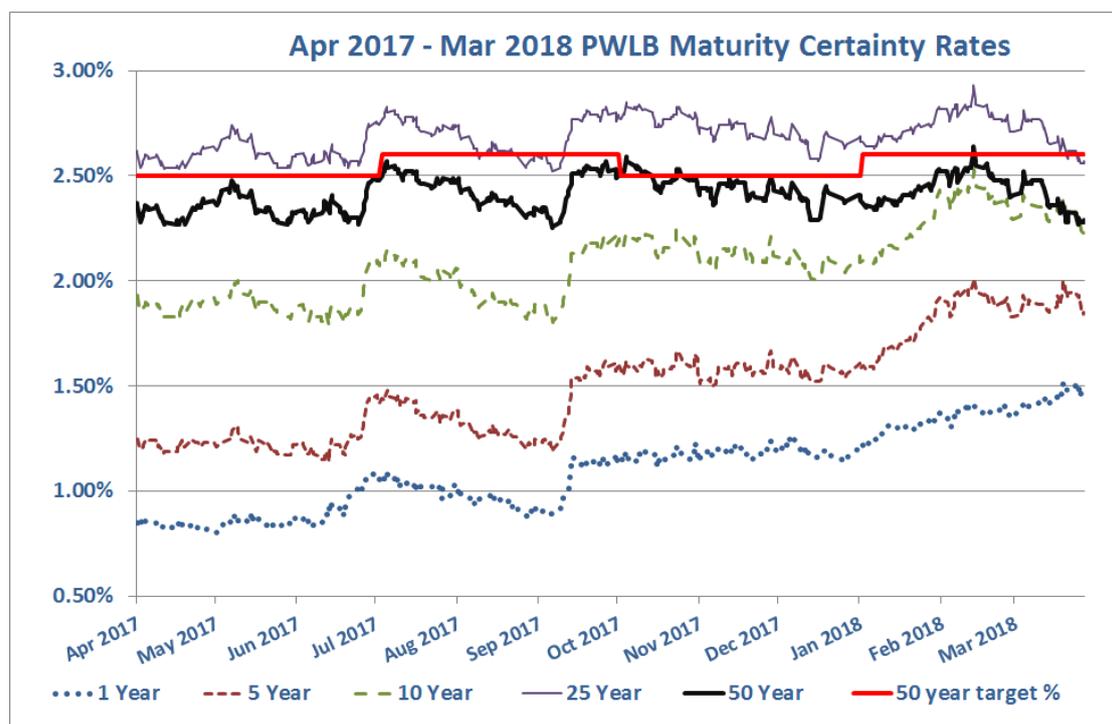
The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that Bank Rate would not start rising from 0.25% until quarter 2 2019 and then only increase once more before 31.3.20. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

During 2017/18, longer term PWLB rates were volatile but with little overall direction, whereas shorter term PWLB rates were on a rising trend during the second half of the year.

## 7. Borrowing Rates in 2017/18

The graphs and tables for PWLB rates show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



## 8. Borrowing Outturn for 2017/18

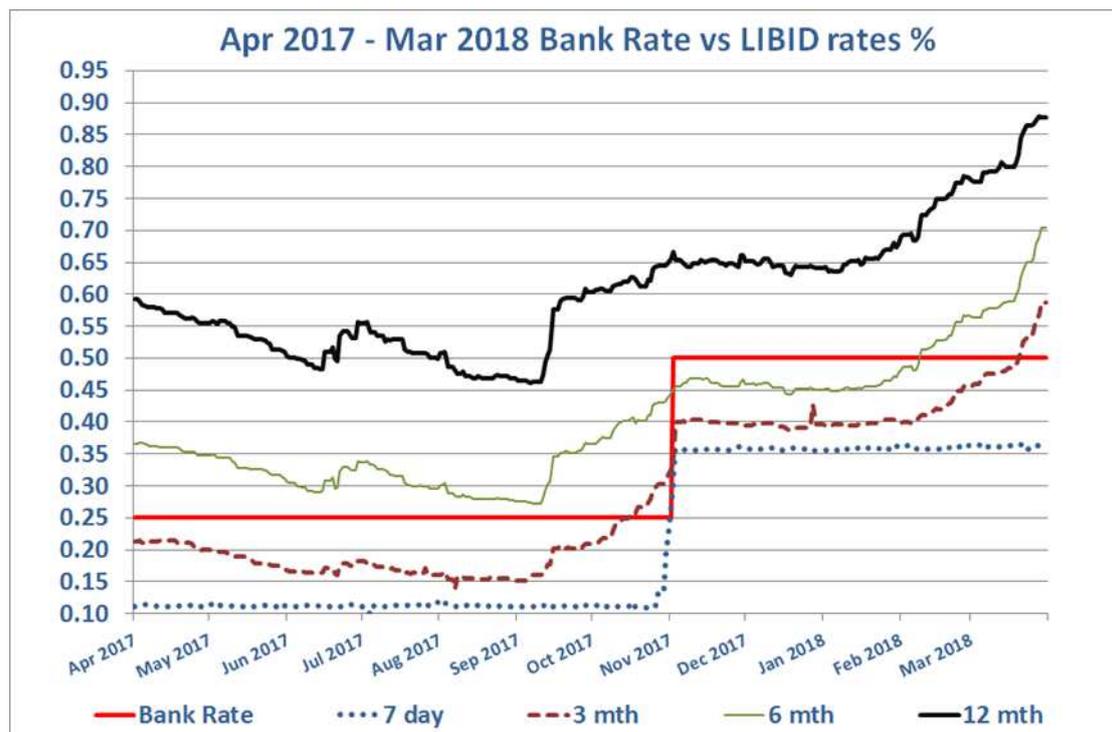
Item 6

Borrowing – No borrowing was undertaken during 2017/18.

Rescheduling – No rescheduling was undertaken during 2017/18.

## 9. Investment Rates in 2017/18

Investments rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March. Bank Rate was duly raised from 0.25% to 0.50% on 2/11/17 and remained at that level for the rest of the year. However, further increases are expected over the next few years. Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28/2/18.



## 10. Investment Outturn for 2017/18

Item 6

**Investment Policy** – the Authority’s investment policy is governed by CLG guidance, which was been implemented in the annual investment strategy approved by the Authority on 20<sup>th</sup> February 2017. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Authority had no liquidity difficulties.

**Investments held by the Authority** - the Authority maintained an average balance of £62.2m of internally managed funds. The internally managed funds earned an average rate of return of 0.404%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.21%. This compares with a budget assumption of £70m investment balances earning an average rate of 0.35%.

## 11. Other Issues

### **Revised CIPFA Codes**

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.

A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. One recommendation was that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the Authority have been apportioned between treasury and non-treasury investments.

### **Markets in Financial Instruments Directive II (MiFID II)**

The EU set the date of 3<sup>rd</sup> January 2018 for the introduction of regulations under MIFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This has had little effect on this Authority apart from having to fill in forms sent by each institution dealing with this Authority and for each type of investment instrument we use, apart from for cash deposits with banks and building societies.

Item 6

**WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

**AUDIT AND RISK COMMITTEE**

**WORK PROGRAMME 2018/19**

**DRAFT**

<b>Date of Meeting</b>	<b>Item</b>	<b>Responsible Officer</b>	<b>Completed</b>
<b>2018</b>			
23 July	Audit Findings 2017/18	Grant Thornton	
	Statement of Accounts 2017/18 (Approval)	Grant Thornton	
	Treasury Management Annual Report 2017/18	Treasurer	
	Minutes of the Audit Committee held on 4 June 2018	Democratic Officer	
	Audit Committee Draft Work Plan 2018/19	Democratic Officer	
3 September	Corporate Risk Six Monthly Report	Director of Service Support	
	Audit Committee Update	Grant Thornton	
	Minutes of the Audit Committee held on 23 July 2018	Democratic Officer	

(Official – WMFS – Public)

	Fraud Awareness Training?	Peter Farrow Phil Tromans?	
17 September [Authority]	Audit Findings 2017/18 Statement of Accounts 2017/18 (note)	Grant Thornton Treasurer	
12 November	Treasury Management – Mid year review 2018/19  Annual Audit Letter 2017/18 Audit Committee Update Internal Audit Progress Report Assessment of Good Practice and Effectiveness Minutes of the Audit Committee held on 3 September 2018 Audit Committee Work Plan	Treasurer  Grant Thornton Grant Thornton Audit Manager Audit Manager Democratic Officer Democratic Officer	
	Fraud Awareness Training?	Phil Tromans	

(Official – WMFS – Public)

**2019**

<p>14 January</p>	<p>Minutes of the Audit Committee held on 12 November 2018</p> <p>Internal Audit Progress Report</p> <p>Internal Audit Charter – Annual Review</p> <p>Audit Committee Update</p> <p>Assessment of Good Practice and Effectiveness</p> <p>Audit Committee Work Plan</p>	<p>Democratic Officer</p> <p>Audit Manager</p> <p>Audit Manager</p> <p>Grant Thornton</p> <p>Audit Manager</p> <p>Democratic Officer</p>	
<p>25 March</p>	<p>Audit Committee Update</p> <p>Communication with the Audit Committee for WMFRA</p> <p>Audit Plan 2018/19</p> <p>Internal Audit Plan 2018/19</p> <p>Audit Committee Terms of Reference</p> <p>External Audit Work Programme and Scale of Fees</p> <p>Corporate Risk Report Six Monthly Update</p>	<p>Grant Thornton</p> <p>Grant Thornton</p> <p>Grant Thornton</p> <p>Audit Manager</p> <p>Audit Manager</p> <p>Director of Service Support</p> <p>Director of Service Support</p>	

(Official – WMFS – Public)

	<p>Minutes of the Pensions Board held on</p> <p>Minutes of the Audit Committee held on 14 January 2018</p> <p>Audit Committee Work Plan</p> <p><i>Committee Members' Private meeting with Internal Auditors (to follow Committee)</i></p>	<p>Pensions Board Representative</p> <p>Democratic Officer</p> <p>Democratic Officer</p> <p><i>Audit Manager</i></p>	
3 June 2018	<p>Annual Internal Audit Report 2018/19</p> <p>Governance Statement 2018/19</p> <p>Monitoring Policies and RIPA (Annual Whistleblowing Report)</p> <p>Annual Report of the Audit Committee for approval</p> <p>Audit Committee – Verbal Update</p> <p>Minutes of the Audit Committee held on 25 March 2019</p> <p>Audit Committee Work Plan</p> <p><i>Committee Members' Private meeting with External Auditors</i></p>	<p>Audit Manager</p> <p>Treasurer Monitoring Officer/Director of Service Support Chair</p> <p>Grant Thornton</p> <p>Democratic Officer Democratic Officer</p> <p><i>Grant Thornton</i></p> <p><i>Treasurer</i></p>	

(Official – WMFS – Public)

	<i>Workshop for Members on Statement of Accounts 2018/19</i>		
24 June 2019 [Authority]	Governance Statement 2018/2019  Audit Committee – Terms of Reference, Annual Review (will now be reported to the Authority’s AGM)  Annual Report of the Audit Committee 2018/19	Treasurer  Audit Manager  Chair	

22 July 2019 (Audit Committee 2019/20)	Audit Findings 2018/19 Statement of Accounts 2018/19 (Approval)  Treasury Management Annual Report 2018/19  Audit Committee Draft Work Plan 2019/20	Grant Thornton Grant Thornton  Treasurer  Democratic Officer
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Item 7