

**WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

**28TH JUNE 2010**

1. **STATEMENT OF ACCOUNTS 2009/2010**

Report of the Treasurer.

RECOMMENDED

1.1 THAT the following be approved:

1.1.1 the Statement of Accounts for 2009/2010 as set out in Appendix A.

1.1.2 the Authority's backward looking 2009/2010 efficiency statement, the basis of which is set out in Appendix B.

1.2 THAT the Statement of Accounts summary set out in Appendix C be noted.

2. **PURPOSE OF REPORT**

This report is submitted to seek the approval of Members for the Authority's Statement of Account for the financial year ended 31<sup>st</sup> March 2010.

3. **BACKGROUND**

3.1 The production of Local Authority accounts is governed by the Accounts and Audit Regulations 2003. These require, amongst other things, that the accounts are closed by 30<sup>th</sup> June, following the accounting period and published by 30<sup>th</sup> September. It is also a requirement that the accounts be submitted to Members for approval by the end of June.

3.2 It is a further requirement of the Regulations that Members are informed of any material changes required by the external auditors. The accounts have not yet been audited and are attached as Appendix A.

3.3 The Accounts show net cost of services in 2009/2010 of £125.6 million, including an appropriation from earmarked reserves of £2.981 million. General balances have increased by £0.239 million.

- 3.4 Fire Service net operating expenditure was £166 million and includes the Fire Service Pensions deficit which was £56 million. Capital expenditure totalled £6.654 million.
- 3.5 The backward looking 2009/2010 efficiency statement is shown at Appendix B.
- 3.6 A Summarised Statement of Accounts (see Appendix C) is made available on the Fire Service Internet in addition to the full set of accounts.

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 2003. The Clerk has been consulted in the preparation of this report.

6. **FINANCIAL IMPLICATIONS**

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

**BACKGROUND PAPERS**

Accounts and Audit Regulations 2003  
Code of Practice on Local Authority Accounting 2008  
Final Accounts Files – Finance Office

S KELLAS  
TREASURER

WEST MIDLANDS FIRE  
AND RESCUE AUTHORITY

---

**STATEMENT OF  
ACCOUNTS**

---

**2009/2010**

**WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

**STATEMENT OF ACCOUNTS 2009/2010**

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



S.Kellas, C.P.F.A

Treasurer to the Authority

Date: 28<sup>th</sup> June 2010

## **CONTENTS**

Auditor's Report	Page 3
Explanatory Foreword	Page 7
Statement of Accounting Policies	Page 9
Statement of Responsibilities for the Statement of Accounts	Page 17
Annual Governance Statement	Page 18
Income & Expenditure Account	Page 26
Statement of Movement on the General Fund Balance	Page 27
Note of Reconciling Items for the Statement of Movement on the General Fund Balance	Page 28
Statement of Total Recognised Gains and Losses (STRGL)	Page 29
Balance Sheet	Page 30
Cash Flow Statement	Page 31
Notes to the Core Financial Statements	Page 32
Pension Fund Account	Page 55
Notes to Pension Fund Account	Page 56
Glossary of Terms	Page 57

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

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

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



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

## EXPLANATORY FOREWORD

1. The Authority's accounts for the year 2009/2010 are set out on the following pages. They consist of:
  - The Income and Expenditure Account, the Authority's main revenue account, covering income and expenditure on all services.
  - The Balance Sheet, which sets out the financial position of the Authority at 31<sup>st</sup> March 2010.
  - The Statement of the Movement on the General Fund Balance and The Note of Reconciling Items for the Statement of Movement on the General Fund Balance.
  - The Statement of Total Recognised Gains and Losses which brings together all the recognised gains and losses of the Authority.
  - The Cash Flow Statement showing movements in cash during the year and the cash position at the year-end.

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

2. This foreword provides a brief explanation of the financial aspects of the Authority's activities and draws attention to the main characteristics of the Authority's financial position.
3. The Authority, at its February 2009 meeting approved the net revenue budget of £116.985m. The total net expenditure for services prior to statutory adjustments is shown on the income & expenditure account and shows a deficit of £48.643m. In 2009/10 appropriations of £2.981m were made from earmarked reserves and after statutory adjustments, such as the removal of depreciation, impairments and FRS17 entries in relation to pension costs are applied, the Authority shows an overall surplus of £0.239m for which an appropriation was made to general reserves.
4. Net Operating Expenditure in 2009/10 totalled £166m of which £127.2m was on the provision of Fire Services, £38.5m on Pensions and £0.3m on Emergency Planning. The types of costs incurred were:

Employees	63	%
Pensions	24	%
Running Costs	13	%
	<u>100</u>	<u>%</u>

5. The total income of the Authority to fund expenditure in 2009/10 was £123.3m, which came from:

	Budget	Actual	
	£000's	£000's	
Revenue Support Grant	14,983	14,983	12 %
National Non-Domestic Rates	64,916	64,916	53 %
Precept/collection fund surplus/deficit	37,086	37,419	30 %
Interest and Other Income	3,473	5,778	5 %
	<u>120,458</u>	<u>123,096</u>	<u>100 %</u>

6. In 2009/10, the Authority spent £6.654m on capital projects, the largest scheme was the Vehicle Replacement Programme, £3.490m. Of the total expenditure £4.157m was financed directly from revenue, £1.370m by the utilisation of capital receipts and £1.127m by the application of capital grants. Note 9 on page 45 lists the major items of capital expenditure incurred and Note 12 on page 47 provides details of funds available to finance capital expenditure.
7. The accounting policies adopted by the Authority comply with the relevant accounting standards except where indicated in the notes to the accounts.
8. The Authority, at its February 2009 meeting authorised the limit for external debt at £64m and the statutory limit for external debt at £59m. The Authority's actual long-term liabilities at 31<sup>st</sup> March 2010 were £47.264m, see Note 17 on page 49.
9. The 2009/10 accounts include the impact of Financial Reporting Standard 17 – Retirement Benefits (FRS17). The effects of FRS17 are shown within the income and expenditure account and balance sheet. There is no effect on Council Tax from the implementation of this standard. The figures disclosed represent a snapshot in time, at present 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.
10. 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 Fax : 0121-380-7009  
or E-Mail : kal.shoker@wmfs.net

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

## **STATEMENT OF ACCOUNTING POLICIES**

### **1. General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2009/10 financial year and its position at the year-end of 31<sup>st</sup> March 2010. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009 – A Statement of Recommended Practice (SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

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

The accounts have been prepared on an accruals basis. Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents are accounted for as income at the date the Authority provided the relevant goods or service.
- 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 stock on the Balance Sheet.
- Works are charged as expenditure when they are completed, before which they are carried as work in progress on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for in the year to which it relates.
- The figure for creditors represents amounts owed by the Authority in respect of goods and services supplied but not paid for by 31<sup>st</sup> March 2010. It also includes amounts received as payment for services to be provided in the following accounting period. These are known as receipts in advance.
- The figure for debtors represents amounts due to the Authority, which have not been received by 31<sup>st</sup> March 2010. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to the revenue account for income that might not be collected.

### **3. Reserves**

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

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

### **4. Provisions**

Provisions are made where an event has taken place that gives the Authority an obligation that probably requires settlement by a transfer of economic benefit, but where the timing of the transfer is uncertain. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the revenue account in the year that the Authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefit will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

### **5. Government Grants and Contributions (Revenue)**

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

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

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

## 6. Retirement Benefits

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

-

### ***Uniformed Firefighters – Original (1992) Scheme***

On 1<sup>st</sup> April 2006 the firefighters' pension scheme changed. This is an unfunded scheme, which is administered by the Authority in accordance with Communities and Local Government regulations. For such schemes, as there are no investment assets, the FRS17 requires recognition of the liability and pension reserve in the Balance Sheet and transactions in the income and Expenditure Account for movements in the liability and reserve. The pension costs that are charged to the Authority's accounts in respect of these employees are equal to the contributions paid to the pension fund for these employees. The scheme was only open to those firefighters in the scheme as at 31<sup>st</sup> March 2006 and the employers contribution was higher than for the new firefighters' pension scheme. All contributions are made into a pension fund and equally the payments to pensioners are paid out of the same fund. This is then balanced by a contribution to or from the fund by the government each year.

### ***Uniformed Firefighters – New (2006) Scheme***

On 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.

The combined pension fund for uniformed firefighters as at 31<sup>st</sup> March 2010 had a net deficit value of £1,148.160m.

### ***Other Employees***

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. The pension costs that are charged to the Authority's accounts, £1.928m in 2009/10 in respect of these employees, are equal to the contributions paid to the funded pension scheme for these employees. Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis. The scheme is, however, funded.

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

Pension liabilities are calculated as “discounted cash flows” and there can be changes between the assumptions which are used for discounting purposes between the start and end of the year. The actuary, Mercers, has advised that a rate of 2.2% real (5.7% actual) is appropriate for 2009/10. The rates for 2008/09 were 3.8% real (7.1% actual).

Further details are provided in Note 1 of the Core Financial Statements.

## **7. Support Services**

The costs of support services are charged to those that benefit from the supply or service in accordance with the costing principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) Best Value Accounting Code of Practice (BVACOP) 2009. The total absorption costing principle is used – the full cost of support services are shared between users in proportion to benefits received, with the exception of:-

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

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

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

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

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

## **8. Finance and Operational Leases**

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

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

## 9. **Stocks**

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

## 10. **Intangible Fixed Assets**

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

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

## 11. **Tangible Fixed Assets**

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

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

Expenditure along with associated grant income on fixed assets are capitalised subject to a deminimus level of £6,000.

**Measurement:** assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Fixed Assets are included in the Balance Sheet at current values, either replacement cost in the case of buildings or depreciated historic cost in the case of vehicles and equipment. Differences arising from revaluations are written off to the Revaluation Reserve. The Authority has complied with the requirements of FRS15.

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

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



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

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

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

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

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

At 31<sup>st</sup> March 2010 the Authority held £1.363m in useable capital receipts.

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

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

Other than land, which is not depreciated, in the next financial year after acquisition, assets are depreciated using the following methods and over the following periods:

<u>Asset Type</u>	<u>Depreciation Method</u>
Buildings	Straight line over estimated life
Operational Vehicles	Straight line over 10 Years
Ancillary Vehicles	Straight line over 5 Years
Equipment	Straight line over 5 Years

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

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

**Non Operational Assets:** these are assets held by the Authority but not directly occupied, used or consumed in the delivery of services (e.g. assets under construction, investment property, and surplus properties). Assets Under Construction are held at cost and Investment and Surplus Properties are held at Market Value.

## 12. Charges to Revenue for Fixed Assets

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

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

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

**13. Financial Liabilities - Loans Outstanding**

Amounts owing in respect of advances to fund capital expenditure are owed to Sandwell M.B.C. the lead Authority. Annual charges to the Income and Expenditure Account for interest payable in 2009/10 were charged at a rate of 6.16%, this is based on the average interest rate applicable to Sandwell M.B.C. total loans outstanding. Repayments of principal equate to the Minimum Revenue Provision required by Section 63 of the Local Government and Housing Act 1989.

Debt inherited from the former West Midlands County Council is managed by Dudley M.B.C. and redeemed over a period of 40 years from 1<sup>st</sup> April 1986. Annual charges to the Income and Expenditure Account for interest payable were charged on this debt in 2009/10 at a rate of 6.70%.

**14. Financial Instruments**

The Authority in adopting the 2009 SORP has implemented the requirements of FRS 25, FRS 26 and FRS 29. These standards deal with the recognition, movement, presentation and disclosure of financial instruments and include the impairment of bad debts.

**15. Value Added Tax (VAT)**

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

## **STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

### ***The Authority's Responsibilities***

The Authority is required to:

- (i) make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority that officer is the Treasurer.
- (ii) manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.
- (iii) approve the statement of accounts.



David Hinton  
Chairman

Date: 28th June 2010

### ***The Treasurer's Responsibilities***

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

In preparing this statement of accounts, the Treasurer has:

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

The Treasurer has also:

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

The accounts set out in the following pages fairly present the financial position of the West Midlands Fire and Rescue Authority at 31<sup>st</sup> March 2010 and its income and expenditure for the year then ended.



Stuart Kellas, C.P.F.A  
Treasurer

Date: 28th June 2010

## **ANNUAL GOVERNANCE STATEMENT**

### **1. Scope of Responsibility**

- 1.1 West Midlands Fire and Rescue Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this duty, the Authority is also responsible for putting in place proper arrangements for the governance of its affairs which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.
- 1.3 This statement explains how the Authority has complied with the code of corporate governance and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2006 in relation to the publication of a Governance Statement. The Authority has produced its Governance Statement which is consistent with the principles of the CIPFA/SOLACE Framework – Delivering Good Governance in Local Government. The Authority's Audit Committee has been considering the Framework and its formal implementation as part of its 2009/2010 work programme.

### **2. The Purpose of the Governance Framework**

- 2.1 The governance framework comprises the systems and processes, culture and values for the direction and control of the Authority and its activities through which it accounts and engages with the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, value for money services.
- 2.2 The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The system of governance has operated throughout the year ended 31 March 2010 and up to the date of the approval of the annual report and accounts. The Authority's Audit Committee has, in accordance with its terms of reference, monitored corporate governance throughout the year.

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

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

- 3.1 The Authority has produced a Corporate Strategy 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 terms of reference for them and the Lead Members is reviewed annually and is available on the Internet.
- 3.4 The Authority ensures compliance with established strategies, procedures, laws and regulations – including risk management. The Authority also maintains and reviews regularly its code of conduct and whistleblowing policy. There is a comprehensive induction programme in place and information regarding strategies and procedures are held on the intranet, which continues to be developed. The Authority has a strong Internal Audit function and established protocols for working with External Audit. The Audit Commission through its inspectorate functions also reviews compliance with policies, procedures, laws and regulations within their remit.
- 3.5 West Midlands Fire and Rescue Authority have continued to enhance and strengthen its internal control environment through the introduction of new 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 Executive 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 impact and likelihood). The Register identifies risk owners whose responsibility includes the identification of controls and actions to manage them efficiently, effectively and economically. Further improvements have been made in this area following Internal Audit recommendations.

- 3.8 The Authority ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. The Authority plans its spending on an established planning cycle for policy development, budget setting and performance management through the business planning process. This ensures that resources are aligned to priorities and secures best value from the resources that are available.
- 3.9 The Authority's financial system 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 has a Standards Committee which promotes high ethical standards amongst Members. This Committee has three independent members, one of whom chairs the Committee. It leads on developing policies and procedures to accompany the revised Code of Conduct for Members and is responsible for local assessment and review of complaints about members' conduct.

#### 4. **Review of Effectiveness**

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

- Chief Fire Officer
  - Treasurer
  - Clerk
  - Monitoring Officer
- 4.4 The Authority continues to assess how its overall corporate governance responsibilities are discharged. In particular the Authority has adopted the CIPFA/SOLACE guidance, has developed a local code of corporate governance and is working towards the National Good Governance Standard.
- 4.5 The arrangements for the provision of internal audit are contained within the Authority's Financial Regulations. The Treasurer is responsible for ensuring that there is an adequate and effective system of internal audit of the Authority's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2003 as amended in 2006. The internal audit provision operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government 2006. The Authority's Audit Plan is prioritised by a combination of the key internal controls, assessment and review on the basis of risk and the Authority's corporate governance arrangements, including risk management. The work is further supplemented by reviews around the main financial systems, scheduled visits to Authority establishments and fraud investigations. Internal Audit leads on promoting a counter-fraud culture within the Authority. This includes the publication of a quarterly anti-fraud and corruption newsletter known as The FRAUDitor, the production of a Raising Fraud Awareness guide for managers and running a series of Raising Fraud Awareness Seminars.
- 4.6 The resulting Audit Plan is discussed and agreed with Corporate Board officers and the Audit Committee and shared with the Authority's external auditor. Regular meetings between the internal and external auditor ensure that duplication of effort is avoided. All Authority Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any areas needing improvement.
- 4.7 The Authority's review of the effectiveness of the system of internal control is informed by:
- The work undertaken by Internal Audit during the year;
  - The work undertaken by the external auditor reported in their annual audit and inspection letter;
  - Other work undertaken by independent inspection bodies.
- 4.8 From the work undertaken by Internal Audit in 2009/10 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.



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

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

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

5.2 These form the basis of the Authority's Corporate Strategy (known as The Plan) 2009-12 which sets out the ten outcomes and fifteen strategic objectives for the Service.

5.3 The Comprehensive Area Assessment (CAA) undertaken in 2009 identified that overall the Authority was performing well and was scored a '3' (out of 4) in its Organisational Assessment. The Audit Commission stated that the Authority demonstrates the principles and values of good governance, manages its performance well and continues to provide good value for money. It was noted that the Authority has a track record of operating within budget while maintaining good service performance and the medium term financial plan indicates financial stability. The Authority has a clear vision and translates its vision into ambitions and clear strategic priorities that drive the business but must continue to integrate financial and performance management.

5.4 The review of internal control also highlighted the following:

### 5.4.1 Environmental Audit

The main issues raised were:

- The legislation register should be personalised and then kept updated;
- Environmental actions should be prioritised and a timetable set;
- Plans should continue to be put into place to introduce monitoring against targets;
- Consideration should be given to how usage of unmetered water can be reduced, and how the reduction can be evidenced.

### 5.4.2 Payroll - General

The main issues raised were:

- Revenue payment vouchers were not always being signed by the officer completing the form or authorised by the Pensions and Payroll Manager.
- Notification forms were not always signed by both a member of HR and manually by Payroll.

- As there have been changes to Payroll personnel due to retirements etc., including the Pensions and Payroll Manager, there should be a check of who has access to payroll data and at what level.
- Checks should be carried out when material differences in BACS amounts occurs between months, to ensure that any differences are legitimate.

#### 5.4.3 Payroll - Pensions

The main issues raised were:

- A certificate has to be completed by retired employees to confirm entitlement to continued payment. A check should be made of the signature on the certificate to records held, and the form then signed by the member of the pensions section carrying out the check.
- Where there is Power of Attorney (POA) for the retired employee, the certificate should be signed both by the person with POA and an attesting person. A new section should be added to the form so that the POA can record the address where the retired person is currently residing.
- Also, to complete the audit trail, all notification forms sent by Human Resources should be signed by a Payroll officer to verify that the form has been seen and processed.

#### 5.4.4 Management of Fuel – follow up of 2008/9 recommendations

The main issues raised were:

- An update of the relevant Standing Order to ensure that the correct re-order levels and amounts are stated, and
- Station staff being aware of Standing Order requirements regarding fuel dips.

#### 5.4.5 Petty Cash Investigation

To strengthen controls over petty cash and financial records, the key issues arising were:

- The retention of imprest records for a minimum of three years, as a number of recent records were missing,
- Cash withdrawn from the stations bank accounts should be paid fully and promptly into the petty cash imprest at the station, as this was found not to be the case on numerous occasions,
- All petty cash documentation should be stored and filed properly,
- The imprest should be reimbursed in accordance with the relevant Standing Order to ensure that there are sufficient funds available,

- Checking of reimbursement claims and vouchers by an appropriate officer before submission, including verification of supporting evidence,
- Correct certification of petty cash vouchers,
- Suitability of payment of types of expense from petty cash.

#### 5.4.6 Risk Management

The main issues raised were:

- Provision of risk management training for all members,
- Identification of a member to 'champion' risk management,
- Presentation of the Corporate Risk Register to the Audit Committee on a more regular basis, so that it becomes further embedded in the work of the Committee.

#### 5.4.7 Workforce Planning

A recommendation was made that the Workforce Planning Policy is finalised and circulated to ensure full engagement in the process

#### 5.4.8 Procurement

The main issues raised were:

- Benchmarking should be carried out against other bodies of a similar size and nature in order to demonstrate that the procurement system is performing adequately.
- Legal advice should be sought to determine whether the EU Procurements directives for sourcing of the vehicle component parts should be followed, due to the annual spend involved appearing to be above the threshold.
- Authority expenditure is not monitored to ensure that the centrally procured contracts are being utilised, as required under the Authority's Standing Orders. Additionally, if the expenditure is monitored, it would allow the Authority's purchasing section to arrange contracts that would potentially offer better value for money than if a service is procured in isolation.

#### 5.4.9 Fixed Asset Accounting

Recommendations which merit attention were made regarding calculation of some of the depreciation charges and retention of associated records, presentation of information in the general ledger and within the fixed asset registers.

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



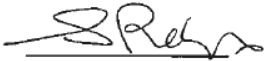
David Hinton  
Chairman



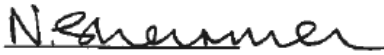
Vij Randeniya  
Chief Fire Officer



Stuart Kellas  
Treasurer



Susan Phelps  
Clerk



Neeraj Sharma  
Monitoring Officer

## INCOME & EXPENDITURE ACCOUNT

2008/09 £000s Net		2009/10 £000s Expenditure	2009/10 £000s Income	2009/10 £000s Net
100,430	Firefighting and Rescue Operations	109,923	(3,635)	106,288
17,766	Community Safety	18,572	(1,548)	17,024
1,696	Corporate and Democratic Core	1,769	(157)	1,612
397	Fire Service Emergency Planning and Civil Defence	354	(53)	301
70	Non Distributed Costs	391	0	391
<b>120,359</b>	<b>Net Cost of Services</b>	<b>131,009</b>	<b>(5,393)</b>	<b>125,616</b>
(43)	(Gain)/Loss on disposal of fixed assets			(92)
3,056	Interest payable and similar charges			3,002
59,517	Pensions Interest cost and expected return on pension assets			56,096
(1,825)	Interest and investment income			(385)
(16,310)	Gain in relation to Government Grant payable to the Pension Fund on the Authority's behalf			(18,276)
<b>164,754</b>	<b>Net Operating Expenditure</b>			<b>165,961</b>
(9,651)	General Government Grant			(14,983)
(69,326)	Non-domestic rates redistribution N.N.D.R.			(64,916)
(36,299)	Precepts			(37,419)
<b>49,478</b>	<b>Deficit/ (Surplus) for the Year</b>			<b>48,643</b>

## **STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE**

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

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

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

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

<b>2008/09</b> <b>£'000</b>		<b>2009/10</b> <b>£'000</b>
49,478	Deficit for the year on the Income and Expenditure Account	48,643
(49,869)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(48,882)
<hr/>		<hr/>
(391)	Increase in General Fund Balance for the year	(239)
(4,060)	General Fund Balance B/Fwd	(4,451)
<hr/>		<hr/>
(4,451)	General Fund Balance C/Fwd	(4,690)
<hr/> <hr/>		<hr/> <hr/>

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

2008/09 £'000		2009/10 £'000
	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year.</b>	
(5,760)	Depreciation and impairment of fixed assets	(13,948)
123	Government grants deferred amortisation	140
0	Net gain on sale of fixed assets	39
(79,039)	Net charges made for retirement benefits in accordance with FRS 17	(71,650)
16,310	Gain in relation to Government Grant payable to the Pension Fund on the Authority's behalf	18,276
(134)	Council Tax Adjustment	333
(68,500)		(66,810)
	<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the movement on the General Fund Balance for the year.</b>	
1,801	Minimum revenue provision for capital financing	1,910
4,878	Capital expenditure charged in-year to the General Fund Balance	4,157
15,069	Employer's contributions payable to the Pensions Account and retirement benefits payable direct to pensioners	14,842
21,748		20,909
	<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>	
(3,117)	Net transfer to or (from) earmarked reserves	(2,981)
(3,117)		(2,981)
(49,869)	<b>Net additional amount required to be credited to the General Fund balance for the year</b>	(48,882)

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

<b>2008/09</b> <b>£'000</b>		<b>2009/10</b> <b>£'000</b>
49,478	Deficit for the year on the Income and Expenditure Account	48,643
(1,679)	Surplus arising on revaluation of fixed assets	(49,777)
(103,623)	Actuarial (gains)/losses on pension fund assets and liabilities	320,860
0	Any other (gains)/losses for the year	0
<hr/>		<hr/>
(55,824)	Total recognised (gains)/losses for the year	319,726
<hr/> <hr/>		<hr/> <hr/>



## BALANCE SHEET

2008/09 £'000		2009/10 £'000	Note
	<b>Fixed Assets</b>		
	<b>Intangible Fixed Assets</b>		
352	Software Licences	224	11
	<b>Tangible Fixed Assets</b>		
	<i>Operational Assets</i>		
97,010	Land & Buildings	137,566	11
8,697	Vehicle, Plant & Equipment	8,334	11
106,059		146,124	
	<i>Non Operational Assets</i>		
0	Assets Under Construction	2,987	11
1,971	Surplus Assets	1,399	11
108,030	<b>Total Fixed Assets</b>	150,510	
	<b>Current Assets</b>		
885	Stocks	884	15
14,978	Debtors	9,801	16/27
23,467	Cash	22,668	
147,360	<b>Total Assets</b>	183,863	
	<b>Current Liabilities</b>		
(17,380)	Creditors	(15,122)	16/27
129,980	<b>Total Assets less Current Liabilities</b>	168,741	
	<b>Long-term Liabilities</b>		
(49,157)	Long-term Borrowing	(47,264)	17
(1,741)	Government Grants Deferred	(2,729)	18
(818,297)	Liability Related to Defined Benefit Pension Schemes	(1,177,689)	1
(215)	Provisions	(215)	24
<b>(739,430)</b>	<b>Total Assets less Liabilities</b>	<b>(1,059,156)</b>	
	<b>Financed By</b>		
2,178	Revaluation Reserve	51,955	19
53,998	Capital Adjustment Account	47,624	20
(219)	Collection Fund Adjustment Account	114	16/27
(818,297)	Pensions Reserve	(1,177,689)	1
2,691	Usable Capital Receipts Reserve	1,363	21
15,768	Earmarked Reserves	12,787	23
4,451	General Fund Balance	4,690	
<b>(739,430)</b>	<b>Local Taxpayers Net Equity</b>	<b>(1,059,156)</b>	

## CASH FLOW STATEMENT

<b>2008/09</b>	<b>£000s</b>	<b>REVENUE ACTIVITIES</b>	<b>2009/10</b>	<b>£000s</b>
		<b>Cash Outflows</b>		
115,787		Cash paid to & on behalf of Employees	118,213	
14,572	130,359	Other Operating Costs	15,667	133,880
		<b>Cash Inflows</b>		
(9,651)		Revenue Support Grant	(14,983)	
(69,326)		National Non Domestic Rates	(64,916)	
(36,433)		Precept Income	(36,966)	
(15,894)		Government Grants	(22,861)	
(102)		Collection Fund (Surplus)/Deficit	(8)	
(2,318)	(133,724)	Cash Received for Goods & Services	(2,686)	(142,420)
	(3,365)	<b>Revenue Activities Net Cash (Inflow) / Outflow</b>		(8,540)
		<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		
		<b>Cash Outflows</b>		
3,167		Interest Paid	3,060	
		Interest Element of Finance Leases		
		<b>Cash Inflows</b>		
(1,804)	1,363	Interest Received	(1,457)	1,603
		<b>CAPITAL ACTIVITIES</b>		
		<b>Cash Outflows</b>		
9,723		Purchase of Fixed Assets	7,012	
		<b>Cash Inflows</b>		
0		Sale of Fixed Assets	(42)	
(480)		Capital Grants Received	(1,127)	
	9,243	<b>Capital Activities Net Cash (Inflow) / Outflow</b>		5,843
	7,241	<b>Net Cash (Inflow) / Outflow Before Financing</b>		(1,094)
		<b>FINANCING</b>		
		<b>Cash Outflows</b>		
1,791		Repayment of Loans	1,893	
0		Capital Element of Finance Leases	0	
0		Cash Inflows	0	
(3,967)	(2,176)	New Loans raised	0	1,893
	5,065	<b>Net Decrease / (Increase) in Cash</b>		799

## **NOTES TO THE CORE FINANCIAL STATEMENTS**

### **1. Pension Liability (FRS 17 Disclosures)**

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

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

The Authority participates in three pension schemes:

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

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

#### **Transactions Relating to Retirement Benefits**

The cost of retirement benefits is recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Authority is required to make against the council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and expenditure Account and Statement of Movement in the General Fund Balance during the year:

	Local Government Pension Scheme	Firefighters' Pension Scheme 1992	Firefighters' Pension Scheme 2006	Firefighters' Compensation Scheme
	2008/09 £000's	2008/09 £000's	2008/09 £000's	2008/09 £000's
<b>Income and Expenditure Account:</b>				
Net Cost of Services:				
Current service cost	(2,162)	(16,080)	(1,260)	0
Past service cost	0	0	0	(20)
Curtailments	0	0	0	0
Net Operating Expenditure:				
Interest cost	(3,607)	(56,900)	(260)	(1,520)
Expected Return on Scheme Assets	2,770	0	0	0
Net Charge to the Income and Expenditure Account	(2,999)	(72,980)	(1,520)	(1,540)
<b>Statement of Movement on the General Fund Balance:</b>				
Reversal of net charges made for retirement benefits in accordance with FRS17	2,999	72,980	1,520	1,540
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>				
Employers' contributions payable to the scheme	(1,803)	(10,990)	(776)	0
Retirement benefits payable to pensioners	0	0	0	(1,500)

	Local Government Pension Scheme	Firefighters' Pension Scheme 1992	Firefighters' Pension Scheme 2006	Firefighters' Compensation Scheme
	2009/10 £000's	2009/10 £000's	2009/10 £000's	2009/10 £000's
<b>Income and Expenditure Account:</b>				
Net Cost of Services:				
Current service cost	(1,388)	(12,400)	(1,660)	0
Past service cost	0	0	0	0
Curtailments	(106)	0	0	0
Net Operating Expenditure:				
Interest cost	(3,508)	(52,840)	(440)	(1,510)
Expected Return on Scheme Assets	2,202	0	0	0
Net Charge to the Income and Expenditure Account	(2,800)	(65,240)	(2,100)	(1,510)

**Statement of Movement on the  
General Fund Balance:**

Reversal of net charges made for retirement benefits in accordance with FRS17	2,800	65,240	2,100	1,510
---	-------	--------	-------	-------

**Actual amount charged against the  
General Fund Balance for  
pensions in the year:**

Employers' contributions payable to the scheme	(1,928)	(10,405)	(1,040)	0
Retirement benefits payable to pensioners	0	0	0	(1,470)

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial gains and losses of (£320.9m) were included in the Statement of Total Recognised Gains and Losses.

**Assets and Liabilities in Relation to Retirement Benefits  
Reconciliation of Present Value of the Scheme Liabilities:**

	Local Government Pension Scheme	Firefighters' Pension Scheme 1992	Firefighters' Pension Scheme 2006	Firefighters' Compensation Scheme
	<b>2008/09</b>	<b>2008/09</b>	<b>2008/09</b>	<b>2008/09</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>1 April 2008</b>	<b>(58,158)</b>	<b>(830,080)</b>	<b>(2,780)</b>	<b>(22,780)</b>
Current service cost	(2,162)	(16,080)	(1,260)	0
Interest cost	(3,607)	(56,900)	(260)	(1,520)
Contribution by scheme participants	(816)	0	0	0
Actuarial gains and losses	14,792	99,514	(20)	180
Benefits paid	1,029	0	0	1,500
Past service costs	0	0	0	(20)
Curtailments	0	0	0	0
Employers' contributions payable to the scheme	0	10,990	776	0
Gain in relation to Government grant payable to the Pension Fund on the Authority's behalf	0	17,886	(1,576)	0
<b>31 March 2009</b>	<b>(48,922)</b>	<b>(774,670)</b>	<b>(5,120)</b>	<b>(22,640)</b>
	Local Government Pension Scheme	Firefighters' Pension Scheme 1992	Firefighters' Pension Scheme 2006	Firefighters' Compensation Scheme
	<b>2009/10</b>	<b>2009/10</b>	<b>2009/10</b>	<b>2009/10</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>1 April 2009</b>	<b>(48,922)</b>	<b>(774,670)</b>	<b>(5,120)</b>	<b>(22,640)</b>
Current service cost	(1,388)	(12,400)	(1,660)	0
Interest cost	(3,508)	(52,840)	(440)	(1,510)
Contribution by scheme participants	(846)	0	0	0
Actuarial gains and losses	(21,046)	(295,510)	(6,100)	(6,460)
Benefits paid	1,257	0	0	1,470
Past service costs	0	0	0	0
Curtailments	(106)	0	0	0
Employers' contributions payable to the scheme	0	10,405	1,040	0
Gain in relation to Government grant payable to the Pension Fund on the Authority's behalf	0	20,155	(1,880)	0
<b>31 March 2010</b>	<b>(74,559)</b>	<b>(1,104,860)</b>	<b>(14,160)</b>	<b>(29,140)</b>

**Reconciliation of Fair Value of the Scheme Assets for the Local Government Pension Scheme:**

	<b>2008/09</b>	<b>2009/10</b>
	<b>£'000</b>	<b>£'000</b>
1 April	39,538	33,055
Expected rate of return	2,770	2,202
Actuarial gains / (losses)	(10,843)	8,256
Employer contributions	1,803	1,928
Contributions by scheme participants	816	846
Benefits paid	(1,029)	(1,257)
31 March	<u><b>33,055</b></u>	<u><b>45,030</b></u>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £10,458,000 (2008/09 was (£8,035,000)).

**Pension Scheme History**

	<b>2005/06*</b>	<b>2006/07*</b>	<b>2007/08*</b>	<b>2008/09</b>	<b>2009/10</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b><i>Present value of liabilities:</i></b>					
Local Government Pension Scheme	(49,231)	(50,356)	(58,158)	(48,922)	(74,559)
Firefighters' Pension Schemes	(1,001,960)	(983,120)	(855,640)	(802,430)	(1,148,160)
<b><i>Fair value of assets in the Local Government Pension Scheme</i></b>	33,221	36,831	39,538	33,055	45,030
<b><i>Surplus/(deficit) in the scheme:</i></b>					
Local Government Pension Scheme	(16,010)	(13,525)	(18,620)	(15,867)	(29,529)
Firefighters' Pension Schemes	(1,001,960)	(983,120)	(855,640)	(802,430)	(1,148,160)
<b>Total</b>	<u><b>(1,017,970)</b></u>	<u><b>(996,645)</b></u>	<u><b>(874,260)</b></u>	<u><b>(818,297)</b></u>	<u><b>(1,177,689)</b></u>

\* The Authority has elected not to restate fair value of scheme assets for 2005/06 as permitted by FRS17 (as revised) and has chosen not to restate 2006/07 and 2007/08.

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £1,178m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in a negative overall balance of £1,059m.

However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

The deficit on the local government scheme will be made by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Finance is only required to be raised to cover firefighters' pensions when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year 31 March 2011 is £2m. Expected contributions for the firefighters' pension schemes in the year to 31 March 2011 are £11.9m.

### **Basis for Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis to give an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc. The Firefighters' Pension Scheme has been assessed using an approach and model supplied by the Government Actuary's Department and certified by them on 13th May 2010. The West Midlands Metropolitan Authorities Pension Fund has been based on triennial actuarial valuations, the last review being 31<sup>st</sup> March 2007 and assessed by Mercer Human Resource Consulting. In calculating the FRS17 figures for the West Midlands Metropolitan Authorities Pension Fund the actuary assumed an investment return of 30.93% (this is based on actuals to 31<sup>st</sup> December 2009 and an estimate based on market index returns for the final quarter). The actual return for the year to the 31<sup>st</sup> March 2010 was 31.70%. The principal assumptions used in their calculations are:



	Local Government Pension Scheme		Firefighters' Pension Schemes	
	31 <sup>st</sup> March 2009	31 <sup>st</sup> March 2010	31 <sup>st</sup> March 2009	31 <sup>st</sup> March 2010
<b>Long-term expected rate of return on assets in the scheme:</b>				
Equities	7.5%	7.5%	-	-
Government Bonds	4.0%	4.5%	-	-
Other Bonds	6.0%	5.2%	-	-
Property	6.5%	6.5%	-	-
Cash/Liquidity	0.5%	0.5%	-	-
Other	7.5%	7.5%	-	-
Mortality assumptions:				
<b>Longevity at 65 for current pensioners:</b>				
Men	21.2%	21.2%	23.1%	23.3%
Women	24.0%	24.0%	24.7%	25.2%
<b>Longevity at 65 for future pensioners:</b>				
Men	22.2%	22.2%	25.8%	26.2%
Women	25.0%	25.0%	27.4%	28.0%
Rate of inflation	3.3%	3.5%	3.0%	3.9%
Rate of increase in salaries	5.05%	5.25%	4.5%	5.4%
Rate of increase in pensions	3.3%	3.5%	3.0%	3.9%
Rate for discounting scheme liabilities	7.1%	5.7%	6.9%	5.8%
Take-up of option to convert annual pension into retirement lump sum	50.0%	50.0%	*50.0%	*90.0%

\* These percentages are for the 2006 Firefighters' Pension Scheme. For the 1992 Firefighters' Pension Scheme a cost-neutral assumption for the commutation take up rate for both years' has been assumed as the commutation factors are actuarially neutral.

Changes to the Local Government Pension Scheme permit employees retiring on or after 6<sup>th</sup> April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have assumed that 50% of employees retiring will take advantage of this change to the pension scheme.

The Firefighters' Pension Scheme has no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	<b>Proportion of Total Assets 31<sup>st</sup> March 2009</b>	<b>Proportion of Total Assets 31<sup>st</sup> March 2010</b>
	%	%
Equities	55.7	53.7
Government Bonds	12.4	7.9
Other Bonds	4.1	6.0
Property	7.3	7.2
Cash/Liquidity	4.0	1.4
Other	16.5	23.8
	<hr/> 100.0 <hr/>	<hr/> 100.0 <hr/>

## History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2009/10 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2010.

	Local Government Pension Scheme	Firefighters' Pension Scheme 1992	Firefighters' Pension Scheme 2006	Firefighters' Compensation Scheme
	%	%	%	%
<b>2005/06</b>				
Differences between the expected and actual return on assets	14.6	-	-	-
Experience gains and losses on liabilities	(2.5)	(0.1)	-	-
<b>2006/07</b>				
Differences between the expected and actual return on assets	0.9	-	-	-
Experience gains and losses on liabilities	-	1.2	7.8	(1.2)
<b>2007/08</b>				
Differences between the expected and actual return on assets	(2.7)	-	-	-
Experience gains and losses on liabilities	(1.5)	0.9	(18.3)	0.7
<b>2008/09</b>				
Differences between the expected and actual return on assets	(32.7)	-	-	-
Experience gains and losses on liabilities	-	1.1	(12.1)	(1.9)
<b>2009/10</b>				
Differences between the expected and actual return on assets	18.3	-	-	-
Experience gains and losses on liabilities	-	3.7	8.7	1.9

## 2. Employees emoluments

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

	<u>2008/09</u>	<u>2009/10</u>
£50,000 to £54,999	16	20
£55,000 to £59,999	22	16
£60,000 to £64,999	5	11
£65,000 to £69,999	2	7
£70,000 to £74,999	2	0
£75,000 to £79,999	1	0
£80,000 to £84,999	1	0
£85,000 to £89,999	0	1
£90,000 to £94,999	0	0
£95,000 to £99,999	3	0
£100,000 to £104,999	0	1
£105,000 to £109,999	0	1
£110,000 to £114,999	0	0
£115,000 to £119,999	3	0
£120,000 to £124,999	0	1
£125,000 to £129,999	0	1
£130,000 to £134,999	0	1
£135,000 to £139,999	1	0
£140,000 to £144,999	0	0
£145,000 to £149,999	0	0
£150,000 to £154,999	0	0
£155,000 to £159,999	0	0
£160,000 to £164,999	0	0
£165,000 to £169,999	0	1
	<u>56</u>	<u>61</u>

The following sets out the remuneration disclosures for Senior Officers who are members of the Authority's Corporate Board  
Senior Officer whose salary is £150,000 or more per year

Total Remuneration inc Pension Contributions 2008/09 £	Post	Salary (inc allowances) £	Expense Allowance £	Total Remuneration exc Pension Contributions £	Pension Contributions £	Total Remuneration inc Pension Contributions 2009/10 £
163,599	Chief Fire Officer – V.Randeniya	165,076	1,450	166,526	34,583	201,109

Senior Officers whose salary is less than £150,000 but equal or more than £50,000 per year

Total Remuneration inc Pension Contributions 2008/09 £	Post	Salary (inc allowances) £	Expense Allowance £	Total Remuneration exc Pension Contributions £	Pension Contributions £	Total Remuneration inc Pension Contributions 2009/10 £
142,304	Deputy Chief Fire Officer	131,496	1,593	133,089	27,666	160,755
141,127	Director Technical & Operational Support	124,451	1,598	126,049	25,937	151,986
-	Director Operations (Acting)	122,365	880	123,245	25,916	149,161
113,086	Director Corporate Services	101,656	3,483	105,139	14,714	119,853
109,002	Director Human Resources	101,656	1,226	102,882	14,714	117,596
91,535	Director Finance & Procurement	87,185	1,209	88,394	11,536	99,930
140,724	Director Operational Support (1)	-	-	-	-	-
117,623	Chief Fire Officer (2)	-	-	-	-	-

Note 1 The Director of Operational Support retired April 2009

Note 2 The former Chief Fire Officer to November 2008

### 3. Members Allowances

Allowances paid to Members of the Authority were as follows.

	<u>2008/09</u>	<u>2009/10</u>
	£	£
Basic/Responsibility Allowance	199,081	229,149
Travel & Subsistence	5,023	5,720
Conference Expenses	2,718	2,923
	<u>206,822</u>	<u>237,792</u>

### 4. Related Party Transactions

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

Related Party	Nature of Transaction	Receipts £000's
Central Government	Revenue Support Grant	14,983
	N.N.D.R. Grant	64,916
West Midland Local Authorities	Precept/collection fund surplus/deficit	37,419

No members' of the Authority or Chief Officer or parties related to them have undertaken any disclosable related party transactions during the year. Further information on related parties is included in the analysis of government grants on page 54.

### 5. External Audit Fees

Fees payable to the Audit Commission with regard to external audit services.

	<b>2008/09</b> <b>£000s</b>	<b>2009/10</b> <b>£000s</b>
Financial Statements Audit	54	55
Use of Resources/VFM Conclusion	28	28
Whole of Government Accounting	5	5
	<u>87</u>	<u>88</u>

**6. West Midlands Fire and Rescue Services Regional Control Centre Company**

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

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

At 31<sup>st</sup> March 2010 the company held no assets or liabilities and in 2009/10 incurred expenditure of £487,258 all of which was funded by government grant paid to West Midlands Fire Service.

**7. Contingent Liability**

In April 2010 Fire Rescue Authorities (FRA's) were informed by the National Joint Council that negotiations with representatives of Retained Duty System personnel in respect of the Unfair Treatment of Part-Time workers ruling were nearing completion. As part of this agreement a compensation payment is proposed. At this stage FRA's are asked not to disclose details but the estimated cost of the proposal is £8k. It is not yet clear whether this is the final figure or if it will be payable immediately or over a period of time; nor if Communities and Local Government will provide grant funding. Should the costs be incurred, then funding would initially have to be met from general balances.

**8. Fixed Assets**

All Fixed Assets are shown in the balance sheet at latest values. The Authority has complied with the requirements of FRS11 which relate to impairment. FRS 11 sets out the principles and methodology for accounting for impairments of fixed assets and goodwill. The carrying amount of an asset is compared with its recoverable amount and, if the carrying amount is higher, the asset is written down. Recoverable amount is defined as the higher of the amount that could be obtained by selling the asset (net realisable value) and the amount that could be obtained through using the asset (value in use). Impairment tests are only required when there has been some indication that impairment has occurred. These latest values were calculated as follows:

***Vehicles & Equipment***

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

***Land and Buildings***

In line with the Authority's policy of revaluing land and buildings at five yearly intervals, a comprehensive revaluation was carried out as at 31<sup>st</sup> March 2010. The valuation was carried out externally by Wilks Head & Eve, who are members of the Royal Institute of Chartered Surveyors. Operational properties were valued on the basis of Open Market Value in Existing Use except where there is no market for the asset in question. In this case properties were valued on the basis of Depreciated Replacement Cost. Non-operational properties were valued on the basis of Open Market Value.

## 9. Purchase of Fixed Assets

During the year, the Authority incurred capital expenditure of £6.654m as detailed below.

	£m
Land & Buildings	2.019
Vehicles	3.490
Equipment	1.138
Software Licences	0.007

The major items of expenditure were as follows:

	£m
Vehicle Replacement Programme	3.490
Rescue Equipment Replacement	0.907
Boiler Replacement Programme	0.837
Training Facility Upgrades	0.624
Building Refurbishments & Modifications	0.562
ICT Equipment/Upgrades	0.167
Asbestos Removal	0.046
Office Equipment Replacement	0.021

## 10. Disposal of Fixed Assets

Assets disposed during 2009/10 consisted of 18 x Cars/Vans, 6 x Pumps/Specialist Vehicles, 1 x Coach and 1 x Forklift Truck with a total net book value of £2,974.00.



## 11. Movements in Fixed Assets 2009/10

	Operational Assets				Non-Operational Assets		Total Fixed Assets
	Land & Buildings	Vehicles	Equipment	Intangible Software Licences	Assets Under Construction	Surplus Assets	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<u>Cost or Valuation</u>							
1 <sup>st</sup> April 2009	111,830	20,467	6,043	634	-	2,266	<b>141,240</b>
Acquisitions	2,015	514	1,131	7	2,987	0	<b>6,654</b>
Disposals	-	(962)	(7)	-	-	0	<b>(969)</b>
Reclassifications	869	(143)	-	-	-	(726)	<b>0</b>
Revaluations	49,533	-	-	-	-	244	<b>49,777</b>
31 <sup>st</sup> March 2010	<b>164,247</b>	<b>19,876</b>	<b>7,167</b>	<b>641</b>	<b>2,987</b>	<b>1,784</b>	<b>196,702</b>
<u>Accumulated Depreciation</u>							
1 <sup>st</sup> April 2009	14,820	13,897	3,916	282	-	295	<b>33,210</b>
Depreciation	4,471	1,313	692	135	-	84	<b>6,695</b>
Disposals	-	(962)	(4)	-	-	-	<b>(966)</b>
Reclassifications	114	(143)	-	-	-	29	<b>-</b>
Impairments	7,276	-	-	-	-	(23)	<b>7,253</b>
31 <sup>st</sup> March 2010	<b>26,681</b>	<b>14,105</b>	<b>4,604</b>	<b>417</b>	<b>-</b>	<b>385</b>	<b>46,192</b>
<u>Net Book Value</u>							
31 <sup>st</sup> March 2009	<b>97,010</b>	<b>6,570</b>	<b>2,127</b>	<b>352</b>	<b>-</b>	<b>1,971</b>	<b>108,030</b>
31 <sup>st</sup> March 2010	<b>137,566</b>	<b>5,771</b>	<b>2,563</b>	<b>224</b>	<b>2,987</b>	<b>1,399</b>	<b>150,510</b>

## 12. Capital Expenditure and Financing in year

	2009/10	
	£000's	£000's
<b><u>Expenditure</u></b>		
Intangible Fixed Assets	7	
Fixed Assets		
- Land and Buildings	2,019	
- Vehicles	3,490	
- Equipment	1,138	
		<hr/>
		6,654
<b><u>Financing</u></b>		
Revenue Contributions to Capital Outlay	(4,157)	
Capital Grants	(1,127)	
Capital Receipts Applied	(1,370)	
Supported Capital Expenditure	-	(6,654)
		<hr/>
		0
		<hr/> <hr/>

## 13. Assets Held

Major fixed assets owned by the Authority at 31<sup>st</sup> March 2010 were as follows:

	2008/09	2009/10
	Number	Number
<b><u>Land &amp; Buildings</u></b>		
Brigade Headquarters	1	1
Fire Stations/Fire Safety Centres	40	40
Training Centre	1	1
Training Center Annex	1	1
Fire Behaviour Centre – Birmingham Airport	1	1
Vehicle Workshop	1	1
Non-residential Premises	5	5
Residential Dwellings	28	28
<b><u>Vehicles</u></b>		
Pumping and Special Appliances	115	111
Cars and Vans	112	105
Other (Trailer/Demountable Unit/Coach)	40	40

#### 14. Outstanding Commitments Under Capital Schemes

The Authority has authorised capital expenditure in future years of £14.303m, of which £0.710m has been contracted. The balance relates to schemes approved by the Authority in respect of which no contracts have yet been entered into.

The amounts are represented by the following schemes:

	<b>Expenditure approved and contracted at 31/03/10</b>	<b>Expenditure approved but not contracted at 31/03/10</b>	<b>Grand Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Vehicle Replacement Programme	62	8,577	<b>8,639</b>
Walsall Refurbishment	15	1,807	<b>1,822</b>
Solihull Refurbishment	-	1,787	<b>1,787</b>
Boiler Replacement Programme	118	782	<b>900</b>
E-Business	101	213	<b>314</b>
Training Facility Upgrades	10	240	<b>250</b>
R.P.E Replacement Project	77	110	<b>187</b>
Retentions / Completed Schemes	186	-	<b>186</b>
Lighting / Electrical Upgrades	62	50	<b>112</b>
Oracle Licences	26	-	<b>26</b>
Training Centre Refurbishment	21	-	<b>21</b>
Thermal Image Cameras	-	15	<b>15</b>
Asbestos Removal	14	-	<b>14</b>
Voice Recording System	-	12	<b>12</b>
ICT Upgrades / Replacements	10	-	<b>10</b>
Other Equipment	8	-	<b>8</b>
	<b>710</b>	<b>13,593</b>	<b>14,303</b>

#### 15. Stocks and Stores

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

	<u>2008/09</u>	<u>2009/10</u>
	<u>£</u>	<u>£</u>
General Stocks	634,207	603,956
Mechanical Stocks	158,621	163,957
Bar Stocks	196	-
Heating Oil/Petrol/Diesel	91,926	116,078
	<u>884,950</u>	<u>883,991</u>

## 16. Debtors and Creditors

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

	<u>2008/09</u>	<u>2009/10</u>
	£	£
<u>Debtors:</u>		
General Debtors	629,467	715,070
Debtors Accruals	11,049,463	5,645,852
VAT Due from H.M. Customs & Excise	227,872	361,554
Collection Fund	3,093,810	3,083,898
Provision for Bad Debts	(22,519)	(5,705)
	<u>14,978,093</u>	<u>9,800,669</u>
<u>Creditors:</u>		
General Creditors	2,375,795	2,619,128
Creditors Accruals	9,332,109	7,213,535
Collection Fund	3,312,593	2,969,949
Receipts in Advance	2,359,505	2,319,739
	<u>17,380,002</u>	<u>15,122,351</u>

## 17. Loans Outstanding

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

	<u>2008/09</u>	<u>2009/10</u>
	£	£
Sandwell M.B.C.	44,395,648	42,619,822
Dudley M.B.C.	4,761,322	4,643,888
	<u>49,156,970</u>	<u>47,263,710</u>

## 18. Government Grants Deferred

This account holds various government, other capital grants and other contributions. These will be written off to revenue over the life of the relevant assets where these are depreciated. New grants amounted to £1.127m and £0.140m was written down during 2009/10.

## 19. Revaluation Reserve

The purpose of this reserve is to store gains on revaluation of fixed assets not yet realised through sales.

	<u>2009/10</u> £000's
Balance at 1 <sup>st</sup> April 2009	2,178
Revaluations	49,847
Impairments	(70)
Sale of Fixed Assets	-
Balance at 31 <sup>st</sup> March 2010	<u>51,955</u>

## 20. Capital Adjustment Account

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

	<u>2009/10</u> £000's
Balance at 1 <sup>st</sup> April 2009	53,998
Capital Financing	4,157
Capital Receipts	1,370
Write down of Assets	140
Depreciation	(6,695)
Impairments	(7,253)
Disposal of Fixed Assets	(3)
Repayment of Principal/MRP	1,910
Balance at 31 <sup>st</sup> March 2010	<u>47,624</u>

The repayment of Principal/MRP represents £1.792m for repayments of principal to Sandwell M.B.C. that equate to the Minimum Revenue Provision required by section 63 of the Local Government and Housing Act 1989 and £0.118m principal paid to Dudley M.B.C. for the debt inherited from the former West Midlands County Council.

## 21. Usable Capital Receipts Reserve

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

	<u>2009/10</u> £000's
Balance at 1 <sup>st</sup> April 2009	2,691
Sale of Fixed Assets Exceeding £10k	42
Capital Receipts Applied in Year	(1,370)
Balance at 31 <sup>st</sup> March 2010	<u>1,363</u>

## 22. Finance and Operating Leases

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

The Authority entered into a 25 year contract in October 2008 with Network Rail for the lease of four railway arches. For 2009/10 rental payments totalling £22.5k were charged to the income and expenditure account.

## 23. Earmarked Reserves

The table below provides an analysis of the earmarked reserves.

	Balance at 31/03/09 £000s	Contribution during year £000s	Applied during year £000s	Not utilised £000s	Balance at 31/03/10 £000s
Insurance	8,116	250	140	-	8,226
Capital Works	3,588	2,468	3,323	53	2,680
Budget Carry Forwards	709	525	661	-	573
Station Works	554	66	277	-	343
Firefighting & Rescue Equipment	77	255	78	-	254
Project Management	570	21	396	15	180
Training & Development	265	73	60	143	135
System Enhancements/Upgrades	117	80	57	10	130
LAA Match Funding	194	-	69	0	125
Fire Prevention & Education	112	-	10	0	102
Fire Control Support	87	-	33	15	39
Legal Costs	190	-	-	190	-
Boiler Replacement Programme	490	-	490	-	-
BA Sets & Accessories	699	-	699	-	-
	<b>15,768</b>	<b>3,738</b>	<b>6,293</b>	<b>426</b>	<b>12,787</b>

## 24. Provisions

Provisions are made for liabilities the Authority has incurred where it is more likely than not that a payment will be made to discharge the liability. If it is found that a provision is no longer needed it is returned to the revenue account.

Movements within the Authority's provision during 2009/10 are shown below.

	Balance at 31/03/09 £'000	Increase During 2009/10 £'000	Decrease During 2009/10 £'000	Balance at 31/03/10 £'000
Legal Costs	215	0	0	215

As at 31/03/10 a provision of £0.215m exists to cover potential legal costs in connection with industrial relation issues.

## 25. Nature and extent of risks arising from financial instruments.

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

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

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

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

### Credit risk

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

The authority does not generally allow credit for customers, such that £0.542m of the £6.717 Debtors balance is past its due date for payment. The past due amount can be analysed by age as follows:

	<b>£000's</b>
Less than three months	504
Three to six months	23
Six months to one year	9
More than one year	6
	<hr/>
	542
	<hr/>

### Liquidity risk

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

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

### Market risk

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

During 2009/10, if interest rates had been 1% lower with all other variables held constant, the impact on the Income and Expenditure Account would be a fall in interest of £0.308m. The impact of a 1% increase in interest rates would be the same but reversed, interest would increase by £0.308m.

## 26. Notes to the Cash Flow Statement

### a. Reconciliation to Revenue Account Surplus

	<b>£000's</b>
Deficit/(Surplus) for the year	(239)
Repayment of Debt	(1,910)
Use of Reserves and Provisions	2,981
Collection Fund Adjustment	(333)
Direct Revenue Financing	(4,157)
Interest Paid	(3,060)
Interest Received	1,457
<b>Items on an Accrual Basis</b>	
Increase/(Decrease) in Stock	(1)
Increase/(Decrease) in Debtors incl. Long term	(5,145)
(Increase)/Decrease in Revenue Creditors	1,867
<b>Revenue Activities Net Cash (Inflow) / Outflow</b>	<b><u>(8,540)</u></b>

### b. Reconciliation to Net Debt

	<b>2008/09 £000s</b>	<b>2009/10 £000s</b>
Long-term Borrowing	49,157	47,264
Creditors Due within 12 Months	17,380	15,122
<b>Total</b>	<b><u>66,537</u></b>	<b><u>62,386</u></b>
Deferred Debtors	0	0
Investments	0	0
Debtors	(14,978)	(9,801)
<b>Net Debt</b>	<b><u>51,559</u></b>	<b><u>52,585</u></b>
<b>Movement in Net Debt</b>		<b><u>1,026</u></b>
Net Cash Flow		(1,094)
Movement in Cash Flow		(799)
<b>Cash Flow Funded by Borrowing</b>		<b>(1,893)</b>
<b>Movements in:</b>		
Debtors		5,177
Creditors		(2,258)
Long Term Debtors		0
<b>Movement in Net Debt</b>		<b><u>1,026</u></b>



**c. Analysis of Government Grants**

	<b>2008/09 £000s</b>	<b>2009/10 £000s</b>
Pensions Top-up	13,051	18,980
Fire Control Projects Implementation	1,792	2,260
New Dimension Training, Crewing & Accommodation	1,064	1,072
Urban Safety Village	255	0
Local Area Agreements	172	56
GOWM Partnership Youth Project	40	0
Capital Grant	0	1,086
Migrant Impact Fund	0	192
Centro	0	192
Future Job Scheme	0	71
Family Learning Lottery Fund	0	46
Safeside	0	13
Walsall Multi Agency Referral	0	10
Walsall Youth Co-ordinator	0	8
Tipton Fit Club	0	2
	<u>16,374</u>	<u>23,988</u>

**27. 2008/09 Restated Figures**

Up to 2008/09 the SORP required that Council Tax income included in the Income and Expenditure Account be the amount that under regulation was paid from the Collection Fund of the billing authorities to the major preceptors. From 1 April 2009, for billing authorities and major preceptors, the Council Tax included in the Income and Expenditure Account for the year shall be the accrued income for the year. The difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balances.

The change in the 2009 SORP requires a prior year adjustment to the 2008/09 debtors (increase of £3.094m), creditors (increase of £3.313m) with the net £0.219m being shown against the Collection Fund Adjustment Account. The deficit on the Income and Expenditure Account shows an additional £0.219m which is reconciled in the Statement of Movement on the General Fund Balances and shown in the Statement of Total Recognised Gains and Losses.

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

2008/09 £000's			2009/10 £000's	
1992	2006		1992	2006
		<b>Contributions Receivable</b>		
		From Fire Authority		
(10,696)	(784)	Normal	(10,333)	(1,043)
(140)	0	Early Retirements	(74)	0
(5,502)	(605)	From Firefighters' Contributions	(5,313)	(807)
		<b>Transfers in</b>		
(33)	(187)	Individual	(5)	(30)
		<b>Benefits Payable</b>		
24,149	0	Pensions	26,396	0
9,867	0	Commutations and lump sum retirement benefits	9,160	0
134	0	Lump sum death benefits	122	0
		<b>Payments to and on account of leavers</b>		
107	0	Individual transfers	203	0
<b>17,886</b>	<b>(1,576)</b>	<b>Net amount payable for the year</b>	<b>20,156</b>	<b>(1,880)</b>
<b>(17,886)</b>	<b>1,576</b>	<b>Top up Grant payable by the Government</b>	<b>(20,156)</b>	<b>1,880</b>

2008/09 £000's	NET ASSETS STATEMENT	2009/10 £000's
(1,766)	Unpaid pensions due	0
0	Top-up payable to the Government	(592)
4,188	Top-up receivable from the Government	4,076
(2,372)	Amount owing to General Fund	(3,484)
(50)	Death Grant Payable	0
<b>0</b>		<b>0</b>

## 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 covers both the 1992 and 2006 Firefighters' Pension 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 CLG.

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

Employees' and employer's contribution levels are based on percentages of pensionable pay set nationally by the CLG and are subject to triennial revaluation by the Government Actuary's Department. The contribution rates for 2009/10 are shown in the table below.

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

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

The Net Assets Statement does not include liabilities to pay pensions and other benefits after the 31<sup>st</sup> March 2010. For further information on the liability to pay pensions see Note 1, page 32.

The account is prepared in accordance with the same code of practice and accounting policies as outlined in the Statement of Accounting Policies on page 9.

## **GLOSSARY OF TERMS**

### ***Accruals***

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

### ***Balance Sheet***

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

### ***Capital Adjustment Account***

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

### ***Capital Expenditure***

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

### ***Capital Receipt***

Money received from the disposal of land and other assets. 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.

### ***Creditor***

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

### ***Current Assets***

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

### ***Current Liabilities***

Amounts falling due for payment in the next accounting period.

### ***Current Service Cost (Pensions)***

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

### ***Debtor***

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

### ***Deferred Liability***

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

**Defined Benefit Pension Scheme**

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

**Depreciation**

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

**Financial Reporting Standards (FRS)**

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

**Fixed Asset**

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

**General Fund**

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

**Government Grants**

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

**Government Grants Deferred Account**

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

**Impairment**

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

**Interest Cost (Pensions)**

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

**Liabilities**

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

**Long term Debtors**

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

**Materiality**

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

**Minimum Revenue Provision**

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

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

Rates which are levied on business properties.

**Net Book Value**

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

**Net Realisable Value**

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

**Non Operational Assets**

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

**Operational Assets**

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

**Past Service Cost (Pensions)**

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

**Precept**

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

**Provisions**

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

**Related Party**

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

Central Government.

West Midland Local Authorities.

Members of the Authority or parties related to them.

Chief Officer or parties related to them.

**Reserves**

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

**Revaluation Reserve**

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

**Revenue Support Grant (RSG)**

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

**SORP – Statement of Recommended Practice**

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

**Stock in Hand**

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.

## APPENDIX B

**WEST MIDLANDS FIRE & RESCUE AUTHORITY**  
**Efficiency Savings 2009-10**

Category	Quality cross-check (QCC) met	One off or recurring?	Capital	All figures £'000				
				Revenue	Annual Cashable Efficiency Gain	Cumulative Cashable Efficiency Gain	Annual Non-Cashable Efficiency Gain	Cumulative Non-Cashable Efficiency Gain
Revised Shift Systems/Crewing		Recurring		✓	734	734		
Other IRMP savings		Recurring		✓	135	680		
Reduced Ill Health Retirements		Recurring		✓	51	126		
Reduced Sickness		Recurring		✓	329	329		
Other HR Savings		Recurring		✓	180	581		
Better procurement		Recurring		✓	35	65		
Corporate Services		Recurring		✓	292	321		
			<b>TOTAL</b>	✓	1,756	2,836		



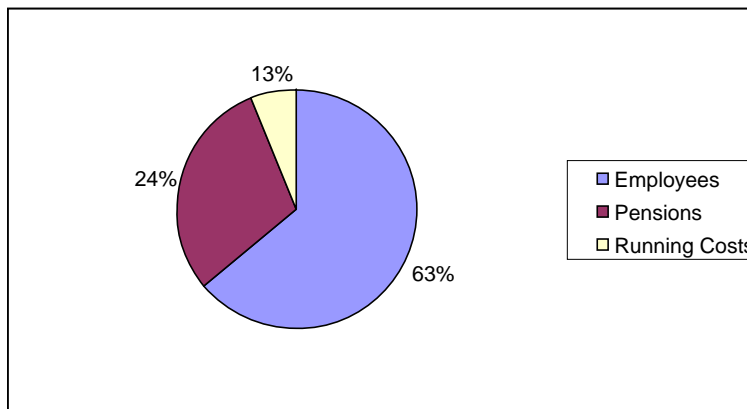
## West Midlands Fire and Rescue Authority Statement of Accounts 2009/10 Summary

### How much did the Service cost in 2009/10?

The majority of the net cost of Fire Service expenditure relates to firefighting and rescue operations (£106m) and community fire safety work (£17m).

The total Net Operating expenditure for the Fire Service for 2009/10 was approximately £166m. This figure includes pension costs of £56m which need to be shown in accordance with specific accounting requirements.

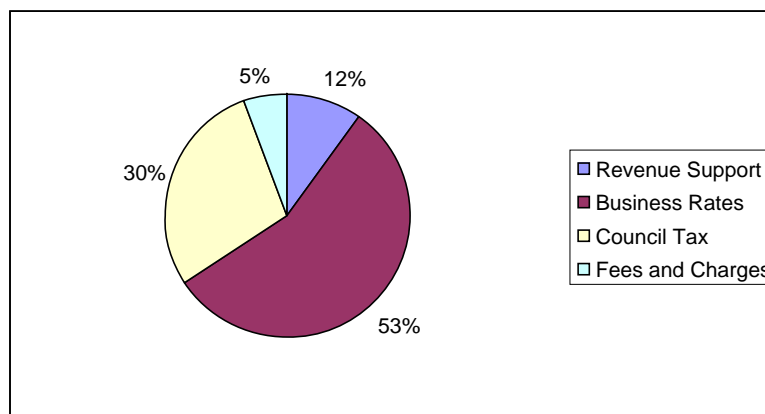
The types of costs can be broken down as follows:



### How was the Service funded in 2009/10?

The total income of the Authority in 2009/10 was £123m. The majority of funding comes from the Government in the form of grant and a share of business rates.

The various sources of funding are shown below:



## Balances and Reserves

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

In order to set a balanced budget in 2009/10 the Authority assumed no movement in general balances. The actual level of general balances increased in the year by £0.239m, leaving £4.690m 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 £2.981m, this brought the total level of these reserves to £12.787m. Interest is earned on any balances until expenditure is committed against the demands identified.

## Capital Expenditure and Funding

In 2009/10, the Authority spent £6.654 million on capital projects.

The expenditure was incurred on the following:

	£000s
Land & Buildings	2,019
Vehicles	3,490
Equipment	1,138
Software Licences	7

A considerable amount of this expenditure was financed by direct revenue funding £4.157 million (62%). The balance was funded by grants £1.127 million (17%) and capital receipts £1.370 million (21%).

No borrowing was undertaken to assist with purchase of assets during 2009/10. Borrowing in earlier years meant that at the end of 2009/10, the Authority had total loans of £47.264m (the interest and principal on any loans needs to be met from future revenue budgets). The value of fixed assets held by the Authority as at 31<sup>st</sup> March 2010 which the loans had helped fund was £151m, of which approximately 92% related to land and buildings and 8% 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 No. 0121 380 6920 or e-mail: [kal.shoker@wmfs.net](mailto:kal.shoker@wmfs.net)