West Midlands Fire and Rescue Authority

Audit and Risk Committee

You are summoned to attend the meeting of Audit and Risk Committee to be held on Monday, 29 July 2019 at 10:00

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

for the purpose of transacting the following business:

Agenda – Public Session

13 Training

Distribution:

David Barrie - Member, Manjit Gill - Vice Chair, Catherine Miks - Chairman, Peter Miller - Member, Sybil Spence - Member

Agenda prepared by Julie Connor

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This agenda and supporting documents are also available electronically on the West Midlands Fire Service website at www.wmfs.net

Item 3

Minutes of the Audit and Risk Committee

3 June 2019
at Fire Service Headquarters, Vauxhall Road,
Birmingham B7 4HW

Present: Councillors Miks (Chair), Iqbal, Jenkins, Dehar and Mr Ager (Independent)

Apology: Councillor Craddock Richard Percival, Grant Thornton DCFO Phil Hales

As well as the Members of the Committee the following officers attended the meeting:

Javed Aktar, Grant Thornton
Peter Farrow, Audit Manager
John Matthews, Internal Audit
Mike Griffiths, Treasurer
Kal Shoker, Finance Manager
Satinder Sahota, Monitoring Officer (Item 5 only)
Gary Taylor, Assistant Chief Fire Officer (Observer)

23/19 Declarations of Interest

There were no declarations of interest.

24/19 Minutes of the Audit and Risk Committee held on 25 March 2019

Resolved that the minutes of the Audit and Risk Committee held on 25 March 2019 be approved as a correct record.

25/19 Governance Statement 2018-19

The Committee received the Governance Statement for 2018/19.

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

The Governance Statement covered the following areas:

- Scope of Responsibility

- Purpose of the Governance Framework

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

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

- Significant Governance Arrangements within the Authority, including the Authority's Corporate Strategy 'The Plan' and effectiveness of the Service Delivery Model, external audit work undertaken during 2018/19, and reference to the external environment that the Authority is operating in.

The Committee noted the Audit Work that had been undertaken during 2018/19 and issues that had been identified in the review~~s~~ of the Payrolls Section. These were highlighted in the Annual Internal Audit Report and had been raised with relevant managers and actions had been taken to achieve improvements.

Mr Ager found the wording on paragraph 5.5 a little harsh, but it was agreed to leaving the wording in the report. The Treasurer stated the Annual Internal Audit Report was one of the best reports in terms of the least number of significant issues identified.

The External Auditor suggested that an additional section should be added to the Governance Statement to reflect the announcement regarding the transfer of governance to the Combined Authority not proceeding.

The Treasurer and External Auditor agreed to amend the Governance Statement in respect of the change of governance arrangements prior to approval by the Fire Authority at the Annual General Meeting on the 24 June 2019 and signing by the Chair and Chief Fire Officer.

Resolved that following amendment by the Treasurer in agreement with the External Auditor that the Governance Statement for 2018/19 be approved.

26/19 Monitoring Policies on Raising Concerns at Work – Whistleblowing Standing Order 2/20 and Regulation of Investigatory Powers Act

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

It was noted that there had be no allegations of whistle blowing reported through the Whistle Blowing Policy S/O 2/20.

It was noted that there had been no requests to enact the Regulation of the Investigatory Powers Act 2000 in the last year up to 31 March 2019.

Standing Order 2/20 had been consulted upon 8 August 2018 with only minor amendment and had been published on 6 December 2018.

27/19 Internal Audit Annual Report 2018-19

Approval was sought for the Annual Internal Audit Report 2018-19 which had been compiled by the internal auditors.

The report detailed the work of the internal audit service undertaken in 2018-19, providing an opinion on the adequacy and effectiveness of the Authority's governance, risk management and internal control process. The contents of the report also provided one element of the evidence that is required to underpin the Authority's Governance Statement.

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

- the areas subject to review during the year (Auditable Area)

- the level of risk to the Authority assigned to each auditable area (high, medium or low)

- the number of recommendations made as a result of each audit review

- details of any work undertaken outside of the original plan

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

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

Two reviews were currently in progress, and there were two recommendations from the Audits undertaken, one significant and one that merits attention. All of the audits had received a Substantial level of assurance.

Based on the work undertaken during the year and the implementation of the recommendations made, the Internal Auditor provided “reasonable assurance” that the Fire Authority has an adequate and effective framework of governance, risk management and control.

The Auditor stated that this is an unqualified opinion and the highest level of assurance available to Audit Services.

Resolved that the Annual Internal Audit Report for 2018/19 be approved.

28/19 Audit and Risk Committee Annual Report 2018-19

Approval was sought for the Audit and Risk Committee Annual Report 2018-19 which had been compiled by the internal auditors.

Following approval the report is submitted to the Annual Meeting of the Fire Authority. The report provided an overview of the business of the Committee during 2018/19, meetings held, Committee Members and attendance record and the business undertaken. Information flows through to the Committee, following a lot of work being undertaken and no issues of real concern had been identified. Adequate systems were in place to identify risks.

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

29/19 Audit Committee Update from External Auditors

Richard Percival stated that the accounts had been received before the required deadline. The team from Grant Thornton were currently auditing the accounts.

Page 89 of the account's disclosure refers to contingent liability in respect of Pensions. The McCloud case outcome was expected in the next few weeks and this may or may not have a cash impact on fire authorities and dependent upon the result Grant Thornton may recommend a change to the disclosure.

The External Auditor would note the impact of the change to the Combined Authority arrangements and continue to monitor.

There were no substantive or overarching issues to report.

30/19 Update on Topical, Legal and Regulatory Issues

Following an update to Members of the Authority at the Policy Planning Forum held prior to the Audit and Risk Committee, there were no new issues to report.

31/19 Audit and Risk Workplan 2018-2019

The Committee noted the Work Programme for 2018/19.

32/19 CIPFA Audit Committee Update Issue 28 – March 2019

The CIPFA Update had been circulated in March 2019 and the Committee noted the contents.

33/19 Private Meeting with External Auditors

The Members of the Audit and Risk Committee did not require a private meeting with the External Auditors.

34/19 Workshop for Members on Statement of Accounts 2018/19

The Members of the Audit Committee attended a Workshop on the Statement of Accounts 2018/19.

The meeting finished at 1320 hours.

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Item 4

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

29 JULY 2019

1. **AUDIT AND RISK COMMITTEE TERMS OF REFERENCE**

Report of the Clerk.

THAT the amended Terms of Reference for the Audit and Risk Committee be approved.

2. **PURPOSE OF REPORT**.

This report is submitted for member comment and approval.

3. **BACKGROUND**

3.1 The terms of reference for the Audit and Risk Committee reflect CIPFA's position statement "Audit Committees in Local Authorities". This statement emphasises the importance of audit committees being in place in all principal local authorities and recognises that audit committees are a key component of good governance. They were last reviewed in March 2018, but require a slight amendment to clarify the roles of the Audit and Risk Committee and Pension Board in respect of the firefighters' pension scheme.

The delegated responsibility has been separated from the role of the Pension Board and the Terms of Reference have been amended to reflect this and to ensure that they remain relevant and fit for purpose as follows:

Audit and Risk Committee

"To have delegated responsibility as Scheme Manager for making decisions in the management and administration of the firefighters' pension schemes.

Pension Board

The Pensions Board assists the Audit and Risk Committee in the role as Scheme Manager to secure compliance with regulations relating to Governance and Administration."

4. **EQUALITY IMPACT ASSESSMENT**

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

5. **LEGAL IMPLICATIONS**

The Fire Authority is not obliged by law to appoint an Audit and Risk Committee, but this course of action has been taken in line with guidance from CIPFA.

6. **FINANCIAL IMPLICATIONS**

Implementation of the recommendation will be undertaken within existing resources.

BACKGROUND PAPERS

None

Karen Gowreesunker
Clerk to the Authority

Audit and Risk Committee – Terms of Reference

Statement of purpose

Our Audit and Risk Committee is a key component of the Authority's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of our Audit and Risk Committee is to provide independent assurance to the Members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Governance, Risk and Control

To review the Authority's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.

To review the annual governance statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control.

To consider the Authority's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

To consider the Authority's framework of assurance and ensure that it adequately addresses the risks and priorities of the Authority.

To monitor the effective development and operation of risk management in the Authority.

To monitor progress in addressing risk-related issues reported to the Committee.

To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

To review the assessment of fraud risks and potential harm to the Authority from fraud and corruption.

To monitor the counter-fraud strategy, actions and resources.

To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal Audit

To approve the internal audit charter.

To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

To approve risk based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

To approve significant interim changes to the risk-based internal audit plan and resource requirements.

To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.

To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

- Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work;
- Regular reports on the results of the quality assurance and improvement programme;

- Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the annual governance statement.

To consider the head of internal audit's annual report:

- The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the quality assurance and improvement programme that supports the statement - these will indicate the reliability of the conclusions of internal audit.
- The opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control together with the summary of the work supporting the opinion - these will assist the committee in reviewing the annual governance statement.

To consider summaries of specific internal audit reports as requested.

To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

To contribute to the quality assurance and improvement programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

To consider a report on the effectiveness of internal audit to support the annual governance statement, where required to do so by the Accounts and Audit Regulations.

To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.

To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

External Audit (Grant Thornton)

To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

To consider specific reports as agreed with the external auditor.

To comment on the scope and depth of external audit work and to ensure it gives value for money.

To commission work from internal and external audit.

To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.

Financial Reporting

To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Authority.

To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

To report to those charged with governance on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.

To report to full Authority on a regular basis on the Committee's performance in relation to the terms of reference, and the effectiveness of the Committee in meeting its purpose.

To publish an annual report on the work of the Committee.

To have delegated responsibility as Scheme Manager for making decisions in the management and administration of the firefighters' pension schemes.

Pension Board

The pensions board assists the Audit Committee in the role as Scheme Manager to secure compliance with regulations relating to Governance and Administration.

To submit its minutes and Annual Report to the Authority.

Item 5

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

29 JULY 2019

1. **AUDIT FINDINGS 2018/2019**

Report of the Treasurer.

RECOMMENDED

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

2. **PURPOSE OF REPORT**

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

3. **BACKGROUND**

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

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

3.3 The AFR is attached as Appendix A.

4. **EQUALITY IMPACT ASSESSMENT**

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

5. **LEGAL IMPLICATIONS**

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

6. **FINANCIAL IMPLICATIONS**

The scale of fees for undertaking West Midlands Fire and Rescue Authority's external audit work for 2018/2019 was set at £29,750 although the AFR highlights a fee variation (increase) of £4,000 on this figure.

BACKGROUND PAPERS

Statement of Accounts 2018/2019 located in the Financial Management Section.

The contact officer for this report is Gary Taylor, Assistant Chief Fire Officer, Strategic Enabler (Process), telephone number 0121 380 6006.

MIKE GRIFFITHS
TREASURER

The Audit Findings for West Midlands Fire and Rescue Authority

Year ended 31 March 2019

July 2019

Contents

Your key Grant Thornton team members are:

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

Headlines

This table summarises the key findings and other matters arising from the statutory audit of West Midlands Fire and Rescue Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Authority's financial statements: • give a true and fair view of the financial position of the Authority's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during May and June 2019. Our findings are summarised on pages 3 to 19. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion Appendix C or material changes to the financial statements, subject to the following outstanding matters: • Receipt of the Assurance Letter from the Pension Fund external auditor to admitted body auditors; • Response from the valuer in relation to queries raised on the Authority's asset valuations; • receipt of management representation letter; • Updating our post balance sheet events review to the date of signing the opinion; and • review of the final set of financial statements. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unqualified.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Authority's value for money arrangements. We have concluded that West Midlands Fire and Rescue Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix B. Our findings are summarised on pages 14 to 19.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

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

Summary

Overview of the scope of our audit

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

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

Audit approach

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

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

We have not had to alter or change our audit plan, as communicated to you on 25 March 2019.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Risk Committee meeting on 29 July 2019, as detailed in Appendix B. These outstanding items include:

- Receipt of the Assurance Letter from the Pension Fund external auditor to admitted body auditors;
- Response from the valuer in relation to queries raised on the Authority's asset valuations;
- receipt of management representation letter;
- Updating our post balance sheet events review to the date of signing the opinion; and
- review of the final set of financial statements.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. We detail in the table below our assessment of materiality for West Midlands Fire & Rescue Authority.

	Planning (as reported in the Audit Plan (£))	Financial Statements (£)	Qualitative factors considered
Materiality for the financial statements	£2,488,000	£2,396,000	Financial performance of the Authority focussing on the cost of services.
Performance materiality	£1,866,000	£1,797,030	Quality of working papers in prior year and Authority response to audit processes.
Trivial matters	£124,000	£119,802	The amount below which matters would be considered trivial to the reader of the accounts.
Materiality for specific transactions, balances or disclosures	£100,000	£100,000	Materiality has been reduced for remuneration disclosures to £100k due to its sensitive nature and public interest.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**The revenue cycle includes fraudulent transactions** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we determined that the risk of fraud arising from revenue recognition could be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including West Midlands Fire & Rescue Authority, mean that all forms of fraud are seen as unacceptable. Therefore, we did not consider this to be a significant risk for West Midlands Fire & Rescue Authority. We have not altered our assessment as reported in the audit plan and therefore have no issues to report in this regard. Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of pension fund net liability** The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1,600 million in the Authority's balance sheet, as at 31st March 2018) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. We have nothing to report in respect of the work above. However, during the course of the audit, the Authority has sought a revised report from the actuary in order to account for the impact of the recent "McCloud" judgement and also in relation to Guaranteed Minimum Pension (GMP) impact. This is considered under section "Significant findings – key judgements and estimates" at pages 9 to 11. The revised actuaries reports were provided in July and the accounts updated accordingly. It has led to an increase in the net pension liability shown on the face of the balance sheet from £1,751,515k to £1,805,148k an increase of £53,633k. This has also resulted in a significant number of adjustments to the primary statements and the notes to the accounts. We are yet to review that these adjustments have been reflected in the revised financial statements

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary
1	**Valuation of Property, Plant and Equipment** The Authority revalue' s its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£120.675 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2019. We therefore considered valuation of land and buildings, particularly revaluations and impairments, as a specific audit consideration.	We: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • wrote to the valuer to confirm the basis on which the valuations were carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register; and • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. Our audit work has not identified any issues in respect of valuation of land and buildings, based on the work to date. However, we cannot conclude upon this area as at the time of writing as we have challenged the Authority's valuer with regard to some of the assumptions used in the 2018-19 valuation and will consider these on receipt of the response.

Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment

Net pension liability – £1,751 million

The Authority's total net pension liability at 31 March 2019 per the draft accounts was £1,751 million (PY £1,671 million). The Authority uses the Government Actuary's Department for the Fire Fighters Pension Schemes and Barnett Waddingham LLP to provide actuarial valuations of the Authority's assets and liabilities derived from the Local Government Pension Scheme in which it participates, through the West Midlands Pension Fund. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.

Since the draft accounts were produced an updated actuarial report incorporating asset valuations as at March 2019 has been received. The financial statements have been updated in this regard.

This led to an increase of £53.6 million in the net pension liability: the liability in the updated financial statements is now £1,805 million. This was in line with national guidance at the time from CIPFA.

PWC on behalf of the NAO produce a report designed to provide support to auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the LGPS, Police and Fire schemes as at 31 March 2019.

We use this report to inform our assessment of the valuation of the pension fund liability in the Authority's accounts.. Based on the work performed we are able to conclude that management's assumptions overall are reasonable.

Assumption	BW Value	PwC range	GAD Value	PwC range
Discount rate	2.4%	2.35%-2.45%	2.45%	2.45%
Pension increase rate	2.4%	2.4% to 2.45%	2.35%	2.35%
Salary growth	3.9%	0% to 1.5% greater than discount rate	4.35%	4.35%
Life expectancy – Males currently aged 45 / 65	22.6 years	22.2 years to 25 years	23.9 years	22.6 years to 24.6 years
Life expectancy – Females currently aged 45 / 65	25 years	25 years to 26.6 years	23.9 years	22.6 years to 26.2 years

We have also reviewed the:

- Completeness and accuracy of the underlying information used to determine the estimate
- Reasonableness of the Authority's share of LGPS pension assets.
- Reasonableness of increase/decrease in estimate
- Adequacy of disclosure of estimate in the financial statements

and have no findings to bring to your attention in this regard.

Green

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment
. **McCloud ruling re age discrimination** In January 2017, the Employment Tribunal ruled that transitional provisions in the New Judicial Pension Scheme (NJPS) were unlawfully age discriminatory because they were not objectively justified. Firefighters brought a similar age discrimination case and the Employment Tribunal ruled that similar transitional provisions were a proportionate means of achieving a legitimate aim and so did not give rise to unlawful age discrimination. Firefighters appealed the ruling and in December 2018 the Court of Appeal looked at both the judges and firefighters' cases and ruled that there was age discrimination in both the judges and firefighters pension schemes where transitional protection was given to scheme members. The Government applied to the Supreme Court for permission to appeal and on 27 June 2019 it was announced this was denied. The Authority disclosed a contingent liability in their draft accounts on the basis that impact of the Court of Appeal decision was uncertain as the Government was seeking leave to appeal this decision. As a result a present obligation did not exist. .	Our view is that the McCloud judgement gives rise to a past service cost and liability within the scope of IAS 19 Employee Benefits as the ruling created a new obligation. We wrote to all our local government and fire authority clients in June setting out our views and recommending that bodies ask their actuaries to re-run the IAS19 reports with the actuary reflecting the best estimate for restitution and providing sensitivity analysis for key assumptions. The Authority requested a revised actuarial report from GAD and this was received on the 1st July 2019. This reported: "Impact on 2018/19 pension scheme accounts – If compensation is payable to employees who were transferred to the reformed 2015 schemes, it is expected to lead to an increase in pension scheme liabilities. GAD has estimated the potential increase in scheme liabilities as a result of this judgment to be approximately £67.6 million". The Authority have adjusted their pensions disclosures following receipt of the revised report.	● Green

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment
Guaranteed Minimum Pension (GMP) In October 2017, the High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements (GMPs) have had on members benefits. GMPs must be equalised between men and women and that past underpayments must be corrected. Actuaries have taken differing approaches to this issue.	We have considered the allowance made for GMPs by both GAD (for the firefighters' schemes) and Barnett Waddingham for the Local Government scheme and have concluded that no amendment is required to the Authority's accounts.	Green

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

	Significant matter	Commentary	
1	Other matters that are significant to the oversight of the financial reporting process. Merger with the West Midlands Combined Authority (WMCA) In 2016/17 WMFRA signalled its intention to become part of WMCA's overall governance structure and has been working with the WMCA and the West Midlands seven local authorities in order to implement this.	The draft order was submitted to the Home Office on the 22nd March 2019 for the laying of the order in parliament on 5th June 2019. In preparation for the order to be laid, the Home Office required consent from the West Midlands seven local authorities. However, four local authorities have rejected the proposals meaning that the Authority is unable to proceed in the laying of the order in parliament. The key issues that have led to the rejection by local authorities relate to: • provisions that were intended to safeguard the role of chief fire officer; • the integrity of the role of the chief fire officer; and • ringfencing of the fire budget within the overall combined authority budget which could not be reflected in the Parliamentary Order and had to be delivered through amendment of the WMCA constitution. The Authority will consider the impact of the setback on future governance arrangements as it moves forward. The Authority plans to continue to collaborate with the seven local authorities, WMCA and other partners to reduce vulnerability and risk within it's communities.	**Auditor view** This represents a significant change for the Authority, and the planned merger is now unlikely to happen during 2019/20. However, management have confirmed that they will continue to collaborate with the seven local authorities on a way forward and the shaping of future governance arrangements.

Other communication requirements

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

	Issue	Commentary
1	**Matters in relation to fraud**	We have previously discussed the risk of fraud with the Audit & Risk Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	A letter of representation has been requested from the Authority.
5	**Confirmation requests from third parties**	We requested from management permission to send a bank confirmation request. This permission was granted and the request was sent. This request was returned with positive confirmation.
6	**Disclosures**	Our review found no material omissions in the financial statements.
7	**Audit evidence and explanations/significant difficulties**	All information and explanations requested from management was provided.

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and the Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix C.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Work is not required as the Authority does not exceed the threshold.
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2018/19 audit of West Midlands Fire and Rescue Authority in the audit opinion, as detailed in Appendix C.

Value for Money

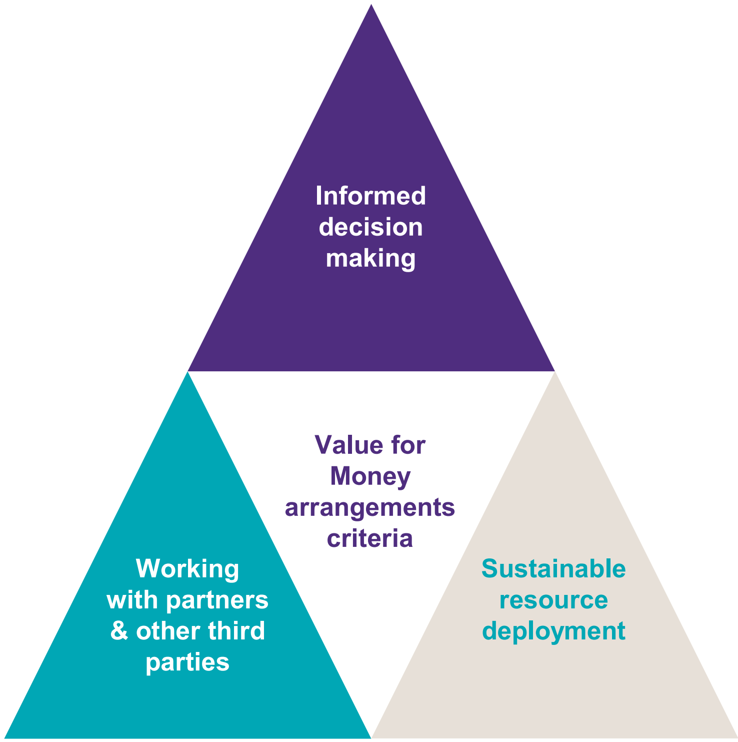
Background to our VFM approach

We are required to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Authority. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in February 2019 and identified one significant risk using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 25 March 2019.

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

Value for Money

Our work

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

We have focused our work on the significant risks that we identified in the Authority's arrangements. In arriving at our conclusion, our main considerations were in relation to the financial sustainability of the Authority, given the continued use of general reserves and the significant risks in relation to pensions costs and increased levels of savings required to deliver a balanced budget.

We considered:

- how the Authority has responded to these challenges in terms of its plans for future years.
- whether your financial position leads to material uncertainty about the going concern of the Authority and reviewed related disclosures in the financial statements.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 16 to 19.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Authority had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix C.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Key findings

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

Significant risk	Findings	Conclusion
1 **Financial Sustainability** The Authority is forecasting that it will deliver the budget for 2018/19 however this will require the use of £1.5 million of general reserves. The Authority's reserves have reduced from £9.2million in 2016/17 to £6.9 million at the start of 2019/20. It is anticipated that £1.1 million of General Reserves will be utilised in 2019/20 and a further £0.75 million used in 2020/21, reducing general reserves to £5 million. The 2019/20 budget requires savings of £3.8 million to be made in order to achieve the budget. Looking forward, there are significant new risks emerging which will require the Authority to find further efficiency savings which include the impact of: • FFPS – Employers Contributions – potential additional costs of £6.2 million (originally £5.3 million) per annum assuming no government funding. • FFPS – Court of Appeal judgement – potential additional costs of £1.5m per annum. We will: • assess how the Authority has responded to these challenges in terms of its plans for future years. • consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.	**2018-19 Outturn** The Authority once again delivered an improved position against its approved budget delivering net expenditure of £104.296m against a plan of £107.016m, giving a positive variance of £2.720m. In addition, funding also delivered a positive variance of £607k, with income received of £55.910m against a plan of £55.303m. The net impact for the Authority was to deliver a positive variance to plan of £2.503m, which has been used fully to create new earmarked reserves. In addition, contributions from earmarked reserves were also lower in the year, £8.108m compared to a plan of £8.932m, giving a positive variance of £824k. In June 2018, the Executive Committee approved the removal of New Entrant contracts to avoid industrial action by Grey Book staff. This has impacted the Services ability to generate Alternative Funding and achieve the full level of staff savings reflected within the Financial Efficiency Plan. At the Authority meeting on 17th September 2018, Members supported a reduced level of Voluntary Additional Shifts to make savings of £750k in 2018/19 to offset the shortfall in the FEP. **2019-20 Position:** The Authority approved a budget for 2019-20 in its February 2019 Authority meeting taking into account the latest Government settlement notified to them at the end of January 2019. This will be the final year of the four-year settlement that the Authority signed up to in 2016/17, which required it to deliver savings of £9.895m over the same period. The 2019-20 budget assumes: • Savings of £3.8m to be made in 2019/20 in order to achieve the Financial Efficiency Plan savings. • Increased net costs of £0.5m for Firefighters Pension Scheme – Employers Contributions due to a change in the discount rate for unfunded public sector pensions from 3% to 2.4%, which has the effect of increasing the employer contributions (to include ill-health costs) from an average 17.6% to 30.2% from April 2019. The increase in the 2019/20 Employer's Pension contributions is estimated to be £6.2m. A s31 government grant of £5.7m has been allocated in 2019/20.	**Auditor view** On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Key findings

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

	Significant risk	Findings	Conclusion
1	**Financial Sustainability** The Authority is forecasting that it will deliver the budget for 2018/19 however this will require the use of £1.5 million of general reserves. The Authority's reserves have reduced from £9.2million in 2016/17 to £6.9 million at the start of 2019/20. It is anticipated that £1.1 million of General Reserves will be utilised in 2019/20 and a further £0.75 million used in 2020/21, reducing general reserves to £5 million. The 2019/20 budget requires savings of £3.8 million to be made in order to achieve the budget. Looking forward, there are significant new risks emerging which will require the Authority to find further efficiency savings which include the impact of: • FFPS – Employers Contributions – potential additional costs of £6.2 million (originally £5.3 million) per annum assuming no government funding. • FFPS – Court of Appeal judgement – potential additional costs of £1.5m per annum. We will: • assess how the Authority has responded to these challenges in terms of its plans for future years. • consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.	• No impact of the Firefighters Pension Scheme Court of Appeal 'McCloud' judgement which found that hat the transitional protections introduced with the new Pension scheme in 2015 were unlawfully discriminatory on grounds of age. The Authority have estimated that the increase in employer's contribution, if members moved back to the 1992 Scheme, would be in the region of £1.5m per annum. In July 2019, the Government was refused leave to appeal the judgement and therefore the employment tribunal will now consider the repatriations necessary. • the Authority will generate estimated income of £3.079m (£3.877m in 2018/19). This is due to the Executive Committee approving the removal of New Entrant contracts to avoid industrial action by Grey Book staff in June 2018 which has had a significant impact on the Services ability to generate Alternative Funding and achieve the full level of staff savings reflected within the FEP. • Use of £1.1m of general balances to support the net budget requirement. This would result in the Authority's available General Balances being approximately £5.8 million by the end of 2019/20 (6% of the Authority's 2019/2020 Net Revenue Budget). Actual spend to May 2019, including commitments, was £19.683 million compared to a projected budget of £19.701 million, an overall favourable variance of £0.018 million. Management have confirmed as part of regular updates with them that at the end of Quarter 1 the Authority is on track to achieve the savings approved as part of the 2019/20 budget setting process and to deliver the budget position. Management have identified that there are a number of spend pressures emerging for the year but mitigating action is being taken where possible. The Authority is currently maintaining an under borrowed position and is forecast to continue to do so over the next two years.	**Auditor view** On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Key findings

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

	Significant risk	Findings	Conclusion
1	**Financial Sustainability** The Authority is forecasting that it will deliver the budget for 2018/19 however this will require the use of £1.5 million of general reserves. The Authority's reserves have reduced from £9.2million in 2016/17 to £6.9 million at the start of 2019/20. It is anticipated that £1.1 million of General Reserves will be utilised in 2019/20 and a further £0.75 million used in 2020/21, reducing general reserves to £5 million. The 2019/20 budget requires savings of £3.8 million to be made in order to achieve the budget. Looking forward, there are significant new risks emerging which will require the Authority to find further efficiency savings which include the impact of: • FFPS – Employers Contributions – potential additional costs of £6.2 million (originally £5.3 million) per annum assuming no government funding. • FFPS – Court of Appeal judgement – potential additional costs of £1.5m per annum. We will: • assess how the Authority has responded to these challenges in terms of its plans for future years. • consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.	**Forward Look:** The Authority's level of general reserves have declined significantly in recent years going from £8.4m (8.8% of net revenue budget) on the 1st April 2018 to £6.9m (7.2%) as at 1 April 2019 and expected to decline to £5.8m (6%) by 1 April 2020. The use of General Balances is not a sustainable means of funding the Authority's revenue budget. Consideration needs to be given to further Service changes to reduce the reliance on General Balances. From 2021/22, the financial plan currently shows a budget deficit of £1.7m. Using general reserves to temporarily fund this gap will further reduce to balances to £3.3m. The Authority's three-year financial strategy continues to be updated to ensure that the revenue budget is sustainable and does not seek to rely on reserves to deliver a balanced budget on an on-going basis. As part of the budget setting process each year, the S151 officer is required to review and confirm that the level of reserves held is prudent in light of the risks that the authority faces. The S151 has determined that the overall level of reserves is deemed reasonable and prudent when compared to the risk assessment set out in the budget and the level of savings required to be identified and achieved over the medium term. The impact of the McCloud judgement and the refusal to allow the government the appeal the judgement will have significant financial implications. These will only be able to be quantified once the Employment Tribunal considers the repatriations necessary and how this will be implemented. It is not yet clear whether any Government funding will be provided to mitigate this additional cost.	**Auditor view** On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Value for Money – Financial Resilience & Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process	Auditor commentary
Management have responded to the questions we set out on going concern in our “Informing the Audit Risk Assessment” document which confirms: • There are no events, of which they are aware, that could cause sufficient material uncertainty to cast significant doubt on the Authority’s ability to continue as a going concern. This extends but is not limited to at least twelve months from the Balance Sheet date. • The Authority monitor cash flow on a daily basis, including maintaining an up to date forecast position for at least the next 12 months. These cash flow forecasts covering over 14 months from July 2019 do not indicate any material uncertainty relating to the Authority’s continuing ability to meet financial obligations. • Excluding the impact of the pension liability, the Authority, has a strong balance sheet, with cash and cash equivalents of £40.3 million.	CIPFA Code of Practice 2018/19 Code para 3.4.2.23 states "Local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future". The presumption in local government is that the going concern assumption does apply unless there is specific evidence to the contrary from factors such as an announcement to wind up the authority, failure to set a balanced budget, external assessment concludes unsustainable, financial plans show unable to meet obligations for foreseeable future or significant doubts over forward financial planning arrangements. Management’s assessment has considered these areas and concluded that no material uncertainty in respect of going concern exists. In addition based on our own knowledge of the Authority we are aware that the Authority has set an "approved budget" for 2019/20 and has a longer term financial plan. The cashflow forecast does not indicate any signs of significant financial difficulty that would cause concern. As such we consider that the assessment undertaken by the Authority on going concern is a reasonable and valid one and there are no indications of material uncertainty.
Work performed	**Auditor commentary**
• Detailed audit work performed on management’s assessment	• Our audit did not identify any events or conditions which may cast significant doubt on going concern assumption. • Excluding the impact of the pension liability, the Authority, has a strong balance sheet, with cash and cash equivalents of £40.3 million. • The Authority has mainly PWLB debt £33.112 million plus £2.585 million non-PWLB debt and there is no requirement to borrow further to meet any immediate liabilities falling due. • The Authority set a budget in line with local government requirements for 2019-20. • Management have confirmed that at the end of Month 2 the Authority is on track to achieve the savings approved as part of the 2019/20 budget setting process. There are a number of spend pressures emerging for the year but mitigating action is being taken where possible.
Concluding comments	**Auditor commentary**
	We propose to issue an unmodified opinion for 2018/19.

Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix B.

Audit and Non-audit services

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

Fees

We confirm below our final fees charged for the audit.

Audit Fees

	Proposed fee	Final fee
Authority Audit	£29,750	£29,750
Total audit fees (excluding VAT) as reported in the Audit Fee Letter	**£29,750**	**£29,750**
Fee Variations:		
Assessing the impact of the McCloud ruling - The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements.	**£1,500**	
Pensions – IAS 19 - The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	**£1,500**	
PPE Valuation – work of experts - The Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	**£1,000**	
Revised Total audit fee (excluding VAT)	**£33,750**	**£33,750**

The revised fee for the year is subject to approval by Public Sector Appointments Ltd (PSAA) and has resulted from national issues outside of the Authority's control.

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

Audit opinion

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

Independent auditor's report to the members of West Midlands Fire and Rescue Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of West Midlands Fire and Rescue Authority (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and Notes to the Core Financial Statements, including a summary of significant accounting policies, and include the firefighters' Pension Fund Account, the Net Assets Statement and the Notes to the Pension Fund Account. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Treasurer is responsible for the other information. The other information comprises the information included in the Financial Statements set out on pages 7 to 19, the Narrative Report, and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the Financial Statements, the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Audit opinion

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:
we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Treasurer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 20 to 21, the Authority is required to 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. The Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Treasurer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Risk Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered
material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve

Audit opinion

planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements – Certificate

We certify that we have completed the audit of the financial statements of the West Midlands Fire and Rescue Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Richard Percival, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

DATE

Item 6

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

29 JULY 2019

1. **STATEMENT OF ACCOUNTS 2018/2019**

Report of the Treasurer.

RECOMMENDED

1.1 THAT the Statement of Accounts for 2018/2019 as set out in Appendix A be approved.

1.2 THAT the Statement of Accounts summary for 2018/2019 set out in Appendix B be noted.

2. **PURPOSE OF REPORT**

This report is submitted for Members of the Audit Committee to approve the Authority's Statement of Accounts for the financial year ended 31 March 2019.

3. **BACKGROUND**

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

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

3.3 The Accounts show net cost of services in 2018/2019 of £182.624 million which includes the use of £7.080 million General Fund Balances. Earmarked Reserves have decreased by £5.604 million to £33.380 million and General Reserves have decreased by £1.476 million to £6.914 million.

3.4 The total Provision of Services in 2018/2019 shows a deficit of £129.121 million, after allowing for the required accounting treatment of pensions governed by International Accounting Standard – Nineteen (IAS19). Capital expenditure totalled £8.809 million.

3.5 A Statement of Accounts is attached as Appendix A and a Summary of Accounts is attached as Appendix B, both are also available on the Fire Service Internet and can be viewed at https://www.wmfs.net/your-fire-service/openness/documents.

3.6 A hard copy of the full Statement of Accounts can be supplied to individual Members on request and will be available to view at the Audit Committee meeting.

4. EQUALITY IMPACT ASSESSMENT

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

5. LEGAL IMPLICATIONS

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

6. FINANCIAL IMPLICATIONS

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

BACKGROUND PAPERS

Accounts and Audit Regulations 2015
Code of Practice on Local Authority Accounting 2018/2019
Final Accounts Files – Finance Office

The contact officer for this report is Gary Taylor, Assistant Chief Fire Officer, Strategic Enabler (Process), telephone number 0121 380 6006.

MIKE GRIFFITHS
TREASURER

DRAFT

Item 6

WEST MIDLANDS FIRE SERVICE

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

Financial Statements & Notes to the Accounts

2018/2019

CONTENTS

Independent auditor's report to the members of West Midlands Fire and Rescue Authority

Report on the Audit of the Financial Statements

NARRATIVE REPORT BY THE TREASURER

1. Introduction

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

WMFS is accountable to the public via the West Midlands Fire and Rescue Authority (WMFRA), made up of 15 Councillors representing the local authorities. They are also joined by West Midlands Police and Crime Commissioner and two co-opted Members. Headed by the Chair of the Fire Authority they set the direction for the Service in the best interests of the community. The Service is managed directly by three Brigade Managers – the Chief Fire Officer (CFO), Deputy CFO and Assistant CFO.

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

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

Response: Dealing excellently with emergency incidents.

- Through risk management, the most serious emergency incidents in high risk areas will be attended within five minutes, to save life, protect homes and businesses, and keep our transport networks moving.

- Risk to life and property will be reduced through our commitment to operational excellence, enabling an assertive, effective and safe emergency response to all incidents whilst supporting firefighter safety.

- At all incidents attended, rescue operations will be led and coordinated by WMFS whilst working collaboratively with other agencies to deliver an excellent response and meet public expectations.

- National Resilience will be enhanced through delivery of a local, national and international response to major incidents, new risks, and humanitarian situations through our specialist response teams.

Prevention: Making safer, healthier communities.

- The number of people killed or seriously injured by fire-related incidents will reduce as we focus with our partners, reducing the risks faced by the most vulnerable people in our communities.

- The safety, health and well-being of the most vulnerable people in our communities will improve by targeting ‘radical prevention’ interventions that are directly linked to vulnerability from fire.

- Arson-related incidents will fall, supporting safer and stronger communities, as a result of our partnership working.

- Fewer people will be killed or seriously injured on West Midlands roads and we will keep our transport networks moving, as we work with the West Midlands Combined Authority (WMCA) and other organisations to develop and deliver interventions that support the West Midlands Regional Road Safety Strategy.

Protection: Protecting life and property to make businesses stronger and communities safer.

- Life and property will be protected by targeting high risk buildings and vulnerable businesses, including residential high rise to ensure compliance and enforcement of fire safety legislation.

- Improved community safety through implementing outcomes of the Independent Review of Building Regulations and Fire Safety.

- Improved community safety through innovative and contemporary approaches to the delivery of protection activities and working cohesively with partners at local, regional and national levels to influence the development of new and enabling legislation.

- Prosperity and economic growth are enhanced by educating and supporting Businesses including collaboration with other regulators and partner agencies.

- Disruption to Businesses, Communities and the WMFS caused by unwanted fire signals from fire alarms will be reduced.

We deliver our priorities with effective delivery through collaboration outcomes:

Value for Money

- Government funding reductions will be met and our Service Delivery Model, which focuses on public safety and vulnerability, will be maintained.

- Services delivered will be managed efficiently and effectively using the most appropriate management of resources and assets in delivering the organisational priorities.

- Efficiency opportunities will be identified and delivered through collaborative activities and by exploring social value, commercial and sponsorship opportunities, to support the delivery of our strategy and public safety through targeting the most vulnerable.

Digital and Innovation

- Commitment to research and development enabling assertive, effective and safe firefighting.
- A culture where digital as an enabler will help people, systems and processes become more efficient and effective.
- Provide assurance and intelligence for evidence-based decisions with accurate, useful and timely information that will reduce community risk through our mobile workforce.
- Enable the secure and reliable sharing of data with our partners and the cost-effective and joined-up delivery of services to the most vulnerable people in our communities.

People

- An agile, accountable and competent workforce, to provide the sustained delivery of our strategy by individuals and teams through adaptability, authenticity and cohesion.
- An environment and culture where benefits of health & wellbeing are understood and valued equally, to enable our staff to respond positively to change.
- Diversity, Inclusion, Cohesion and Equality to support, the safety, health & wellbeing of the most vulnerable people in our communities.
- A workforce reflective of the communities we serve through 'positive action' to attract, recruit and support progression for individuals with protected characteristics.

Further information can be found on our website **www.wmfs.net**

2. This narrative report provides a brief explanation of the financial aspects of the Authority's activities and draws attention to the main characteristics of the Authority's financial position.

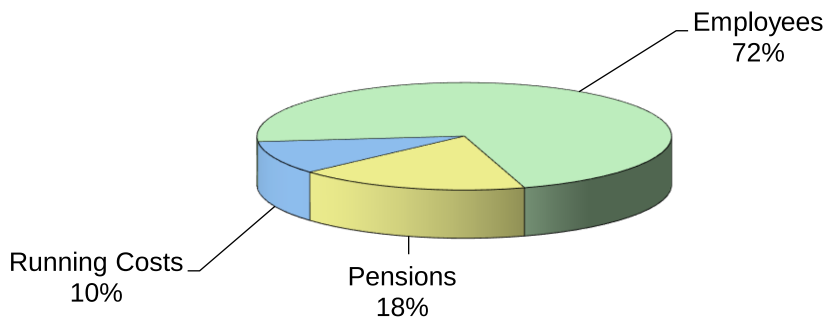
3. The Authority's accounts for the financial year 2018/2019 are set out on the following pages and consist of:
    - The Comprehensive Income and Expenditure Statement (CIES), the Authority's main revenue account, covering income and expenditure on all services.
    - The Movement in Reserves Statement (MIRS), which shows the movement in the year on the different reserves held by the Authority.
    - The Balance Sheet, which sets out the financial position of the Authority at 31st March 2019.
    - The Cash Flow Statement, showing movements in cash and cash equivalents during the year and the cash position at the year-end.
    - The Pension Fund Account, which summarises the movements relating to the firefighters' pension schemes (FPS).

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

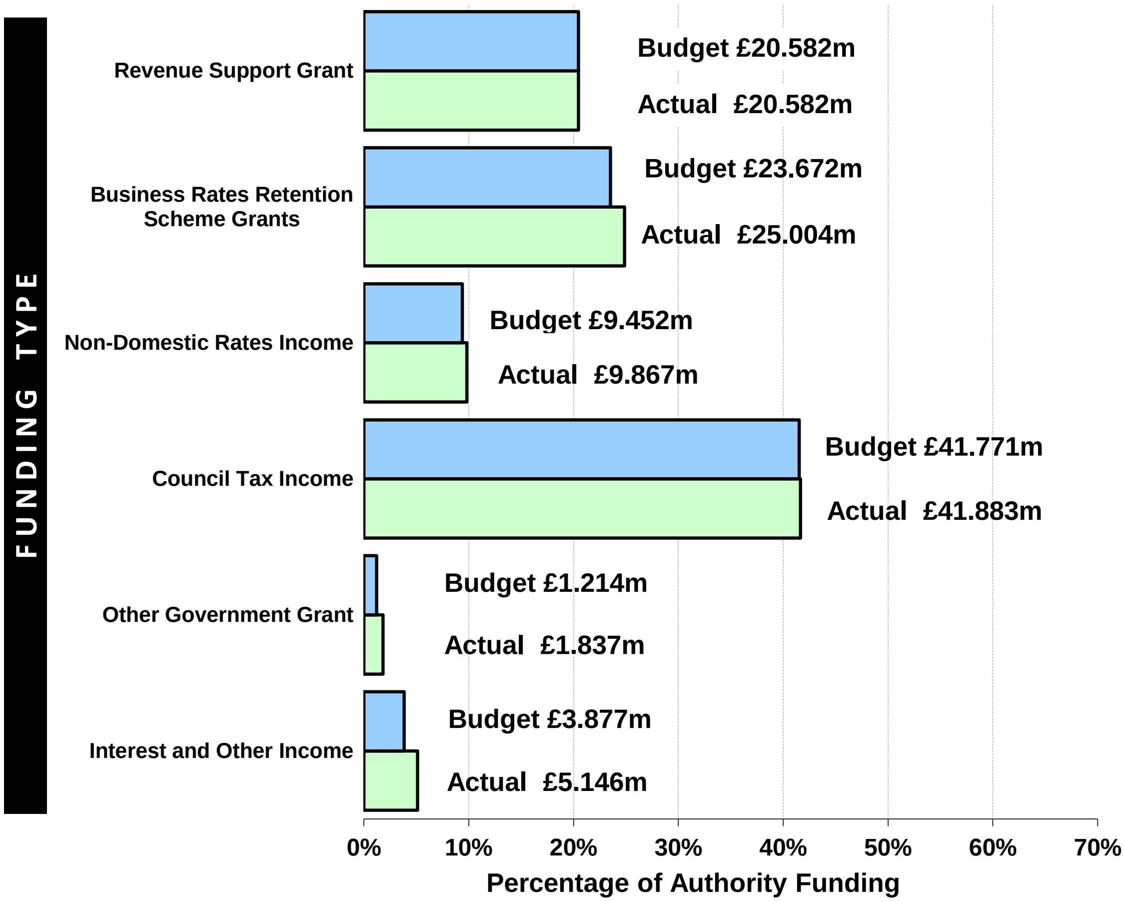
4. The accounting policies adopted by the Authority comply with the relevant accounting standards except where indicated in notes to the accounts.

5. The CIES shows a deficit on provision of services of £129.121m. After statutory adjustments, such as the removal of depreciation and impairments and applying International Accounting Standard Nineteen (IAS19) entries in relation to pension costs, the Authority shows an overall deficit of £150.046m.

6. The total expenditure of the Authority in 2018/19 was £233.440m. The types of costs incurred were:



7. The total income of the Authority to fund expenditure in 2018/19 was £104.319m, which came from:



8. In 2018/19 the Authority spent £8.809m on capital projects, the largest of these being £3.755m on the redevelopment of Coventry Fire Station, £1.769m on vehicle replacements and £1.251m on the redevelopment of Aston Fire Station. The total expenditure on capital schemes was financed by a combination of Capital Grants and Direct Revenue Financing. Note 32 provides details of capital expenditure and capital financing.

9. In 2018/19 appropriations of £5.604m were made from earmarked general fund reserves and £1.476m from un-earmarked general fund reserves.

10. The Authority, at its February 2018 meeting authorised the limit for external debt at £41m and the statutory limit for external debt at £45m. As at 31st March 2019, the Authority's actual long-term principal borrowing was £35.697m and short-term principal borrowing was £0.305m as per Note 17.3.

11. The 2018/19 accounts include the impact of IAS19. The effects of IAS19 are shown within the CIES and Balance Sheet. There is no effect on council tax from the implementation of this standard. The figures disclosed represent a snapshot in time. The accounts show that there is a significant shortfall between the forecast cost of pensions and the current level of assets built up in the pension fund. The Government Actuaries Department (GAD) review the defined benefit arrangements and appropriate levels of employer & employee contributions.

12. During 2018/19 to support the resolution of the Trade Dispute, on 6 June 2018 the Executive Committee took a decision to withdraw new entrants' contracts. These contracts enabled the ongoing delivery, within the current Service Delivery Model, of new activities that were linked to the Authority's strategy including commissioned health work. The report is available on the Authority's Committee Management Information Service (CMIS) website.

13. The Authority's approved Financial Efficiency Plan (FEP) included £2m annual alternative funding to be generated by 2019/2020. Due to the change in strategic direction and subsequent withdrawal from delivering commissioned health activities, the £2m target was unachievable. In addition, funding of approximately £0.6m for Disturbance Allowance and £0.3m to maintain the Late Shift Allowance, was provided for in the 2018/19 budget from Reserves. This was in anticipation that both allowances would cease from 2019/20 onwards. The failure to achieve the removal of these allowances created further budget pressures and an overall shortfall in the approved FEP of circa £3m.

14. Because of the above, it was recognised at the Executive Committee meeting on 6 June 2018 that service changes would be required to enable a budget to be produced for the Authority in February 2019, reflecting new areas of savings to replace the previously approved FEP.

15. At the Fire Authority Meeting on 17 September 2018, Members noted the need for further ongoing revenue savings in future years, due to additional anticipated Government funding reductions from 2020/21 onwards combined with the need for investment in the Protection function and Support Services. At the Authority meeting on 19 November 2018, Members approved an investment in the Protection function from 2019/20 of approximately £0.6m. At the Authority meeting on 18 February 2019, Members approved an investment in Support Services from 2019/20 of approximately £0.2m and a further £0.35m from 2021/22.

16. **Financial Outlook**

As part of the settlement for 2016/17, an offer was made for a multi-year funding settlement. Any Authority wishing to take up the four year funding settlement to 2019/20 was required to set out their proposals in a FEP to qualify for the four year settlement from April 2016. The settlement offer (provisional for 2017/18 - 2019/20) would result in a cumulative budget deficit of circa £10m if the Service did not make any efficiency savings. The Authority at its meeting on 19 September 2016 considered and approved the FEP which was submitted to the Home Office.

The areas where savings were anticipated and reflected within the medium term financial strategy were:
• £4m – Staffing
• £2m – Alternative funding
• £1m – Internal restructures
• £1m – Service reductions
• £2m – Council tax base

Further details of the FEP can be found at https://wmfs.cmis.uk.com/cmis5/.

On 13 December 2018, the Secretary of State for Ministry of Housing, Communities and Local Government (MHCLG) announced the provisional settlement for 2019/20 at £52.048m, resulting in a core funding reduction of £0.982m compared to 2018/19. The Government also proposed a council tax referendum threshold of 3% for Fire and Rescue Authorities. On 29 January 2019, MHCLG confirmed the Authority's 2019/20 total core funding.

The Authority set its 2019/20 budget on 18th February 2019, setting a council tax requirement of £43.215m which resulted in a council tax increase of (2.99%), £1.76 at Band D.

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

The potential 2019/20 shortfall in the FEP (£3m), together with the Fire Authority approved investment in the Protection Function (£0.6m) and Support Services (£0.2m) required savings of £3.8m to be made in 2019/20 to achieve a balanced budget. The 2019/20 budget reflects the assumption that the proposed flexible, risk-based management of resources daily would provide the basis of achieving the required level of savings, specifically by a reduction in employee related costs.

The four-year finance settlement comes to an end in March 2020. There is no clarity over funding levels, nationally and locally, after that date. This hampers meaningful financial planning at a time when central government grant funding is the lowest it has been for decades and demand pressures are increasing.

Whilst the Government settlement figures up to 2019/20 have provided some greater funding certainty than previously, additional potential budget pressures, e.g. increases in firefighter pension employer contribution rates, further anticipated Government funding reductions beyond this time period and a lack of any direct capital and transformation funding being available, means that the level of Un-earmarked General Fund Reserves is estimated to be approximately £5 million by the end of 2020/21.

17. **Public Service Pensions**

Elizabeth Truss, The Chief Secretary to the Treasury, has confirmed the Government is committed to providing public service pensions that are fair for public sector workers and for taxpayers. Based on the recommendations of the Hutton report, reforms were brought forward in 2015, to ensure that pensions were sustainable in the future. The courts have considered cases regarding the implementation of the 2015 reforms. On 27 June 2019 the Supreme Court denied the government permission to appeal the Court of Appeal's judgment, that transitional provisions introduced to the reformed judges and firefighters pension schemes in 2015, gave rise to unlawful age discrimination. The Government has indicated it respects the Court's decision and will engage fully with the Employment Tribunal to agree how the discrimination will be remedied. As 'transitional protection' was offered to members of all the main public service pension schemes, the Government believes that the difference in treatment will need to be remedied across all those schemes. See Note 6 for more detail.

18. **WMCA**

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

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

In view of Home Office expectations around the reform of the Fire Service, and as the Government pushes forward local devolution and public sector reform, the WMFRA has considered how it works with, responds to and influences these changes.

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

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

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

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

At the 25 May 2018 WMCA Board meeting it was agreed that the Scheme be submitted to the Home Office to enable the development of the draft Statutory Order. Following receipt of the draft Statutory Order, specific proposals set out in the report to progress key local 'asks' were confirmed at the 14 September 2018 Board meeting. The Chief Executive and Monitoring Officer of the WMCA were given delegated authority to consent to the laying of the Order in Parliament, subject to the outcome of the final local constituent council cabinet meeting on 19 September 2018.

The proposed final Draft Statutory Order from the Home Office was sent out to each Constituent Council, the WMCA and WMFRA on the 9 January 2019 with a request to provide consent. The proposed Order however contained an amendment that led the CFO to advise that the Order not be consented to on the basis that the change was too significant and compromised the intent of the proposed governance changes.

The single albeit significant change in the proposed Order received back from the Home Office, was in Part 2, Section 7, regarding delegations of CFO Functions by a Mayor. The title for this section was altered from 'Functions of the CFO' to 'Delegation of functions to the CFO.' Furthermore 7 (1) was amended to 'The only arrangements the Mayor may make under section 107D(3)(b) of the LDEDC Act 2009 in relation to fire and rescue functions are to authorise the exercise of the following functions by the CFO….' It was felt that this change, particularly replacing the use of 'must' with 'may' in 7(1), compromised the intent of the proposed governance changes which had been consulted upon and previously agreed by Board members.

Because of this change and the subsequent advice provided by the CFO, the Order was not consented to by the Constituent Councils and the WMCA.

The Home Office have confirmed that Parliamentary Lawyers advising the Joint Committee on Statutory Instruments, have stated that the Order is required to be in its current form as a reflection of primary legislation. The current form is the final Draft Order and cannot be altered. Because of this change, WMCA and WMFS officers have been working together to develop proposals to mitigate the amendment made to the Order.

There is a clear will to identify a solution to locally mitigate the amendment made to the Order. Therefore, following discussions with the Home Office, the below proposals were identified as local solutions to enable the transfer to go ahead.

In order to deliver additional assurances around the operation of a Mayor's Fire Function, a number of constitutional amendments were proposed. These amendments provide the assurances required as to functions that must be delegated to the CFO by a Mayor, which were not able to be provided in the Draft WMCA (Fire and Rescue Functions) Order 2019 and are as follows:

- Delegation of Operational and Organisational Fire Functions to the CFO: The intention is to guarantee that the delegations to the CFO previously agreed to must be provided to the CFO as the person with the competencies to prepare and deliver the Integrated Risk Management Plan (IRMP).
- Procedure to be followed in the event of any proposed changes to delegation: The intention of the procedure set out is to ensure a robust process is undertaken when a Mayor wishes to amend any delegation of Operational and Organisational Fire Functions to the CFO. Any proposals would need full consideration through the WMCA governance processes including Overview and Scrutiny and Audit Risk and Assurance. The CFO would be fully engaged and consulted as a part of those processes and the final decision as to any changes would be for the WMCA Board.
- Clarity that no other officer other than the CFO (or an officer delegated by the CFO) can undertake the functions as set out in the draft Order.

It was also proposed that an additional Framework of Delegated Accountabilities relating to the Mayor's Fire Function be adopted into the Combined Authority constitution. The purpose of this Framework would be to build upon the amendments proposed and to set out (in accordance with the WMCA Fire Functions Order 2019) how the functions of the Mayor, CFO, WMCA and MFAC would be exercised in relation to each other and in support of delivering fire and rescue functions as aligned to relevant the legislative framework. Significantly this scheme of accountabilities sets out clearly how the CFO will enable the preparation and delivery of the IRMP, through an agreed Strategic Plan and Budget. The WMCA would become the Fire and Rescue Authority and as such would provide statutory officer roles through its staffing structure. However, to support the CFO in the delivery of delegated accountabilities and working directly with WMCA Statutory Officers, a Deputy Section 151 Officer and a Deputy Monitoring Officer and Clerk will exist as part of the WMFS structure.

In addition to constitutional amendments and scheme of delegated accountabilities, it was proposed that a commitment to reviewing Fire and Rescue governance arrangements is made to take place within the next Mayoral term. The purpose of any review would be twofold, firstly to ensure that the arrangements are working as intended and secondly, to examine whether there are further changes that can bring robustness and clarity to the CFO accountabilities.

On the 22 March 2019 the WMCA Board approved the following recommendations:

- The Final Draft Statutory Order received from the Home Office on 9 January 2019 was noted.
- The WMCA's consent to the laying of the Order in Parliament was confirmed.
- The WMCA's acceptance of the proposals set out in the report to provide additional constitutional provisions and deliver a CFO Framework of accountabilities in order to provide the necessary assurances required following receipt of the Final Statutory Order was confirmed, subject to the approval of constituent councils.
- The Chief Executive and Monitoring Officer of the WMCA were given delegated authority to approve the draft Order received from Government in agreement with the CFO and Chair of the Fire & Rescue Authority, should there be any further non-material changes before the Order was laid.
- A commitment to reviewing governance arrangements within the next Mayoral term was confirmed.

The Home Office identified a date of the 5 June 2019 to lay the Order before Parliament.

The timeline required the Board to (a) agree to the proposed local assurances (b) consent to the draft Order being laid before Parliament and to confirm its delegation to the Chief Executive and Monitoring Officer of the Combined Authority, to approve the draft Order received from Government should there be any further non-material changes before the Order is laid.

For the Order to be laid, the Home Office required consent from all the seven West Midlands Local Authorities. However, as a number of Local Authorities did not provide their consent to the Home Office, this effectively meant that the laying of the Order in Parliament on 5 June 2019 was unable to proceed. Consideration will need to be given to future governance arrangements arising from this latest development.

19. Performance Indicators (PI)

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

The setting of targets against operational and other performance indicators enables the Service to identify key areas for improvement which contribute to making the West Midlands safer, stronger and healthier. During 2018/19 the Scrutiny Committee received quarterly updates of the organisation's performance.

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

A summary of the performance indicators for prevention, protection and response is provided below and further details of Authority's performance monitoring through the Scrutiny Committee can be found at https://wmfs.cmis.uk.com/cmis5/.

Key:	
Blue	Over performance against the tolerance levels
Green	Performance is within the tolerance levels
Red	Under performance against the tolerance levels

Response

PI 1

The Risk Based Attendance Standard
Target: under 5 minutes
Actual: 4 minutes 42 seconds

Attendance times for Category 2, 3 & 4 incidents remain well within target:

- Category 2: 5 minutes 26 seconds (target is under 7 minutes)
- Category 3: 4 minutes 52 seconds (target is under 10 minutes)
- Category 4: 6 minutes 49 seconds (target is under 20 minutes)

Prevention

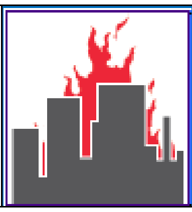
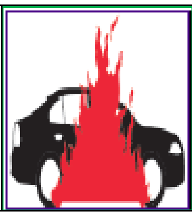
PI 2

The number of accidental dwelling fires
Annual Forecast: 1625 (1544 – 1657 tolerance)
Actual for year: 1658

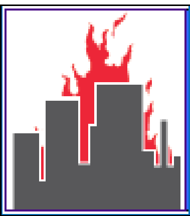
PI 3

Injuries from accidental fires in dwellings (taken to hospital for treatment)
Annual Forecast: 60 (48 – 65 tolerance)
Actual for year: 54

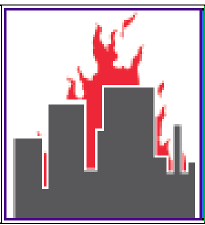
16

PI 4		**The number of deaths from accidental dwelling fires** Annual Forecast: Not applicable Actual for year: 4
PI 5		**The percentage of Safe and Well visits referred by our partners** Annual Forecast: 55% (55% - 57.5% tolerance) Actual to date: 45.6%
PI 6		**The number of Safe & Well points achieved by the Brigade** Annual Forecast: 300,000 Actual for year: 302,214
PI 7		**The number of people killed or seriously injured (KSI) in road traffic collisions** Annual Forecast: Not applicable Actual for year: 785
PI 8		**The number of arson fires in dwellings** Annual Forecast: 205 (185 – 215 tolerance) Actual for year: 216
PI 9		**The number of arson fires in non-domestic premises** Annual Forecast: 181 (163 – 189 tolerance) Actual for year: 121
PI 10		**The number of arson vehicle fires** Annual Forecast : 882 (793 – 925 tolerance) Actual for year: 806

PI 11		**The number of arson rubbish fires** Annual Forecast: 1991 (1892 – 2031 tolerance) Actual for year: 1601

PI 12		**The number of arson fires in derelict buildings** Annual Forecast: 142 (128 – 149 tolerance) Actual for year: 103

Protection

PI 13		**The number of accidental fires in non-domestic premises** Annual Forecast: 421 (379 – 442 tolerance) Actual for year: 434

PI 14		**The number of false alarm calls due to fire alarm equipment in dwellings and non-domestic premises** Annual Forecast: 5317 (5052 – 5423 tolerance) Actual for year: 5837

20. Further information about the accounts is available from:

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

Telephone : 0121-380-6920
or E-Mail : kal.shoker@wmfs.net

21. Interested members of the public also have the right to inspect the accounts before the Audit is completed. The availability of the accounts for inspection is advertised on the Authority's website.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required to:

(i) make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Treasurer.

(ii) manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

(iii) approve the statement of accounts.

The Treasurer's Responsibilities

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

In preparing this statement of accounts, the Treasurer has:

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

The Treasurer has also:

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

I certify that this statement of accounts gives a true and fair view of the financial position and expenditure and income of the WMFRA for the year ending 31st March 2019.

Mike Griffiths, C.P.F.A
Treasurer

Date: 29th July 2019

STATEMENT OF APPROVAL FOR THE STATEMENT OF ACCOUNTS

The statement of accounts for the year 1st April 2018 to 31st March 2019 was approved by the WMFRA Audit and Risk Committee on 29th July 2019.

Cllr Catherine Miks
Chair of the Audit and Risk Committee

Date: 29th July 2019

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2017/2018				2018/2019		
Gross Exp. £000	Gross Income £000	Net Exp. £000		Gross Exp. £000	Gross Income £000	Net Exp. £000
85,499	(3,322)	82,177	Service Delivery	83,340	(3,352)	79,988
24,339	(2,147)	22,192	Service Support	25,496	(2,541)	22,955
3,264	(407)	2,857	Corporate Management	3,513	(197)	3,316
11,337	(118)	11,219	Corporate Charges	76,376	(11)	76,365
124,439	(5,994)	118,445	Cost of Services	188,725	(6,101)	182,624
1,520	(2,208)	(688)	Other Operating Expenditure (Note 12)	411	(90)	321
46,163	(251)	45,912	Financing and investment income & expenditure (Note 13)	44,304	(436)	43,868
		(96,230)	Taxation and non-specific grant income (Note 14)			(97,692)
		67,439	(Surplus)/Deficit on Provision of Services			129,121
11,817	(13,976)	(2,159)	Surplus or deficit on revaluation of Property, Vehicles, Plant and Equipment assets (Note 11.1)	20,311	(5,529)	14,782
		(54,913)	Re-measurements of the net defined benefit liability/(asset)			6,143
		(57,072)	Other Comprehensive Income and Expenditure			20,925
		10,367	Total Comprehensive Income and Expenditure			150,046

MOVEMENT IN RESERVES STATEMENT

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

	Un-earmarked General Fund Reserves £000	Earmarked General Fund Reserves £000	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2017	(9,236)	(43,734)	(52,970)	(61)	(559)	(53,590)	1,555,387	1,501,797
Movement in Reserves During 2017/18								
Total Comprehensive Income and Expenditure *	67,439	-	67,439	-	-	67,439	(57,072)	10,367
Adjustments between accounting basis and funding basis under regulations (Note 9)	(61,843)	-	(61,843)	(2,131)	98	(63,876)	63,876	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	5,596	-	5,596	(2,131)	98	3,563	6,804	10,367
Transfers to/from Earmarked Reserves (Note 10)	(4,750)	4,750	-	-	-	-	-	-
(Increase)/Decrease in 2017/18	846	4,750	5,596	(2,131)	98	3,563	6,804	10,367
Balance at 31 March 2018	(8,390)	(38,984)	(47,374)	(2,192)	(461)	(50,027)	1,562,191	1,512,164
Movement in Reserves During 2018/19								
Total Comprehensive Income and Expenditure *	129,121	-	129,121	-	-	129,121	20,925	150,046
Adjustments between accounting basis and funding basis under regulations (Note 9)	(122,041)	-	(122,041)	(57)	304	(121,794)	121,794	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	7,080	-	7,080	(57)	304	7,327	142,719	150,046
Transfers to/from Earmarked Reserves (Note 10)	(5,604)	5,604	-	-	-	-	-	-
(Increase)/Decrease in 2018/19	1,476	5,604	7,080	(57)	304	7,327	142,719	150,046
Balance at 31 March 2019	(6,914)	(33,380)	(40,294)	(2,249)	(157)	(42,700)	1,704,910	1,662,210

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

BALANCE SHEET

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

31 March 2018 £000		Note	31 March 2019 £000
144,008	Property, Vehicles, Plant & Equipment	15	131,195
66	Heritage Assets		66
13	Intangible Assets	16	143
144,087	Long Term Assets		131,404
725	Inventories	18	688
13,100	Short Term Debtors	19	16,861
51,379	Cash and Cash Equivalents	20	40,302
65,204	Current Assets		57,851
(1,537)	Short Term Borrowing	17	(455)
(11,637)	Short Term Creditors	21	(9,739)
(331)	Grant Receipts in Advance – Revenue	31	-
(13,505)	Current Liabilities		(10,194)
(722)	Provisions	22	(426)
(36,002)	Long Term Borrowing	17	(35,697)
(1,671,226)	Other Long Term Liabilities	33	(1,805,148)
(1,707,950)	Long Term Liabilities		(1,841,271)
(1,512,164)	Net Assets		(1,662,210)
(50,027)	Usable Reserves		(42,700)
1,562,191	Unusable Reserves	11	1,704,910
1,512,164	Total Reserves		1,662,210

Mike Griffiths, C.P.F.A
Treasurer

Date: 29th July 2019

CASH FLOW STATEMENT

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

2017/2018 £000		2018/2019 £000
67,439	Net (surplus) or deficit on the provision of services	129,121
(66,795)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 23.2)	(128,612)
2,131	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 23.3)	82
2,775	Net cash flows from Operating Activities	591
2,010	Investing Activities (Note 24)	9,125
1,264	Financing Activities (Note 25)	1,361
6,049	Net (increase)/decrease in cash and cash equivalents	11,077
57,428	Cash and cash equivalents at the beginning of the reporting period	51,379
51,379	Cash and cash equivalents at the end of the reporting period (Note 20)	40,302

NOTES TO THE CORE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

1.1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2018/19 financial year and its position as at the year-end, 31st March 2019. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require the Accounts to be prepared in accordance with proper accounting practices.

It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under the Local Government Act 2003.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Statement of Accounts has been prepared on a going concern basis. The Authority's Auditors, Grant Thornton UK LLP, have reported that they are satisfied with the Management's assessment that the going concern basis was appropriate for the 2018/19 financial statements and the Treasurer expectations is that this will continue for the foreseeable future. Using reserves the Authority has a balanced budget for the Medium Term Financial Plan period and robust and deliverable plans for a balanced budget going forward.

1.2. Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when or as the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

- Supplies are recorded as expenditure when they are consumed — where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as Income and Expenditure.

- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

- Accruals of Income and expenditure are subject to a deminimis level of £1,000.

1.3. Cash and Cash Equivalents

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

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

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

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

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

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

1.5. Charges to Revenue for Non-Current Assets

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

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

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

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

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

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

The council tax and NDR included in the CIES is the Authority's share of accrued income for the year. Regulations determine the amount of council tax and NDR that must be included in the Authority's General Fund. The difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the MIRS. The effect on the Surplus or Deficit on the Provision of Services for the year 2018/19 in the CIES is a surplus of £121k which is also reflected in the MIRS.

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

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Collection Fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

1.7. Employee Benefits

1.7.1 Benefits Payable during Employment

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

1.7.2 Termination Benefits

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

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

1.7.3 Post Employment Benefits

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

- Uniformed Firefighters – Original (1992) Scheme

  This is an unfunded scheme, which is administered by the Authority in accordance with the MHCLG regulations. For such schemes, as there are no investment assets, IAS19 requires recognition of the liability and pension reserve in the Balance Sheet and transactions in the CIES for movements in the liability and reserve. The pension costs that are charged to the Authority's accounts in respect of these employees are equal to the contributions paid to the pension fund for these employees. The scheme was only open to those firefighters in the scheme as at 31st March 2006 and the employer's contribution is higher than for the new firefighters' pension scheme. All contributions are made into a pension fund and equally the payments to pensioners are paid out of the same fund. This is then balanced by a contribution to or from the fund by the Government each year.

- Uniformed Firefighters – (2006) Scheme

  On 1st April 2006 a new firefighters' pension scheme was established for new firefighters, retained firefighters and for uniformed employees carrying out operational duties in the old pension scheme who wished to transfer to the new scheme. This scheme is an unfunded scheme and operates in the same way as the old scheme except for the reduced level of contribution from employees and employers which reflects the different conditions and benefits of the new scheme. All contributions are made into a pension fund and equally the payments to pensioners are paid out of the same fund. This is then balanced by a contribution to or from the fund by the Government each year.

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

- <u>Uniformed Firefighters – (2015) Scheme</u>

  On 1st April 2015 a new firefighters' pension scheme was established. This scheme is a career average revalued earnings scheme for members starting after the 1st April 2015. Members of the 1992 and 2006 final salary schemes moved into this scheme, unless protection applied. This scheme is an unfunded scheme. All contributions are made into a pension fund and equally the payments to pensioners are paid out of the same fund. This is then balanced by a contribution to or from the fund by the Government each year.

  The combined pension fund for uniformed firefighters as at 31st March 2019 had a net deficit value of £1,758.6m.

- <u>The Local Government Pension Scheme (LGPS)</u>

  Other employees, subject to certain qualifying criteria, are eligible to join the LGPS, administered by Wolverhampton City Council. The pension costs that are charged to the Authority's accounts, £2.740m in 2018/19 in respect of these employees, are equal to the contributions paid to the funded pension scheme for these employees. Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis. The scheme is, however, funded.

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

These schemes are accounted for as defined benefits schemes:

- The liabilities of the West Midlands Metropolitan Authorities Pension Fund (WMMAPF) and the liabilities of the Firefighters Pension Schemes attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method — i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and estimates of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 2.45% for the FPS and 2.4% for the LGPS.

- The assets of WMMAPF attributable to the Authority are included in the Balance Sheet at their fair value:

  - quoted securities — current bid price
  - unquoted securities — professional estimate
  - unitised securities — current bid price
  - property — market value.

- The change in the net pensions liability is analysed into the following components:
  - Service cost comprising:
    - Current service cost - the increase in liabilities because of years of service earned this year — allocated in the CIES to the services for which the employees worked.
    - Past service cost — the increase in liabilities because of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years — debited to the Surplus or Deficit on the Provision of Services in the CIES within the corporate charges Service line.
    - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority — the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
  - Remeasurements comprising:
    - The return on plan assets — excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
    - Changes in demographic and financial assumptions — changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions — charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - Contributions paid to the Pension Fund — cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

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

1.7.4 Discretionary Benefits

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

1.8. Events after the Reporting Period

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

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

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

1.9. Financial Instruments

1.9.1 Financial Liabilities

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

Debt inherited from the former WMCC is managed by Dudley MBC and redeemed over a period of 40 years from 1st April 1986. Annual charges to the CIES for interest payable were charged on this debt in 2018/19 at a rate of 5.62%.

Creditors are carried on the balance sheet at amortised cost.

1.9.2 Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- Amortised cost
- Fair value through profit or loss, and
- Fair value through other comprehensive income

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest i.e. where the cash flows do not take the form of a basic debt instrument.

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

Debtors are carried on the balance sheet at amortised cost.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

1.9.3 Fair Value Measurement

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

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

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

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

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

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

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

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

1.10. Government Grants and Contributions

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

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

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

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

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

1.11. Inventories

Inventories are included in the Balance Sheet at the latest price. This does not comply with the standard which requires the lower of cost and net realisable value. The total value of stocks held is approximately £688k (2017/18 £725k) and therefore any difference in accounting treatment will not materially affect the reasonableness of the figures disclosed within the accounts.

1.12. Overheads and Support Services

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

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

1.13. Property, Vehicles, Plant and Equipment

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

1.13.1 Recognition

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

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

1.13.2 Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

- Infrastructure, community assets and assets under construction — held at historical cost.

- Residential Homes — the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective. The Authority no longer provides residential homes to new tenants and any properties which become or are vacant, are held as surplus assets.

- All other assets — current value, determined on the basis of market value.

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

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

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

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the corporate charges service line in the CIES.

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

1.13.3 Impairment

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

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the corporate charges service line in the CIES.

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

1.13.4 Depreciation

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

The following depreciation policies have been adopted:

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

Wilks Head & Eve (WH&E), of 55 New Oxford Street, London, WC1A 1HB is a RICS (Royal Institution of Chartered Surveyors) Regulated Firm, are the Authority's valuers and were instructed to provide valuations for all land and property assets and recommend the appropriate life expectancies. A full valuation of all land and property assets was completed as at 31st March 2019. The Code requires that land and property assets must be revalued every five years as a minimum but must be revalued more regularly where a five year valuation is insufficient to keep pace with material changes in fair value.

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

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

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

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

1.13.5 Non-Current Assets Held for Sale

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

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

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

1.14. Minimum Revenue Provision

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

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

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

The Treasurer has the discretion to make an additional provision.

1.15. Provisions and Contingent Liabilities

1.15.1 Provisions

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

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

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

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

1.15.2 Contingent Liabilities

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

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

1.16. Reserves

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

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

1.17. Value Added Tax (VAT)

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

1.18. Restated Figures

For comparative purposes, 2017/2018 figures are provided.

Note 19 Short term debtors and Note 21 Creditors show 2017/2018 restated figures as the requirement to analyse creditors and debtors now permits authority judgement as to the categories presented. These notes also separate those creditors and debtors which are financial instruments and those which are not.

Note 33.6 LGPS assets show 2017/2018 restated figures as the assets have been recategorised.

1.19. Roundings

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

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

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

The standards introduced in the 2019/20 Code that are relevant to the above are:-

- Amendments to IAS 40 Investment Property: Transfers of investment property clarifies guidance regarding transfers in and out of investment properties, where there has been evidence of a change of use and property now meets or ceases to meet the definition of an investment property.

- Annual Improvements to IFRS Standards 2014 – 2016 Cycle

  The improvement to IFRS 1 First-time Adoption of International Financial Reporting Standards concerns the deletion of short-term exemptions for first-time adopters because they have now served their intended purpose.

  IFRS 12 Disclosure of Interests in Other Entities applies to the disclosure requirements of an entity's interests that are classified as held for sale, held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

  IAS 28 Investments in Associates and Joint Ventures clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration applies to foreign currency transactions where a non-monetary asset or liability arises from either the payment or receipt of an advance consideration, before recognition of the related asset, expense or income.

- IFRIC 23 Uncertainty over Income Tax Treatments clarifies the accounting for uncertainties in income taxes and should be used when determining the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates where there is uncertainty over income tax treatments under IAS12.

- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation alters the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income).

The Code requires implementation from 1 April 2019 and there is therefore no impact on the 2018/19 Statement of Accounts.

The Authority has concluded that there will be no material impact upon the 2019/20 Statement of Accounts.

IFRS 16 Leases – This will require lessees to recognise most leases on their balance sheets as right of use assets with corresponding lease liabilities (there is recognition for low value and short-term leases). In December 2018, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a statement from the CIPFA/Local Authority (Scotland) Accounts Advisory Committee Local Authority Accounting Code Board announcing the implementation of IFRS 16 Leases to be deferred until 1st April 2020.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

- Insurance – The Authority continues to operate a self-insure scheme for all of its property and vehicle assets.

- No Residual Value of Assets – The Authority assumes that the residual value of plant and equipment will be nil when they are de-commissioned, as the assets are held to provide a service rather than for resale at the end of their useful life. The Authority has determined that the amounts received when assets are decommissioned are negligible and depend on the market demand for the assets at time of disposal.

- Property valued at Current Value – The Authority has had all its land and property assets valued on the basis of current value as at 31st March 2019. The Code requires that land and property assets must be revalued every five years as a minimum but must be revalued more regularly where a five year valuation is insufficient to keep pace with material changes in fair value. In 2011 the Authority introduced component accounting to its land and property assets as part of its valuations.

- Government Funding - There remains a degree of uncertainty about future levels of core funding for local government although the offer of a provisional four year settlement by MHCLG is considered to be a reasonable basis to formulate medium term financial planning. The Authority has however determined that the level of uncertainty is not yet sufficient to indicate that the assets of the Authority may be significantly impaired because of a need to close facilities and reduce levels of service provision.

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

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

The items in the Authority's Balance Sheet at 31st March 2019 for which there is a risk of a material adjustment in the following financial year are:

- Pensions Liability – Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes to retirement age, mortality rates and expected return on pension fund assets. The Government Actuary's Department (GAD) and Barnett Waddingham provide the Authority with expert advice about the assumptions to be applied (Note 33).

- Provisions – The Authority has made an insurance provision for employee and public liability claims. The provision is based on the advice of the Authority's Risk Management advisor. However, the figure could increase or decrease based on the final settlement.

- Property, Plant and Equipment – The Authority's assets are depreciated over the useful life assigned by the external valuer. Assumptions are made about the level of repairs and maintenance which could affect the useful lives assigned to assets.

5. MATERIAL ITEMS OF INCOME AND EXPENDITURE

LGPS Contributions 2017/18 - 2019/20

On 28 April 2017 the Authority made a payment of £7.9m to the WMMAPF in respect of pension contributions for the three years from 1st April 2017 to 31st March 2020. The full payment has been accounted for as a reduction in the Authority's net pension liability and accounting regulations require that only the amount due in relation to 2018/19 of £2.6m is recognised as a cost to the General Fund this year. Until 2019/20, there will be a difference between the net pension liability and the pension reserve, equal to the amount that has been paid in relation to future years. This difference will remain until the 2019/20 accounts.

6. EVENTS AFTER THE REPORTING PERIOD

McCloud/Sargeant Judgement

Two employment tribunal cases were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in the pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case was heard in November 2016 and was brought by McCloud and other members of the Judicial Pension Scheme against the Lord Chancellor and the Ministry of Justice. The tribunal ruled in favour of the claimants. The decision was taken to the Employment Appeal Tribunal who decided in January 2018 to uphold the tribunal's decision. The Lord Chancellor and Ministry of Justice lodged an appeal to the Court of Appeal.

The second case was heard in January 2017 and was brought by Sargeant and other members of the Firefighters' Pension Scheme against the Fire & Rescue Authorities and the Government (in England and Wales). The tribunal ruled against the claimants. The claimants appealed this decision to the Employment Appeal Tribunal, which led to further appeals to the Court of Appeal by both parties.

Before hearing the two appeals the Court of Appeal decided to combine the two cases as they were so closely linked. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. The government launched a subsequent appeal, resulting in a decision by the supreme court on 27 June 2019, which said the government had not raised an arguable point of law. The government will now consider how best to compensate those affected by the judgment as part of the court process.

A pension past service cost of £68.9m has been provided for this judgement.

7. EXPENDITURE AND FUNDING ANALYSIS

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

2017/2018				2018/2019		
Net Expenditure Chargeable to the General Fund * £000	Adjustments between Funding and Accounting Basis (Note 7.1) £000	Net Expenditure in the CIES £000		Net Expenditure Chargeable to the General Fund * £000	Adjustments between Funding and Accounting Basis (Note 7.1) £000	Net Expenditure in the CIES £000
67,908	14,269	82,177	Service Delivery	66,794	13,194	79,988
19,962	2,230	22,192	Service Support	20,733	2,222	22,955
2,445	412	2,857	Corporate Management	2,853	463	3,316
3,907	7,312	11,219	Corporate Charges	3,118	73,247	76,365
94,222	24,223	118,445	Cost of Services	93,498	89,126	182,624
(88,626)	37,620	(51,006)	Other Income and Expenditure	(86,418)	32,915	(53,503)
5,596	61,843	67,439	(Surplus)/Deficit on Provision of Services	7,080	122,041	129,121
(52,970)			Opening General Fund Balance	(47,374)		
(47,374)			Closing General Fund Balance @ 31 March	(40,294)		

* As reported to the SET.

7.1 Adjustments between funding and accounting

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

2018/2019	Adjustments for capital purposes (Note 7.2) £000	Net change for the pension adjustments (Note 7.3) £000	Other statutory differences (Note 7.4) £000	Total Adjustments £000
Service Delivery	-	13,484	(290)	13,194
Service Support	-	2,236	(14)	2,222
Corporate Management	-	464	(1)	463
Corporate Charges	6,614	66,633	-	73,247
Cost of Services	6,614	82,817	(305)	89,126
Other Income and Expenditure	(9,299)	42,335	(121)	32,915
Total	(2,685)	125,152	(426)	122,041

7.2 Adjustments for capital purposes

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

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

- Financing and investment income and expenditure – the statutory charges for capital financing i.e. MRP and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. The taxation and non-specific grant income line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

7.3 Net change for the pension adjustments

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

- For services this represents the removal of the employer pension contributions made by the Authority as allowed by statute and the replacement with current service costs and past service costs.

- For financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

7.4 Other statutory differences

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

- For services this represents the impact of accruals for accumulating compensated absences.

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

8. EXPENDITURE AND INCOME ANALYSED BY NATURE

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

2017/2018 £000		2018/2019 £000
	Expenditure	
100,054	Employee expenses	167,244
15,543	Other services expenses	14,869
8,842	Depreciation, amortisation and impairment	6,613
44,063	Pensions interest cost and expected return on pension assets	42,335
2,100	Interest payments	1,969
1,520	Other operating expenditure	410
172,122	**Total Expenditure**	**233,440**
	Income	
(4,033)	Fees, charges and other service income	(4,620)
(251)	Interest and investment income	(436)
(39,891)	Council tax income	(41,883)
(9,598)	Non-domestic rates income from West Midlands Local Authorities	(9,867)
(48,702)	Government grants and contributions	(47,423)
(2,208)	Disposal of non-current assets	(90)
(104,683)	**Total Income**	**(104,319)**
67,439	**(Surplus)/Deficit on the provision of services**	**129,121**

8.2 Revenue from contracts with service recipients

This is a new policy as required in the Code of Practice for the 2018/19 financial year.

The Authority recognises revenue from contracts with service recipients in accordance with the provisions of IFRS 15 Revenue from Contracts with Customers as reflected in the Code of Practice. Revenue is recognised in the financial year that services are provided in accordance with the performance obligations of the contract.

Amounts included in the CIES for contracts with service recipients:

	2017/2018 £000	2018/2019 £000
Revenue from contracts with service recipients:		
Service Delivery – provision of Fire Control	**914**	**964**
Total included in CIES	**914**	**964**

Amounts included in the Balance Sheet for contracts with service recipients:

	2017/2018 £000	2018/2019 £000
Receivables included in short term debtors	**43**	**-**
Payables included in short term creditors	**-**	**(7)**
Total Included in Net Assets	**43**	**(7)**

The value of revenue that is expected to be recognised in the future related to performance obligations that are unsatisfied at the end of the year is:

	2017/2018 £000	2018/2019 £000
Not Later than one year	**971**	**996**
Later than one year	**996**	**1,016**
Amounts of transaction price fully unsatisfied	**1,967**	**2,012**

Revenue relates to the recovery of 30% of the total running costs of the Fire Control function. The performance obligations of the contract are met when the services are rendered. An invoice is raised for a fixed amount each month for the service in the month that the service is provided and adjusted at year end for variations.

9. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

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

General Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

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

2018/2019	Usable Reserves		
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
Adjustments to Revenue Resources	£000	£000	£000
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:			
Pension costs transferred to/(from) the Pensions Reserve	(125,152)	-	-
Council tax and NDR transfers to/(from) Collection Fund Adjustment Account	121	-	-
Holiday pay transferred to the Accumulated Absences Reserve	305	-	-
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(6,355)	-	-
Total Adjustments to Revenue Resources	(131,081)	-	-
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	57	(57)	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	834	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	8,149	-	-
Total Adjustments between Revenue and Capital Resources	9,040	(57)	-
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	-
Application of capital grants to finance capital expenditure	-	-	304
Total Adjustments to Capital Resources	-	-	304
Total Adjustments	(122,041)	(57)	304

10. MOVEMENTS IN EARMARKED RESERVES

This note sets out the amounts set aside within the General Fund Balance for earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in both 2017/18 and 2018/19.

General Fund:	Balance at 31st March 2017 £000	Transfers out 2017/18 £000	Transfers in 2017/18 £000	Balance at 31st March 2018 £000	Transfers out 2018/19 £000	Transfers in 2018/19 £000	Balance at 31st March 2019 £000
Business Development							
Project Management/Support	151	129	45	67	67	-	-
Strategic Hub							
IiP Assessment	-	-	-	-	-	10	10
Communications							
Community Engagement	8	6	20	22	20	35	37
Communications/Media Events	52	60	24	16	11	26	31
Portfolio							
New Risks (MTFA)	-	-	-	-	-	50	50
Finance & Resources							
Property Maintenance	1,226	182	166	1,210	176	22	1,056
Procurement of Operational Equip.	229	93	82	218	121	-	97
Loss of Use Recovery	40	-	10	50	-	27	77
Procurement Collaboration	65	43	1	23	23	-	-
ICT							
Enterprise Resource Planning (ERP)	-	-	-	-	-	2,000	2,000
ESMCP-Local Transition	1,749	-	167	1,916	266	-	1,650
IT Equipment & System Upgrades	2,662	1,588	331	1,405	996	455	864
Firelink	223	223	278	278	278	341	341
Incident Reporting System (IRS)	-	-	-	-	-	200	200
Recruitment	-	-	-	-	-	30	30
Intelligence & Innovation							
Legal Services	100	4	-	96	81	130	145
Occupational Health	-	-	-	-	-	120	120
Project Management/Support	179	159	139	159	147	85	97
Trauma Care Training	-	-	-	-	-	10	10
Distributed Training Model (DTM)	-	-	1,000	1,000	1,000	-	-
Care Quality Commission	60	1	-	59	59	-	-
Firefighting & Rescue Equipment	57	47	-	10	10	-	-
People Support Services							
Staff Training & Development	236	181	315	370	437	315	248
Training Equipment/Facilities	226	99	9	136	56	42	122
Time Management System	29	-	-	29	2	-	27
Health & Wellbeing	161	33	41	169	163	-	6
Project Management/Support	77	77	-	-	-	-	-
Ridership	400	400	-	-	-	-	-
Prevention							
Community Partnerships	385	197	258	446	198	89	337
Education Materials/Facilities	80	37	22	65	33	24	56
Youth Services	22	12	-	10	-	3	13
Protection							
Fire Safety	19	8	-	11	10	130	131

General Fund: (Continued)	Balance at 31st March 2017 £000	Transfers out 2017/18 £000	Transfers in 2017/18 £000	Balance at 31st March 2018 £000	Transfers out 2018/19 £000	Transfers in 2018/19 £000	Balance at 31st March 2019 £000
Response							
Tech Rescue	834	295	284	823	73	24	774
Service Delivery	310	815	912	407	337	217	287
Project Management/Support	8	120	112	-	-	-	-
Capital							
Capital Program Shortfall	8,637	2,214	4,528	10,951	206	1,384	12,129
Fire Station Investment	14,977	5,908	-	9,069	5,051	-	4,018
Occupational Health Relocation	-	-	-	-	-	200	200
Insurance							
Insurance Reserve	7,303	584	468	7,187	67	67	7,187
Corporate							
Service Review	2,956	885	17	2,088	1,382	-	706
Gains Share	-	-	250	250	75	-	175
Digital Transformation	272	95	147	324	322	147	149
Seconded Staff	1	1,006	1,018	13	795	782	-
Project Management/Support	-	-	-	-	143	143	-
Holiday Pay	-	-	107	107	107	-	-
Personal Protective Equipment	-	33	33	-	50	50	-
TOTAL	43,734	15,534	10,784	38,984	12,762	7,158	33,380

Further information on the Reserves Strategy can be found at https://www.wmfs.net/about-us/openness/documents/

11. UNUSABLE RESERVES

31 March 2018 £000		31 March 2019 £000
(58,720)	Revaluation Reserve	(42,683)
(56,096)	Capital Adjustment Account	(60,284)
1,676,394	Pensions Reserve	1,807,689
(680)	Collection Fund Adjustment Account	(801)
1,293	Accumulated Absences Account	989
1,562,191	Total Unusable Reserves	1,704,910

11.1 Revaluation Reserve

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

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

2017/2018 £000		2018/2019 £000
(58,009)	Balance 1 April	(58,720)
(13,976)	Upward revaluation of assets	(5,529)
11,817	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	20,311
(60,168)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(43,938)
1,448	Amount written off to the Capital Adjustment Account	1,255
(58,720)	Balance 31 March	(42,683)

11.2 Capital Adjustment Account

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

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

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

2017/2018 £000		2018/2019 £000
(59,378)	Balance 1 April	(56,096)
	Reversal of items relating to capital expenditure debited or credited to the CIES:	
4,830	Charges for depreciation and impairment of non-current assets	4,565
4,007	Revaluation losses on Property, Vehicles, Plant and current assets	2,044
6	Amortisation of intangible assets	4
1,200	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	97
(49,335)		(49,386)
(1,448)	Adjusting amounts written out of the Revaluation Reserve	(1,255)
(50,783)	Net written out amount of the cost of non-current assets consumed in the year	(50,641)
	Capital financing applied in the year:	
-	Use of the Capital Receipts Reserve to finance new capital expenditure	-
(74)	Capital grants and contributions credited to the CIES that have been applied to capital financing	(356)
(98)	Application of grants to capital financing from the Capital Grants Unapplied Account	(304)
(787)	Statutory provision for the financing of capital investment charged against the General Fund	(834)
(4,354)	Capital expenditure charged against the General Fund and HRA balances	(8,149)
(56,096)	Balance 31 March	(60,284)

11.3 Pensions Reserve

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

2017/2018 £000		2018/2019 £000
1,671,815	**Balance 1 April**	**1,676,394**
(54,913)	**Re-measurements of the net defined benefit liability/(asset)**	**6,143**
71,256	**Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES**	**136,584**
(11,764)	**Employer's pensions contributions and direct payments to pensioners payable in the year**	**(11,432)**
1,676,394	**Balance 31 March**	**1,807,689**

On 28 April 2017 the Authority made a payment of £7.9m to the WMMAPF. This payment was based on Barnett Waddingham's Rates and Adjustments Certificate for the amounts due for Employer Pension Contributions 1st April 2017 to 31st March 2020. There is a difference between the pension reserve and pension liability on the balance sheet of £2.541m for Employer Pension Contributions 1st April 2019 to 31st March 2020.

11.4 Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and NDR in the CIES as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. The balance at the 31 March 2019 is (£0.801m) and was (£0.680m) as at 31 March 2018.

11.5 Accumulated Absences Account

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

2017/2018			2018/2019	
£000	£000		£000	£000
	1,342	Balance 1 April		1,294
(1,342)		Settlement or cancellation of accrual made at the end of the preceding year	(1,294)	
1,294		Amounts accrued at the end of the current year	989	
	(48)	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(305)
	1,294	Balance 31 March		989

12. OTHER OPERATING EXPENDITURE

2017/2018 £000		2018/2019 £000
(996)	(Gains)/losses on the disposal of non-current assets	7
308	Levies	314
(688)	Total	321

13. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2017/2018 £000		2018/2019 £000
2,100	Interest payable and similar charges	1,969
44,063	Net interest on the net defined benefit liability/(asset)	42,335
(251)	Interest receivable and similar income	(436)
45,912	Total	43,868

14. TAXATION AND NON SPECIFIC GRANT INCOMES

2017/2018 £000		2018/2019 £000
(39,891)	Council tax income	(41,883)
(9,598)	NDR income from West Midland Local Authorities	(9,867)
(23,202)	Revenue support grant	(20,582)
(23,465)	Business rates retention scheme grants	(25,004)
(74)	Capital grants and contributions	(356)
(96,230)	Total	(97,692)

15. PROPERTY, VEHICLES, PLANT AND EQUIPMENT

15.1 Comparative Movements in 2017/2018

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

15.2 Movements on Balances 2018/2019

2018/19	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Surplus Assets	Assets Under Construction	Total Property, Vehicles, Plant and Equipment
Cost or Valuation	£000	£000	£000	£000	£000
At 1 April 2018	130,969	32,334	1,884	2,763	167,950
Additions	1,035	212	-	7,428	8,675
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(17,590)	-	94		(17,496)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,055)	-	11		(2,044)
De-recognition – Disposals	-	(1,785)	(220)	-	(2,005)
Assets reclassified (to) / from Held for Sale	-	-	-	-	-
Other movements in cost or valuation	8,316	(383)	383	(8,316)	-
At 31 March 2019	120,675	30,378	2,152	1,875	155,080
Accumulated Depreciation and Impairment					
At 1 April 2018	-	23,722	220	-	23,942
Depreciation charge	2,688	1,851	26	-	4,565
Depreciation written out to the Revaluation Reserve	(2,688)	-	(26)	-	(2,714)
De-recognition – Disposals	-	(1,688)	(220)	-	(1,908)
De-recognition – Other	-	(383)	383	-	-
At 31 March 2019	-	23,502	383	-	23,885
Net Book Value					
At 31 March 2018	130,969	8,612	1,664	2,763	144,008
At 31 March 2019	120,675	6,876	1,769	1,875	131,195

15.3 Depreciation

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

15.4 Capital Commitments

As at the 31st March 2019, the Authority approved capital expenditure in future years of £16.957m of which £3.676m has been contractually committed leaving £13.281m as the uncommitted sum which relates to expenditure on property, plant and equipment.

The largest of these contractual commitments represents:

	£000
• Aston Fire Station	2,187
• Vehicle Replacement Programme	831

15.5 Revaluations

The Authority had all its property assets valued as at 31st March 2019 based on current value. The work was completed by qualified external valuers, WH&E. Valuations were carried out in accordance with the methodologies and bases for estimation set out in the Royal Institution of Chartered Surveyors (RICS) Professional Standards manual (The Red Book) and is International Valuation Standards compliant. The use of the manual means there is certainty with the valuation process.

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

16. INTANGIBLE ASSETS

The movement on Intangible Asset balances during 2017/18 and 2018/19 is as follows:

	2017/18 Other Assets £000	2018/19 Other Assets £000
Balance at start of year:		
Gross carrying amounts	663	663
Accumulated amortisation	(644)	(650)
Net carrying amount at end of	19	13
Additions:		
Purchases	-	134
Amortisation for the period	(6)	(4)
Net carrying amount at end of	13	143
Comprising of:		
Gross carrying amounts	663	797
Accumulated amortisation	(650)	(654)
Net carrying amount at end of	13	143

17. FINANCIAL INSTRUMENTS

17.1 Balance Sheet

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

Financial Assets	Non-Current				Current				Total	
	Investments		Debtors		Investments		Debtors			
	31-Mar 2018 £000	31-Mar 2019 £000	31-Mar 2018 £000	31-Mar 2019 £000	31-Mar 2018 £000	31-Mar 2019 £000	31-Mar 2018 £000	31-Mar 2019 £000	31-Mar 2018 £000	31-Mar 2019 £000
Amortised Cost	-	-	-	-	51,379	40,302	6,741	10,199	58,120	50,501
Total financial assets	-	-	-	-	51,379	40,302	6,741	10,199	58,120	50,501
Non-financial assets	-	-	-	-	-	-	6,359	6,662	6,359	6,662
Total	-	-	-	-	51,379	40,302	13,100	16,861	64,479	57,163

Financial Liabilities	Non-Current				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors			
	31-Mar 2018 £000	31-Mar 2019 £000	31-Mar 2018 £000	31-Mar 2019 £000	31-Mar 2018 £000	31-Mar 2019 £000	31-Mar 2018 £000	31-Mar 2019 £000	31-Mar 2018 £000	31-Mar 2019 £000
Amortised Cost	(33,112)	(33,112)	-	-	(1,361)	(305)	(4,955)	(3,090)	(39,428)	(36,507)
Financial liabilities at historical cost	(2,890)	(2,585)	-	-	(176)	(150)	-	-	(3,066)	(2,735)
Total financial liabilities	(36,002)	(35,697)	-	-	(1,537)	(455)	(4,955)	(3,090)	(42,494)	(39,242)
Non-financial liabilities	-	-	-	-	-	-	(6,682)	(6,649)	(6,682)	(6,649)
Total	(36,002)	(35,697)	-	-	(1,537)	(455)	(11,637)	(9,739)	(49,176)	(45,891)

17.2 Income, Expense, Gains and Losses

	2017/18		2018/19	
	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
Amortised Cost:				
(Gains)/Losses on de-recognition	**(996)**	**-**	**7**	**-**
Interest revenue	**(251)**	**-**	**(436)**	**-**
Interest expense	**2,100**	**-**	**1,969**	**-**
Total	**853**	**-**	**1,540**	**-**

17.3 Loans Outstanding

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

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

The amounts owing are as follows:

	2017/2018		2018/2019	
	Long-Term £000	Short-Term £000	Long-Term £000	Short-Term £000
PWLB	**33,112**	**1,084**	**33,112**	**-**
Dudley MBC	**2,890**	**277**	**2,585**	**305**
Total Principal Amount	**36,002**	**1,361**	**35,697**	**305**
Plus Accrued Interest	**-**	**176**	**-**	**150**
Total Amortised Cost	**36,002**	**1,537**	**35,697**	**455**

17.4 Fair Value Measurement

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

17.4.1 Fair Value of Assets and Liabilities at Amortised Costs

Except for the financial liabilities and financial assets carried at fair value, all other financial liabilities and financial assets held by the authority are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of cash flows that will take place over the remaining life of the instruments, using the following assumptions:

- Actual ranges of interest rates at 31st March 2019 of 8.625% to 3.950% for loans from the PWLB;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than twelve months, the fair value is taken to be the principal outstanding or the billed amount.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

17.4.2 Financial Liabilities

The fair values are as follows:

	2017/2018		2018/2019	
	Carry Amount £000	Fair Value £000	Carry Amount £000	Fair Value £000
PWLB Short & Long Term Loans	**34,196**	**61,481**	**33,112**	**61,368**
Dudley MBC (WMCC)	**3,167**	**3,167**	**2,890**	**2,890**
Total	**37,363**	**64,648**	**36,002**	**64,258**

Overall, the fair value for 2018/2019 is greater than the carrying amount because the Authority's portfolio of loans includes several fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

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

17.4.3 Financial Assets

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

17.4.4 Fair Value Hierarchy for Financial Assets and Financial Liabilities

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

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

	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	TOTAL 31 March 2019
	£000	£000	£000	£000
FINANCIAL LIABILITIES				
Loans	-	64,238	-	64,258
Plus Accrued Interest	-	150	-	150
Total Borrowing	-	64,388	-	64,408
Creditors	-	3,090	-	3,090
Total Financial Liabilities	-	67,478	-	67,498
FINANCIAL ASSETS				
Cash & Cash Equivalents	-	40,302	-	40,302
Total Investments	-	40,302	-	40,302
Debtors	-	10,199	-	10,199
Total Financial Assets	-	50,501	-	50,501

17.5 Nature and extent of risks arising from Financial Instruments

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

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

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

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

17.5.1 Credit risk

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

The Authority does not generally allow credit for customers, such that £0.846m of the £16.861m Debtors balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31 March 2018 £000	31 March 2019 £000
Less than three months	1,148	658
Three to six months	6	155
Six months to one year	6	19
More than one year	3	14
Total	1,163	846

17.5.2 Liquidity risk

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

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

17.5.3 Market risk

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

During 2018/19, if interest rates on investments had been 0.25% lower with all other variables held constant, the impact on the CIES would be a fall in interest received of £0.136m (2017/2018 £0.155m). The impact of a 0.25% increase in interest rates would be the same but reversed, interest would increase by £0.136m (2017/2018 £0.155m).

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

18. INVENTORIES

	General Stores		Mechanical Stocks		Heating Oil Petrol/ Diesel		Total	
	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000
Balance outstanding at start of year	366	466	168	165	95	94	629	725
Purchases	832	895	280	385	494	592	1,606	1,872
Recognised as an expense in the year	(732)	(935)	(283)	(387)	(495)	(586)	(1,510)	(1,908)
Written off balances	-	(1)	-	-	-	-	-	(1)
Balance outstanding at year-end	466	425	165	163	94	100	725	688

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

19. SHORT TERM DEBTORS

31 March 2018 £000 R		31 March 2019 £000
	Financial Instruments	
4,767	Home Office - Pension Fund Top up Grant	8,625
953	Trade receivables	836
969	Accrued income	693
52	Other receivable amounts	45
6,741	**Total Financial Instruments**	10,199
	Other Debtors	
5,584	Collection Fund	5,579
628	Prepayments	788
147	Sandwell MBC – VAT	295
6,359	**Total Other Debtors**	6,662
13,100	**Total Debtors**	16,861

The past due but not impaired amount for local taxation (council tax and non-domestic rates) can be analysed by age as follows:

	31 March 2018 £000	31 March 2019 £000
Less than one year	1,801	2,034
One to two years	849	833
Two to six years	1,397	1,549
More than six years	355	362
Total	4,402	4,778

20. CASH AND CASH EQUIVALENTS

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

31 March 2018 £000		31 March 2019 £000
10	Cash held by the Authority	10
51,369	Bank current account	(612)
-	Bank call account	40,904
51,379	Total Cash and Cash Equivalents	40,302

21. CREDITORS

31 March 2018 £000 R		31 March 2019 £000
	Creditors – Revenue	
	Financial Instruments	
3,138	Other entities and individuals	2,261
715	Central government bodies	348
330	Other local authorities	107
4,183	Total Financial Instruments	2,716
	Other Creditors	
4,905	Collection fund	4,779
1,751	Her Majesty's Revenue and Customs	1,819
26	Deferred income	51
6,682	Total Other Creditors	6,649
10,865	Total Creditors - Revenue	9,365
	Creditors – Capital	
	Financial Instruments	
772	Other entities and individuals	374
772	Total Creditors – Capital	374
11,637	Total Creditors	9,739

22. PROVISIONS

22.1 Insurance

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

23. CASH FLOW STATEMENT – OPERATING ACTIVITIES

23.1 The cash flows for operating activities include the following items:

2017/2018 £000		2018/2019 £000
(283)	Interest received	(251)
2,121	Interest paid	1,995

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

2017/2018 £000		2018/2019 £000
(4,830)	Depreciation	(4,565)
(4,007)	Impairment and downward valuations	(2,044)
(6)	Amortisation	(4)
41	(Increase)/decrease in impairment for doubtful debts	(8)
(230)	(Increase)/decrease in Creditors	1,856
(2,038)	Increase/(decrease) in Debtors	3,770
95	Increase/(decrease) in Inventories	(37)
(54,324)	Movement in pension liability	(127,779)
(296)	Contributions to Provisions	296
(1,200)	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(97)
(66,795)	Net cash (inflows)/outflows from adjustments to net surplus or deficit on the provision of services for non-cash movements	(128,612)

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

2017/2018 £000		2018/2019 £000
2,131	Proceeds from the sale of property, vehicles, plant and equipment, investment property and intangible assets	57
-	Capital Grants credited to Surplus or Deficit on the provision of services	25
2,131	Net cash (inflows)/outflows from adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	82

24. CASH FLOW STATEMENT - INVESTING ACTIVITIES

2017/2018 £000		2018/2019 £000
4,141	Purchase of property, vehicles, plant and equipment, investment property and intangible assets	9,207
(2,131)	Proceeds from the sale of property, vehicles, plant and equipment, investment property and intangible assets	(57)
-	Capital Grants Received	(25)
2,010	Net cash (inflows)/outflows from investing activities	9,125

25. CASH FLOW STATEMENT - FINANCING ACTIVITIES

2017/2018 £000		2018/2019 £000
1,264	Repayments of short and long term borrowing	1,361

26. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	31 March 2018 £000	Financing cash flows £000	Non-cash changes £000	31 March 2019 £000
Long term borrowings	**(36,002)**	**-**	**305**	**(35,697)**
Short term borrowings	**(1,537)**	**1,361**	**(279)**	**(455)**
Total liabilities from financing activities	**(37,539)**	**1,361**	**26**	**(36,152)**

27. OFFICERS' REMUNERATION

The remuneration paid to the Authority's senior employees is as follows:

Total (Inc. pension) 2017/2018 £		Salary £	Expenses Allowances £	Total (excluding pension) £	Pension £	Total (including pension) 2018/2019 £
	Senior Officer whose salary is £150,000 or more per year:					
212,828	**CFO – Phil Loach**	**170,878**	**1,684**	**172,562**	**37,080**	**209,642**
	Senior Officers' whose salary is less than £150,000 but equal or more than £50,000 per year:					
170,319	**Deputy CFO - Director Service Support**	**136,912**	**1,473**	**138,385**	**29,710**	**168,095**
160,340	**Assistant CFO - Director Service Delivery**	**131,186**	**1,492**	**132,678**	**27,867**	**160,545**
119,217	**Strategic Enabler of Finance and Resources**	**102,530**	**4**	**102,534**	**19,071**	**121,605**
87,578	**Strategic Enabler People Support Services**	**78,652**	**1,339**	**79,991**	**10,106**	**90,097**
81,735	**Strategic Enabler Portfolio**	**72,248**	**1,343**	**73,591**	**10,107**	**83,698**
67,751	**Strategic Enabler Strategic Hub**	**58,269**	**-**	**58,269**	**10,838**	**69,107**
899,768		**750,675**	**7,335**	**758,010**	**144,779**	**902,789**

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

Remuneration band	2017/18 Number of employees	2018/19 Number of employees
£ 50,000 to £ 54,999	40	37
£ 55,000 to £ 59,999	12	20
£ 60,000 to £ 64,999	12	19
£ 65,000 to £ 69,999	1	-
£ 70,000 to £ 74,999	4	4
£ 75,000 to £ 79,999	-	1
£ 80,000 to £ 84,999	-	-
£ 85,000 to £ 89,999	-	-
Total	69	81

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

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

(a)	(b)		(c)		(d)		(e)	
Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band [(b) +(c)]		Total cost of exit packages in each band	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
£0 - £20,000	-	-	-	-	-	-	-	-
£20,001 - £40,000	-	-	-	1	-	1	-	£36,563
£40,001 - £60,000	-	-	1	1	1	1	£40,949	£57,186
£60,001 - £80,000	-	-	-	-	-	-	-	-
£80,001 - £100,000	-	-	-	-	-	-	-	-
£100,001 - £150,000	-	-	1	-	1	-	£117,674	-
£150,001 - £200,000	-	-	-	-	-	-	-	-
Total	-	-	2	2	2	2	£158,623	£93,749

The Authority agreed to terminate the contracts of two employees in 2018/19, incurring costs of £94k (£159k in 2017/18).

28. MEMBERS' ALLOWANCES

The Authority paid the following amounts to Members of the Authority as allowances and expenses incurred during the year:

2017/2018 £000		2018/2019 £000
251	Allowances	182
8	Expenses	9
259	Total	191

29. EXTERNAL AUDIT COSTS

Fees payable to the external auditor:

2017/2018 £000			2018/2019 £000
38	Grant Thornton	Fees payable for the external planned audit work	30
(5)	Public Sector Audit Appointments	Public Sector refund – Closure of Audit Commission	-
33		Total	30

30. RELATED PARTIES

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

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

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

2017/2018 £000	Related Party	Nature of Transaction	2018/2019 £000
23,202	**Central Government**	**Revenue Support Grant**	**20,582**
23,465		**Business Rates Retention Scheme Grants**	**25,004**
74		**Capital Grant**	**356**
39,891	**West Midland Local Authorities**	**Council Tax Income**	**41,883**
9,598		**NDR Income**	**9,867**

Grants received are set out in Note 31.

31. GRANT INCOME

31.1 The Authority credited the following grants, contributions and donations to the CIES in 2018/2019:

	2017/2018 £000	2018/2019 £000
Credited to Taxation and Non Specific Grant Income:		
Revenue Support Grant	**23,202**	**20,582**
Business Rates Retention Scheme Grants	**23,465**	**25,004**
Capital Grants and Contributions	**74**	**356**
Total	**46,741**	**45,942**
Credited to Services:		
New Dimension Training Crewing and Accommodation	**1,133**	**820**
Fire Control Project	**325**	**341**
Fire Reduction Partnership	**135**	**138**
New Risks Section 29	**28**	**82**
National Resilience	**-**	**42**
Home Office Surge Decontamination	**-**	**30**
Birmingham City Council Heritage	**-**	**11**
CFOA Seconded Officer National Procurement	**52**	**9**
New Burdens	**8**	**8**
Sandwell Partnerships	**1**	**-**
MHCLG Pre-Transitional Funding (ESMCP)	**167**	**-**
Project Management (ESMCP)	**112**	**-**
Total	**1,961**	**1,481**

31.2 Grants – Receipts in Advance

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

Current Liabilities	31 March 2018 £000	31 March 2019 £000
Grants - Receipts in Advance (Revenue Grants):		
Fire Control Project	**331**	**-**

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

32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2017/2018 £000	2018/2019 £000
Opening CFR	**38,764**	**37,977**
Capital investment:		
Property, Vehicles, Plant and Equipment	**4,527**	**8,809**
Sources of finance:		
Capital Receipts	**-**	**-**
Government grants and other contributions	**(173)**	**(660)**
Sums set aside from revenue:		
Direct Revenue Contributions	**(4,354)**	**(8,149)**
MRP/the Statutory Repayment of Loans Fund Advances	**(787)**	**(834)**
Closing CFR	**37,977**	**37,143**

Movements in year	2017/2018 £000	2018/2019 £000
MRP/the Statutory Repayment of Loans Fund Advances	**(787)**	**(834)**
Increase/(decrease) in CFR	**(787)**	**(834)**

33. DEFINED BENEFIT PENSION SCHEMES

33.1 Participation in Pension Schemes

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

At the 31st March 2019 the Authority participated in four post-employment schemes:

- The WMMAPF for civilian and fire control employees, administered locally by Wolverhampton City Council — this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

- The 1992, 2006 and 2015 FPS for fire officers — these are unfunded defined benefit arrangements, there are no investment assets built up to meet the pensions liabilities. Fund Accounts have been set up, into which the Authority and scheme members make contributions and pension payments are made from the fund.

33.2 Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the MIRS. The following transactions have been made in the CIES and the General Fund Balance via the MIRS during the year:

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

2018/2019	LGPS	Firefighters'				Total
		Pension Scheme 1992	Pension Scheme 2006	Pension Scheme 2015	Compensation Scheme	
	£000	£000	£000	£000	£000	£000
CIES						
Cost of services:						
Current service cost	4,298	6,280	160	14,080	310	25,128
Past service costs, including curtailments	1,428	60,150	7,490	10	-	69,078
Administration Expenses	43	-	-	-	-	43
Financing and Investment Income and Expenditure:						
Net interest expense	1,075	36,880	1,830	1,510	1,040	42,335
Total post-employment benefits charged to the Surplus or Deficit on the Provision of Services	**6,844**	**103,310**	**9,480**	**15,600**	**1,350**	**136,584**
Other post-employment benefits charged to the CIES:						
Remeasurement of the net defined benefit liability comprising:						
Changes in demographic assumptions	(8,054)	-	-	-	-	(8,054)
Changes in financial assumptions	6,952	39,250	3,900	3,800	830	54,732
Experience (gains) and losses	-	(3,850)	(1,480)	1,250	(310)	(4,390)
Return on fund assets in excess of interest	(1,118)	-	-	-	-	(1,118)
Other actuarial (gains)/losses on assets	-	(43,774)	21	8,726	-	(35,027)
Total post-employment benefits charged to the CIES	**4,624**	**94,936**	**11,921**	**29,376**	**1,870**	**142,727**
MIRS						
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post- employment benefits in accordance with the Code	(6,844)	(103,310)	(9,480)	(15,600)	(1,350)	(136,584)
Actual amount charged against the General Fund Balance for Pensions in the year:						
Employers' contributions payable to the scheme	2,740	2,336	51	4,616	-	9,743
Retirement benefits payable to pensioners	59	-	-	-	1,630	1,689

33.3 Pensions Assets and Liabilities Recognised in the Balance Sheet

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

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

2018/2019	Funded liabilities: Local Government Pension Scheme £000	Unfunded liabilities: Local Government Pension Scheme £000	Unfunded liabilities: Firefighters' Pension Scheme 1992 £000	Unfunded liabilities: Firefighters' Pension Scheme 2006 £000	Unfunded liabilities: Firefighters' Pension Scheme 2015 £000	Unfunded liabilities: Firefighters' Compensation Scheme £000	Total £000
Present value of the defined benefit obligation	(145,513)	(633)	(1,558,510)	(83,630)	(74,820)	(41,590)	(1,904,696)
Fair value of plan assets	99,548	-	-	-	-	-	99,548
Net liability arising from defined benefit obligation	(45,965)	(633)	(1,558,510)	(83,630)	(74,820)	(41,590)	(1,805,148)

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

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

2018/2019	Funded assets: Local Government Pension Scheme £000	Unfunded assets: Local Government Pension Scheme £000	Unfunded assets: Firefighters' Pension Scheme 1992 £000	Unfunded assets: Firefighters' Pension Scheme 2006 £000	Unfunded assets: Firefighters' Pension Scheme 2015 £000	Unfunded assets: Firefighters' Compensation Scheme £000	Total £000
Opening fair value of scheme assets	97,499	-	-	-	-	-	97,499
Interest income	2,467	-	-	-	-	-	2,467
Remeasurement gain/(loss):							
Return on assets less interest	1,118	-	-	-	-	-	1,118
Other actuarial gains/(losses)	-	-	43,774	(21)	(8,726)	-	35,027
Contributions from Employer	113	59	2,336	51	4,616	1,630	8,805
Contributions from employees into the scheme	814	-	1,360	50	4,110	-	6,334
Benefits paid	(2,420)	(59)	(47,470)	(80)	-	(1,630)	(51,659)
Administration expenses	(43)	-	-	-	-	-	(43)
Closing fair value of scheme assets	99,548	-	-	-	-	-	99,548

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

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

2018/2019	Funded liabilities: Local Government Pension Scheme £000	Unfunded liabilities: Local Government Pension Scheme £000	Unfunded liabilities: Firefighters' Pension Scheme 1992 £000	Unfunded liabilities: Firefighters' Pension Scheme 2006 £000	Unfunded liabilities: Firefighters' Pension Scheme 2015 £000	Unfunded liabilities: Firefighters' Compensation Scheme £000	Total £000
Opening balance at 1 April	(138,945)	(700)	(1,465,910)	(71,760)	(50,060)	(41,350)	(1,768,725)
Current service cost	(4,298)	-	(6,280)	(160)	(14,080)	(310)	(25,128)
Interest cost	(3,525)	(17)	(36,880)	(1,830)	(1,510)	(1,040)	(44,802)
Contributions from scheme participants	(814)	-	(1,360)	(50)	(4,110)	-	(6,334)
Remeasurement gains and (losses):							
Changes in demographic assumptions	8,016	38	-	-	-	-	8,054
Changes in financial assumptions	(6,939)	(13)	(39,250)	(3,900)	(3,800)	(830)	(54,732)
Experience gains/(losses)	-	-	3,850	1,480	(1,250)	310	4,390
Past service costs, including curtailments	(1,428)	-	(60,150)	(7,490)	(10)	-	(69,078)
Benefits paid	2,420	59	47,470	80	-	1,630	51,659
Closing balance at 31 March	(145,513)	(633)	(1,558,510)	(83,630)	(74,820)	(41,590)	(1,904,696)

33.6 LGPS assets comprised:

Asset category	31 March 2018 £000 R	%	31 March 2019 £000	%
Equities	62,316	64	58,838	59
Gilts	7,125	7	9,563	10
Other bonds	3,730	4	3,836	4
Property	7,507	8	8,455	8
Cash	2,399	2	3,153	3
Other	14,422	15	15,703	16
Total Assets	**97,499**	**100**	**99,548**	**100**

33.7 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The FPS have been assessed using an approach and model supplied by GAD and certified by them on 23 April 2019. The WMMAPF has been based on triennial actuarial valuations, the last review being 31 March 2016 and assessed by Barnett Waddingham. In calculating the IAS19 figures for the WMMAPF the actuary assumed an investment return of 4%. The actual gross return for the year to the 31 March 2019 was 5.1%.

The significant assumptions used by the actuary have been:

	LGPS		FPS	
	2017/2018	2018/2019	2017/2018	2018/2019
Mortality assumptions:				
Longevity at 65 for current pensioners:				
• Men	21.9	20.9	21.9	22.0
• Women	24.3	23.2	21.9	22.0
Longevity at 65 for future pensioners:				
• Men	24.0	22.6	23.9	23.9
• Women	26.6	25.0	23.9	23.9
Rate of inflation CPI	2.3%	2.4%	2.3%	2.35%
Rate of increase in salaries	3.8%*	3.9%*	4.3%	4.35%
Rate of increase in pensions	2.3%	2.4%	2.3%	2.35%
Rate for discounting scheme liabilities	2.55%	2.4%	2.55%	2.45%

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

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

A sensitivity analysis for the WMMAPF as at 31 March 2019 is shown below:

Sensitivity analysis	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	(143,305)	(146,146)	(149,047)
Projected service cost	(4,368)	(4,472)	(4,579)
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	(146,513)	(146,146)	(145,781)
Projected service cost	(4,472)	(4,472)	(4,472)
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	(148,677)	(146,146)	(143,666)
Projected service cost	(4,578)	(4,472)	(4,368)
Adjustment to life expectancy assumptions	+1 Year	None	-1 Year
Present value of total obligation	(151,464)	(146,146)	(141,021)
Projected service cost	(4,615)	(4,472)	(4,334)

The tables below show the sensitivity of the defined benefit obligation to changes in the significant actuarial assumptions and the impact on the total liability as at 31 March 2019 for the FPS:

Firefighters' Pension Scheme 1992 Change in assumption*	Approximate % increase to Employer liability	Approximate effect on total liability (excluding past service cost due to McCloud Sargeant ruling) ** £m
0.5% increase in real discount rate	-9.0%	136
0.5% increase in long term salaries rate	1.0%	(15)
0.5% increase in the pensions increase rate	7.5%	(113)
1 year increase in member life expectancy	2.5%	(38)

The weighted average duration of the defined benefit obligation for scheme members is approximately 20 years.

Firefighters' Pension Scheme 2006 Change in assumption*	**Approximate % increase to Employer liability**	**Approximate effect on total liability (excluding past service cost due to McCloud Sargeant ruling) ** £m**
0.5% increase in real discount rate	**-17.5%**	**13**
0.5% increase in salaries rate	**8.5%**	**(7)**
0.5% increase in the pensions increase rate	**10.0%**	**(8)**
1 year increase in member life expectancy	**2.5%**	**(2)**

The weighted average duration of the defined benefit obligation for scheme members is approximately 40 years.

Firefighters' Pension Scheme 2015 Change in assumption*	**Approximate % increase to Employer liability**	**Approximate effect on total liability £m**
0.5% increase in real discount rate	**-17.0%**	**13**
0.5% increase in salaries rate	**8.0%**	**(6)**
0.5% increase in the pensions increase rate	**9.5%**	**(7)**
1 year increase in member life expectancy	**2.5%**	**(2)**

The weighted average duration of the defined benefit obligation for scheme members is approximately 38 years.

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

** In addition, the past service cost in respect of the McCloud/Sargent judgement is expected to be highly sensitive to the gap between CPI inflation and the assumed rate of salary growth. Under the approach and remedy adopted, if the long term salary growth assumptions were 1.0% per annum lower, then the impact on the past service cost is expected to be a change of around -10% on the provision. Alternative forms of remedy may have different levels of sensitivity to these assumptions.

33.8 Impact on the Authority's Cash Flows

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

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

The £7.9m payment to the WMMAPF on 28 April 2017 for employer pension contributions for the LGPS, included payments for the 1st April 2017 to 31st March 2018 £2.72m, 1st April 2018 to 31st March 2019 £2.63m and 1st April 2019 to 31st March 2020 £2.54m.

On 28 February 2019, GAD published the final reports in relation to the 2016 valuation of the FPS. This included the scheme specific employer contribution rates for the period April 2019 to March 2023. Employer contribution rates are due to increase significantly because of the valuation and the Government has confirmed that a specific grant (£5.7m) will be paid to the Authority to cover approximately 90% of the additional cost in 2019/20. Expected employers' contributions for the FPS in the year to 31 March 2020 are approximately £13m.

34. CONTINGENT LIABILITIES

34.1 Municipal Mutual Insurance Limited (MMI)

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

PENSION FUND ACCOUNT

2017/2018 £000					2018/2019 £000			
1992	2006	Modified	2015		1992	2006	Modified	2015
				Contributions Receivable				
				From Fire Authority				
(2,623)	(36)	(22)	(4,276)	Contributions in relation to pensionable pay	(2,066)	(29)	(22)	(4,596)
(327)	-	-	-	Ill health retirements	(270)		-	(20)
(1,712)	(33)	(24)	(3,792)	From firefighters' contributions	(1,363)	(27)	(24)	(4,117)
				Transfers in				
-	-	-	-	Individual			-	(13)
				Benefits Payable				
37,741	9	7	-	Pensions	39,341	20	7	-
4,397	-	-	-	Commutations and lump sum retirement benefits	8,228	46	-	4
10	-	-	-	Lump sum employee contributions holiday	-	-	-	-
				Payments to and on account of leavers				
20	5	-	25	Individual transfers	-	-	-	-
37,506	(55)	(39)	(8,043)	Net amount payable for the year	43,870	10	(39)	(8,742)
(37,506)	55	39	8,043	Top up Grant payable by the Government	(43,870)	(10)	39	8,742
-	-	-	-		-	-	-	-

2017/2018 £000	NET ASSETS STATEMENT	2018/2019 £000
44	Ill health retirements	-
(68)	Commutations and lump sum retirement benefits	-
-	Lump sum employee contributions holiday	-
4,767	Top-up receivable from the Government	8,625
(4,743)	Amount owing to General Fund	(8,625)
-		-

The fund was established at 1st April 2006 under the Firefighters' Pension Scheme (Amendment) England Order 2006 and covered both the 1992 and 2006 FPS. From 1st April 2015, a new firefighters' pension scheme and a modified section in the 2006 scheme was established. The fund now includes the 1992, 2006 and 2015 schemes. Before 1st April 2006 the Authority was responsible for paying the pensions of its own former employees on a pay as you go basis. The FPS remain unfunded and consequently the fund has no investment assets. Benefits are funded by contributions from the Authority and employees and any difference between benefits payable and contributions receivable is met by top-up grant from the MHCLG.

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

Employees' and employer's contribution levels are based on percentages of pensionable pay set nationally by the MHCLG and are subject to revaluation every four years' by GAD. The contribution rates for 2018/19 are shown in the tables below:

	1992 Scheme %	2006 Scheme %	Modified %
Employer's	**21.7**	**11.9**	**21.7**
Employees' Pensionable pay band			
Up to £15,609	**11.0**	**8.5**	**11.0**
> £15,609 to £21,852	**12.2**	**9.4**	**12.2**
> £21,852 to £31,218	**14.2**	**10.4**	**14.2**
> £31,218 to £41,624	**14.7**	**10.9**	**14.7**
> £41,624 to £52,030	**15.2**	**11.2**	**15.2**
> £52,030 to £62,436	**15.5**	**11.3**	**15.5**
> £62,436 to £104,060	**16.0**	**11.7**	**16.0**
> £104,060 to £124,872	**16.5**	**12.1**	**16.5**
> £124,872	**17.0**	**12.5**	**17.0**

	2015 Scheme %
Employer's	**14.3**
Employees' Pensionable pay band	
Up to £27,818	**11.0**
£27,819 to £51,515	**12.9**
£51,516 to £142,500	**13.5**
£142,501 or more	**14.5**

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

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

The Net Assets Statement does not include liabilities to pay pensions and other benefits after the 31st March 2019. For further information on the liability to pay pensions see Note 33.

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

ANNUAL GOVERNANCE STATEMENT

1. Scope of Responsibility

1.1 West Midlands Fire and Rescue Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

1.2 In discharging this duty, the Authority is also responsible for putting in place proper arrangements for the governance of its affairs which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.

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

2. The Purpose of the Governance Framework

2.1 The governance framework comprises the systems and processes, culture and values by which the Authority is directed and controlled and its activities through which it accounts to and engages with the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, value for money services.

2.2 The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically.

2.3 The governance framework has been in place for the year ended 31st March 2019 and up to the date of the approval of the annual report and statement of accounts.

3. The Governance Framework

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

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 and Risk Committee provides independent assurance to the Authority on risk management and internal control and the effectiveness of the arrangements the Authority has for these matters. The constitution of the Committees including the terms of reference is reviewed annually and available on the Internet.

3.4 The Authority ensures compliance with established strategies, procedures, laws and regulations – including risk management. The Authority also maintains and reviews regularly its code of conduct and whistle blowing policy. There is a comprehensive induction programme in place and information regarding strategies and procedures are held on the intranet, which continues to be developed. The Authority has a strong Internal Audit function and established protocols for working with External Audit.

3.5 West Midlands Fire and Rescue Authority will continue to enhance and strengthen its internal control environment through the review of current policies and procedures.

3.6 The Authority has corporate risk management arrangements in place which are supported by an approved Risk Management Strategy enabling Managers and other senior officers to identify, assess and prioritise risks within their own work areas which impact on the ability of the Authority and its services to meet objectives. To consider the effectiveness of the Authority's risk management arrangements is a specific term of reference for the Audit and Risk Committee and risk management is a specific responsibility of both the Chairman and Vice Chairman.

3.7 The Authority's Corporate Risk Register identifies the principal risks to the achievement of the Authority's objectives and assesses the nature and extent of those risks (through assessment of likelihood and impact). The Register identifies risk owners whose responsibility includes the identification of controls and actions to manage them efficiently, effectively and economically.

3.8 The Authority ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. The Authority plans its spending on an established planning cycle for policy development, budget setting and performance management through the business planning process. This ensures that resources are aligned to priorities and secures best value from the resources that are available.

3.9 The Chief Financial Officer is a key member of the leadership team, helping to develop and implement the Authority's strategy. The Authority's financial system is an ORACLE based general ledger and management information system, which integrates the general ledger function with those of budgetary control and payments. Financial Regulations and Contract Procedure Rules are approved and regularly reviewed by the Authority. A rigorous system of monthly financial monitoring ensures that any significant budget variances are identified in a timely way, and corrective action initiated.

3.10 The Authority's performance management and reporting of performance management continues to be improved with a more focused Corporate Strategy, the setting of priorities and is supported by regular performance monitoring. Corporate performance is reported on a quarterly basis and this process provides officers and Members with the opportunity to share knowledge and understanding about key performance issues affecting services.

3.11 The Authority within its committee framework has an Appointment, Standards and Appeals Committee to promote high ethical standards amongst Members. This Committee leads on developing policies and procedures to accompany the Code of Conduct for Members and is responsible for local assessment and review of complaints about members' conduct. The Authority also has a Scrutiny Committee which undertakes performance management functions and informs policy development.

3.12 The Fire and Rescue National Framework for England sets out a requirement for Fire and Rescue Authorities to publish 'Statements of Assurance'. Specifically, Fire and Rescue Authorities must provide assurance on financial, governance and operational matters and show how they have had due regard to the expectations set out in their integrated risk management plan and the requirements included in this Framework. The Authority has approved the Statement of Assurance which is available on the Service's website.

4. Review of Effectiveness

4.1 The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the statutory officers and principal managers of the Authority who have responsibility for the development and maintenance of the governance environment, the internal audit annual report and comments made by the external auditors in their annual audit letter and other reports.

4.2 Section unit business plans contain a variety of performance indicators and targets that are regularly reviewed.

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

- Chief Fire Officer
- Treasurer
- Monitoring Officer

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

4.4 The arrangements for the provision of internal audit are contained within the Authority's Financial Regulations. The Treasurer is responsible for ensuring that there is an adequate and effective system of internal audit of the Authority's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2015. The internal audit provision operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government. The Authority's Audit Plan is prioritised by a combination of the key internal controls, assessment and review on the basis of risk and the Authority's corporate governance arrangements, including risk management. The work is further supplemented by reviews around the main financial systems, scheduled visits to Authority establishments and fraud investigations. Internal Audit leads on promoting a counter-fraud culture within the Authority.

4.5 The resulting Audit Plan is discussed and agreed with officers of the Strategic Enabling Team and the Audit and Risk Committee and shared with the Authority's external auditor. Meetings between the internal and external auditor ensure that duplication of effort is avoided. All Authority Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any areas needing improvement.

4.6 The Authority's review of the effectiveness of the system of internal control is informed by:-

- The work undertaken by Internal Audit during the year;
- The work undertaken by the external auditor reported in their annual audit;
- Other work undertaken by independent inspection bodies.

4.7 From the work undertaken by Internal Audit in 2018/2019 the Internal Audit has given a 'reasonable assurance' that the Authority has adequate and effective governance, risk management and internal control processes. This represents an unqualified opinion and the highest level of assurance available to Audit Services. In giving this opinion it is recognised that assurance can never be absolute. The most that internal audit can provide is reasonable assurance that there are no major weaknesses in the Authority's governance, risk management and control processes.

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

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

5. Significant governance arrangements within the Authority

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

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

5.2 These form the basis of the Authority's Corporate Strategy known as The Plan 2018-2021 which sets out the outcomes and priorities based on the Community Safety Strategy. The five-minute attendance standard lies at the heart of the Service Delivery Model. The model shows how staff provide the core prevention, protection and response services to make the West Midlands safer, stronger and healthier.

5.3 Grant Thornton, the Authority's External Auditors, published the Audit Findings Report for its 2017/2018 audit work which reported an unqualified opinion on the financial statements. It also issued an unqualified value for money conclusion stating that the Authority had proper arrangements in all significant respects to ensure it delivered value for money in the use of resources.

5.4 Based on audit work undertaken during the year an Annual Internal Audit Report was presented to the Audit and Risk Committee on 3 June 2019, Audit work which was completed in 2018/2019 included:-

- Risk Management
- Fixed Asset Accounting
- Accounts Receivable
- Accounts Payable
- Budgetary Control
- Payroll
- Governance
- Data Protection / IT
- Performance Management
- Procurement

5.5 As a result of these audits the following was identified as the main issue:-

Payroll

A review of the payroll process was undertaken to ensure that the Fire Service had appropriate controls in place to mitigate the risk of fraud and error in the calculation, recording and payment of the payroll. We identified one issue of significance, which is a re-iteration of the recommendation made in last year's report relating to:

- the People Support Services section did not have formal procedure notes which detailed the process for obtaining and evidencing approval for new starters.

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

5.7 As part of the Finance Settlement for 2016/17, an offer was made for a multiyear funding settlement. Any Authority wishing to take up the four year funding settlement to 2019/20 was required to set out their proposals in an Efficiency Plan to qualify for the four year settlement from April 2016. The Authority considered and approved the Efficiency Plan which was submitted to the Home Office. In February 2019, the Secretary of State for Ministry of Housing, Communities and Local Government confirmed the Authority's funding settlement for 2019/20. The core funding reduction of approximately £1m in 2019/2020 is broadly in line with the provisional four-year settlement.

5.8 2019/20 is the final year of the four-year settlement. In the Secretary of State for MHCLG settlement announcement, there was no indication of further funding levels beyond 2019/20. In planning for 2020/21 onwards, a reduction of 2% has been assumed to the overall core funding. It should be noted that this is a very provisional figure and there is the potential for the scale of reductions to be of a greater magnitude than this base assumption. Every 1% reduction in core funding represents a loss of circa £0.5m funding for the Authority.

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

West Midlands Combined Authority (WMCA)

5.10 In 2016 the Home Secretary outlined a desire from central government to reform Fire and Rescue Authorities. In view of Home Office expectations at its Authority meeting in February 2017, approval was given to pursue a strategy which would reform the WMFRA. The Authority's strategy supported the route required for the Mayoral WMCA to assume governance arrangements for West Midlands Fire Service from the Authority. The WMCA Board at its meeting in May 2018 agreed to a submission to the Home Office to enable the development of the draft Statutory Order.

5.11 The proposed final draft Statutory Order from the Home Office was sent out in January 2019, with a request to provide consent. The proposed Order however contained an amendment that led the CFO to advise that the Order not be consented to on the basis that the change was too significant and compromised the intent of the proposed governance changes.

5.12 The Home Office confirmed that Parliamentary Lawyers advising the Joint Committee on Statutory Instruments, that this was the final draft Order and could not be altered. WMCA and WMFS officers then worked together to develop proposals to mitigate the amendment made to the Order. In March 2019, the WMCA Board approved the final draft Statutory Order and the Home Office indicated a date of 5 June 2019 to lay the Order before Parliament.

5.13 For the Order to be laid, the Home Office required consent from all the seven West Midlands Local Authorities. However, as a number of Local Authorities did not provide their consent to the Home Office, this effectively meant that the laying of the Order in Parliament on 5 June 2019 was unable to proceed. Consideration will need to be given to future governance arrangements arising from this latest development.

6. Certification

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

Greg Brackenridge
Chair

Phil Loach
Chief Fire Officer

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).

Accumulated Absences Account
The estimated cost of any untaken employee benefits.

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

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

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

Capital Receipt
Money received from the disposal of land and other assets. Capital receipts can only be used to fund capital expenditure.

Chartered Institute of Public Finance and Accountancy (CIPFA)
The only leading professional accountancy body in the UK specialising in the public sector. It has responsibility for setting accounting standards for local government.

Code – code of practice on local authority accounting
The rules and regulations governing the information and layout of the financial reporting statement of the Authority.

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

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

Current Liabilities
Amounts falling due for payment in the next accounting period.

Current Service Cost (Pensions)
The increase in the present value of a defined benefit scheme’s liabilities expected to arise from employee service in the current period.

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

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

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

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

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

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

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

General Fund
The total services of the Authority, the net cost of which is met by Council Tax, NDR and Government Grants.

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

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

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

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

International Financial Reporting Standards (IFRS)
The set of accounting standards that has been introduced across the private and public sector from 1st April 2010.

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

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

Long term Borrowing
The total amounts borrowed from external lenders for capital purposes but not repaid at the balance sheet date.

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

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

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

NDR
Rates which are levied on business properties.

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

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

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

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

Past Service Cost (Pensions)
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in the prior periods arising in the current period because of the introduction of, or improvement to, retirement benefits.

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

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

Provisions
Amounts set aside to meet future liabilities arising from past events but the exact amount and date on which it will arise is uncertain.

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

Related Party
The Authority is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority, related parties are deemed to include:
Central Government.
West Midlands Local Authorities.
Members of the Authority or parties related to them.
Chief Officer or parties related to them.

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

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

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

Revenue Support Grant (RSG)
A grant from central Government towards the cost of providing services.

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

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

Item 6

SUMMARY OF ACCOUNTS

2018-2019

WEST MIDLANDS FIRE SERVICE

Making the West Midlands Safer, Stronger and Healthier

www.wmfs.net
@WestMidsFire

INTRODUCTION

This document is a summary of the Authority's Statement of Accounts for 2018/19.

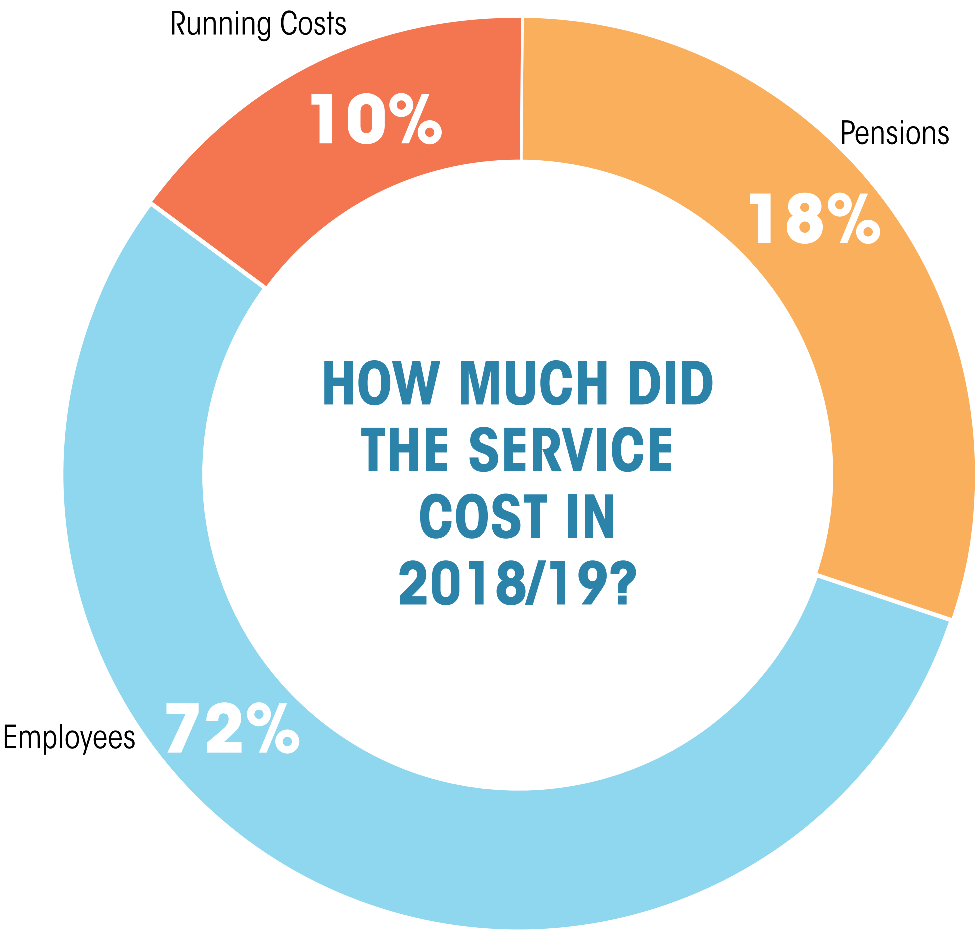
The Authority is responsible for the stewardship of public money and the production of summary accounts allows it to enhance its accountability to the residents of the West Midlands.

The Authority's 2018/19 Statement of Accounts is prepared in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, under International Financial Reporting Standards.

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

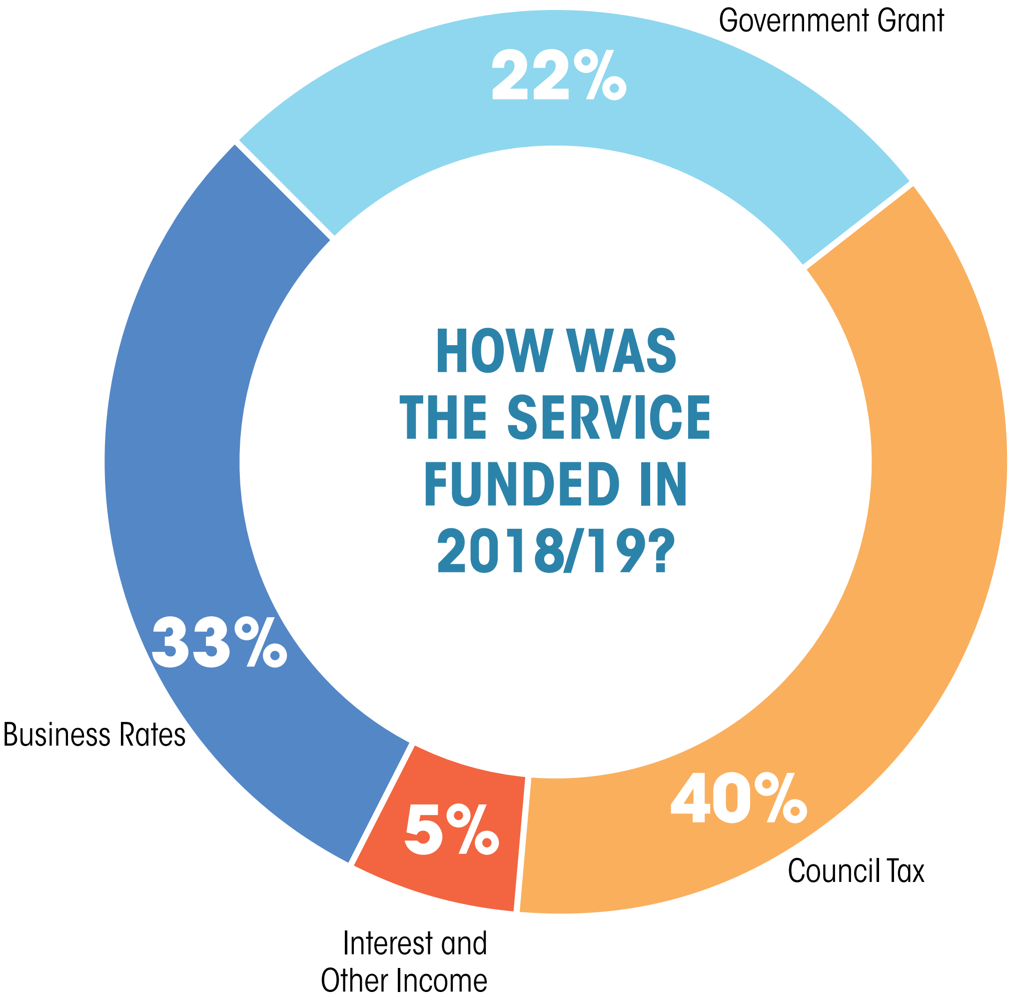
The majority of the net cost of Fire Service expenditure relates to service delivery (£80m) and service support (£23m).

The total Provision of Services in 2018/19 shows a deficit of £129.121m. Within this deficit is the expenditure of the authority which for 2018/19 was £233.440m.The type of costs can be broken down as shown opposite:



The total income of the Authority in 2018/19 was £104.319m. The majority of funding came from the government in the form of grant and a share of business rates.

The main sources of funding are shown opposite.



BALANCES AND RESERVES

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

In order to set a balanced budget in 2018/19 the Authority assumed using £1.5m general balances. The actual level of general balances decreased in the year by £1.476m, leaving £6.914m 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 £5.604m, this brought the total level of these reserves to £33.380m. Interest is earned on any balances until expenditure is committed against the demands identified.

CAPITAL EXPENDITURE AND FUNDING

In 2018/19, the Authority spent £8,809 million on capital projects.

The expenditure was incurred on the following:

	£m
Land and buildings	6.749
Vehicles	1.769
ICT & Equipment	0.291

The total expenditure was financed directly by the application of direct revenue contributions (£8.149m) and capital grants (£0.660m)

No borrowing was undertaken to assist with purchase of assets during 2018/19. Borrowing in earlier years meant that at the end of 2018/19 the Authority had total loans of £36m (the interest and principal on any loans needs to be met from future revenue budgets). The value of long-term assets held by the Authority as at 31 March 2019 which the loans had helped fund was £131.4m, of which approximately 94% related to land and buildings and 6% related to vehicles and equipment.

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

Telephone: 0121 380 6920 or e-mail kal.shoker@wmfs.net

The Authority's full 2018/19 audited Statement of Accounts can be found on our website www.wmfs.net/

Item 7

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

29 JULY 2019

1. **TREASURY MANAGEMENT – ANNUAL REPORT 2018/2019**

Report of the Treasurer.

RECOMMENDED

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

2. **PURPOSE OF REPORT**

2.1 The Authority agreed its 2018/2019 Treasury Management Strategy Statement and Annual Investment Strategy and its Prudential indicators in February 2018. Part of the requirements of the Treasury Strategy and Prudential Code are that periodic reports are presented to Members.

2.2 The annual treasury report covers the treasury activity during 2018/2019 and the actual Prudential Indicators for 2018/2019.

3. **BACKGROUND**

3.1 The Authority is required to produce an annual treasury management report of activities and the actual prudential and treasury indicators for 2018/2019.

3.2 Appendix A, the Annual Treasury Management Report 2018/2019, meets the requirement of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code of Capital Finance in Local Authorities (the Prudential Code). The Authority is required to comply with both Codes through regulation issued under the Local Government Act 2003.

4. **EQUALITY IMPACT ASSESSMENT**

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 does not raise issues which should be drawn to the attention of the Authority's Monitoring Officer.

6. **FINANCIAL IMPLICATIONS**

These are contained in the body of the report and the attached Appendix.

7. **ENVIRONMENTAL IMPLICATIONS**

There are no environmental implications arising from this report.

BACKGROUND PAPERS

Authority's Budget and Precept Report – February 2018
Treasury Management Mid-Year Report – Audit and Risk Committee November 2018
Link Treasury Services – Treasury Management Bulletins and Newsletters

The contact officer for this report is Gary Taylor, Assistant Chief Fire Officer, Strategic Enabler (Process), telephone number 0121 380 6006.

MIKE GRIFFITHS
TREASURER

APPENDIX A
Item 7

WEST MIDLANDS FIRE SERVICE

Annual Treasury Management Review
2018/19

1. Introduction

This Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2018/19 the minimum reporting requirements were that the Authority should receive the following reports:

- an annual treasury strategy in advance of the year (Authority 19/02/2018)
- a mid-year treasury update report (Audit Committee 12/11/2018)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

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

During 2018/19 the Authority complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2017/18	2018/19
Actual capital expenditure	£4.527m	£8.890m
Total Capital Financing Requirement	£37.977m	£37.143m
Financing costs to net revenue stream	2.7%	2.4%

The Treasurer confirms that no borrowing was undertaken for any capital purpose during 2018/19 and that the statutory borrowing limit (the authorised limit), was not breached.

As at 31st March 2019, the Authority's external debt was £36.002m (£37.363m as at 31st March 2018) and its investment totalled £40.904m (£51.905m as at 31st March 2018).

2. The Economy and Interest Rates

UK. After weak economic growth of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% year-over-year confirming that the UK was the third fastest growing country in the G7 in quarter 4.

After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC has been having increasing concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

As for CPI inflation itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC’s target of 2%.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

3. The Authority's Capital Expenditure and Financing

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

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Authority's borrowing need; or

- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

	2017/18 Actual £m	2018/19 Actual £m
Total capital expenditure	**4.527**	**8.809**
Resourced by:		
• Capital receipts	0.000	0.000
• Capital grants	0.173	0.660
• Revenue Contribution to Capital	4.354	8.149
Capital Expenditure Financed from Borrowing	**0**	**0**

4. Overall Treasury Position as at 31 March 2019

The Authority's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Authority's debt position. The CFR results from the capital activity of the Authority and what resources have been used to pay for the capital spend. It represents the 2018/19 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

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

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

The total CFR can also be reduced by:

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

The Authority's Treasury Management Strategy Report for 2018/19 was approved 19 February 2018.

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

CFR	31 March 2018 Actual £m	31 March 2019 Actual £m
Opening balance	38.764	37.977
Add unfinanced capital expenditure	0	0
Less MRP	(0.787)	(0.834)
Less VRP	0	0
Closing balance	37.977	37.143

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

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2018/19) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. This indicator allows the Authority some flexibility to borrow in advance of its immediate capital needs in 2018/19.

	31 March 2017 Actual £m	31 March 2018 Actual £m
External Debt	37.363	36.002
Investments	51.905	40.904
Net Borrowing Position	(14.542)	(4.902)
CFR	37.977	37.143

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Authority does not have the power to borrow above this level. The table below demonstrates that during 2018/19 the Authority has maintained gross borrowing within its authorised limit.

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

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

	2017/18	2018/19
Authorised limit	£46m	£45m
Operational boundary	£42m	£41m
Maximum gross borrowing position	£39m	£38m
Financing costs as a proportion of net revenue stream	2.7%	2.4%

5. Overall Treasury Position as at 31 March 2019

The Authority's investment position is organised with the treasury management service at Sandwell MBC, in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.

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

At the beginning and the end of 2018/19 the Authority's position was as follows:

	31 March 2018 Principal £m	Rate/ Return	31 March 2019 Principal £m	Rate/ Return
Fixed Rate Loans:				
PWLB	*£34.2*	*5.4%*	*£33.1*	*5.3%*
Ex WMCC	*£3.2*	*6.1%*	*£2.9*	*5.6%*
Total Debt	*£37.4*	*5.5%*	*£36.0*	*5.4%*
CFR	*£38.0*		*£37.1*	
Over / (under) borrowing	*(£0.6)*		*(£1.1)*	
Investments:				
Sandwell MBC	*£51.9*	*0.4%*	*£40.9*	*0.7%*
Net Debt	(£14.5)		(£4.9)	

The maturity structure of the debt portfolio was as follows:

	31 March 2018 Actual £m	31 March 2019 Actual £m
Under 12 months	1,361	305
12 months and within 24 months	305	2.022
24 months and within 5 years	4,990	3,836
5 years and within 10 years	4,007	3,139
10 years and above	26,700	26,700

6. The Strategy for 2018/19

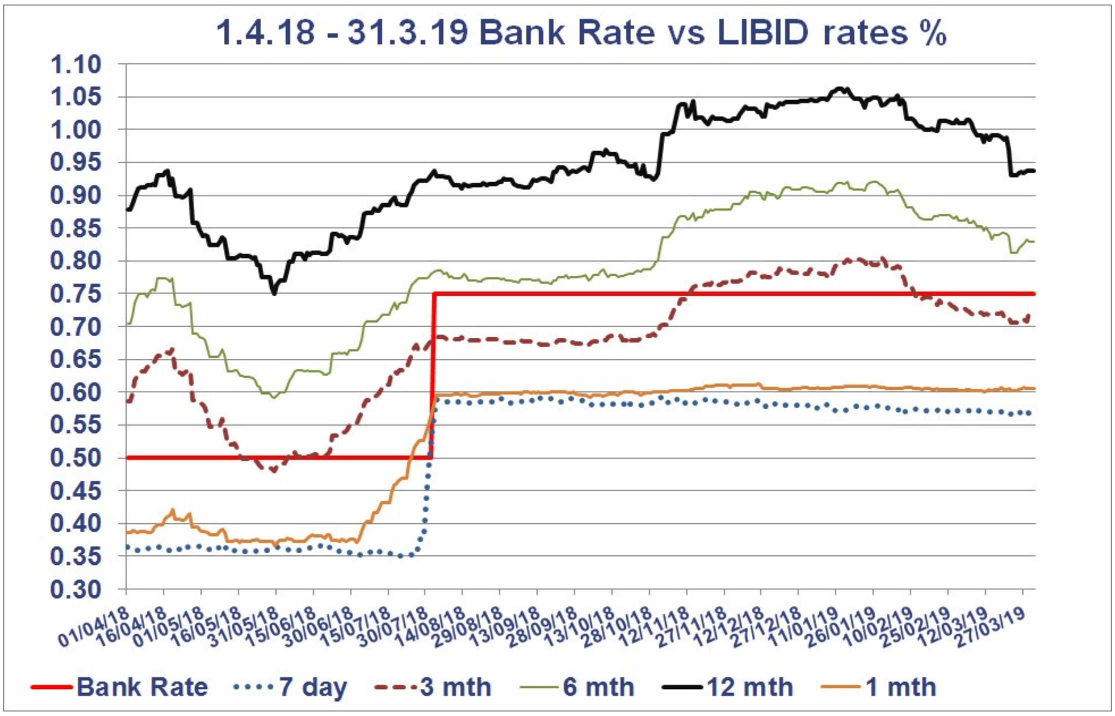
Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.

It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.

Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

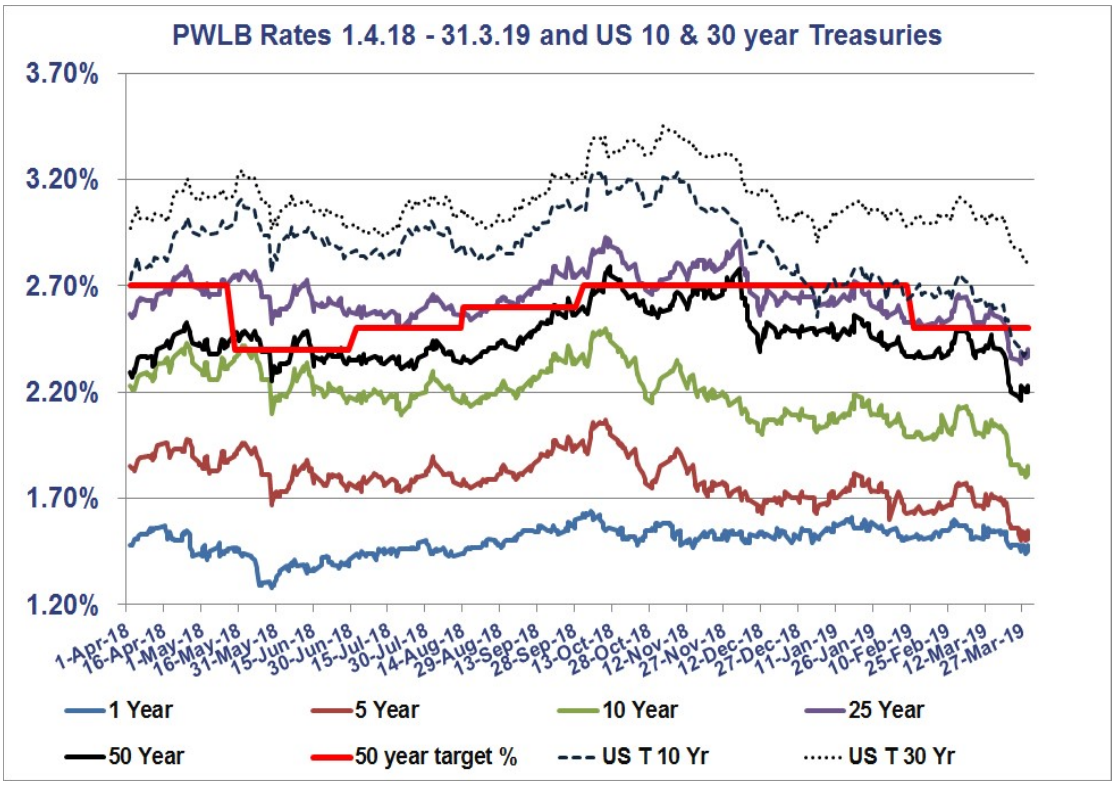
Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

Investment strategy and control of interest rate risk



7. Borrowing Rates in 2018/19

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



8. Borrowing Outturn for 2018/19

Borrowing – No borrowing was undertaken during 2018/19.

Rescheduling – No rescheduling was undertaken during 2018/19.

9. Investment Outturn for 2018/19

Investment Policy – the Authority's investment policy is governed by MHCLG guidance, which was been implemented in the annual investment strategy approved by the Authority on 19th February 2018. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

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

Investments held by the Authority - the Authority maintained an average balance of £56.7m of internally managed funds. The internally managed funds earned an average rate of return of 0.73%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.51%. This compares with a budget assumption of £50m investment balances earning an average rate of 0.77%.

Item 8

MINUTES OF THE PENSIONS BOARD

4 March 2019 at 1400 hours at Fire Service Headquarters, Vauxhall Road, Birmingham

Present: Neil Chamberlain (Chair)
Kal Shoker – Employer Representative
Wendy Browning -Sampson – Employer Representative
Employer Representative (Vacancy)
Emmett Robertson – Employee Representative
Alan Tranter – Employee Representative
Paul Gwynn – Pension Adviser

1/19 **Apologies**

Apologies were received from Adam Harper.

2/19 **Declarations of Interest**

None received.

3/19 **Minutes of Pensions Board held on 12 December 2018**

The years stated on page 8 needed to change from 2018 to 2019 in two places in the minutes. Clair Hay name should be to be replaced with Clare Allcock.

The minutes were received as a correct record.

4/19 **Pensions Board Supporting Information**

The Pension Board received the Adviser's Pension Section Supporting Information Report and invited questions from Members of the Board.

Paul Gwynn stated that the time taken for Members to receive a Benefit estimate had increased by one week to 6 weeks and agreed to undertake further analysis of Opt Outs and agreed to provide standard information for every meeting.

The number of requests involving divorce had increased and there had been changes to the SCAPE rates.

It was confirmed that the Scheme Advisory Board were now looking at Opt Outs and it was confirmed that on a twelve month basis the number of opt outs had increased by 3. The number as a percentage was not available.

The Board discussed the various factors for Opts Outs including new recruits, the average age of members Opting Outs being 33 and the average length of service being 2 years and 196 days, there was a similar situation in Police.

It was confirmed that the Authority had 1278 active firefighters and the Authority were keeping the scales balanced and were not looking to increase or decrease the number of firefighters.

New starters would receive information on the National Scheme.

5/19 **Risk Register as at February 2019**

The Pension Board received the Risk Register. It was noted that all organisations are required to have a Risk Register and the Pension Board Risk Register covered failures in IT, BACs, payment to ineligible pensioners and cases of fraud and measures were in place to mitigate the risks.

The Audit and Risk Committee also held the Risk Register for the Authority and the same scoring mechanism is applied to the Pension Board Risk Register.

The Chair enquired about the mitigation of risks, but the Adviser confirmed that the Monitoring Effective Measure column was the control mechanism.

It was recommended that the Board obtain examples of the Kent and Hampshire Pension Boards Risk Registers to provide a comparison.

The Board discussed the risks of cyber security, issues with banking companies and growing external risks.

Paul Gwynn confirmed that the Authority relied on internal controls to mitigate risks.

Wendy Browning-Sampson agreed to obtain copies of Regional Risk Registers.

Paul Gwynn confirmed that the Payroll and Pensions Section would still be able to pay staff and pensioners as long as one member of the team was in the office.

It was stated pensions are fixed amounts unless there is an annual increase, someone reaches the age of 55, on state pension age or there are tax code changes, but it is not time consuming to update details.

There have been more requests coming into the Payroll and Pensions Section, but Paul Gwynn had restructured the Section and was confident that the correct resources were available to meet the changes of the last 18 months. There were currently three dedicated fire pension practitioners.

It was confirmed that Internal Audit section cover any fraud issues.

Paul Gwynn stated that there had been three occasions where a pension had continued to be paid out after the pensioner had died. In two of these cases the money had been recovered but in the third case it had been written off.

The Board Members agreed to compare their Risk Register with other Registers.

Alan Tranter enquired about the Disaster Recovery Plan and it was noted the Pension Board should also be looking at this. It fits under the Corporate Risk Register and it reported to the Audit and Risk Committee on a six-monthly basis.

It was agreed that Wendy Browning-Sampson and Paul Gwynn would undertake work on the Risk Register for the June and September 2019 meetings of the Pension Board.

The Board agreed to look at how the WMFRA Audit and Risk Committee engage with the Pension Board.

It was agreed to add the possible transfer of Governance to the Combined Authority to the Risk Register.

6/19 **Firefighter's Pensions Scheme Bulletin 15**

The Pension Board received FPS Bulletin 15. It was confirmed that the Benchmarking exercise had been responded to.

Paul Gwynn had contacted active members, pensioners and put the information onto the Retired and Serving Members Facebook site and had contacted the National Association of Retired Firefighters local branch on the Amendments to the Firefighter Pension Schemes (England) Consultation and Revised Fire (England) factors.

Paul Gwynn had responded to request for information on opt outs and generally around difficulties surrounding recruitment and retention of talented and experienced pension personnel.

7/19 **Firefighters' Pensions Scheme Bulletin 16**

The Pension Board received FPS Bulletin 16. The Bulletin included information on Transitional protections and the outcome of the judgment.

Paul Gwynn had responded to the Pensions dashboards consultation.

The Board recommended that the new Scheme Manager Training should be brought to the attention of the Chair of the Audit and Risk Committee to consider if the Committee wished to undertake the training.

The Board discussed training that is provided to the Pension Board on a local level by the Pension Regulator and the Local Government Association.

Wendy Browning-Sampson stated that she would discuss with Regional colleagues about the possibility of joint training sessions and it was agreed that this would be discussed further at the June 2019 meeting of the Pension Board. Training was a standard item on the Pension Board Agenda.

8/19 **Pension Board Activity Log 2016-19**

The Activity Log was noted.

9/19 **Pension Board Work Programme 2018 -19**

Members of the Pension Board agreed to consider the Pension Conference being held on 25th September 2019. The Adviser recommended attendance at the Conference.

10/19 **Pension Board Annual Report 2019**

A draft pension Board Annual Report would be circulated at the next Pension Board for approval prior to presentation to the Audit and Risk Committee.

11/19 **Update on Topical, Legal and Regulatory Issues**

Paul Gwynn updated the Board on Topical, Legal and Regulatory Issues.

Following a successful challenge to transitional regulations, there would be a knock-on effect on the preparation for annual benefit statements.

The Bulletin gave details of the Court of Appeal transitional protections judgement. The case had been referred back for remedy and the government intended to appeal. The timeframe for the appeal was expected to be 12 months.

The judgment will affect all public sector schemes and the total cost to the Treasury could be as high as £4bn. It is likely that this will be addressed by the implementation of new schemes in 2022.

The Board noted the Bulletin.

A notice had been published and the Pensions Scheme went out quickly to 1992 Scheme members and the pensions team were waiting to hear the outcome of the appeal.

Annual Benefit Statements

The potential changes as a result of the Transitional Regulations court ruling are that the future benefit estimates in this years' statements will almost certainly not reflect the actual position at retirement. The statements will be annotated to make this position clear and the guidance notes issued with them will also be updated.

It was confirmed that the Annual Benefit Statements will be issued in July 2019 and within the statutory timeframes.

Paul Gwynn agreed to issue a communication document explaining the different between a civil partnership and retrospective civil partners following the equalization of benefits for civil partners in an upcoming Statutory Instrument.

The GMP Reconciliations had been completed within the timeframes.

12/19 **Date of Next Meeting**

The Pensions Board agreed to meet on the 4 June 2019 at 1400 hours.

13/19 **Training Session**

The Chair welcomed Malcolm Eastwood, Chair of the Scheme Advisory Board.

Mr Eastwood thanked the Board for inviting him and stated there were 45 Fire Authorities with Pension Boards in England.

Clair Alcock and Claire Hey from the Local Government Association provided technical assistance to the Pension Boards.

The Scheme Advisory Board came under the Secretary of State Mr Hurd MP and Mr Eastwood worked with Jane Baldock, Phil Perry and Anthony Mooney from the Home Office.

The role of the Chair of the Strategic Advisory Board would be advertised in 2020 and would be a paid role.

The Board consisted 14 members, 7 Scheme Employer Representatives and 7 Scheme Member Representatives from the Unions: 4 from Fire Brigades Union, 1 from Fire and Rescue Association, 1 Fire Leaders Association and 1 from the Fire Officers Association.

The membership and remit of three SAB committees cover:

Administration and benchmarking;
Cost-effectiveness;
Local Pension Board effectiveness

Following the legal judgement The Scheme Advisory Board had been looking at the number of Opt Outs and were considering employing an independent actuary in a similar manner to the FBU.

It was felt that having separate actuarial and legal advice could help.

It was noted that Pension Dashboards would now be mandatory and the Scheme would be obliged to take part. Consultatations would be taking place and the Board would be kept informed.

Tax Awareness Seminars had been run by Barnett Waddingham in 2018 and further seminars were being arranged later in the year.

The SAB would be continuing their collaboration with the Pensions Tax Working group led by Andrew Hopkinson the Secretary of the Fire Leaders Association which includes representatives from across the Public Sector Pensions domain.

The impact of pensions tax was currently seen to be adversely affecting recruitment, retention and motivation and the SAB would be explore ways in which the scheme might be better managed to give choice and flexibility on managing tax liabilities.

The SAB would be drafting a meaningful challenge to change the annual allowance as it was felt that this was meant for the banking sector and not public sector employees.

Mr Eastwood recommended that members of the Board looked at the training scheme and The Pension Regulator's website for valuable, dynamic advice, information and training opportunities.

The following events in 2019 were recommended for the Pension Board Members diaries:

15 May - Firefighters and Police Local Pension Board Governance Conference
18 June – Annual Pension Board wash up training
19 June - Joint Ill Health Conference
18 July - Pensionable Pay Workshop
24/25 September - AGM and Conference
12 November – Pensions Tax Seminar

The Pension Board were recommended to keep an eye on possible forthcoming changes to the IDPR – 2 stage.

Kal Shoker enquired about the increase in employer's contributions and the financial impact on Authorities budgets. Currently, the government were providing a grant of £5m in 2019/20 only.

Mr Malcolm Eastwood, Chair, SAB thanked The Pension Board for inviting him and the Board thanked Mr Eastwood for his attendance.

PENSIONS BOARD

4 MARCH 2019

ACTIONS

Action Number	Action
1	Adviser to provide detailed information on Opt Outs at every meeting of the Pension Board
2	Clerk to obtain examples of Risk Registers from Hampshire and Kent
3	Wendy Browning Sampson to obtain Risk Registers from Regional Pension Boards
4	Paul Gwynn and Wendy Browning Sampson to compare and work on the Risk Registers and provide further information to the June and September Pension Boards
5	Risk Register to be updated regarding the possible transfer of governance to the Combined Authority
6	Wendy Browning Sampson to discuss Regional Training opportunities with colleagues from regional Brigades
7	The Pension Board to look at how it engages with the Audit and Risk Committee
8	Members to inform Julie Connor if they wish to attend any training courses
9	It was agreed that the new Scheme Manager Training should be brought to the attention of the Chair of the Audit and Risk Committee
10	Pension Board Annual Report to be considered at June meeting prior to being submitted to the July Audit and Risk Committee

Minutes of the Pension Board

Item 9

4 June 2019 at 1400 hours held at
Fire Service Headquarters,
Vauxhall Road, Birmingham

Present:

Adam Harper - Employee Representative
Alan Tranter - Employee Representative (Chair for this meeting)
Emmett Robinson - Employee Representative
Wendy Browning Sampson - Employer Representative
Kal Shoker - Employer Representative
Ian Cross - (Representing Pensions Adviser)

Apologies:

Neil Chamberlain (Chair)
Paul Gwynn, Pension Adviser

Ian Cross Introduced himself as Paul Gwynn's representative

14/19 Appointment of the Chair of the Pensions Board

Alan Tranter, Employee Representative, chaired the meeting in the absence of Mr Chamberlain.

15/19 Minutes of Pensions Board held on 4 March 2019

Minute No 13/19 The letters IDPR should read IDRP and in Action 3 the word "obtain" should read "request".

The minutes were received as a correct record.

16/19 Actions from the Minutes

Wendy Browning Sampson had contacted Regional Brigades about their Risk Registers but had not received any feedback to date.

Paul Gwynn and Wendy Browning Sampson were working together on the Risk Register using the Template provided and Best Practice and would present a report to the September meeting of the Pension Board.

Alan Tranter suggested that the Pension Board Risk Register should complement the Brigade Risk Register rather than a stand-alone Risk Register.

Wendy Browning Sampson confirmed that the Pension Board would have an opportunity to discuss how the Risk Register would be controlled and audited and compliant at the September meeting of the Board.

Alan Tranter suggested that the Clerk to the Authority should be invited to attend the meeting as the link with the Authority and also stated that he would prefer the Scheme Manager to be a named person rather than the Audit and Risk Committee. He felt the Board needed a realistic Risk Register.

The Board discussed possibly inviting an Internal Auditor to provide an input annually at a meeting and strengthening the connection with the Audit and Risk Committee and inviting the Clerk to explain the governance arrangements to the Board.

Kal Shoker confirmed that the organisation is subjected to audits and if either the internal or external auditor became aware of any issues e.g. GDPR, they would make the Members and Officers aware.

Kal Shoker confirmed that the Auditors carried out sample testing, and produced the Annual Audit of Accounts to the Audit and Risk Committee and Grant Thornton present an Audit Findings Report that encompasses payroll and pensions.

Ian Cross also confirmed that the Pension Section is Audited by Sandwell MBC and Grant Thornton who look at both processes and calculations.

The Pension Board requested that the Risk Register and Controls were fit for purpose.

The Pension Board requested that the Combined Authority risk be removed from the Risk Register.

Action 6 Wendy Browning-Sampson had spoken to regional colleagues regarding Pensions training and they were happy with the shared approach to training. It was agreed that each Service would host a training session, but this would be open to Regional colleagues.

Wendy Browning-Sampson agreed to look at opportunities for specific training and would set up the first joint training day with Regional colleagues and would share the date with colleagues.

Adam Harper requested that some consideration be given to dates as he was watch based.

Engagement with the Audit and Risk Committee was discussed. The Board were concerned at the lack of continuity and it was agreed that a Joint Training Day would be arranged with the LGA for both the Audit and Risk Committee and Pensions Board. It was felt that this would provide more information and build relationships.

Wendy Browning-Sampson agreed to contact Claire Hey to arrange joint training.

Kal Shoker and Emmett Robinson confirmed their attendance at the forthcoming Pension Wrap Up Training in London on 18 June 2019.

Adam Harper confirmed that he had read all the information on the Pension Regulator site and would work through the modules on the LGA pension site.

17/19 Pension Section Supporting Information

Ian Cross presented the Pension Section Supporting Information

He stated that there are three Members in the Section with one new Member joining the team.

Over the last 4 or 5 years the number of queries and answers are becoming more individual and less generic.

The report set out the number of Opt Out's and the Board were informed that Paul Gwynn had sent out a questionnaire to those people who had Opted Out in order to establish the reasons. The general theme of the returns indicated the cost of the scheme and contributions, personal financial commitments and mortgages. Some employees indicated that they would join again in the future.

Many new recruits opted out whilst undertaking training.

The Board were informed that an Auto enrolment process would be undertaken from the 1 June 2019. This process happens every three years.

Anyone who had opted out last year would be auto-enrolled this year and over 100 people who had opted out last year would be auto-enrolled.

In response to a question from Alan Tranter regarding those who do not wish to auto enrol, Ian Cross confirmed that it was a legal requirement to auto enrol non-members every three years, except for those who opted out within 12 months of the auto enrolment date (1 June 2019).

Wendy Browning Sampson confirmed that the timescale around this was a decision of the Scheme Manager.

The members can opt out following auto enrolment by emailing the Pensions Team and requesting an Opt Out form.

Employees would then receive a refund of their contributions if the form was returned in 3 months but not afterwards when it would be held in the scheme as a deferred benefit.

The 2015 deferred pension age is the state pension age. They can rejoin and benefits added together and pension claimed at 60.

Ian Cross confirmed that the 10 June was the payroll deadline. Contributions deducted in June would be refunded in July where appropriate.

Emmett Robinson felt that this was harsh and could leave members in hardship and suggested that employees could be informed in May.

Further to Wendy Browning Sampson's query, Ian Cross confirmed that Paul Gwynn would accept forms~~ed~~ that are signed and scanned and emailed into the Pensions Section.

Kal Shoker stated he would like to think that as a good employer the Authority would refund if there was a good reason.

Alan Tranter stated it was good to see the number of new people joining, but was disappointed to see that the number of leavers had increased.

18/19 High Court Ruling on Pensionable Pay Booth and Jones v Mid and West Wales FRA.

Bulletin 20, included a link to a factsheet that provided further information and guidance to FRS on the elements of pay that were considered in the case and the rationale for the pension board pay judgement.

Members of the Board were recommended to read the Appendix attached to the latest Bulletin 20.

Kal Shoker enquired about the McCloud Sargeant Judgement and it was confirmed that the outcome was expected in July 2019.

Ian Cross stated that full details of all Schemes could be found on the FPS site under Regulations and Guidance

Emmett Robinson stated that he found the additional training he received when visiting the Section very useful.

I9/19 Annual Report of the Pension Board 2018/19

The Board agreed the Annual Report with slight amendments. It was noted that the Employer Representative position was vacant and Wendy Browning-Sampson stated that she was awaiting a direction of travel in respect of his post.

Kal Shoker agreed to discuss the Employer Representative Post with Mike Griffiths as following the retirement of the Deputy Chief Fire Officer this was now his area of responsibility

Following the retirement of the DCFO Phil Hales, the responsibility for Pension Board now lays with the Treasurer, Mike Griffiths, and on this basis the Pension Board asked Mike Griffiths to appoint to the Employer Representative vacancy.

The Pension Board also requested that the Authority name a person i.e. (Chair of the Audit and Risk Committee) as the Scheme Manager rather than the Audit and Risk Committee.

In the Terms of Reference under Definitions “West Midlands Fire” would be amended to read West Midlands Fire means the West Midland Fire & Rescue Authority.

20/19 Risk Register

The Transfer of Governance to the Combined Authority would be deleted.

21/19 Bulletins 17/18 and 19/20 (circulated following release of the agenda)

The Board discussed unpaid leave, parental leave and contributions on unpaid leave but Ian Cross stated many of the issues were dependent on the scheme and individual.

Adam Harper enquired about the SERPS system and how it impacts on Members. Ian Cross confirmed that employees were contracted out up until 2016 and paid lower National Insurance Contributions as there was a two-tier state system for both Public and Private Sector Schemes.

After 2016 everyone paid the full National Insurance Contributions and there is a fact sheet referred to in the Bulletins about the ability to pay more to the Department of Work and Pensions in order to top up state pensions.

The Clerk to ensure the Chair of the Pension Board can attend or send a representative to the Annual Pension Conference in September 2019.

It was agreed that Julie Connor would circulate the Pension Regulator updates as and when they were received.

22/19 Training

Training had been discussed during the meeting.

23/19 Pension Board Activity Log 2016-19.

The Pension Board Activity Log was received.

24/19 Pension Board Work Programme 2018/19

The Pension Board Work Programme 2018/19 was received.

25/19 Updates on Topical, Legal and Regulatory Issues

Any issues had been discussed through the meeting.

26/19 <u>Emmett Robinson provided an update from his attendance at the training</u>

Emmett Robinson had attended a training session in London where the latest administration survey had been discussed. The results showed there was room for improvement in the administration of Pension Boards. The West Midlands Pension Board conformed to the recommended 4 meetings a year and had 7 members.

Handover training had been a recommendation for replacements and cyber risk testing had also been discussed.

Emmett Robinson found the training very useful.

PENSIONS BOARD 4 JUNE 2019 ACTIONS	
Action No.	Action
11	Wendy Browning Sampson and Paul Gwynn to present draft new Risk Register at the September Pension Board and were fit for purpose
12	The Clerk to the Authority to be invited to the next Pension Board to discuss the link with the Scheme Manager and governance arrangements
13	Pension Board to consider inviting Internal Auditor to one meeting per year
14	The Combined Authority reference to be removed from the Risk Register
15	Wendy Browning-Sampson to liaise with Regional Colleagues to arrange joint training in December 2019
16	Joint LGA Training to be arranged with the Audit and Risk Committee. Wendy Browning Sampson to liaise with LGA
17	Members to read Bulletin 20 Appendix re High Court Ruling
18	Pension Board Annual Report to be amended and presented to Audit and Risk Committee
19	Kal Shoker to discuss the Employer Representative Vacancy with the Treasurer
20	The Clerk to the Authority to be requested to consider that the Authority have a named person as the Scheme Manager
21	Representation at the Annual Pension Conference to be arranged
22	Julie Connor would circulate future Pension Regulator correspondence received by the Chair

WEST MIDLANDS FIRE SERVICE

Item 10

Annual Report of the Pension Board 2018/19

1. Background

The role of the local Pension Board as defined by section 5(1) and (2) of the Public Service Pensions Act 2013 is to-

- Assist the Scheme Manager:
    - to secure compliance with the Scheme regulations and any other legislation relating to the governance and administration of the Firefighters' Pension Scheme ("the Scheme").
    - to secure compliance with requirements imposed in relation to the Scheme by the Pensions Regulator.
    - in such other matters as the Scheme regulations may specify.
- Secure the effective and efficient governance and administration of the Scheme for the West Midlands Fire & Rescue Authority.
- Provide the Scheme Manager with such information as it requires ensuring that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.

The Pension Board will also ensure that the Scheme is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Pension Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively.

The full Terms of Reference for the Board can be found at Appendix A of this report.

2. Meetings

During 2018/19 the Committee met on the following dates:

- 27 September 2018
- 12 December 2018
- 4 March 2019
- 4 June 2019

3. Attendance

Name	27 September 2018	12 December 2018	4 March 2019	4 June 2019
Neil Chamberlain Independent Chair	✓	✓	✓	X
Wendy Browning-Sampson Employer Representative	✓	✓	✓	[Symbol]
Adam Harper Scheme Member Representative	X	X	X	[Symbol]
Emmett Robinson Scheme Member Representative	✓	✓	✓	[Symbol]
Kal Shoker Employer Representative	✓	✓	✓	[Symbol]
Alan Tranter Scheme Member Representative	X *	✓	✓	[Symbol]
Employer Representative Vacancy				

*Not applicable

4. The Board's business

During the year the Board conducted the following business:

Completion of The Pension Regulator – Public Service Governance and Admin. Survey	Received Regular Updates from the Pension Adviser Monitored and Updated the Risk Register Monitored Firefighters Pension Schemes Bulletins
Recruited Three New Scheme Member Representatives	Monitored High Court Rulings and changes to Legislation

Pension Conference 2018 – Received Update from Pension Advisor

Training Undertaken with the LGA Pension Advisor – December 2018

Attendance of the Chair of the Scheme Advisory Board at the Pension Board - March 2019

5. The Board's main achievements

The Board believes its key achievements during the year were:

- Continuing to build a good working relationship with the Audit and Risk Committee
- Receiving and reviewing a number of useful sector updates from The Pension Regulator.

- Reviewing the Committee's Terms of Reference in order to ensure they remain fit for purpose.
- Increasing the number of Employer and Scheme Member Representatives from 2 to 3
- Increasing the number of meetings held in the year from 2 to 4
- Raising the profile of the Pensions Board ensuring regular communication with members of the Scheme
- Regular consideration and review of the Pension Board Risk Register and accompanying assurances.
- The continued presence of the Adviser to receive regular updates

Appendix A

Terms of Reference for the Pension Board of the West Midlands Fire & Rescue Authority

Terms of Reference and Delegated Authorities

Introduction

This document outlines the terms of reference for the local Pension Board of the West Midlands Fire & Rescue Authority.

Role of the Pension Board

The role of the local Pension Board as defined by section 5(1) and (2) of the Public Service Pensions Act 2013 is to-

- Assist the Scheme Manager:

  - to secure compliance with the Scheme regulations and any other legislation relating to the governance and administration of the Firefighters' Pension Scheme ("the Scheme").
  - to secure compliance with requirements imposed in relation to the Scheme by the Pensions Regulator.
  - in such other matters as the Scheme regulations may specify.

- Secure the effective and efficient governance and administration of the Scheme for the West Midlands Fire & Rescue Authority.

- Provide the Scheme Manager with such information as it requires ensuring that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.

The Pension Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Pension Board will also ensure that the Scheme is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Pension Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively.

Appointment of Member of the Pension Board

The process for selecting members of the Pension Board is set out below:-

The Fire Service will consider matters such as who is eligible to stand, how the nomination process will work and what sort of information candidates will need to submit. The Service will appoint through election or selection with the rules of governing the process. The Fire Authority has an independent chair who will chair the Pension Board meetings, this role will be an independent role.

The Pension Board shall consist of 7 members and be constituted as follows:-

i) 3 employer representatives, which have been identified, and appointed

ii) 3 scheme member representatives, which have been identified, and elected and of which one should be a retired member

iii) 1 independent chair selected.

Scheme member and employer representatives shall be appointed in equal number and shall together form the majority of the Board's membership.

The Chair of the Pension Board will be determined by the Scheme Manager. It will be the role of the Chair to ensure that all members of the Board show due respect for process, that all views are fully heard and considered and to determine when consensus has been met.

The term of office for the Chair will be determined by the Scheme Manager.

Each employer representative and scheme member representative so appointed shall serve for a fixed period (of up to three years) which can be extended for further period(s) subject to re-nomination and/or election.

Each Board Member should endeavour to attend all Board meetings during the year and is required to attend at least 2 meetings each year. In the event of consistent non-attendance by any Board member, then the tenure of that membership should be reviewed by the other Board members in liaison with the Scheme Manager.

Other than by ceasing to be eligible as set out above, a Board member may only be removed from office during a term of appointment by:

Scheme Member representatives

recommendation by the other scheme member representatives and the unanimous agreement of all of the other members.

Employer representatives by the decision of the Service or on leaving the employment of the Service.

The removal of the independent member requires the consent of the Scheme Manager.

The Board may, with the approval of the Scheme Manager, co-opt persons who are not members of the Board to serve on sub committees, particularly where this would add skills and experience. Notwithstanding the appointment of co-opted members, the majority of the Board shall be comprised of employer and Scheme member representative, represented in equal number.

Quorum

The Board shall have a formal quorum when at least one scheme member representative and one employer representative are in attendance.

In the absence of the Independent Chair, a Chair person will be selected on a rotational basis between the scheme member and employer representatives.

Advisors and co-opted persons do not count towards the quorum.

Conflicts of Interest

The policy for identifying conflicts of interest is set out in a separate policy document. Any conflicts of interest that would prevent you from carrying out the role effectively will need to be highlighted to the Service.

Board Review Process

The Board will undertake at the first meeting of the year, a formal review process to assess how well it and its committees and the members are performing with a view to seeking continuous improvement in the Board's performance.

Advisers to the Board

The Board may be supported in its role and responsibilities through the appointment of advisers and shall, subject to any applicable regulation and legislation from time to time in force, consult with such advisers to the Board and on such terms as it shall see fit to help better perform its duties including:-

- A Governance Adviser.
- The Fund's Actuary.
- The Fund's Administrator.
- The Scheme Manager.
- Other advisers, so approved by the Scheme Manager.

The Board shall ensure that the performance of the advisers so appointed are reviewed on a regular basis.

Knowledge and Skills

The Code of Practice No. 14 Governance and Administration of public service pension schemes states “A member of the Pension Board must have a working knowledge and understanding of the law relating to pensions (and any other prescribed matters) sufficient for them to exercise the function of their role. Pension board members should be aware of the range and extent of the law relating to pensions which apply to their

Scheme and have sufficient understanding of the content and effect of that law to recognise when and how it impacts on their responsibilities and duties".

It is for individual Pension Board members to be satisfied that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Pension Board.

In line with this requirement Pension Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Pension Board members are therefore required to maintain a written record of relevant training and development.

Pension Board members should regularly review their skills, competencies and knowledge to identify gaps or weaknesses. Pension Board members will be expected to attend training to ensure that their knowledge and skills are maintained.

Board Meetings – Notice and Minutes

The Scheme Manager shall give notice to all Pension Board members of every meeting of the Pension Board. The Scheme Manager shall ensure that a formal record of Pension Board proceedings is maintained. Following the approval of the minutes by the Chair of the Board or Board Committee, they shall be circulated to all members of the Board and forwarded to the Scheme Manager.

There will be four Pension Board meetings a year to be held quarterly monthly. The minutes of the Pension Board will be approved by the Scheme Manager and shared with pension scheme members.

Remit of the Board

The Pension Board must assist the Scheme Manager with such other matters as the Scheme regulations may specify. It is for Scheme regulations and the Scheme Manager to determine precisely what the Pension Board's role entails.

Standards of Conduct

The role of Pension Board members requires the highest standards of conduct and therefore the 'seven principles of public life will be applied to all Pension Board members and embodied in their code of conduct.

These are:-

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness

- Honesty
- Leadership.

Decision Making

Each elected/appointed member of the Pension Board will have an individual voting right but it is expected the Pension Board will, as far as possible, reach a consensus. The Independent Chair of the Pension Board will not have voting rights.

Publication of Pension Board Information

Scheme Members and other interested parties will want to know that the Scheme is being efficiently and effectively managed. They will also want to be confident that the Pension Board is properly constituted, trained and competent in order to comply with Scheme regulations, the governance and administration of the Scheme and requirements of the Pension Regulator.

Up to date information will be posted on the West Midlands Fire & Rescue Authority website showing:-

- The names and information of the Pension Board members.
- How the Scheme members are represented on the Pension Board.
- The responsibilities of the Pension Board as a whole.
- The full terms of reference and policies of the Pension Board and how they operate.
- The Pension Board appointment process.
- Who each individual Pension Board member represents.
- Any specific roles and responsibilities of individual Pension Board members.

Pension Board papers, agendas and minutes of meetings will be published on the West Midlands Fire & Rescue Authority website (CMIS). These may at the discretion of the Scheme Manager be edited to exclude items on the grounds that they are deemed as being confidential for the purposes of the Data Protection Act 1998, and other relevant data protection legislation (such as General Data Protection Regulations).

The Scheme Manager will also consider requests for additional information to be published or made available to individual Scheme members to encourage Scheme member engagement and promote a culture of openness and transparency.

Accountability

The Pension Board will be collectively and individually accountable to the Scheme Manager.

Expense Reimbursement [Remuneration and Allowances]

There will be no specific remuneration for undertaking the role of representative on the Local Pension Board. However, travel expenses in line with public transport or car mileage may be claimed with a valid receipt.

Reporting Breaches

Pension Board members are required to report breaches of the law to the regulator where they believe there is a legal duty that has not or is not being complied with or the failure to comply will be of material significance to the Pensions Regulator in the exercise of its functions. Any breach brought to the attention of the Pension Board, whether potential or actual, shall be dealt with in accordance with the procedure set out in a separate policy document.

Definitions

The undernoted terms shall have the following meaning when used in this document.

"Pension Board" or Means the local Pension Board for the Fire Authority "Board" as required under the Public Service Pensions Act 2013.

"Scheme Manager" Means the West Midlands Fire & Rescue Authority as administering authority of the Pension Fund.

"Chair" Reference to duties to be performed, or authorise exercised, by the Chair.

"Scheme" Means the Firefighters' Pension Schemes.

"West Midlands Fire Authority" Means the West Midlands Fire & Rescue Rescue Authority"

Interpretation

Any uncertainty or ambiguity or interpretation required relating to any matters contained in this document shall be resolved by reference to the Scheme Manager.

Item 9

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

WORK PROGRAMME 2019/20

Date of Meeting	Item	Responsible Officer	Completed
2019			
29 July 2019	Terms of Reference of Audit and Risk Committee	Democratic Officer	
	Audit Findings 2018/19	Grant Thornton	
	Statement of Accounts 2018/19 (Approval)	Treasurer	
	Treasury Management Annual Report 2018/19	Treasurer	
	Minutes of the Audit and Risk Committee held on 3 June 2019	Democratic Officer	
	Minutes of the Pensions Board held on 4 March 2019	Pension Board Representative	
	Minutes of the Pensions Board held on 4 June 2019	Pension Board Representative	
	Pension Board Annual Report	Pension Board Representative	
	Training Requirements of Audit and Risk Members		

	Audit and Risk Committee Draft Work Plan 2019/20	Democratic Officer Democratic Officer	
2 September	Corporate Risk Six Monthly Report Annual Audit Letter 2018/19 Audit and Risk Committee Update Minutes of the Audit and Risk Committee held on 29 July 2019	ACO Strategic Enabler (Process) Grant Thornton Grant Thornton Democratic Officer	
16 September [Authority]	Audit Findings 2018/19 Statement of Accounts 2018/19 (note)	Grant Thornton Treasurer	

11 November	Treasury Management – Mid year review 2019/20 Audit and Risk Committee Update Internal Audit Progress Report Minutes of the Audit and Risk Committee held on 2 September 2019 Audit Committee Work Plan Minutes of the Pension Board held in September 2019 Fraud Awareness Training Audit Overview	Treasurer Grant Thornton Audit Manager Democratic Officer Democratic Officer Phil Tromans John Matthews	

2020			
13 January	Minutes of the Audit and Risk Committee held on 11 November 2019 Internal Audit Progress Report Internal Audit Charter – Annual Review Audit and Risk Committee Update Audit and Risk Committee Work Plan Minutes of the Pension Board held on December 2019	Democratic Officer Audit Manager Audit Manager Grant Thornton Democratic Officer Democratic Officer	
23 March	Audit and Risk Committee Terms of Reference Internal Audit Plan 2020/21 Audit Plan 2019/10 Corporate Risk Report Six Monthly Update Communication with the Audit Committee for WMFRA	Audit Manager Audit Manager Grant Thornton ACO Strategic Enabler (Process) Grant Thornton	

	Audit and Risk Committee Update Minutes of the Audit and Risk Committee held on 13 January 2020 Audit and Risk Committee Work Plan *Committee Members' Private meeting with Internal Auditors (to follow Committee)*	Grant Thornton Democratic Officer *Audit Manager*	
1 June 2019	Annual Internal Audit Report 2019/20 Governance Statement 2019/20 Monitoring Policies and RIPA (Annual Whistleblowing Report) Annual Report of the Audit and Risk Committee 2019/20 for approval Audit and Risk Committee – Verbal Update Minutes of the Audit and Risk Committee held on 23 March 2019 Minutes of the Pensions Board held on March 2019 Annual Report of the Pension Board 2019/10 Audit and Risk Committee Work Plan 2019/2020	Audit Manager Treasurer Monitoring Officer/ ACO Strategic Enabler (Process) Chair Grant Thornton Democratic Officer Democratic Officer Chair, Pensions Board	

	Committee Members' Private meeting with External Auditors *Workshop for Members on Statement of Accounts 2019/20*	Democratic Officer *Grant Thornton* *Treasurer*	
22 June 2020 [Authority]	Governance Statement 2019/2020 Minutes of the Audit and Risk Committee held on 1 June 2019 Annual Report of the Audit and Risk Committee 2019/20	Treasurer Democratic Officer Chair	

July 2020 (Audit and Risk Committee 2020/21)	Audit Findings 2019/20 Statement of Accounts 2019/20 (Approval) Treasury Management Annual Report 2019/20 Audit and Risk Committee Draft Work Plan 2020/21	Grant Thornton Treasurer Treasurer Democratic Officer