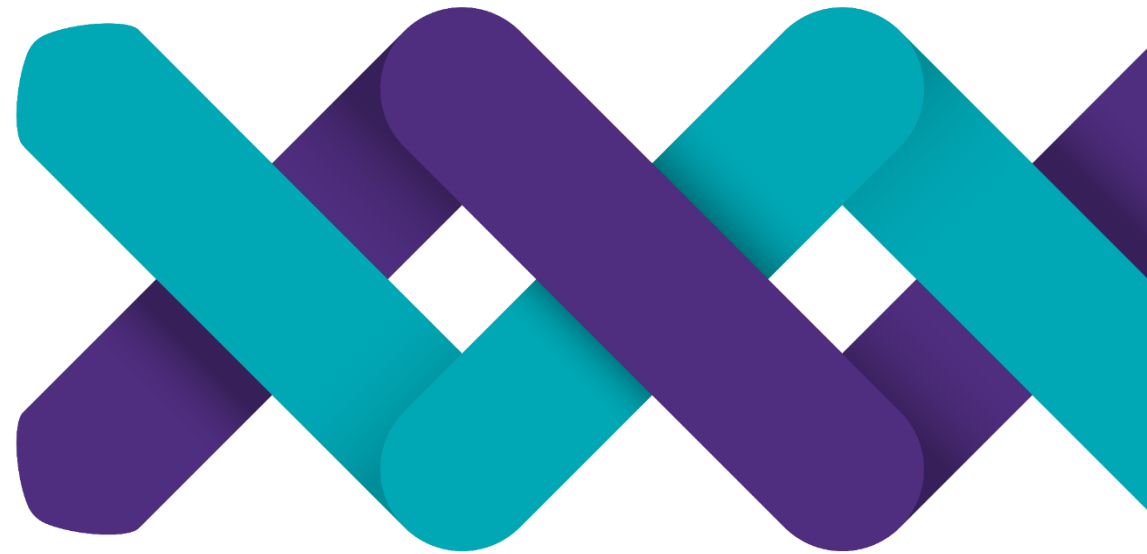


Audit Progress Report and Sector Update

Lancashire Combined Fire Authority

9 January 2019



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Introduction



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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at 9 January 2019

Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and are due to commence our interim audit in March 2019. Our interim fieldwork visit is expected to include:

- an updated review of the Authority's control environment
- an updated understanding of financial systems
- a review of Internal Audit reports on core financial systems
- early work on emerging accounting issues, and
- early substantive testing.

Our Audit Plan which summarises our approach to the key risks on the audit will be presented at the committee meeting on 29 January 2019. We will report any findings from the interim audit to you in our Progress Report on 2 April 2019.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

Audit guidance for value for money working in 2018/19 has now been issued and remains consistent with prior years. The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We have carried out our initial risk assessment to determine our approach and have not identified any risks in our Audit Plan being presented at this meeting. We will continue our review of your arrangements, including reviewing your Financial Monitoring Returns and Annual Governance Statement, before we issue our auditor's report.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion at the Audit Committee on 23 July 2019, i.e. before the deadline of 29 July 2019.

Other areas

Meetings

We met with your Chief Fire Officer and s151 Officer in November 2018 as part of our regular liaison meetings. Another meeting is scheduled for January 2019. We will continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

Our annual accountants workshop will be held at the end of January 2019 and we have invited key members of your finance team to this event.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2018-19 financial statements.	29 January 2019	Presenting to Audit Committee on 29 January 2019
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our progress report.	2 April 2019	Not yet due
Audit Findings Report The audit findings report will be reported to the July 2019 Audit Committee.	23 July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	29 July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	24 September 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Authorities are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

HMICFRS News

HMICFRS Inspection – summary of First Tranche

This is the first time that HMICFRS has inspected fire and rescue services across England. Their focus is on the service they provide to the public, and the way they use the resources available.

HMICFRS have inspected 14 services in the first tranche of inspections. Each inspection assesses how effective and efficient the service is, how it protects the public against fires and other emergencies and how it responds to the same. They also assess how well each service looks after the people who work there. Lancashire Combined Fire Authority was inspected in the first tranche of inspections

In carrying out inspections of fire and rescue services in England, HMICFRS have regard to the following main questions:

1. How effective is the fire and rescue service at keeping people safe and secure from fire and other risks?
2. How efficient is the fire and rescue service at keeping people safe and secure from fire and other risks?
3. How well does the fire and rescue service look after its people?

The categories of graded judgement used are: outstanding, good, requires improvement and inadequate

Lancashire Combined Fire Authority was rated as 'outstanding' for promoting its values and culture. In all other areas, the Service was rated as 'good' with no areas that 'require improvement' in any of the 11 categories that were assessed

HMICFRS Inspection - Findings

Effectiveness

Overall, the HMICFRS judged ten services to be good and four as requiring improvement. In arriving at the overall judgment, they examined a range of operational practices, including: fire prevention; protection through regulation; emergency response; and responding to national risks.

Specifically, the HMICFRS has concerns in relation to protection through regulation where they have rated eight out of fourteen services as requiring improvement, and one as inadequate.

Efficiency

HMICFRS graded eight of the fire and rescue services they inspected as good for efficiency, five as requiring improvement, and they found one service to be inadequate. In arriving at this judgment, they considered how well the service uses resources to manage risks; and how well the service is using resources to ensure the service it provides is affordable now and in the future

The inspection showed that a large number of services were deploying staff to activities in the same way they always have, which may not be appropriate given new and emerging risks being faced, coupled with having fewer staff. Furthermore, they found that some fire services were using reserves without a longer-term sustainable funding plan in place,

People

Three services were graded as good at looking after the people who work for them; ten services were graded as requiring improvement, and one service was graded as inadequate. They considered how well services train, manage, treat and support the people who work for them

This was the area of greatest concern for the HMICFRS, as the inspection revealed a lack of diversity within fire services, as well as a large number of unreported instances of bullying. A recommendation that leaders take swift and sustained action to remedy these problems was made.

Creating and operating a successful fire trading company – A Grant Thornton report

How fire trading companies can combat austerity

In October 2018, Grant Thornton released a report which contained a study of fire trading companies (FTCs). In our latest study we have researched a range of FTCs, from those reported as being successful to lessons learned from those that have encountered challenges and ceased to trade.

Of the 48 fire and rescue services in England and Wales, only 31% have an FTC. In comparison, 60% of local authorities have at least one trading company. This could be attributed to several factors, such as a lack of willingness to trade; the restricted, specialist and competitive market in which FTCs operate; and the fact that some FTCs have ceased trading.

The report found that the most successful FTCs are not just financially sustainable but are also providing social value and wider benefit to their local communities. They tend to be larger companies who understand the commercial market in which they operate, are able to capitalise on their specialist skills and are looking for ways to expand and widen their activities.

The report goes on to consider some of the key success factors in running an FTC, including clarity on the rationale for setting up an FTC, ensuring sustainable income streams, creating the right culture, and establishing effective governance arrangements, amongst others.

The report also lists six case studies, which are all FTCs. Some of the successful FTCs are able to have more autonomy from the fire service in meeting their objectives, with ring fenced profits being able to be invested in community projects based on the objectives of the board of the FTC.

Some smaller FTCs also have significant impact on reducing the strain on the public purse, for example by providing training to delegates in improving fire safety and reducing risk

Case Study 5: Red One Ltd.

Included within the six case studies in the report is RedOne Ltd. The company was one of the first FTCs to be created, and provides fire and safety consultancy services.

The report makes reference to the reviews of management arrangements and governance framework over the last two years which have led to staff being recruited to work directly for the company rather than on secondment from the fire and rescue service, as was the case previously.

The report states that it is important to have an effective management structure for any company. Therefore it is a good idea to introduce people with a commercial background in senior management roles at the outset.

Furthermore, it is important to ensure that the market opportunity is well defined. In Red One's case, the opportunity has been identified as being closer to home rather than further afield. If there is a wider market to explore, this could be worth investing in and could require additional capacity for the required growth.

The full report can be accessed by clicking on the cover



Home Office news



Home Office

Enabling Police and Crime Commissioners (PCCs) to sit and vote on Combined Fire and Rescue Authorities (FRAs)

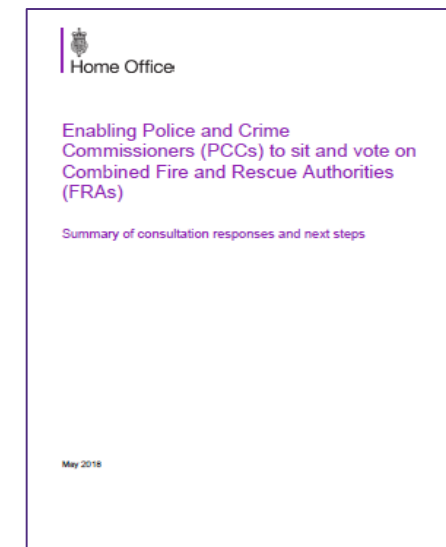
The Home Office has summarised the consultation responses and next steps in respect of the proposal to vary the combination schemes of Combined Fire and Rescue Authorities (FRAs).

The responses demonstrate strong support among those directly affected for implementing the provisions of the 'representation model', with 91% of affected Combined FRAs agreeing to the proposed amendments.

This consultation was about ensuring that Combined FRAs can appoint a PCC with voting rights, and that the same level of transparency applies to Combined FRAs as it does to County or Metropolitan FRAs. Having carefully considered the consultation responses, the Government has decided to vary the combination schemes of those Combined FRAs who have agreed to the proposed amendments. A negative statutory instrument (SI) will now be drafted to make these amendments and it is then expected to be laid before Parliament in the autumn.

This sets a clear expectation for opportunities for closer working and cooperation to be implemented and encourage collaboration in areas where a PCC does not take on responsibility for local fire and rescue services. It is expected that each affected FRA will now carefully consider a relevant PCC's membership request should it be made.

The full report can be accessed by clicking on the cover



Independent Review of Building Regulations and Fire Safety: final report

Commissioned by government following the Grenfell Tower fire to make recommendations on the future regulatory system, Dame Judith Hackitt's final report was published in May 2018. Its purpose is to make recommendations that will ensure we have a sufficiently robust regulatory system for the future and to provide further assurance to residents that the complete system is working to ensure the buildings they live in are safe and remain so. It is examining the building and fire safety regulatory system, with a focus on high-rise residential buildings.

In the report, Dame Hackitt states that it is essential that the industry works to implement a truly robust approach to building the increasingly complex structures in which people live. The key issues underpinning the system failure include:

a) Ignorance – regulations and guidance are not always read by those who need to, and when they do the guidance is misunderstood and misinterpreted.

b) Indifference – the primary motivation is to do things as quickly and cheaply as possible rather than to deliver quality homes which are safe for people to live in. When concerns are raised, by others involved in building work or by residents, they are often ignored. Some of those undertaking building work fail to prioritise safety, using the ambiguity of regulations and guidance to game the system.

c) Lack of clarity on roles and responsibilities – there is ambiguity over where responsibility lies, exacerbated by a level of fragmentation within the industry, and precluding robust ownership of accountability.

d) Inadequate regulatory oversight and enforcement tools – the size or complexity of a project does not seem to inform the way in which it is overseen by the regulator. Where enforcement is necessary, it is often not pursued. Where it is pursued, the penalties are so small as to be an ineffective deterrent.

Recommendations

The main recommendation as a result of this report is a new regulatory framework focused, in the first instance, on multi-occupancy higher risk residential buildings (HRRB); alongside a new Joint Competent Authority (JCA) comprising Local Authority Building Standards, fire and rescue authorities and the Health and Safety Executive to oversee better management of safety risks in these buildings (through safety cases) across their entire life cycle; as well as a mandatory incident reporting mechanism for dutyholders with concerns about the safety of a HRRB.

The report goes on to set out the changes necessary to achieve this new framework in more detail including chapters on building safety during design, construction, refurbishment and occupation, giving residents a voice, and creating a more robust and transparent construction products regime.

Whilst the recommendations in each chapter are crucial, in isolation they will fail to achieve the systemic change sought. The framework operates as a mutually reinforcing package and requires the implementation of its interdependent components in order for this to be achieved.

The report concludes that it is therefore important that government develops a joined-up implementation plan to provide a coherent approach to delivering the recommendations in this report.

The full report can be accessed by clicking on the cover



In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of Authority services has gone.

Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the Authority
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the Authorities decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

Choosing the right company model

The most common company models adopted by Authorities are:

Wholly
owned

Joint
Ventures

Social
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the Authority.

LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
 - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on Authorities to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/creating-and-operating-a-successful-fire-trading-company.pdf>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/715750/Government_response_to_consultation_on_the_representation_model.pdf

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/707785/Building_a_Safer_Future_-_web.pdf

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

