

Public Document Pack



Nottinghamshire and City of Nottingham Fire and Rescue Authority Finance and Resources Sub-Committee

Date: Friday 15 January 2021 **Time:** 10:00am

Venue: To be held remotely and live-streamed to:
<https://www.youtube.com/channel/UCt4VuYp8JJJvXCLRmSRJ1mw/featured>

Members are requested to attend the above meeting to be held at the time, place and date mentioned to transact the following business:

A handwritten signature in black ink, appearing to read 'M. J. [unclear]'. The signature is written in a cursive style.

Clerk to the Nottinghamshire and City of Nottingham Fire and Rescue Authority

Agenda	Pages
1 Apologies for Absence	
2 Declarations of Interests	
3 Minutes Minutes of the meeting held on 17 January 2020, for confirmation	3 - 8
4 Revenue, Capital and Prudential Code Monitoring Report to 30 November 2020 Report of the Chief Fire Officer	9 - 26
5 Budget Proposals for 2021/22 to 2024/25 and Options for Council Tax 2021/22 Report of the Chief Fire Officer	27 - 44
6 Internal Audit Annual Report 2019/20 Report of the Chief Fire Officer	45 - 84
7 External Audit Plan 2019/20 Report of the Chief Fire Officer	85 - 128



**Nottinghamshire and City of Nottingham Fire and Rescue Authority
Finance and Resources Committee**

Minutes of the meeting held at Nottinghamshire Fire and Rescue Service HQ, Bestwood Lodge Drive, Arnold, Nottingham, NG5 8PD on 17 January 2020 from 10.00 am - 11.13 am

Membership

Present

Councillor John Clarke (Chair)
Councillor Toby Neal (from minute 21 to 27 inclusive)
Councillor Nick Raine
Councillor Andrew Brown
Councillor John Longdon

Absent

Councillor Mike Quigley MBE

Colleagues, partners and others in attendance:

Becky Smeathers	- Head of Finance
Charlotte Radford	- Treasurer to the Authority
Ian Pritchard	- Assistant Chief Officer
Gavin Harris	- Head of Digital Transformation
Terry Scott	- Head of Procurement and Resources
Catherine Ziane-Pryor	- Governance Officer

18 APOLOGIES FOR ABSENCE

Councillor Mike Quigley – Councillor John Longdon substituting

19 DECLARATIONS OF INTERESTS

None.

20 MINUTES

The minutes of the meeting held on 11 October 2019 were confirmed as a true record and signed by the Chair.

21 Revenue, Capital and Prudential Code Monitoring Report to 30 November 2019

Becky Smeathers, Head of Finance, presented the report which informs members of the financial performance of the Service in the year 2019/20 to the end of November 2019.

Committee members' questions were responded to as follows;

- a) With regard to the transport overspend of £57k, this relates to the efforts to get the vehicle maintenance backlog cleared under the new contract, but also with regard to the accidental damage of a water carrier. Further, more detailed information will be provided to members at a later stage once a full review has taken place to identify any potential cost recovery from the previous contract. Any potential benefit of any cost recovery can be assessed at this time. Members should be assured that contractual clauses have been added to the new maintenance contract to protect the Service;
- b) There will be a report brought to the Committee regarding the future disposal options for the old Hucknall Fire Station;
- c) The upgrade and replacement of vehicle CCTV system will allow the download of footage automatically when the vehicles return to the station.

Members of the Committee welcomed the overall budget underspend.

Resolved to

- 1) note the report;**
- 2) approve the transfer of £170k CCTV in vehicles project funding, to fund the PPE helmets to enable them to be purchased in 2019/20 rather than 2020/21 as originally anticipated;**
- 3) approve slippage of £160k for the CCTV in vehicles capital project.**

22 Budget Proposals for 2020/21 To 2023/24 and Options for Council Tax 2020/21

Becky Smeathers, Head of Finance, presented the report which provides the budget proposals for 2020/2021 to 2023/24 including the impact of funding variations, and requests that Members consider and select the preferred council tax option for recommendation to the full Fire Authority.

The following anticipated elements were recognised for having a potential impact on future budgets:

- i. An unconfirmed grant allowance;
- ii. The required upgrade of ICT equipment, including on appliances;
- iii. The final determination Local Government Pension Scheme superannuation following the McCloud case;
- iv. Pension administration (as a new provider is required and the cost will increase);
- v. Pay increase;

- vi. Additional overtime pay;
- vii. ICT licenses;

The potential options for setting Council Tax and the impact on future year budgets are set out in the report.

Members of the Committee made the following comments and questions were responded to:

- a) The report is well presented and given the number of citizens served, and the service provided, the option to increase Council Tax by 1.95% was recommended;
- b) The further use of reserves is not supported but the proposed Council Tax increase of 1.95% is supported;
- c) The compensation element of pensions could be an area that will impact on the Income and Expenditure Account, as is the same across the whole of the Public Sector. The extent of the impact is not yet known so it's not possible to look for a remedy yet and as pension funds are not eligible to pay compensation, the cost may be borne by the Service unless Central Government provide a grant;
- d) Advice has been sought from the precepting Authorities with regard to business rates, but clarity cannot be provided until the end of January;
- e) Following a review of earmarked reserves, £1.4m has been reallocated to create a Transformation and Collaboration earmarked reserve. There will be a report to the full Fire Authority with further details on how this will help support the Service's efficiency and transformation plans over the coming years.;
- f) The Service has finite resources and once the reserves are spent, it will be difficult to replace them.

Resolved to recommend the Fire Authority that a 1.95% increase in Council Tax is approved.

23 Digital Strategy 2019-2022 (Information and Communications Technology (ICT) Department)

Gavin Harris, Head of Digital Transformation, presented the report which seeks approval for the new Digital (ICT) Strategy 2019 to 2022.

The following points were highlighted and responses provided to members' questions:

- a) Whilst the last ICT Strategy was for a 4 year period, it has been reviewed and re-written to align with the latest Integrated Risk Management Plan (IRMP);
- b) The 7 principals of the strategy are:
 - i. Access from anywhere with any device;
 - ii. Innovation and responsiveness built in;
 - iii. User-centric solutions;

- iv. Digital skills development;
 - v. Digital-first;
 - vi. Microsoft –first;
 - vii. Cyber security is essential;
- c) Whilst one of the principals is to enhance the agility of staff, cyber security will remain a priority;
- d) It is proposed that new tablets, 2 to each fire appliance, will increase the flexibility and efficiency of staff particularly when attending Safe and Well visits. This will remove the need to update forms and paperwork on return to the station and provide access to real-time data;
- e) The roll-out of the new systems will be managed as projects with an analysis of performance and effectiveness through staff feedback.

Resolved to approve the Digital (ICT) Strategy 2019 to 2022.

24 Update on the Service Response to Her Majesty's Inspectorate of Constabulary and Fire And Rescue Services Inspection

Becky Smeathers, Head of Finance, presented the report which provides responses to the recommendations of the Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) with regard specifically to the Finance and Resources Committee and the improvement plan schedule.

The following points were highlighted and members' questions responded to:

- a) The Service is confident that the improvement work can be completed in time for the next inspection;
- b) With regard to the need to accelerate ICT to support efficiency and effectiveness, there is a small team focusing on digitalisation and ensuring that an 'incident ready' system can be used 'on the go' as fire appliances travel back to the station rather than the updates being required on return to stations;
- c) With regard to ensuring sufficiently robust plans are in place to consider the medium term financial challenges beyond 2020, processes are being examined to determine if digitalisation will be of benefit, with an additional focus on ICT training and an improved use of statistics;
- d) The proposed computers have an expected lifespan of approximately 5 years; the current tablets in use are approximately 10 years old;
- e) Issues around the implementation of the new emergency services network (ESN) are complicated but the financial implications will be considered within a comprehensive spending review.

Resolved to note the progress made against the Action Plan.

25 Exclusion of the public

Resolved to exclude the public from the meeting during consideration of the remaining items in accordance with Section 100A(4) of the Local Government Act 1972 on the basis that, having regard to all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

26 Disposal of surplus land at Newark Fire Station

Terry Scott, Head of Procurement and Resources, presented the report.

Resolved to approve the option determined at the meeting.

27 Installation of an electrical substation by Western Power Distribution at Bingham Fire Station

Further to minute 20 of the Finance and Resources Committee on 19 October 2018, Terry Scott, Head of Procurement and Resources, presented the report which informs members of the requested amendments to the lease agreement for Western Power to install an electrical substation at Bingham Fire Station.

Resolved to approve the recommendations as set out in the report.

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NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

REVENUE, CAPITAL AND PRUDENTIAL CODE MONITORING REPORT TO 30 NOVEMBER 2020

Report of the Chief Fire Officer

Date: 15 January 2021

Purpose of Report:

To report to Members on the 2020/21 financial performance of the Service and Prudential Code monitoring to the end of November 2020.

Recommendations:

It is recommended that Members:

- Note the content of this report.
- Approve the following amendments to the 2020/21 Capital Programme:
 - Approve the addition of the conference room sound system project costing £57k which will be funded from the Covid-19 grant (see section 2.29)
 - Approve the increase of £24k for the migration of SharePoint to a cloud based product (see section 2.30)
 - Approve the increase of £14k for air bag replacement (see section 2.38)

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1. BACKGROUND

- 1.1 Budget monitoring is a key aspect of financial management for the Fire Authority. Regular reporting of spending against the revenue budgets is a check that spending is within available resources and if necessary, allows for financial resources to be re-assigned to meet changing priorities.
- 1.2 This report covers those areas with a higher risk of significant variance. An assessment of this risk has been made in the light of the size of the budgets selected and/or previous experience of variances, as well as the emergence of actual variances. It is vital that an overview of the budgetary position during the year is maintained, so that appropriate action can be taken in respect of significant variances and the budget is managed as a whole.
- 1.3 Monitoring against the revised prudential indicators is also included in this report, as required in the Prudential Code published by the Chartered Institute of Finance and Accountancy (CIPFA).

2 REPORT

REVENUE BUDGET

- 2.1 The revenue monitoring position is set out in Table 1 below. It shows a forecast outturn position of £43.967m, which is a £1.398m underspend against the revised budget of £45.365m. In summary this relates to:
 - £376k relates to Section 31 grants which have not all yet been fully allocated (see paragraph 2.15 – 2.18). Unspent funding at the year end will be transferred to earmarked reserves.
 - £1.022m relates to general underspends (mostly relating to vacancies in wholetime pay pending recruitment). Of this, £274k will be an adjustment to earmarked reserves (see paragraph 2.25) and the remaining £748k is will increase the balance on the general fund.

Table 1 – Summary Expenditure and Funding Position

	2020/21 Budget £'000	Revised Budget £'000	Forecast Outturn £'000	Variance £'000
Net Expenditure	45,165	45,365	43,967	(1,398)
RSG/Council Tax/Business Rates	(44,891)	(44,891)	(44,891)	0
General Fund Reserves	0	0	748	748
Covid-19 Grant Reserve	0	0	231	231
Grenfell Infrastructure Improvements Grant Reserves	0	0	63	63
Building Risk Review and Protection Uplift Grant Reserves	0	0	82	82
Earmarked Reserves	(274)	(474)	(200)	274
Total	0	0	0	0

- 2.2 The underspend position has reduced from the £1.523m reported to Fire Authority in November. Some minor projects that were planned for 2021/22 have been brought forward to 2020/21 to offset the underspend. These included the purchase of replacement Occupational Health software, replacement gym equipment and updated software to give better functionality for the drone which is jointly operated with the police.
- 2.3 A more detailed analysis of expenditure can be found at Appendix A. Major variances on specific budgets are shown below.
- 2.4 **WHOLETIME PAY:** total wholetime pay is forecast to underspend by £953k. This has been caused by a higher than anticipated level of vacancies due to the wholetime training course being delayed until April 2021. The impact of the under establishment is being partially offset by 14 individuals migrating from on-call during September and October. Even with these additional posts, unfilled posts are anticipated to reach 9 by the end of the financial year. The underspend has reduced compared to the amount reported in November due to £389k of the budget being approved to be transferred to fund a number of non-pay related projects, including building maintenance, scanners and guide lines.
- 2.5 Overtime was originally planned to help cover the vacancies. However, as the number of Covid-19 cases has increased across the County this is no longer considered to be a viable solution as the mixing of watches increases the risk of the spread of Covid-19 across the workforce.

- 2.6 **ON-CALL PAY:** overall, on-call pay is anticipated to overspend by £183k against the original budget, but £113k of this directly relates to additional costs that can be offset by the Covid -19 grant. There was also a high level of payments brought on by the increased availability as people being furloughed from their primary employment in the Spring lockdown.
- 2.7 **NON-UNIFORMED PAY:** non-uniformed pay is expected to overspend by £206k (after compensating for secondment income and posts being funded from grants). The budget assumed that staff would receive a pay award of 2%. The final agreed increase was 2.75%, which resulted in additional costs of £50k. Some temporary posts that were to be funded from earmarked reserves are now being funded from the revenue budget to preserve the earmarked reserves to fund transformational projects in future years.
- 2.8 **PENSION COSTS:** there is a net forecast underspend of £38k relating to ill health charges and injury pension costs.
- 2.9 **TRAINING COSTS:** the forecasted underspend of £179k relates to the reduction in external training due to Covid-19 and the possibility that future training will be undertaken online rather than face to face.
- 2.10 **PREMISES COSTS:** the forecasted overspend is £98k. The underspend has reduced from the amount reported in November due to an additional £200k being transferred to the premises budgets for maintenance.
- 2.11 £44k of the overspend is due to business rates being higher than expected at budget time. Contract cleaning costs are expected to increase by £48k during 2020/21 due to the enhanced cleaning regimes that have been brought in to help prevent the spread of Covid-19. £13k of this will be funded from the Covid-19 grant. The amount spent on cleaning materials will increase by around £29k. This will also be funded from the Covid-19 grant.
- 2.12 **TRANSPORT COSTS:** are forecasted to underspend by £46k. Travel related expenses have significantly reduced due to Covid-19 (£122k) and fuel is anticipated to underspend by £70k. There is an overspend on the fleet maintenance of £143k which mainly relates to the savings identified from the new contract not being fully realised in the year, due to backlog of maintenance works.
- 2.13 **SUPPLIES AND SERVICES COSTS:** Supplies and Services are forecasted to overspend by £98k. This net overspend is comprised of the following variances:
- The budgets for smoke alarms and community safety equipment are expected to underspend by £57k due to the reduction in the number of safe and well visits. It is difficult now to know when the levels of activity will resume.

- The breathing apparatus budget is expected to overspend by £44k due to the purchase of new fire hoods, however this expenditure will be funded from the Grenfell grant (see paragraph 2.17).
- The budgets for ICT software, hardware and software maintenance contracts are expected to overspend by £90k. £15k of this expenditure relates to a project to upgrade the software for the drone to increase its availability. This project was initially planned for 2021/22 but has been brought forward. The remaining £75k overspend relates to work to facilitate effective home working, and will be funded from the Covid-19 grant.

2.14 **THIRD PARTY PAYMENTS** £89k of the £103k overspend is for joint control charges from Derbyshire Fire and Rescue. This is due to additional staff being employed to cover long-term sickness. It is assumed at this stage this cover will continue for six months.

2.15 **GOVERNMENT GRANTS:** The Service has received additional funding for Covid-19 of £1,058k. £191k was included in the 2019/20 outturn and a further £867k has been received in 2020/21. The grant can only be allocated to additional expenditure, so any redirection to staff from other duties, for example, cannot be claimed. The estimated spend as at the end of September is shown in Table 2 below.

Table 2 – Expenditure to be funded from Covid-19 Government Grant

Expenditure	Actual to Nov £'000	Estimated spend 20/21 £'000
Non-Uniformed Pay	49	121
Operational Pay and Overtime	5	5
On Call Firefighters Other Work	73	119
Cleaning Materials / Decontamination Supplies	60	84
Operational Equipment Uniforms and PPE	44	58
Other	31	70
ICT Infrastructure and Licencing	144	178
Total	407	636

2.16 Grant allocation is undertaken and monitored by the Strategic Leadership Team. Work is being undertaken to identify key areas of work that will address the ongoing risks of Covid-19 to ensure that the grant is used with best effect.

2.17 The Service has received a £101k Grenfell Infrastructure Improvements grant, which is to fund the delivery of outcomes against the relevant findings from the Grenfell phase 1 inquiry. So far £38k of expenditure has been funded from

this grant. It is expected that the unspent balance will be carried forward to 2021/22, and this has been reflected in the estimated outturn for the earmarked reserves.

- 2.18 The Service has also received two other Grenfell related grants for Building Risk Review (£60k) and Protection work (£92k). Again, any unspent grant at year end will be transferred into earmarked reserves.
- 2.19 **CAPITAL CHARGES:** the total forecast overspend is £71k. Minimum Revenue Provision is underspent by £16k due to the slippage of £4m from the capital programme in 2019/20. There is an additional £87k of capital expenditure funded from revenue contributions, but this will be funded from the Covid-19 grant.
- 2.20 There is a forecasted deficit of £80k on interest receivable following a significant drop in interest rates. There was significant market uncertainty during the early part of the year. To protect the services cashflow, cash was kept in shorter term investments which attract lower rates of interest. Interest charges on debt are expected to overspend by £48k. This is due to the taking out loans earlier than originally anticipated. Two loans totalling £3m were taken from the Public Works Loans Board in March 2020 which took advantage of the fall in loan rates brought about by the economic impact of the pandemic. This had the additional advantage of securing the Authority's cash flow position at the beginning of the Covid-19 pandemic. This borrowing, whilst within the Authority's prudential limits, was taken ahead of schedule. As a result of this, the interest costs had not been factored into the budget.

RESERVES

- 2.21 Details of the use of reserves during 2020/21 can be found in Appendix B.
- 2.22 Expected levels of reserves at 31 March 2020 are £10.7m as detailed in Table 3 below.

Table 3 – Anticipated Movement in Reserves 2020/21

Reserves	Balance 01/04/20 £'000	Anticipated Use 2020/21 £'000	Expected Balance 31/03/21 £'000
Contributions from earmarked reserves	4,329	(122)	4,207
Expected transfers to reserves (unallocated grants)	177	376	553
General Fund ¹	4,989	748	5,737
Total	9,495	1,002	10,497
ESMCP ² Regional Reserve	255	(78)	177
Total	9,750	924	10,674

¹ Provisional general fund figure ² Emergency Services Mobile Communications Programme

- 2.23 The Emergency Services Mobile Communications Programme (ESMCP) regional reserve has been shown separately to those reserves held by the Authority to reflect that the funds are to be allocated regionally and do not belong to Nottinghamshire Fire and Rescue Service (NFRS).
- 2.24 The general reserve is predicted to be £5.7m at the end of the financial year. This is above the minimum level of £4.5m agreed by Fire Authority in November 2020. This provides the Authority with an element of security and flexibility given the financial uncertainties in 2021/22 and beyond.
- 2.25 The original budget approved by members in February 2020 reflected the planned use of £274k of earmarked reserves. This related to expenditure from the Transformation and Collaboration Reserve which was approved by Fire Authority in December 2019. The purpose of the reserve is to support the Strategic Plan in line with the Transformation and Efficiency Strategy. Almost £890k of the reserve has been allocated out to projects by the Strategic Leadership Team (SLT) to date. However, the 2020/21 expenditure on these projects will now be funded from underspends which will help sustain the earmarked reserve so that it can provide funding for transformational projects in future years.
- 2.26 It was agreed at the November Fire Authority as part of the Medium Term Financial Strategy to re allocate the Capital reserve of £1,038m.

Earmarked Reserve	£
Capital Reserve	(1,038,419)
Covid Recovery Reserve	600,000
Community Fire Safety Innovation Fund	24,279
Transformation and Collaboration	413,140

CAPITAL PROGRAMME

- 2.27 The revised capital budget for 2020/21 is £5.873m. The total capital spend to date is £1.963m and the forecast outturn expenditure is £4.107m. The current capital programme is shown at Appendix C. The most significant areas of variances are detailed below.

ICT

- 2.28 The ICT programme (£955k) has been developed from the Digital Strategy. It includes replacement equipment and software and supports the specific schemes which underpin the strategy. Expenditure is expected to be in the region of £936k by the end of the year. The replacement equipment budget included a project to improve digital storage in preparation for the Head Quarters move. An alternative solution has now been found which will save £100k which is likely to be slipped to 2021/22 to fund other projects.

- 2.29 ICT expenditure related to Covid is currently forecasted at £87k. In May, additional expenditure of £30k on equipment was approved to help the organisation cope with home working during lockdown. £57k of the Covid-19 Government Grant has been allocated to purchase a sound system to improve conferencing facilities at Head Quarters to assist with socially distanced meetings. The system will be transferred to the new Head Quarters when it opens. Approval is sought to add this project to the Capital Programme.
- 2.30 The SharePoint software support for security updates will soon no longer be supported by Microsoft. The project needs to be replaced and migrated to the cloud. As part of the Joint Headquarters Programme, an attempt is being made to move as many of the On-Premise systems to the Cloud or other locations. Additional funding of £24k is requested for this work.

ESTATES

- 2.31 The property programme flows directly out of the Property Strategy.
- 2.32 The joint Headquarters project is progressing well. Building work is on schedule to be completed in December 21. The refurbishment of the existing Sherwood Lodge Accommodation is under design review which should be completed and ready for tender in May 2021. The planning for the decant from Bestwood Lodge is underway with options for the site disposal being explored. Additional works linked to this project to relocate NFRS Stores and the Incident Command Training Centre will commence in late 2021.
- 2.33 Worksop Station - At the Policy and Strategy Committee meeting held on 1 May 2020 it was agreed the initial proposed site was no longer a workable option and the process of buying this land was to be abandoned. An offer to purchase a new site has been accepted and is undergoing legal proceedings. The design for the new station is underway and it is anticipated that the tendering process will commence in February 2021. Additional costs have been identified mainly due to the inclusion of renewable energy devices (Air Source Heat Pump) and self-generated electrical power. The site also requires piled foundations due to deep buried made-up ground. It may be necessary to request an increase the budget for the project once the outcome of the tender process is known.
- 2.34 The London Road project is completed and the underspent budget of £12k is not required to be slipped into 2021/22.

EQUIPMENT

- 2.35 The service has received additional funding of £101k from central government, because of the Grenfell Tower enquiry, this will be used to fund the purchase of the smoke hoods which have now been delivered (£38k).

- 2.36 The structural personal protection equipment (PPE) and lightweight jackets are now operational, the underspend of £74k is not required to be slipped into 2021/22.
- 2.37 The CCTV project has gone out to tender and bids have been received, the contract is due to be awarded shortly. The majority of expenditure will be committed in this financial year, but some vehicles may have the CCTV upgrade/installation in the first quarter of the new financial year.
- 2.38 Air bag replacement: The project business case is now complete, trials have taken place with an alternative system being recommended as a result. The alternative system costs an additional £14k and approval is requested to fund this additional cost.

TRANSPORT

- 2.39 The fleet replacement programme is derived from the Fleet Strategy and reflects current and future expected demand.
- 2.40 The Command Support Unit (CSU) is mobilised to assist with communications, command and control at incidents which require the attendance of five operational pumping appliances or more. At these incidents, it is key that the ICT and other communications equipment function correctly. The CSU has been modified to ensure that the technology and communications software are sufficiently up to date to ensure it meets national resilience requirements. The upgrade has cost £70k and has been funded from an Earmarked Reserve created from funding received for national resilience purposes. This project is now complete.
- 2.41 The light vehicles have been ordered, due to lead time 14 vehicles will now not be delivered until 26th April 2021, all other vehicles are currently expected to be delivered by the end of the year. Therefore at this stage it is anticipated that £180k will be required to slip into 2021/22.

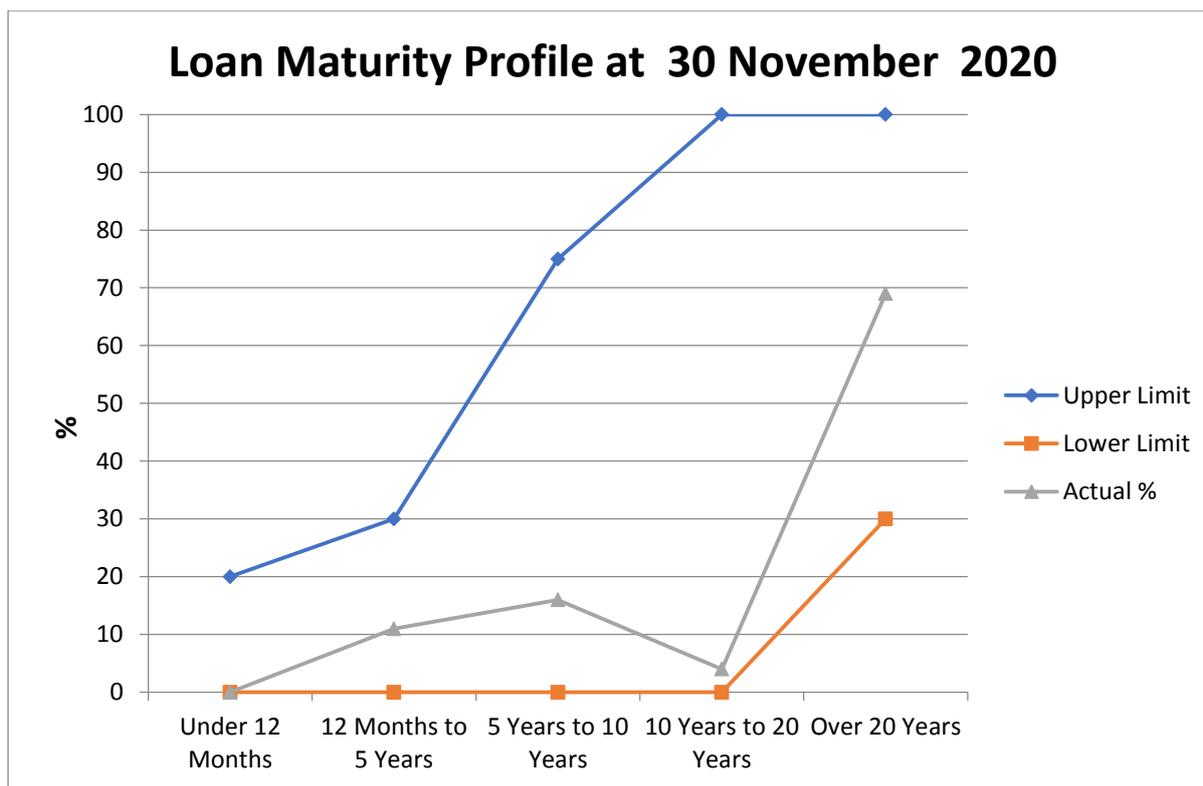
PRUDENTIAL CODE MONITORING

- 2.42 The Fire Authority approved the prudential indicators for 2020/21 at its meeting on 28 February 2020. Amendments were made to the authorised limits and 12-month maturity profile at Policy and Strategy Committee on 1 May 2020 to address the financial impact of Covid-19. The Prudential Code requires that performance against these indicators is reported to Members
- 2.43 The approved indicators along with performance as at 30 November 2020 are shown in the table below. There are some indicators which cannot be calculated until the year end expenditure is known.

Prudential Code Monitoring

Prudential Indicator	Approved Indicator	As at 30 Nov 2020
Estimate of Ratio of Financing Costs to Net Revenue Stream	5.3%	Year End Only
Estimate of Total Capital Expenditure to be Incurred	£5,576,000	Year End Only
Actual Borrowing		£26,983,493
Estimate of Capital Financing Requirement	£29,073,000	£29,073,000
Operational Boundary	£33,850,000	£33,850,000
Authorised Limit	£37,035,000	£37,035,000
Upper limit for fixed rate interest exposures	100%	100%
Upper limit for variable rate interest exposures	30%	30%
Loan Maturity:	<u>Limits:</u>	
Under 12 months	Upper 30% Lower 0%	See Graph
12 months to 5 years	Upper 30% Lower 0%	See Graph
5 years to 10 years	Upper 75% Lower 0%	See Graph
Over 10 years	Upper 100% Lower 0%	See Graph
Over 20 years	Upper 100% Lower 30%	See Graph
Upper Limit for Principal Sums Invested for Periods Longer than 365 Days	£2,000,000	0
Upper limit for internal borrowing as a % of the Capital Financing Requirement	20%	7.00%

- 2.44 The total borrowing at the end of November 2020 was £27m which is within the operational and authorised limits set out in table 4 below. Borrowing activity has remained within these boundaries throughout the period covered by the report. There has been no borrowing activity since the start of the financial year.
- 2.45 The loan maturity profiles are all within the limits set. These are best demonstrated by graph:



2.46 Investments as at 30 November 2020 totalled £11.5m. Investment rates are monitored within the benchmarking group supported by Link Asset Services. There are seven councils and NFRS within the group. As at the end of September 2020, NFRS weighted average rate of return is 0.21%, the average of the group is 0.28%.

3. FINANCIAL IMPLICATIONS

The financial implications are set out in the body of the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no Human Resources or Learning and Development implications arising directly from this report. Some of the efficiency targets will have had staffing implications which were considered as part of the decision-making process at the time.

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because this report is not associated with a policy, function or service. Its purpose is to explain variances to the approved budget which reflects existing policies.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

8. RISK MANAGEMENT IMPLICATIONS

Budget monitoring and the regular receipt of financial reports is key to managing one of the most significant risks to the organisation, that of financial risk. The process of budget monitoring is a key risk management control measure, as are the management actions which are stimulated by such reporting.

9. COLLABORATION IMPLICATIONS

This report identifies several areas where collaboration is taking place between NFRS, other fire authorities, East Midland Ambulance Service and Nottinghamshire Police. Opportunities for collaboration around asset use and ownership are continually being investigated.

10. RECOMMENDATIONS

It is recommended that Members:

10.1 Note the content of this report.

10.2 Approve the following amendments to the 2020/21 Capital Programme:

- Approve the addition of the conference room sound system project costing £57k which will be funded from the Covid-19 grant (see section 2.29)
- Approve the increase of £24k for the migration of SharePoint to a cloud based product (see section 2.30)
- Approve the increase of £14k for air bag replacement (see section 2.38)

11. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

John Buckley
CHIEF FIRE OFFICER

**REVENUE BUDGET MONITORING POSITION
AS AT 30 NOVEMBER 2020**

Budget Area	Annual Budget £'000	Revised Budget £'000	Exp to Date £'000	Forecast Outturn £'000	(Under) / Over Spend Against Revised budget £'000
Employees	36,495	35,712	23,658	35,275	(437)
Premises	2,564	2,799	1,974	2,897	98
Transport	1,637	1,637	1,562	1,591	(46)
Supplies & Services	3,570	3,764	3,132	3,862	98
Third Party	783	783	48	886	103
Support Services	191	191	141	191	0
Capital Financing Costs	2,573	2,549	2,085	2,668	119
Fees and Charges	(405)	(405)	(197)	(482)	(77)
Other Income	(2,244)	(1,665)	(2,761)	(2,921)	(1,256)
Net Cost	45,165	45,365	29,642	43,967	(1,398)
Financed by:					
Government Funding	(12,699)	(12,699)	(9,056)	(12,699)	0
Non-Domestic Rates	(3,778)	(3,778)	(2,648)	(3,778)	0
Council Tax	(26,074)	(26,074)	(18,252)	(26,074)	0
Pension Grant	(2,340)	(2,340)	(2,340)	(2,340)	0
Earmarked Reserves	(274)	(474)	(178)	(200)	274
Transfer to Reserves (unallocated grants)	0	0	0	376	376
Transfer to General Reserve	0	0	0	748	748
Funding Total	(45,165)	(45,365)	(32,474)	(43,967)	1,398
Total	0	0	(2,832)	0	0

ESTIMATED RESERVE POSITION AT 31 MARCH 2021

Reserve	Opening Balance 01/4/20 £'000	Movement During 2020/21 £'000	Closing Balance 31/3/21 £'000
Resilience Crewing and Training	333	(83)	250
Prevention Protection and Partnerships	252	(1)	251
Business Systems and Development	59	0	59
Capital Reserve	1,038	(1,038)	0
ESN reserves	1,327	(93)	1,234
Transformation and Collaboration	1,387	413	1,800
Operational	188	0	188
Covid-19 Recovery	0	600	600
Covid-19 Grant	177	231	408
Grenfell Infrastructure Improvements	0	63	63
Protection Uplift and Building Risk Review	0	82	82
Total	4,761	174	4,935
General Reserve	4,989	748	5,737
Total Reserves	9,750	922	10,672

* Emergency Services Mobile Communications Programme

APPENDIX C

CAPITAL - BUDGET MONITORING REPORT - NOVEMBER

CAPITAL PROGRAMME	Approved Budget 2020/21	Approved Changes to Budget 2020/21	Revised Budget 2020/21	Expenditure	(Under)/ Over Budget	Estimated Outturn to the end of March 2021	Outturn Variance
ICT & COMMUNICATIONS							
HR System Upgrade	51		51	10	-41	51	
Business System Development		20	20		-20	20	
Business Process Automation	50	33	83	37	-46	83	
Mobile Computing	75	25	100	21	-79	100	
HQ - Link ICT Replacement	100		100	9	-91	100	
Cyber Security	20	17	37		-37	37	
ICT SharePoint Internet/Intranet		26	26	4	-22	50	24
Performance Management System		9	9		-9	9	
ESMCP Grant from DCLG (ESN)		41	41		-41	41	
Tri-Service Control Project		171	171	6	-165	171	
Unit4 Business World Upgrade		37	37	8	-29	37	
Covid Related Projects		30	30	87	57	87	57
Replacement Equipment	250		250	130	-120	150	-100
	546	409	955	313	-642	936	-19
ESTATES							
Joint Headquarters Project	2,500	239	2,739	1,070	-1,669	1,965	-774
Air Conditioning - London Road		40	40	28	-12	28	-12
Workshop Fire, Police and Ambulance Station Project (capital – strategic new build project)	500	100	600	94	-506	50	-550
Newark Fire Station		10	10	4	-6	10	
Hucknall Fire Station	11	158	169	3	-166	169	
	3,011	547	3,558	1,200	-2,358	2,222	-1,336
EQUIPMENT							
CCTV - vehicles	40	160	200		-200	100	-100
Structural PPE		230	230	178	-52	200	-30
Helmets		170	170	172	2	172	
Lightweight Fire Coat		74	74	30	-44	30	-44
Air Bag Replacements	70		70		-70	84	14
	110	634	744	380	-364	586	-160
TRANSPORT							
Vans & Other Light Vehicles	226	172	398		-398	218	-180
Resilience Crewing and Training - Earmarked Reserves		70	70	70		70	
Rescue Pumps	95	53	148		-148	75	-73
	321	295	616	70	-546	363	-253
	3,988	1,885	5,873	1,963	-3,910	4,107	-1,768

TO BE FINANCED BY	Actual	Estimated Outturn
Community Fire Safety - Innovation Fund	70	70
Capital Receipts - Property	0	520
Internal Financing	1,893	3,425
Revenue contributions to capital		92
Total	1,963	4,107



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

BUDGET PROPOSALS FOR 2021/22 TO 2024/25 AND OPTIONS FOR COUNCIL TAX 2021/22

Report of the Chief Fire Officer

Date: 15 January 2021

Purpose of Report:

To allow Members to consider the options for Council Tax to recommend to Fire Authority for acceptance.

Recommendations:

That Members consider the contents of this report and make recommendations to the Fire Authority in respect of Council Tax increases between a Council Tax freeze and an increase in Council Tax, up to the maximum of 1.95%.

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1. BACKGROUND

- 1.1 The Finance and Resources Committee is charged with considering the financial position of the Authority and proposing revenue and capital budgets to the Fire Authority for approval. The Fire Authority will decide upon levels of Council Tax for the coming year and will consider the recommendations of the Finance and Resources Committee in doing so.
- 1.2 The provisional finance settlement for 2021/22 was released on 17 December 2020. The final settlement for 2021/22 will be laid before Parliament in February.
- 1.3 The Fire Authority approved the Medium Term Financial Strategy (MTFS) 2021/22 to 2024/25 on 27 November 2020. The strategy considers the current financial position of the Authority and looks at the estimated budgetary position over the next three years against a backdrop of both the national and local financial position, including the levels of reserves that the Authority holds.
- 1.4 The process for the preparation of revenue and capital budgets is largely an incremental process. All new investment proposals have been evaluated against the Strategic Plan objectives and the action plans by the Strategic Leadership Team. There is positive involvement of business plan owners in the development of the budgets which has increased ownership around budget decisions.

2. REPORT

CAPITAL BUDGET PROPOSALS 2021/22 TO 2024/25

- 2.1 The Authority maintains a sustainable capital programme which reflects and supports the property, fleet and digital strategies. This programme seeks to replace appliances and vehicles when they are approaching the end of their useful life, maintains a rolling programme of ICT replacements and a property programme which will ensure that property remains fit for purpose, is appropriately located and can be contained within the internal capacity of the organisation to complete.
- 2.2 The proposed capital programme for 2021/22 to 2024/25 is attached at Appendix A. The 2021/22 programme totals £6.527m. This will increase to reflect any slippage from the 2020/21 programme at the end of the year.
- 2.3 The capital programme has been developed from the Strategic Plan and other supporting strategies such as the Capital Strategy, Property Strategy, fleet replacement programme and Digital Strategy. The Service will undertake a Fire Cover Review early in 2021 and this will inform the new Strategic Plan to cover the years 2022/23 to 2024/25. This may impact on the capital programme for these years and the capital programme will be amended accordingly during the budget setting process for 2022/23.

- 2.4 The transport capital programme includes significant investment in the Service's appliances and light vehicle replacement. Some of the plan has purposefully been delayed to enable it to consider the outcome of the forthcoming Fire Cover Review.
- 2.5 The estates programme flows directly out of the Property Strategy. The programme includes the completion of the new joint Headquarters with the Police. It also includes a programme for replacement of the most aging fire stations at Worksop.
- 2.6 The ICT programme has been developed from the Digital Strategy. Previous years investments in ICT put the Service in a good position to react to the new working environment brought about by Covid-19. The ICT programme continues this investment with specific projects to support the move to the new Headquarters, business process automation and cyber security.
- 2.7 The capital programme can be funded from capital receipts, grant funding, contributions from revenue, reserves and borrowing.
- 2.8 **CAPITAL RECEIPTS** – these are received from the sale of assets and can be used to fund either the revenue cost of transformational projects, to fund capital expenditure or to reduce borrowing. The flexible use of capital receipts strategy was approved at Fire Authority on 27 November 2020. It is not proposed to fund any transformational projects using capital receipts during 2021/22.
- 2.9 **GRANT FUNDING** – there is no anticipated grant funding available at present to support the capital programme.
- 2.10 **REVENUE AND RESERVES** – it is not proposed to use any revenue or reserves to fund the capital programme between 2021/22 and 2023/24.
- 2.11 **BORROWING** – the proposed 2021/22 capital programme set out in Appendix A will be largely funded from borrowing. The related costs will be tested for affordability as part of the prudential code for capital finance to be considered by Fire Authority on 26 February 2021. Estimated costs have been built into the revenue programme considered in this report.

REVENUE BUDGETS 2021/22 TO 2024/25

- 2.12 The MTFS and budget guidelines approved by Fire Authority on 27 November 2020 projected that it would be difficult to set a balanced budget in 2021/22, largely due to the anticipated impact that the Covid-19 outbreak has had on Council Tax and business rates collection rates. It was anticipated that there would be a £1.2m shortfall in the 2021/22 budget. This was expected to reduce year on year as the local economy improved and collection rates increased so that the budgets would be back in balance by 2024/25. The main assumptions underpinning the MTFS were that there would be a 2%

inflationary increase in government grant, a 2% pay increase and 1.95% rise in Council Tax.

- 2.13 Since the MTFs was written, the Government has released the Comprehensive Spending Review (CSR) and the Local Government Finance Settlement. The main pressures on budgets and/or changes in assumptions are detailed below.

PAY AWARD

- 2.14 As part of the CSR, the Chancellor indicated that there would be a pay freeze for public sector workers. However, the pay of both firefighters and support staff is set by independent bodies and it is possible that these bodies will not support the Chancellor's position. For this reason, budgets will assume a 1% pay increase for both uniformed and support staff for 2021/22. This is slightly above inflation which was 0.6% in November 2020 (0.9% in October 2020). There remain sufficient reserves available should the pay increase be set at 2%.
- 2.15 Pay awards of 2% for 2022/23 to 2024/25 have been assumed in the budget. Should pay awards be agreed that differ from this, the change in cost will be in the region of £330k for every 1% increase in pay.
- 2.16 Support staff received a 2.75% pay award in 2020/21 against a budget of 2%. The additional £50k ongoing costs per year have been built in to future years' salary costs. The budgets assume a 3% vacancy factor to allow for the time lag that it takes to fill posts.

COVID-19

- 2.17 Covid-19 has had a major effect on how the Service delivers its services, which in turn has impacted on 2020/21 expenditure. There is currently no clear end in sight to the pandemic with the second wave looking to exceed the impact of the first wave in the Spring.
- 2.18 Budget monitoring for 2020/21 has identified significant underspends due to delays in wholtime recruitment, reduced travel costs and reduced activity during the pandemic. Whilst a small element of the underspends has been re-invested in the Service to address current year issues, the majority is being used to protect existing earmarked reserves and increase the general reserve. This will help provide resilience against the financial uncertainties in future years.

COUNCIL TAX

- 2.19 Many Council Tax payers are facing financial hardship. Whilst the measures introduced by the Government have helped ensure that households were able to continue to pay their Council Tax, there is still an expected deficit in the region of £0.5m for 2020/21. This could still vary significantly depending on the outcome of the second wave.

- 2.20 Legislation requires that any under / over collection of business rates or Council Tax is adjusted for in the following years' collection fund. This means that the £500k shortfall identified above would normally need to be charged against 2021/22 Council Tax collection fund even though it relates to 2020/21. However, due to the unusual circumstances, emergency legislation has been approved to allow it to be written off in equal amounts over the next three years, 2021/22 to 2023/24. £190k has been built into budgets for the next three years (replacing a £95k surplus) to cover both this and business rate deficits (see Section 2.23). This is partially offset by an additional grant to cover 75% of the deficit which was announced by the Government in the spending review.
- 2.21 The Council Tax base is calculated on the estimated full year equivalent number of chargeable dwellings expressed as the equivalent number of Band D dwellings in the Council's area after allowing for dwelling demolitions and completions during the year, Council Tax exemptions, discounts, disabled reliefs and premiums, and the estimated collection rate. It is usual for the Council Tax base to increase year on year by just over 1% to reflect new build properties, thus providing additional income to the Service. The 2021/22 Council Tax base is expected to increase by a modest 0.2% which is better than the 0.7% decrease assumed in the MTFS. Final Council Tax base figures will be made available from precepting authorities by 15 January and this will be reflected in the final budget report considered by Fire Authority in February.
- 2.22 The Government announced a Local Council Tax Support Grant as part of the finance settlement to help mitigate the effect of Covid-19 on Council Tax base rates. The Service will receive a one-year grant of £550k in 2021/22 which was not anticipated in the MTFS.

BUSINESS RATES

- 2.23 To date many businesses have been taking advantage of business rate holidays and the Government has compensated local government for the loss of income. The 2020/21 impact for the Service at this point in time is expected to be relatively small at around £60k.
- 2.24 The business rates holiday is currently due to end at on 31 March 2021. The collection rate for 2021/22 will depend on:
- Whether the business rates holiday scheme is extended;
 - What support is given to local business in the second wave to ensure that they remain viable businesses which can re-open after Covid-19;
 - Whether businesses choose to change their methods of working to reduce office space and move towards home working.

- 2.25 This makes it very difficult to estimate business rate collection figures for 2021/22 and beyond. It was assumed in the MTFS that business rate income would fall between 10% (most likely) and 20% (worst case scenario).
- 2.26 It is now considered more likely that the Government will maintain a level of support for businesses. Funding projections have been revised to assume a flat level of business rate income, so income will be the same for 2021/22 as in 2020/21. There is a risk that this will not materialise and if so, reserves will be needed to fund any deficit amounts. A 10% decrease in business rate collection will result in an approximate loss of £370k income.
- 2.27 Reforms to the business rates retention scheme had been consulted on prior to the pandemic, but these have now been delayed and this is not expected to take place for some time and may now encompass a higher-level review of business rates. This increases the uncertainty around future funding levels.

PENSIONS

- 2.28 The remedy is close to being agreed for the McCloud case, where the transition arrangements into the 2015 firefighters' pension scheme were found to be discriminatory. There are likely to be significant increases in the cost of the firefighters' pension scheme because of the case. These are expected to be largely funded by Central Government, but additional costs falling to the Fire Authority cannot be ruled out. This is included to the General Fund reserves risk register.
- 2.29 There is a further potential impact on fire services resulting from a case identifying discriminatory conditions against part-time workers. This could lead to further backdating to the modified pension scheme which allowed On-call firefighters to join the pension scheme and buy back service to 2006. When the modified scheme was created, backdated costs were met by the Government, but as yet there is no certainty that this will happen if the scheme is backdated further.
- 2.30 Both of these remedies will have a large impact on the workload of the pension administration team who will be implementing the changes required. This will require a very significant amount of additional work and costly amendments to the software used to support the pension administration function. These costs will be re-charged to the Service.
- 2.31 The pension administration function moved to a new provider, West Yorkshire Pension Fund, from 1 December 2020. This follows a full OJEU tendering exercise which produced savings in the region of £20k. This will be re-invested in securing appropriate advice around pensions given the increasing complexity and uncertainty in this area.
- 2.32 The 2016 GAD revaluation of the firefighter's pension fund resulted in a headline rate increase of 12.4% of employer pension costs, which in 2019/20 equated to £2.5m for the service. The Home Office has agreed to fund £2.3m of this pressure in 2019/20 and 2020/21. Requests have been made to the

Treasury for this to be added to base budgets rather than offered as a grant to ensure financial sustainability and fire services' ability to plan their resources, but this has not been the case for the 2021/22 settlement. The grant level has been assumed to remain level in cash terms at £2.3m. The pension scheme is currently undergoing a further revaluation, and this creates the risk of a further increase in charges.

INVESTMENT IN TECHNOLOGICAL CAPABILITY

- 2.33 The Service has had to significantly change the way that it works as a consequence of the Covid-19 pandemic. Many support staff are now working from home. Most meetings are taking place virtually rather than face to face. Systems have had to be reviewed and new ways of working developed to meet the needs of the changing environment.
- 2.34 Much of this work has required significant technological changes and the acquisition of new software packages. Cyber security needs to be constantly reviewed with more staff now accessing systems remotely.
- 2.35 All of these areas are placing increased pressure on the Information and Communication Technology (ICT) Department. There have already been additional commitments into future years to secure appropriate software for revised ways of working which have to be built into base budgets going forward. It is anticipated that further investment in the team will be required in forthcoming years and the computer software budget has been increased by £120k.

GRENFELL TOWER INQUIRY RESPONSE

- 2.36 The Grenfell Tower Inquiry and subsequent Hackitt review has identified that much work within the sector is needed to address the issues within the built environment. This will result in increased workload for the Service and the requirement to develop competency and capacity.
- 2.37 Fire protection solutions in the built environment are increasingly complex due to new and innovative construction techniques being deployed; and also major infrastructure projects like HS2.
- 2.38 Grenfell Infrastructure Improvement Grant of £101k was received in September 2020 to assist with the additional costs of implementing the required changes. Revenue budgets also include £50k to fund a Fire Engineer, but this post has been difficult to recruit to and the Service is now offering training to existing staff. Some of the grant will need to be rolled forward into 2021/22.
- 2.39 An additional investment of £40k in fire investigation has been built into the budget, to enable cover to be provided beyond the working day. This will enable an increased level of service to the night time economy. A further £33k has been built in to ensure that the Service is in a position to meet the new ISO17020 standard in crime scene investigation.

FIREFIGHTER RECRUITMENT AND TRAINING

- 2.40 There is a full-time recruit intake during 2021/22 and two On-call intakes. There will be additional costs involved in training firefighters as ridership numbers will be increased while newly qualified firefighters gain their competent status. These will be reflected in the budgets presented to Fire Authority in February 2021. There will also be an increase in PPE (personal protective equipment) costs of £80k to provide PPE to the newly recruited firefighters.
- 2.41 An additional £40k has been built into training budgets to help the Service meet enhanced training obligations in the areas of extrication, flood response and heavy rescue training.

OVERTIME

- 2.42 The overtime budget can be very volatile depending on the number of vacancies in the ridership and extractions required to cover other activities such as training or supporting recruitment. The 2021/22 budget is being reduced from £500k to £360k to reflect that the wholetime recruitment will take the ridership back up to full capacity during 2021/22.

ON CALL PAY

- 2.43 On-call activity has significantly increased during 2021/22. This is largely due to the increased work available during the Covid-19 lockdown periods and increased availability of On-call staff during this period. There has been a drive to increase the number of hours of drills and training which has been successful. Some of this is thought to be down to splitting the sessions into more frequent but smaller groups. It is planned to continue this practice where it is thought to be of most benefit, thus requiring the budget to be increased to levels prior to 2020/21.
- 2.44 The availability of On-call sections has also significantly increased due to the Covid-19 lockdowns and On-call staff being furloughed from other employments. This has seen a corresponding increase in turnouts. Whilst it has been attempted to strip out the impact of Covid-19, it is felt that an element of the increase will continue, and budgets have been increased accordingly. Budgets have also been increased to allow an increase in community fire safety work in line with the Safer Communities Strategy and HMICFRS (Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services) inspection action plan.

FLEET AND PROPERTY MAINTENANCE

- 2.45 A proper assessment of the planned fleet maintenance requirement has been undertaken during 2020/21. The life of the fleet of appliances has been extended pending the Fire Cover Review to be undertaken in the New Year which has increased the maintenance requirements. In previous years the

budget was incrementally increased rather than based on an actual maintenance programme. This has resulted in significant overspends in recent years. The budget for 2021/22 needs increasing by £240k to £670k to bring it in line with expected expenditure.

- 2.46 A programme of building assessment has been undertaken during 2020 which has created a comprehensive list of maintenance work which needs to be undertaken. An additional £75k has been built into the budget to commence the additional work with a further £50k scheduled in for 2021/22.

CLEANING

- 2.47 During the Covid-19 outbreak, cleaning at stations has been extended to cover weekends as well as weekdays. This will continue into 2021/22 with an additional cost of £113k.

SAVINGS

- 2.48 The Service has worked hard to find savings to offset some of the additional areas on investment during 2021/22:
- Operational overtime has been reduced by £140k (see Section 2.42);
 - Superannuation budgets have been re-aligned with requirements resulting in a budget reduction of £285k;
 - The budgets for casual and essential mileage have been reduced by £64k to reflect reduced travel which is expected to continue once service returns to normal after Covid-19;
 - Minimum Revenue Provision (MRP) has been reduced by £50k to reflect the revised capital programme;
 - Other miscellaneous - £61k.

RESERVES AND BALANCES

- 2.49 Taking account of the underspend position reported in the budget monitoring report elsewhere on this agenda, total reserve levels held at 1 April 2021 are expected to be £10.7m. This consists of £5.7m general fund reserves and £4.9m earmarked reserves.
- 2.50 The general fund reserve is expected to be in the region of £5.7m by 31 March 2021. The general reserve estimate includes the transfer of £748k anticipated underspend for 2020/21. This will be used to cushion the anticipated deficit for 2021/22. The general fund reserve will remain above the minimum level agreed by Fire Authority in November 2021 of £4.5m.
- 2.51 The earmarked reserves are expected to be in the region of £4.9m by 31 March 2021. These reserves are earmarked for known projects or items of

one-off expenditure. They include the transformation and collaboration reserve which was increased to £1.8m as part of the reserves strategy approved by Fire Authority on 27 November 2020. Several one-off projects have been identified which will assist the Service to deliver its year three action plan which forms part of the Strategic Plan. These are still under review by the Strategic Leadership Team and once finalised they will be included in the budget report to be considered by Fire Authority on 26 February 2021. These projects will be funded from the transformation and collaboration earmarked reserve.

FINANCING THE BUDGET

- 2.52 The Authority primarily receives income from Central Government, Business Rates and Council Tax. The Government announced the provisional finance settlement for 2021/22 on 17 December 2020. The final settlement for 2021/22 expected in February 2021. Experience shows that there is likely to be little change from the provisional figures.
- 2.53 The position has improved compared to that presented in the MTFs, largely due to the additional Local Council Tax Support Grant (Section 2.22), an increase in the estimated council tax base (Section 2.21) and a change in assumptions around business rate income (Section 2.26).
- 2.54 The Authority was awarded £2.3m grant in 2020/21 to cover the increased costs of firefighter pension employer contribution. It has been assumed that this grant will be paid at the same level with no inflationary increase for 2021/22.
- 2.55 Funding for 2022/23 and beyond will be determined as part of the Spending Review which is expected in the autumn of 2021. A 2% inflationary increase has been assumed for the three years 2022/23 to 2024/25. This tracks the same 2% increase in pay assumed in the budgets for these years. There is a risk that funding will be increased at a lower rate than the pay increase which would then create an additional budget pressure in these years.

OUTLOOK FOR 2021/22 TO 2024/25

- 2.56 Detailed budgets have been prepared for the four years 2021/22 to 2024/25, which can be found in Appendix A. The budget for 2021/22 will not be finalised until February 2021, when the surplus or deficit on collection fund and the tax base are confirmed by the billing authorities and the final finance settlement is approved.
- 2.57 In making predictions about budget financing some other assumptions have been made. These are:
- That business rates in 2021/22 will remain at 2020/21 levels (Section 2.26) followed by a 1% increase thereafter. Business rates funding estimates will be confirmed by billing authorities at the end of January 2021;

- The 2021/22 tax base will be in line with forecasts provided by the billing authorities (0.2% increase), followed by future year increases of 1.5%, 1.3%, 1.3%;
- The actual settlement is the same as the provisional and there is a 2% annual increase in government funding thereafter;
- There will be a collection fund deficit of £190k in each of the three years 2021/22 to 2023/24, of which 75% (£142k) will be covered by additional central government grant;
- There is a 1% pay increase in line with inflation across both firefighters and support staff for 2021/22. Any increase above this will be met from reserves. A pay increase of 2% has been assumed for 2022/23 onwards.

2.58 Clearly there remain many uncertainties around both the pay award and funding. Assuming the above assumptions the impact of a nil increase in Council Tax in each of the four years 2021/22 to 2024/25 is set out in Table 1.

Table 1 – Budget Deficit with Nil Council Tax Rise

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Budget Requirement	45,165	45,561	47,000	48,031	48,921
Revenue Support Grant (RSG)	(5,422)	(5,452)	(5,561)	(5,672)	(5,786)
Business Rate (BR) Income	(3,777)	(3,777)	(3,815)	(3,853)	(3,892)
Pension Grant	(2,340)	(2,340)	(2,387)	(2,434)	(2,483)
BR Top up Grant	(7,277)	(7,277)	(7,423)	(7,571)	(7,722)
Council Tax (0%)	(26,074)	(26,139)	(26,531)	(26,890)	(27,253)
Earmarked Reserves	(274)	0	0	0	0
Budget Deficit	0	576	1,283	1,611	1,785

2.59 Table 1 shows that with no increases in Council Tax levels there will be a deficit of £0.6m in 2021/22. This will rise to £1.3m in 2022/23, largely due to the Local Council Tax Support Grant being only available for one year (section 2.22). It increases further to £1.8m by 2024/25.

2.60 The Government has confirmed within the provisional finance settlement, that the Council Tax increase threshold, above which a referendum would be triggered, would be 2% for 2021/22.

2.61 The following table brings together the budget requirement if Council Tax is increased by 1.95% each year.

Table 2 – 1.95% Council Tax Increase and level Grant Funding

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Budget Requirement	45,165	45,561	47,000	48,031	48,921
Revenue Support Grant (RSG)	(5,422)	(5,452)	(5,561)	(5,672)	(5,786)
Business Rate (BR) Income	(3,777)	(3,777)	(3,815)	(3,853)	(3,892)
Pension Grant	(2,340)	(2,340)	(2,387)	(2,434)	(2,483)
BR Top up Grant	(7,277)	(7,277)	(7,423)	(7,571)	(7,722)
Council Tax (1.95%)	(26,074)	(26,650)	(27,578)	(28,496)	(29,443)
Earmarked Reserves	(274)	0	0	0	0
Budget Deficit / (Surplus)	0	65	236	5	(405)

2.62 The above table shows that there would still be a deficit position of £65k in 2021/22 with 1.95% Council Tax. This increases to 236k in 2022/23, but does reduce thereafter and a balanced budget position is estimated for 2023/24. However, the funding position for the years beyond 2021/22 remains very uncertain with it being dependent on the Spending Review next year and whether there are any ongoing issues with Council Tax collection. This will be significantly impacted should the country still be in recession. The table also assumes a 1% pay increase – the 2021/22 deficit would increase to £302k should there be a 2% pay increase.

2.63 A Council Tax increase of 1.95% would generate additional funding of £0.5m in 2021/22. For a Band D household, a 1.95% increase would see rises in Council Tax to £82.95 per annum (an increase of £1.59 per annum, which is approximately three pence per week additional cost). The impact of increases on other bands is given in the table below:

Table 3 – Impact of 1.95% increase in Council Tax

Band	Council Tax 2020/21 £	Annual Council Tax 1.95% Increase £
A	54.24	55.30
B	63.28	64.52
C	72.31	73.73
D	81.36	82.95
E	99.43	101.38
F	117.52	119.82
G	135.59	138.25
H	162.71	165.90

BUDGET OPTIONS

2.64 At its meeting on 27 November 2020, the Fire Authority recommended that the Finance and Resources Committee work within the following guidelines in making its recommendations to the Fire Authority in February:

- The options for Council Tax to be recommended to the Fire Authority will be limited to either a Council Tax freeze or an increase in Council Tax within the referendum limit;
- Options for addressing any budget deficit to enable the Fire Authority to approve a balanced budget as required by law.

2.65 The effect of a zero increase in Council Tax is set out in Paragraph 2.58 above and shows a significant deficit for the three years.

2.66 A comparison of the deficit if Council Tax is increased by 0% and 1.95% in each of the four years of the budget strategy is shown in the table below:

Table 4 – Comparison Between Council Tax Options

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Budget Requirement	45,561	47,000	48,031	48,921
Total External Funding	(18,847)	(19,185)	(19,531)	(19,883)
Balance to be met locally	26,714	27,815	28,500	29,038
Council Tax Yield (0%)	(26,139)	(26,531)	(26,890)	(27,253)
Council Tax Yield (1.95%)	(26,650)	(27,578)	(28,496)	(29,443)
Budget Shortfall (0%)	575	1,283	1,611	1,785
Budget Shortfall / (Surplus) (1.95%)	65	236	5	(405)

2.67 In both options outlined above, reserves will be required to balance the budget in the years 2021/22 to 2023/24.

2.68 If Council Tax were not to be increased, £5.3m of reserves would be required to balance the budget for the years up to 2024/25. This would reduce the General Fund Reserve (currently £5.7m) to just £0.4m, which is well below the minimum level of £4.5m set by Fire Authority. If there were to be a 2% pay award during 2021/22, this would substantially increase to a £0.8m deficit in 2021/22 and a total of £6.58m over the four years.

2.69 If a 1.95% Council Tax increase is agreed there would be a deficit of £65k to be met from reserves during 2021/22 and a total of £304k of reserves being required to balance budgets until 2023/24. This would be sustainable as the

Service would once again be in a largely balanced budget position by 2023/24, although it should be remembered that funding remains very uncertain in future years and it is dependent on a 1% pay award in 2021/22. A 2% pay award would increase the deficit position to £302k.

3. FINANCIAL IMPLICATIONS

The financial implications are set out in full in the body of the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising directly from this report, although the achievement of budgetary savings in future years will undoubtedly have an impact.

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because this report is not associated with a policy, function or service.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

The Authority must set a balanced budget for 2021/22 but may acknowledge potential budget shortfalls for future years.

8. RISK MANAGEMENT IMPLICATIONS

- 8.1 Risks associated with budget setting are always significant. Budgets are by their very nature estimates of future activity and these estimates can sometimes be incorrect. Changes involving contraction of activities may not be made on the envisaged timescales, public consultation may vary policy and external issues such as national pay awards may not align with the assumptions.
- 8.2 Council Tax base figures used for this report are only estimates at present and the grant settlement details are only provisional. It is possible that both or either of these could change.

8.3 There can be no control over external issues however the Authority has sufficient reserves to cope with any in year changes which alter these budget assumptions significantly.

9. COLLABORATION IMPLICATIONS

There are no collaboration implications arising from this report.

10. RECOMMENDATIONS

That Members consider the contents of this report and make recommendations to the Fire Authority in respect of Council Tax increases between a Council Tax freeze and an increase in Council Tax, up to the maximum of 1.95%.

11. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

John Buckley
CHIEF FIRE OFFICER

APPENDIX A

Capital Programme - 2021/22 to 2024/25

	Budget 2021-22 £'000	Budget 2022-23 £'000	Budget 2023-24 £'000	Budget 2024-25 £'000
TRANSPORT				
Pumping Appliances	1,018	1,346	1,683	1,683
Special Appliances	150	675	175	568
Light Vehicle Replacement	179	442	250	159
E1 Fleet - telematic				90
	1,347	2,463	2,108	2,500
EQUIPMENT				
BA Sets		250		
Gas Tight Suits			50	
Radios				300
RTC Equipment				800
water rescue kit	100			
	100	250	50	1,100
ESTATES				
Workshop Fire Station	2,000	1,258	63	
HQ	2,000	333	2,078	
Eastwood Fire Station		750	713	38
Ashfield Fire Station (Refurb)			488	13
Arnold Fire Station			25	1,750
	4,000	2,341	3,366	1,800
I.T. & COMMUNICATIONS				
HQ Project (Enabling Works - ICT)	150	100	110	110
ICT Capital Programme - Replacement Equipment	50	30	30	30
Mobile Computing	100			
HQ - Link ICT Replacement	30	30	30	20
Performance Management System	20	20	20	20
HQ Core Switch Upgrade		50		
One off projects	100			
SharePoint Online Migration	450	230	190	180
CONTROL				
Emergency Services Mobile Communications	450	200		
Rostering Project	150			
Tri-Service Control & Mobilising System			1,000	
	600	200	1,000	
FINANCE				
HR Upgrade				51
Payroll System Replacement	30		30	
Finance Agresso Upgrade	30		30	51
Total	6,527	5,483	6,743	5,631
To Be Financed By :				
Capital Receipts	10	1,010	10	360
New Borrowing	6,517	4,473	6,733	5,271
Revenue contributions to capital				
Total	6,527	5,483	6,743	5,631

APPENDIX B

CASH LIMIT				
	Revised Budget 2020/21 £000's	Budget Requirement 2021/22 £000's	Budget Requirement 2022/23 £000's	Budget Requirement 2023/24 £000's
<u>Employees</u>				
Direct Employee Expenses	34662	34704	35292	35991
Indirect Employee Expenses	500	543	543	543
Pension	918	880	939	922
	36080	36127	36774	37456
<u>Premises-Related Expenditure</u>				
Repairs Alterations and Maintenance of Buildings				
	609	721	795	819
Energy Costs	458	469	481	493
Rents	1	1	1	1
Rates	1009	1006	1031	1057
Water	83	85	87	89
Fixture and Fittings	1	1	1	1
Cleaning and Domestic Supplies	316	429	444	416
Grounds Maintenance Costs	30	31	32	33
Premises Insurance	16	16	16	16
Refuse Collection	39	40	40	41
	2562	2799	2928	2966
<u>Transport-Related Expenditure</u>				
Direct Transport Cost	1046	1267	1199	1249
Recharges	45	45	45	45
Public Transport	37	37	37	37
Transport Insurance	188	188	188	188
Car Allowances	321	257	257	257
	1637	1794	1726	1776
<u>Supplies & Services</u>				
Equipment Furniture and Materials	624	715	668	663
Catering	68	68	68	68
Clothes Uniforms and Laundry	289	369	289	289
Printing Stationery and General Office Expenses	45	45	45	45
Services	584	617	617	617
Communications and Computing Expenses	1653	1753	1824	1824
	44	47	47	47
Grants and Subscriptions	54	56	56	56
Miscellaneous Expenses	172	197	197	197
	3533	3867	3811	3806
<u>Third Party Payments</u>				
Other Local Authorities	783	783	783	783
Private Contractors	0	0	0	0
	783	783	783	783
<u>Support Services</u>				
Finance	147	143	143	143
Corporate Services	45	45	45	45
	192	188	188	188

Depreciation and Impairment Losses

	Revised Budget 2020/21 £000's	Budget Requirement 2021/22 £000's	Budget Requirement 2022/23 £000'	Budget Requirement 2023/24 £000's
Depreciation	0	0	0	0
Amortisation of Intangible Fixed Assets	0	0	0	0
	0	0	0	0
<u>Sales Fees & Charges</u>				
Customer and Client Receipts	-405	-375	-380	-385
	-405	-375	-380	-385
<u>Other Income</u>				
Government Grants	-1161	-1850	-1301	-1301
Other Grants/Reimbursements and Contributions	-469	-111	-111	-111
Interest	-100	-20	-20	-20
	-1730	-1981	-1432	-1432
<u>Capital Financing Costs</u>				
Interest Payments	785	785	807	807
Debt Management Expenses	1727	1574	1794	2066
	2512	2359	2601	2873
Total	45,164	45,561	46,999	48,031



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

INTERNAL AUDIT ANNUAL REPORT 2019/20

Report of the Chief Fire Officer

Date: 15 January 2021

Purpose of Report:

To bring to the attention of Members the annual report prepared by the Authority's Internal Auditors, which includes the Internal Audit Plan for 2020/21 to 2022/23.

Recommendations:

That Members note the contents of this report.

CONTACT OFFICER

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1. BACKGROUND

- 1.1 Nottinghamshire County Council has provided an Internal Audit service to the Fire and Rescue Authority since its formation in 1998. The Finance and Resources Committee receives the Internal Auditor's annual report in accordance with its role as an audit committee.
- 1.2 The annual report for 2019/20 is attached in full as Appendix A to this report. This report would normally have been considered by this Committee much earlier in the financial year but has been delayed due to the amendments to committee meeting timetables caused by Covid-19.
- 1.3 Under the provisions of the Code of Practice on Local Authority Accounting, the Authority is required to annually review its arrangements for the provision of Internal Audit and comment on that review. This report sets out the basis of that review and a draft statement on Internal Audit is included in the annual report (Sections 3 and 4).

2. REPORT

NOTTINGHAMSHIRE COUNTY COUNCIL INTERNAL AUDITOR'S REPORT

- 2.1 The Internal Audit Annual Report for 2019/20 is attached at Appendix One. As part of their audit of the 2018/19 Statement of Accounts, the Authority's external auditors requested that the internal audit annual report be extended to cover the adequacy and effectiveness of the organisation's framework of governance, risk management. The annual report has therefore been extended to include the additional information. The report is divided up into four areas:
 - Overall audit summary and conclusion;
 - A summary of reports issued to 31 March 2020;
 - Internal Audit Plan for 2020/21 (Appendix A);
 - An assessment of risk management, corporate governance and internal control (Appendix B);
 - Revised risk assessment and Audit Universe for 2021/22 (Appendix C)
- 2.2 The Auditors have provided a view on the internal control environment and conclude that:

“From the work carried out during the 2019/20 financial year, we have been able to satisfy ourselves that the overall level of internal control is satisfactory and provides a good basis for effective financial and resource management.”
- 2.3 There were 6 audit reports finalised during the year and one draft report issued. Two reports were non formal reviews at management request and consequently did not contain assurance levels. The remaining 4 reports gave

overall assurance levels of substantial (Risk levels are low) or reasonable (risk levels are acceptable) and are appended to this report:

Report	Assurance Level	Appendix
Fuel Recharges to Nottinghamshire Police	Substantial	2
Capital Programme	Reasonable	3
ICT Service Desk – incident management	Reasonable	4
Cardiff Checks (2018/19 delayed audit)	Reasonable	5
GDPR Compliance	N/A	
Site and Information Security	N/A	

- 2.4 There was one outstanding audit from the 2019/20 plan which was the Cardiff Checks audit for 2019/20 which has been undertaken in 2020/21.
- 2.5 All audit recommendations are classified as either Priority 1, Priority 2 or low priority. The Priority 1 recommendations are subject to further compliance testing by internal audit to ensure they have been acted upon. Priority 2 recommendations are monitored internally.
- 2.6 Appendix A of the report shows the internal audit plan for 2020/21 and the draft plan for 2021/22 and 2021/22, which represents the Internal Audit strategy for the medium term period. The plan for 2020/21 has been agreed by the Head of Finance following consultation with the Strategic Leadership Team, but there is sufficient flexibility to amend the plan if circumstances require alternative work to be carried out by the Auditors in the year. The draft plan for the following two years will be considered by Officers before the start of each year to allow for changing areas of risk to be accommodated within future plans if required.

REVIEW OF INTERNAL AUDIT

- 2.7 The requirement for an Authority to maintain an Internal Audit function is derived from local government legislation, including Section 112 of the Local Government Finance Act 1988 and the Accounts and Audit Regulations 2015 in that a relevant body must:

“maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”

- 2.8 The responsibility for ensuring an effective internal audit function rests with the Authority Treasurer as part of their Section 112 obligations.
- 2.9 The Authority views Internal Audit as an integral part of the corporate governance framework, particularly in so far as it relates to the system of Internal Control. Whilst it is acknowledged that Internal Control is a managerial responsibility, it is considered that Internal Audit can provide

managers with independent assurance that the system is working effectively and draw any deficiencies in the system to the attention of managers and elected members.

- 2.10 These assurances, however, can only be relied upon providing the internal audit service is adequate to meet the needs of the organisation and is provided professionally.
- 2.11 The Internal Audit Service of the Authority is provided under a Service Level Agreement with Nottinghamshire County Council and requires the Auditors to operate within the Public Sector Internal Audit Standards set down by the Chartered Institute of Public Finance and Accountancy (CIPFA). Operating to these standards will ensure that the Authority meets its obligations under statute.
- 2.12 There are regular reviews of audit plans and progress by senior managers and the audit team to monitor the work being carried out.
- 2.13 The External Auditors, in their general review of controls and as part of their specific annual audit, are required to comment on the adequacy or otherwise of Internal Audit. To date they have always been satisfied that the work of Internal Audit is sufficient for them to rely on their audit work and that the service is effective.

3. FINANCIAL IMPLICATIONS

Indirect financial implications relating to policy, procedure updates and staff training are contained within the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising from this report.

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because this is a report relating to the Authority's performance rather than new or amended policy.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

The contents of this report indicate compliance with statutory legislation and regulations relating to local authority finance and audit accounts and audit.

8. RISK MANAGEMENT IMPLICATIONS

Internal Audit forms part of the wider system of internal control which deals entirely with the Authority's exposure to financial, and to some extent non-financial risk. Presenting the annual report to the Authority enables Members to see the work of internal audit and the contribution that they make to the overall system of internal control.

9. COLLABORATION IMPLICATIONS

The Internal Audit service is provided by Nottinghamshire County Council. There may be opportunities for further collaborative procurement of Internal Audit services in the future.

10. RECOMMENDATIONS

That Members note the contents of this report.

11. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

- GDPR Compliance Review;
- Site and Information Security Review.

John Buckley
CHIEF FIRE OFFICER

Internal Audit Annual Report 2019/20 to the Chief Fire Officer

Part: Contents:

- A Summary
- B Draft and final reports issued to 31/03/20

Appendix:

- A Plan for 2020/21
- B Assessment of risk management, corporate governance and internal control from key lines of enquiry (KLOEs)
- C Revised Risk Assessment and Audit Universe for 2021/22 onwards

Part A - Summary

Audit coverage

1.1. A summary coverage is:

Final reports	Draft reports	Uncompleted
6	1	0

The draft report above was issued on 2nd April 2020 as a final.

1.2. The overall level of assurance was:

Opinion	
Substantial	1
Reasonable	4
Limited	0
No Opinion/Policy reviews	2

1.3. More detail of audits completed is attached (Part B).

1.4. NRFS carried out follow-up work of 2018/19 recommendations to confirm that agreed actions for priority 1 and 2 recommendations are implemented. Internal Audit complemented this by testing priority 1 recommendations that management confirmed had been implemented. We also monitor the priority 2 recommendations to highlight to management any areas that have not been actioned.

1.5. Senior auditors completed the majority of audit work that was undertaken.

Audit strategy and plan

2.1 We consulted upon the 3-year strategy and annual plan to be adopted for 2020/21 (see Appendix A).

Annual Governance Statement

3.1. The Accounts and Audit Regulations 2011 require the Fire Authority to review the effectiveness of its system of internal control and publish an Annual Governance Statement to cover the effectiveness of the systems for governance and internal control. The Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) issue guidance to Local Authorities from time to time to assist with compliance.

- 3.2. In order to satisfy the principles of effective risk management and internal control, the Authority needs to have in place effective risk management systems, including sound systems of internal control and an internal audit function. These arrangements need to ensure compliance with all applicable statutes and regulations and other relevant statements of best practice and need to ensure that public funds are properly safeguarded and are used economically, efficiently and effectively. Appendix B includes an overall assessment of assurance in the areas of risk management, governance and internal control based upon key lines of enquiry and supporting evidence provided. Information provided provides assurance that appropriate arrangements are in place and being complied with in the above areas.
- 3.3. The Chief Fire Officer and Head of Finance appoints Nottinghamshire County Council's Internal Audit Service. The Treasurer delegates the Authority for them to do so, the Treasurer being the Section 112 officer for the Fire Authority under the Local Government and Finance Act 1988. This provides management with an independent appraisal of these matters.
- 3.4. The scope and cyclical frequency of work carried out by Internal Audit during each financial year is mainly based on an assessment of (predominately) financial risk on all activities that form the responsibility of the Combined Fire Authority as outlined in Appendix A.
- 3.5. Internal Audit will be carrying out further consultation for the 2020-21 audit plan and have undertaken a separate exercise to refresh our approach, including consultation with other internal audit providers to identify and consider wider risks to the Fire Authority and reassess those risks. Our risk assessment of the revised areas is as set out in Appendix C and will form part of our planning discussion for future years.
- 3.6. The objective of the audits is to form an opinion on the adequacy of the systems of internal control put in place by management; to review efficiency, effectiveness and best value issues and to ensure that the assets of the Authority are properly safeguarded. Formal audit reporting procedures are in place to provide assurance to management where effective controls are being operated, and to make recommendations for change and improvement where control weaknesses are identified.
- 3.7. From the work carried out, we have been able to satisfy ourselves that the overall level of internal control is satisfactory and provides a good basis for effective financial and resource management.
- 3.8. The Chief Fire Officer and management have responded positively to all recommendations made in the reports that have been finalised.

Conclusion

- 4.1. Based on the Internal Audit work completed during the year, we have concluded that the overall level of internal control is satisfactory.

Angela Wendels FCCA
Senior Auditor

Philip Dent CPFA
Audit Supervisor
Internal Audit Service
Nottinghamshire County Council
31 March 2020

Part B - Reports issued to 31/03/20

Audit Opinion

In the areas examined, we have assessed the controls in place to determine their effectiveness in ensuring business objectives are met and risks are mitigated. The level of assurance provided following each audit is selected from the following table. Based upon the audits carried out in the year, we have assessed them against the assurance criteria and categorised them as follows:

Level of Assurance	Definition	Audits	Report Ref
Limited assurance	Risk levels are high	N/a	
Reasonable assurance	Risk levels are acceptable	Cardiff Checks – 2018-19 Selection	2019-10
		Capital Programme – Development and Monitoring	2019-13
		ICT Service Desk – incident management	2019-14
Substantial assurance	Risk levels are low	Fuel Recharges to Notts Police	2019-15
Policy reviews	Reviews at management request	GDPR Compliance	2019-11
		Site and Information Security	2019-12

Audit Recommendations

A summary of the Priority 1 (P1) and Priority 2 (P2) recommendations for each of the audits issued is provided below:

Ref	Audit	P1	P2	Final/Draft	Summary of Action Agreed
2019-10	Cardiff Checks	0	0	Final	N/a
2019-13	Capital Programme	0	3	Final ¹	Collaboration arrangements with other Fire Authorities for procurement of common capital purchases. Earlier

¹ Draft report completed in March 2020, final report issued on 2/2/20

Ref	Audit	P1	P2	Final/ Draft	Summary of Action Agreed
					engagement of Procurement Officer in the business case stage of projects. Projects to be undertaken will be aligned to corporate objectives.
2019-14	ICT Service Desk	0	5	Final	Incident prioritisation process will be reviewed. System reporting will be carried out. Problem management processes will be monitored. Customer satisfaction surveys will be reviewed and acted upon. Staff training will be carried out.
2019-15	Fuel Depot Recharges	0	0	Final	N/a
2019-11	GDPR Compliance	4	0	Final	Revision of privacy notices. Review and closure of data breach incidents. Policy revisions of CCTV releases. Testing and monitoring of staff refresher training and contracts for GDPR updating.
2019-12	Site and Information Security	2	0	Final	Data security at shared facilities, clear desk processes.

Actions in relation to the above reports were agreed with management.

2019/20 Audits carried forward to complete during 2020/21

The Cardiff Check audit for 2019-20 transactions has been carried forward into 2020/21.

Information and Advice

In 2018 a new follow-up approach was adopted to obtain assurance that the actions proposed by management in response to Internal Audit's recommendations were being taken. This assurance was obtained in two phases, as set out below:

Priority rating of recommendation	Phase 1 Management assurance	Phase 2 Internal Audit Assurance
Priority 1	Assurance complied by Finance Team sought from management that all agreed actions have been taken.	Compliance testing scheduled to confirm all agreed actions relating to priority 1 recommendations are carried out consistently.
Priority 2		Assurance is sought from management that agreed actions have been taken and compliance testing is scheduled for selected actions.
Low		Low risk recommendations are no longer reported upon and no Internal Audit compliance testing is carried out

Phase 1 of the process was undertaken by the Fire Authority with reports presented to EDT by the Head of Finance. Additional testing was carried out between September and December 2019 by internal audit to confirm that agreed priority 1 (and selected priority 2) actions had been completed satisfactorily. A follow-up report was presented to EDT in January 2020. 59% of priority 1 recommendations had been implemented at that time with 73% of priority 2 recommendations also confirmed. A further report on progress, including the audits completed in 2019-20 will be presented to the Fire Authority at the end of 2020. Reporting arrangements recently changed meaning that all reports are now to be presented to the Senior Leadership Team (SLT).

COMBINED FIRE AUTHORITY - INTERNAL AUDIT PLAN FOR 2020/21

SERVICE AREA	Assessed Risk (old model)	Audit Frequency (Years)	Year Last Audited	2020/21 Draft Plan	Planned Time-scale	2021/22 Proposed Draft Plan**	2022/23 Proposed Draft Plan **
Contingency (to be allocated)				10	T2-3	5	15
Anti-Fraud and Anti-Corruption Procedures	Medium	Requested	2015-16				10
Assets Management	Medium	4	2017/18				10
Capital	Medium	3	2019/20				
Cardiff Checks/Analytical Checks - 2019/20 & 2020/21 *	Medium	Annual	2018/19	10	T2		10
Collaboration with other Services	Med/High	Requested	-				
Computer/ICT	Med/High	2	2019/20			10	
Contract Management	Medium	3	2018/19				10
Corporate Governance	Medium	2	2018/19				10
Financial Management	High	2	2018/19			10	
Fuel - Depots	Med/High	Requested	2019/20				
GDPR Compliance	Medium	Requested	2019/20				
H&S Water Rescue - HSE	High	-	-	***			
H&S Working at Height - HSE	High	-	-	***			
Income and Debtors	Medium	3	2017/18			10	
Members/Officers Expenses and Allowances	Medium	3	2018/19				10
Partnerships	Medium	3	2018/19				
Payroll	Medium	3	2017/18				
Pensions (Compliance)	Med/High	2	2018/19			10	
Performance Management	Medium	Requested	-			10	

Policy Management	Medium	Requested	-			10	
Project Management	High	2	2017/18				
Property/Premises	Medium	3	2017/18	15	T2		
Purchase Cards	Medium	3	2016/17	10	T1-2		
Purchasing and Creditor Payments	Medium	3	2017/18	10	T1-2		
Redkite System - Training and Compliance Records	Med/High	Requested	2018/19				
Risk Management	Medium	3	2016/17				
Site and Information Security	Med/High	Requested	2019/20				
Transport	Medium	4	2015/16				
Travel Claims System	Medium	Requested	-			10	
Treasury Management	Medium	3	2017/18	10	T1		
Audit Action Tracking		Annual	2019/20	10	T1-3	10	10
Client Management				7	T1-3	7	7
Total planned days for the year				82		92	92

* Please note - 2020-21 includes 10 days carried forward from 2019/20 for Cardiff Checks to be used in T1

T1 = Term 1 (April - July)

T2 = Term 2 (August - November)

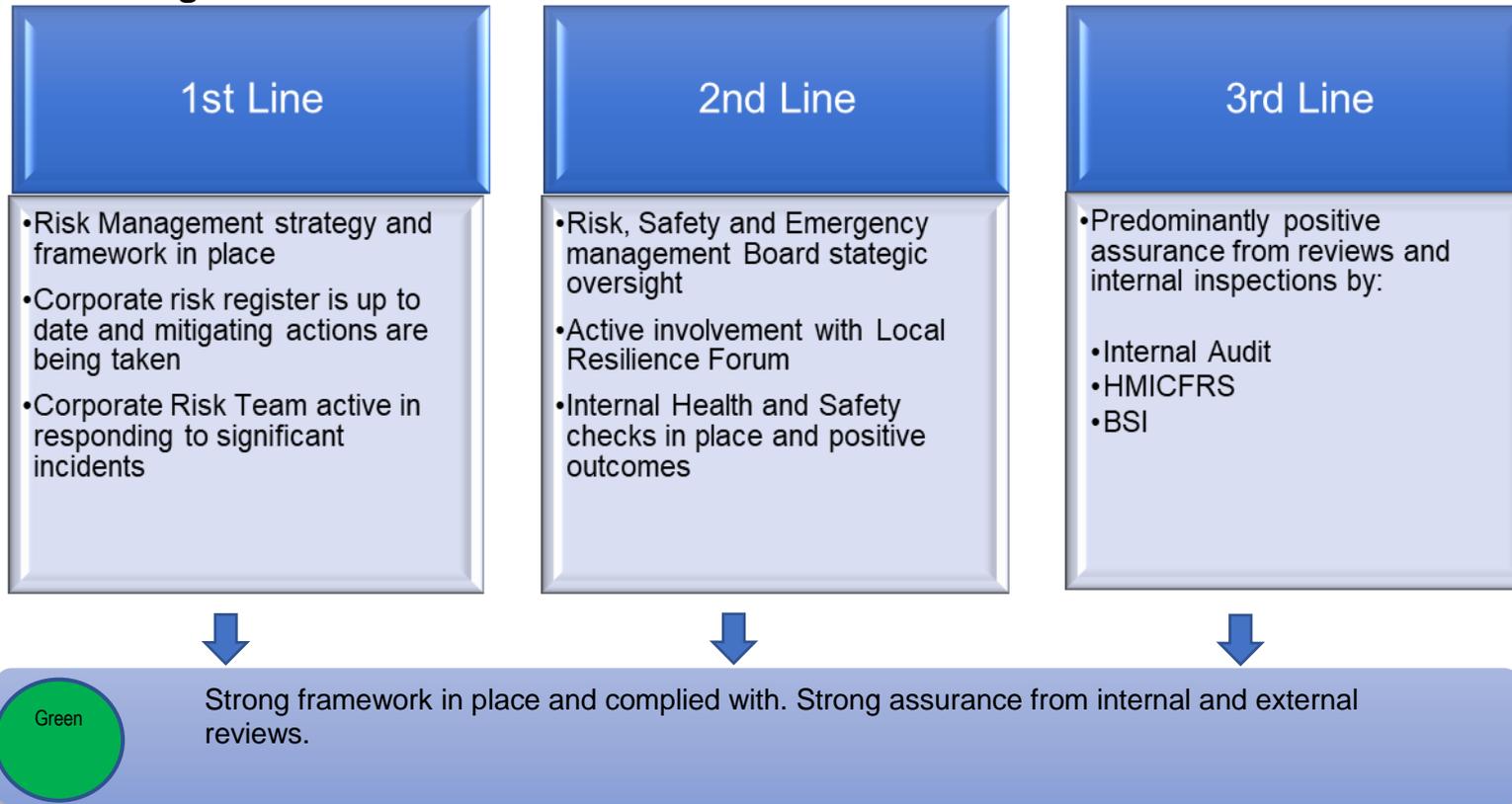
T3 = Term 3 (December - March)

** Subject to annual discussion of Audit universe and risk reassessment - see also Appendix C

*** It has been determined that HSE will be asked to cover these audits so Internal Audit proposed time reduced for this year only

Assurance Framework

Risk Management



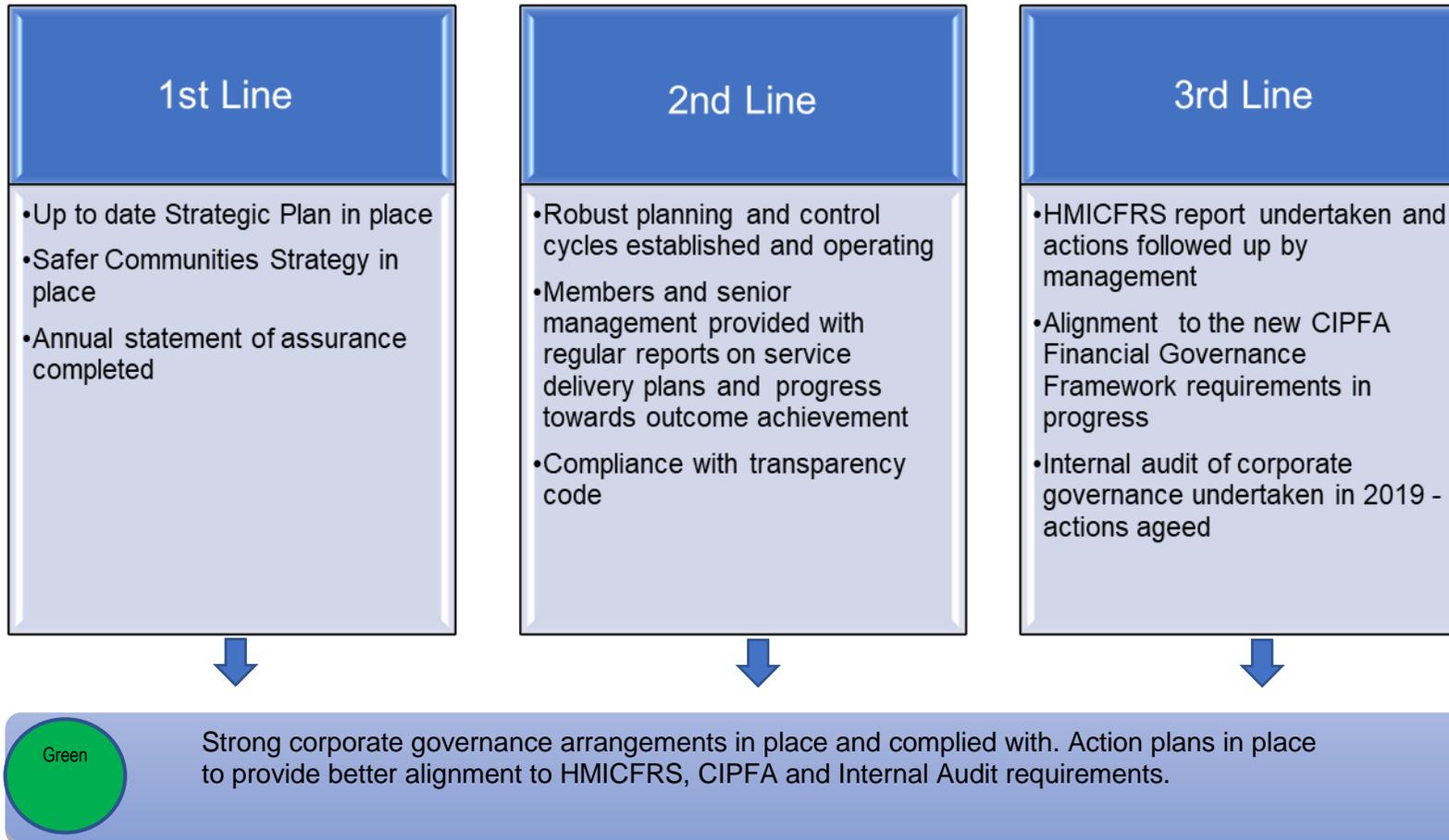
Risk Management Assurance from KLOEs

Risk management strategy & framework
 Established risk appetite
 Risk mitigation actions carried out
 Exposure to significant risks is minimised
 Prompt actions taken where risks materialise

National, regional and local horizon scanning
 Risk registers maintained
 Risk management informs key decision-making
 Focus on high priority risks

1 st Line	2 nd Line	3 rd Line
<p> Positive assurance</p> <ul style="list-style-type: none"> ➤ Risk Management Framework was in operation and complied with in 2019/20. ➤ The Integrated Risk Management - Strategic Plan (IRMP) was approved by Members in February 2019 and refreshed in January 2020. ➤ Appropriate insurance cover in place during 2019/20. ➤ Corporate Risk Team active in responding to significant incidents. ➤ Corporate risk register mitigations carried out. 	<ul style="list-style-type: none"> ➤ Active participation in the Local Resilience Forum for Nottinghamshire – The Authority’s Corporate Risk Register details those risks that are significant enough to warrant management by a Principal Officer. Specific risk control measures implemented to reduce the likelihood and/or impact of a risk occurrence where possible. ➤ An annual risk management action plan is produced and outcomes reported to the Fire Authority. ➤ Additional governance and oversight over the key risks identified - monitored through the Finance and Resources Committee – 6 monthly - Last met to discuss in October 2019. ➤ Notts Chief Fire Officer attends the National Fire Chiefs Council – which works to drive improvement and development across all fire authorities and he is a lead on Finance. ➤ The Service employs a Risk and Assurance Manager and a Health and Safety Advisor who are members of the Institute of Occupational Safety and Health Practitioners (IOSH). ➤ Reporting process and investigations carried out for all H&S incidents with learning from operational incidents being facilitated by the Risk and Assurance Team. ➤ Planned comprehensive risk analysis (Fire Cover Review) of the County to take place in 2021 – to make sure service addresses those risks. To feed into Strategic Plan to meet those risks when next amended in 2020-21 incorporates HMICFRS recommendations. 	<p> Positive assurance</p> <ul style="list-style-type: none"> ➤ The IRMP is used by HMICFRS to assess the effectiveness and efficiency of the delivery of services. 25 areas of improvement identified and delegated to lead officers with clear milestones and expected outcomes. ➤ Active part in Nottinghamshire’s Local Resilience Forum – sharing information and learning. ➤ National Risk Register used to identify risks over the next 5 years.

Corporate Governance



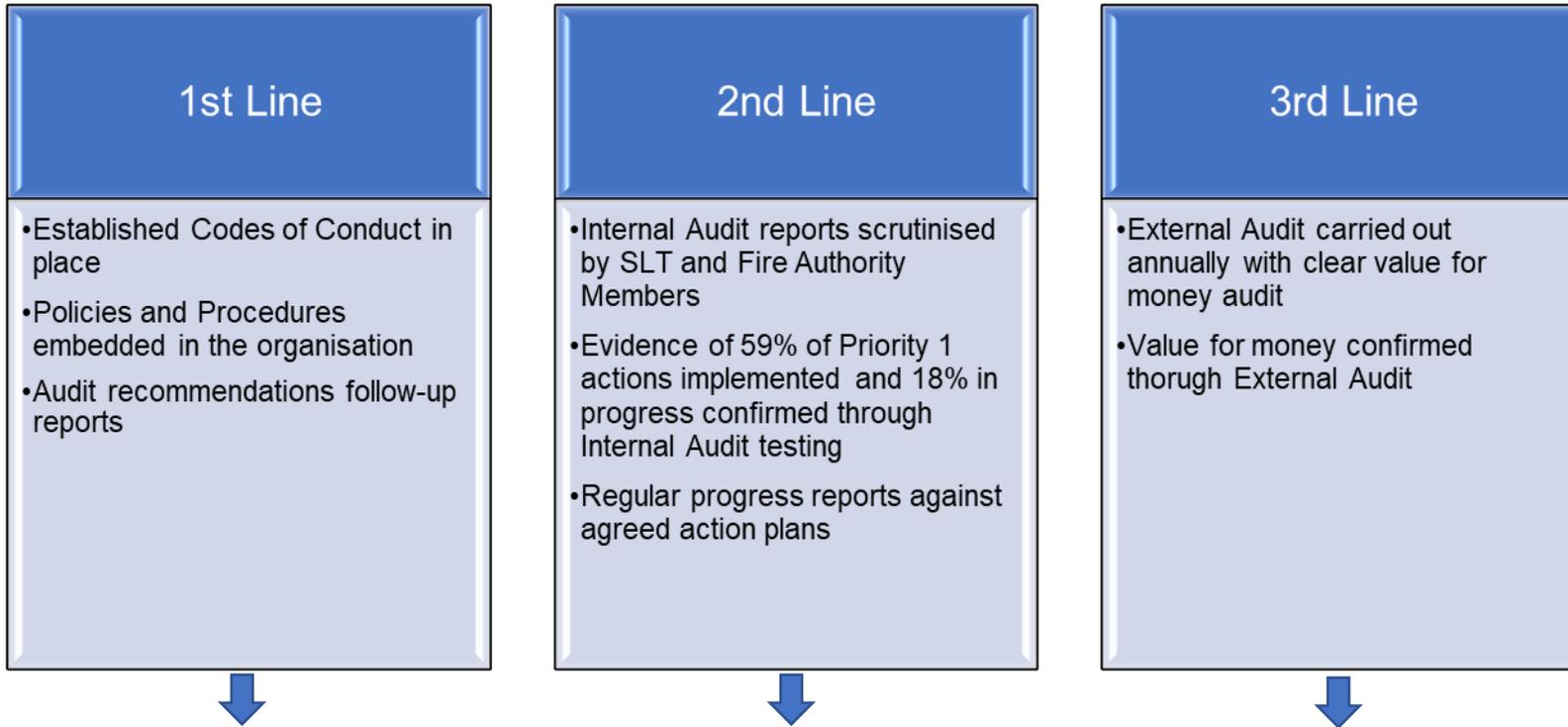
Corporate Governance Assurance

Local Code on Corporate Governance
Strategic Plan
Annual statement of assurance reported

Corporate governance framework
HMICFRS inspection regime
Established Committee Structure

1 st Line	2 nd Line	3 rd Line
 <p>Positive assurance</p> <ul style="list-style-type: none"> ➤ Local Code on Corporate Governance in place ➤ Strategic Plan – updated date – Feb 2020 ➤ Safer Communities Strategy – Jan 2020 ➤ Annual Action Plan and Medium Term Financial Strategy in place ➤ Annual Statement of Assurance – 2018/19 ➤ Performance management framework established 	<ul style="list-style-type: none"> ➤ Corporate governance framework has been established – based upon CIPFA/Solace 2016 publication ‘Delivering Good Governance in Local Government’. This is monitored each year and reported to the Combined Fire Authority as part of the Annual Review of Governance and Annual Governance Statement. ➤ Constitution and terms of reference for committees. ➤ An annual Statement of Assurance is produced, outlining how the Authority has performed against its objectives and been led by their three strategic aims which set out to provide high quality services, offer strong governance and financial sustainability, and ensure that employees are engaged and motivated. ➤ Performance is monitored to ensure value for money is achieved. ➤ Risk plans include risks in relation to governance and finances. ➤ Progress against actions set out in Strategic Plan are reviewed through the IRMP Programme and Performance Board and through Fire Authority Governance. Key updates are reported to the Fire Authority meetings. Meetings held monthly. ➤ Safer Communities Strategy developed in line with HMICFRS recommendations – progress of strategy together with accompanying business plans to be monitored through Community Safety Committee. ➤ Covid Risk included in Financial Strategy. – Becky actively monitoring and sitting on Local Resilience Forum – Finance Cell. 	 <p>Some areas of improvement identified with actions confirmed or in progress</p> <ul style="list-style-type: none"> ➤ HMICFRS report 7/25 actions implemented to date. ➤ Action to progress report going to Policy and Strategy Committee – next meeting in July 2020. ➤ Internal audit review of corporate governance undertaken in 2019 – 2/6 priority 2 recommendations implemented. ➤ Equality Framework Assessment planned. ➤ Collaborative framework established with other local Fire Authorities meets and learns from best practice in Finance. ➤ Alignment to the new CIPFA Financial Governance Framework requirements in progress.

Internal Control Framework



Page 63

 Effective control environment in place and evidence of compliance with policies, procedures and audit recommendations.

Internal Control Framework Assurance

Codes of Conduct established
Counter fraud and corruption policy

Audit recommendations follow-up and monitoring
External Assurance on VFM

1st Line

2nd Line

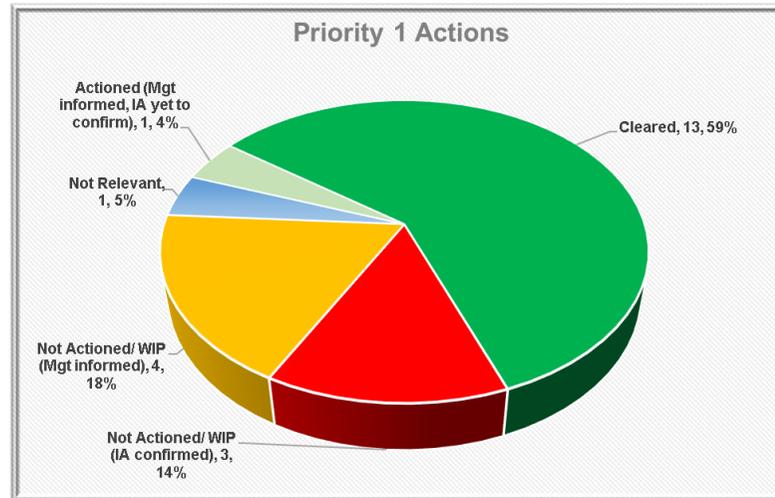
3rd Line



Positive assurance

- Employee and Members Codes of Conduct in place.
- Counter Fraud, Money Laundering and Corruption and Bribery Policy – reviewed and updated April 2018.
- Annual report of internal audits to Finance and Resources Committee.
- Bi-annual audit action follow-up reports to SLT.

- Audit reports annually go to SLT and F&R Committee for scrutiny.
- Effective counter fraud and anti-corruption arrangements are in place.
- Follow-up testing of actions carried out by Internal Audit in December 2019 provided the following assurance of priority 1 actions implemented:



- 73% of priority 2 actions confirmed as implemented – confirmed by internal audit in December 2019.
- Internal Audit action update report presented to SLT in January 2020.
- Fire Authority scrutiny in relation to the HMICFRS conducted through the committee structure with regular progress reports being presented to Members. Action plan for improvement based upon HMICFRS inspection report taken to the Fire Authority in September 2019.
- Internal Audit reports issued to external audit and Section 151 Officer for overview.



Positive assurance
Evidence showing actions in progress to address recent audit recommendation

- External Assurance – Nothing of concern in governance.
- Clear value for money audit.

Appendix C - Revised Risk Assessments

Process	Inherent Risk Score	Rating
Pensions	71.09	High
Business Continuity (NEW)	64.84	High
Cardiff Checks	61.72	High
Purchasing & Creditor Payments	61.72	High
ICT	60.16	High
VAT & Finance (NEW)	60.16	High
Corporate Governance	59.38	Medium
Partnerships/Collaboration	57.81	Medium
Treasury Management	56.25	Medium
Action Tracking	55.47	Medium
Contracts	55.47	Medium
Risk Management	55.47	Medium
Training Records (Redkite System)	54.69	Medium
Income & Debtors	53.91	Medium
Members & Officers Allowances	53.91	Medium
Payroll	53.91	Medium
People Management (NEW) incl Occ Health, Recruitment & Equality	53.91	Medium
Retained Fire Station Payment Processes	53.91	Medium
GDPR Compliance & Information Security	51.56	Medium
Assets - Redkite Management System	50.00	Medium
Process	Inherent Risk Score	Rating

Ethical Principles (NEW)	50.00	Medium
Project Management	50.00	Medium
Transport	50.00	Medium
Capital	49.22	Medium
Financial Management	48.44	Medium
Site Security	46.09	Medium
Property & Premises	44.29	Medium
Purchase Cards	42.19	Medium
Energy Management (NEW)	40.63	Medium
Anti-Fraud Procedures	38.28	Low
Policy Management	38.28	Low
Fuel - Depots	34.38	Low
Safeguarding (NEW)	25.00	Low
Use of Station Audits (NEW)	25.00	Low

Note

We aim to audit high risk areas every 2 years, medium risk every 3 years, and low risk not at all unless risk levels raised.

To: Chief Fire Officer

OFFICIAL SENSITIVE

Subject: NFRS - Fuel Re-charges to Nottinghamshire Police

Date: February 2020

1 Introduction

- 1.1 We have audited the arrangements for the issuing and recharging of fuel from NFRS fuel depots to Nottinghamshire Police vehicles. NFRS has 14 fuel bunkers across the County which they opened up to the Police in June 2019 as part of their collaborative arrangements. Fuel is managed within the Merridale Fuel Management System (FMS).
- 1.2 The objective of the arrangement is to provide secure access to NFRS fuel bunkers across the County, and to accurately and promptly recharge these costs to the Police in accordance with the terms set out in the Collaboration Agreement in relation to a shared fuel arrangement Service Level Agreement (SLA). We have tested a sample of transactions for compliance with documented procedures and controls.

2 Audit opinion

- 2.1 In the areas examined, we assessed the controls to determine to what extent the risks are being mitigated.
- 2.2 In our opinion the level of assurance we can provide is: -



SUBSTANTIAL ASSURANCE Risk levels are low

3 Risk areas examined

- 3.1 During this audit we looked for controls to address the following key risks: -

<i>Risk title</i>	<i>Description</i>
Fuel Security	Inadequate system controls to prevent misappropriation of fuel.
Consumption of Fuel Recording	Inadequate procedures to accurately monitor the consumption of fuel.

<i>Risk title</i>	<i>Description</i>
Fuel and Other Recharges	Fuel recharges and other specified charges not requested accurately or promptly or insufficient information is provided to validate data.
Debt Recovery	No or inadequate monitoring that income is received.
Fuel Stocks and Contingency Arrangements	Inadequate stock levels to meet demand or failure to meet operational requirements.

3.2 The scale of the area reviewed is: -

Metric	Actuals June - December 2019 (Excl VAT)	June 2019 – March 2020 estimated (Excl VAT)	2020-21 Estimate (Excl VAT)
Reimbursement from the Police	£88,163	£133,000	£180,000 ²

4 Audit findings

4.1 Following our work, we consider the controls to be effective in the following risk areas: -

- **Fuel Security** – Controls are in place to ensure that access to fuel stocks is limited to authorised personnel only. Police staff accessing the site require a Cotag fob for entry through the access barrier, a fuel key to access the pumps, a Police warrant card to activate the fuel pump and odometer readings for the vehicle they are filling to ensure it is within the set parameters. The fuel keys issued to the Police are uniquely numbered and the Police individually assign them to their own vehicles.
- **Consumption of Fuel Recording** - The Merridale FMS records all the details required for accurate re-charging of fuel use. This information is maintained in the Cloud. Both the Fire Service and the Police have access to the transactional data in relation to Police usage, for monitoring and validation purposes. Fuel, cost, performance and exception reports are available from the system.
- **Fuel and Other Recharges** – The SLA clearly sets out the rules and procedures for recharging fuel. Our testing showed that system upgrade costs have been recovered from the Police. The FMS automatically calculates stock usage costs and supporting evidence showed that fuel costs entered into the FMS matched to corresponding delivery invoices. Our testing of transactions confirmed that accurate recharges had been made promptly and on a monthly basis.
- **Debt Recovery** – Income due from the Police is monitored in accordance with NFRS's debt management policies to ensure that full and prompt payment is received. Testing confirmed that all invoices had been paid within the agreed payment terms.
- **Fuel Stocks and Contingency Arrangements** – Fuel reorder levels have been reviewed and set in the system according to demand and usage trends. SLT have been made aware of risks of meeting demand at smaller sites and stock levels continue to be monitored to ensure adequate fuel can be maintained. Alternative arrangements are outlined in the National

² Estimate based upon average income over last 3 months, however, this could increase over the next year.

Emergency Plan – Fuel as part of the Local Resilience Forum. In addition, fuel cards may be used if there is a system failure or re-fuelling delay.

- 4.4 No recommendations are made, and no advisory actions were discussed during the audit.

**Audit conducted by: Angela Wendels
Senior Auditor**

Audit supervised by: Philip Dent

Audit Supervisor

Rob Disney, Group Manager Assurance

Internal Audit Report

Report ref: 2019-13

OFFICIAL SENSITIVE**To: Chief Fire Officer****Subject: NFRS - Capital Programme - Development and Monitoring****Date: April 2020****1 Introduction**

- 1.1 This audit reviews adequacy and sufficiency of system controls operating in the development, monitoring and progress reporting of the capital programme in the financial year 2019/2020. It takes into account strategic collaborative initiatives with other public bodies which are designed to improve economy, efficiency and effectiveness in service delivery. Capital programme items relate to the purchase of any single item or bundles of equipment that collectively exceed £35k and may include assets such as land, buildings, engineering plant and operational equipment.
- 1.2 The purpose of the system is to implement a capital programme that reflects and achieves the objectives of the approved Corporate Strategy and resultant tactical and operational plans.

2 Audit opinion

- 2.1 In the areas examined, we assessed the controls to determine to what extent the risks are being mitigated.
- 2.2 In our opinion the level of assurance we can provide is: -

**REASONABLE ASSURANCE Risk levels are acceptable****3 Risk areas examined**

- 3.1 During this audit we looked for controls to address the following key risks: -

<i>Risk title</i>	<i>Description</i>
Governance: Programme Authorisation	The capital programme and projects within it may not be specified in detail, costed (including revenue impacts) or authorised.
Governance: Corporate Strategy	The projects within the Corporate Plan may not reflect the Fire Service's wider corporate strategy.
Treasury Management	The capital programme and projects within it may not be funded efficiently or effectively.

<i>Risk title</i>	<i>Description</i>
Project Management	The capital programme and projects within it may not be subject to budgetary control, may not achieve desired outcomes or may not be subject to post project evaluation.
Risk Management	Capital project risks and mitigating actions in relation to NFRS projects may not be recorded in the NFRS risk register.

3.2 The scale of the area reviewed is: -

Metric	2018-19	2019-20	2020-21
Capital Programme budget (£m)	£1.95m	£4.50m	£3.22m
No of projects	20	26	5

4 Audit findings

4.1 We consider the controls to be effective in the following risk areas: -

- **Governance Programme Authorisation** - Capital programmes are authorised by the Executive Development Team (EDT) in consultation with SLT and approved by the Fire Authority. Finance and Resource Committee receives detailed information on capital programme slippage on a regular basis.
- **Governance Corporate Strategy** - Project team responsibilities and accountabilities are clearly defined for each project. EDT evaluate projects for alignment with strategy and receive regular updates on current project status, including those in development. Testing evidenced compliance with Public Sector Procurement Regulations.
- **Treasury Management** - Capital programme financing is planned and informed by independent advisers.
- **Capital Project Management** – The capital programme is monitored and reported in-year to SLT and the Fire Authority. Management is conducted through a standardised framework based on Prince 2 principles.
- **Risk Management** - Risks relating to collaborative projects are mitigated through the engagement of independent advisers and legal agreements. Other NFRS project risks are identified and managed at a local level.

4.2 There were some control weaknesses and some failures to comply with the standard controls, resulting in remaining risks. The attached Action Plan sets out these weaknesses, and our recommendations to address them.

4.3 A summary of the recommendations made, together with brief details of the related findings, is set out below: -

<i>Priority level</i>	<i>Number of Recommendations</i>	<i>Recommended action timescales</i>
Priority 1	0	Immediate
Priority 2	3	Within two months

Priority 2 areas:

- Collaboration with neighbouring fire and rescue services is evident however, there may be scope to increase the extent of this further.

- The input of the Procurement Officer is not always sought in the development of capital project business cases.
- Although generally comprehensive in their content, outline and full business cases presented for approval are not explicitly referenced back to strategic objectives or the annual action plan (an annual plan of activity informed by the corporate strategy).

4.4 No advisory actions were discussed during the audit.

Audit conducted by: Ian Munro

Senior Auditor

Audit supervised by: Angela Wendels

Senior Auditor

Rob Disney, Group Manager Assurance

Audit Finding	Recommendation	Management Response
Priority 2 areas (Highly desirable for effective internal control, should implement recommendations to improve existing control arrangements)		
<p>1. Capital Programme Development</p> <p>A number of capital equipment projects have presented opportunities for collaboration with neighbouring fire and rescue services. Where there are shared time-lines collaboration is actively pursued eg breathing apparatus communications equipment and the Agresso system upgrade. There have also been occasions where neighbouring fire and rescue services have been ahead of NFRS in the commissioning and procurement process and the opportunity for collaboration and potential cost savings foregone eg vehicle high pressure hose reel replacement.</p> <p>Risk: Opportunities to achieve cost and procurement efficiencies may be foregone.</p>	<p>That proposed annual and medium term capital programmes should be shared between neighbouring fire and rescue services.</p>	<p>Response</p> <p>These will be circulated with Derbyshire and Leicestershire Fire going forward as these are our most likely collaboration partners.</p> <p>Date for implementation</p> <p>10 Year plan distributed 2 April 2020</p> <p>Officer responsible for implementation</p> <p>Head of Finance</p>
<p>2. Capital Project Timescales</p> <p>Two instances (light vehicle replacement and command support unit projects) were identified where the engagement of the Procurement Officer in the development of the initial project business case was not undertaken. However, earlier consultation at the business case proposal stage would have identified potential supply chain obstacles which later emerged and realistic timescales for procurement.</p> <p>Risk: Programme timescales detailed in the project business case may be unrealistic.</p>	<p>The Procurement Officer should be consulted at the project business case stage to ensure that potential obstacles to procurement are identified and reflected in project timelines. Consequently the business case template should be amended to include a mandatory section for Procurement Officer comment.</p>	<p>Response</p> <p>Business Case Template will be amended to include a mandatory section for the Procurement section to complete.</p> <p>Date for implementation</p> <p>September 2020</p> <p>Officer responsible for implementation</p> <p>ICT Change and Projects Manager</p>

Audit Finding	Recommendation	Management Response
<p>3. Alignment with Corporate Strategy The Business case template required for approval of projects (capital or otherwise) does not incorporate a requirement to reference a proposed project to an NFRS strategic objective or an action in the annual action plan. Such a reference would ensure that projects are aligned to the organisation's key objectives.</p> <p>Risk: Capital projects may not reflect organisational priorities.</p>	<p>Projects should be explicitly cross-referenced to corporate objectives and the annual action plan in both the outline and full business case presented for approval.</p>	<p>Response Business Case will be amended.</p> <p>Date for implementation September 2020</p> <p>Officer responsible for implementation Assistant Head of Finance / Head of Finance</p>

Internal Audit Report

Report ref: 2019-14

To: The Chief Fire Officer, Notts Fire and Rescue Service

OFFICIAL SENSITIVE

Subject: NFRS - ICT Service Desk

Date: February 2020

5 Introduction

- 1.1 We have audited the arrangements for the Fire and Rescue Service's ICT Service Desk. There are two service desk systems in operation:
- Manage Engine - used to manage incident reports, service requests and changes relating to ICT delivered services.
 - Spiceworks – tri-service portal used by operational staff to report problems such as mobilising issues, paging and other service related incidents, which are made available to other tri-service partners. NFRS related issues are automatically sent into Manage Engine for NFRS ICT to resolve.

The focus of this audit is the Manage Engine system as it is used by Service Desk staff to record and monitor incidents.

- 1.2 The purpose of the ICT Service Desk system is to provide an effective and standardised process for the management of incidents affecting the NFRS ICT infrastructure and to restore and maintain services with minimum disruption to business-critical services and end users.

We tested a sample of transactions for compliance with documented procedures and controls.

6 Audit opinion

- 6.1 In the areas examined, we assessed the controls to determine to what extent the risks are being mitigated.
- 6.2 In our opinion the level of assurance we can provide is: -

**REASONABLE ASSURANCE****Risk levels are acceptable**

7 Risk areas examined

7.1 During this audit we looked for controls to address the following key risks: -

<i>Risk title</i>	<i>Description</i>
Point of contact	To examine whether a single point of contact is available to users and is providing coordinated and/or efficient resolutions.
Service desk availability	To examine whether the service desk is available throughout normal operating hours and providing a timely service.
Training	To examine whether service desk is appropriately staffed and personnel are adequately trained or experienced.
Incident prioritisation	To check whether prioritisation regarding incident resolution is undertaken and managed in an efficient and effective manner.
Incident resolution	To examine whether there is satisfactory incident resolution to support business activity.
Service level agreements (SLAs)	To confirm the existence of adequate service level agreements in relation to fix times and other performance indicators.

8 Audit findings

8.1 Following our work we consider the controls to be effective in the following risk areas: -

- **Point of Contact** - Good arrangements are in place to provide end users with the means to contact the Service Desk to report issues and request changes and services. This includes telephone, end-user portal, email, or walk-in notifications.
- **Service Desk Availability** - The Service Desk is available to end users during normal office hours (8.30 – 16:45 Monday to Thursday and 8:30 to 16:15 on Fridays). Out of hours there is support available from a 3rd line engineer in respect of major incidents.
- **Training** - New starters are well supported by on the job training and the provision of detailed guidance literature.
- **Incident Prioritisation** - The process for categorising incidents according to priority is set out in the incident management process procedure No 2087.

8.2 There were some control weaknesses and some failures to comply with the standard controls, resulting in remaining risks. The attached Action Plan sets out these weaknesses, and our recommendations to address them.

8.3 A summary of the recommendations made, together with brief details of the related findings, is set out below: -

<i>Priority level</i>	<i>Number of Recommendations</i>	<i>Recommended action timescales</i>
Priority 1	0	Immediate
Priority 2	5	Within two months

Priority 2 areas:

- The definition and use of priority ratings for incidents is not practical for all incidents and is not accurately recorded in the system.
- The reporting facility within Manage Engine to monitor IT incidents and issues affecting service delivery is not currently being utilised.
- Reliance is currently placed upon manual records to identify wider system issues, rather than reports from the system.
- Customer satisfaction scores are of limited benefit due to erroneous scores and so are not reported upon or used to improve service delivery.
- ICT Help Desk staff are not yet adequately trained in running the performance reports in Manage Engine which are available following a recent upgrade.

Audit conducted by: Paul Bellamy (ICT Auditor) and

Angela Wendels, Senior Auditor

Audit supervised by: Philip Dent

Audit Supervisor

Rob Disney, Group Manager Assurance

Audit Finding	Recommendation	Management Response																		
Priority 2 areas (Highly desirable for effective internal control, should implement recommendations to improve existing control arrangements)																				
<p>1. Prioritising Incidents</p> <p>All incidents logged by the ICT Help Desk are assigned a priority based on their perceived impact and urgency of the incident. This then determines the target resolution timescale. Priority ratings are classified as one of the following:</p> <table border="1" data-bbox="113 562 668 916"> <thead> <tr> <th>Priority</th> <th>Target Response</th> <th>Target Resolution</th> </tr> </thead> <tbody> <tr> <td>P1 (critical)</td> <td>15 Minutes</td> <td>2 Hours</td> </tr> <tr> <td>P2 (major)</td> <td>1 Hour</td> <td>4 Hours</td> </tr> <tr> <td>P3 (high)</td> <td>4 Hours</td> <td>2 Days</td> </tr> <tr> <td>P4 (medium –</td> <td>1 Day</td> <td>10 Days</td> </tr> <tr> <td>P5 (low)</td> <td>1 Day</td> <td>1 Month</td> </tr> </tbody> </table> <p>The above priority settings are set out in the guidelines in Proc 2081 - ICT Service Card and the Incident Management Process Proc 2087.</p> <p>From a sample of 10 incidents, we noted that seven had a priority rating of P4 (default), one was a P1 and the other two were for information only. The speed of resolving the issues often did not correlate with the target timescales, indicating deficiencies in the process and possible inaccuracies in the prioritisation methodology.</p> <p>The Service Desk Manager indicated that priority ratings are not generally changed from the default P4 setting when logged.</p> <p>Risk: Risks associated with incidents reported may not be correctly defined and prioritised by ICT staff.</p>	Priority	Target Response	Target Resolution	P1 (critical)	15 Minutes	2 Hours	P2 (major)	1 Hour	4 Hours	P3 (high)	4 Hours	2 Days	P4 (medium –	1 Day	10 Days	P5 (low)	1 Day	1 Month	<p>A review of the prioritisation definitions and timescales should be undertaken to ensure that they are practical for use.</p> <p>Staff should be adequately trained to ensure that the appropriate priority ratings are given to future incidents and are correctly recorded in the system.</p> <p>A review of cases currently awaiting action within the system should be undertaken to ensure that the appropriate priority ratings have been assigned.</p>	<p>Response</p> <ul style="list-style-type: none"> - A review of the prioritisation definitions and timescales will be undertaken to ensure that they are practical for use. - Training needs concerning the prioritisation of incidents will be identified and addressed accordingly. - Pending jobs with the default priority setting will be reviewed and amended where necessary. <p>Date for implementation 1st June 2020</p> <p>Officer responsible for implementation ICT Service Desk Manager</p>
Priority	Target Response	Target Resolution																		
P1 (critical)	15 Minutes	2 Hours																		
P2 (major)	1 Hour	4 Hours																		
P3 (high)	4 Hours	2 Days																		
P4 (medium –	1 Day	10 Days																		
P5 (low)	1 Day	1 Month																		

Audit Finding	Recommendation	Management Response
<p>2. System Reporting</p> <p>We were advised that the Team has taken on some new roles and responsibilities recently, but with reduced resources to manage the work load. The Head of ICT would like to identify the impact of this. Currently he has to manually review the jobs coming in, along with limited information from the system, however, better reporting is needed in order to accurately measure the following:</p> <ul style="list-style-type: none"> • If the call count is going up • If staff are managing the work load (open/closed cases) • Analyse the reasons for increased number of incidents (eg common problems) <p>During the Audit, we requested a report from the system of the dates and times of incident reports in the last 12 months to look at performance (fix times) against SLAs. It was not possible for the Service Desk Manager to generate this report yet and we could only review incidents on a case by case basis.</p> <p>We were advised that the system had recently been upgraded to address the reporting inadequacies and should now allow better performance reporting to be obtained, however, staff are not adequately trained in the system reporting as yet.</p> <p>Risk: Failure to accurately analyse incident data and identify possible problems may impact on service delivery.</p>	<p>To enable service delivery to be monitored more effectively, management should devise a set of reports and frequency of reporting to meet operational requirements which are linked to key performance indicators (KPIs).</p> <p>The implementation of point 1 should enable better analysis of performance delivery against priority levels to be measured more accurately.</p>	<p>Response</p> <ul style="list-style-type: none"> - The NFRS Service Desk solution (Zoho Manage Engine) has a suite of standard reports built in including a Dashboard view which shows KPIs. <p>This includes:</p> <ul style="list-style-type: none"> • Requests by Technician • Request Summary • Unassigned and Open Requests • Open Requests by Category • Requests Closed in Last 20 Days • Requests Received in Last 20 Days <p>Information above can be obtained for the following time periods:</p> <ul style="list-style-type: none"> • This Week • Last Week • This Month • Last Month <ul style="list-style-type: none"> - NFRS will review these reports and the dashboard to determine if this will meet our requirements. <p>Date for implementation 1st June 2020</p> <p>Officer responsible for implementation ICT Service Desk Manager</p>

Audit Finding	Recommendation	Management Response
<p>3. Problem Management</p> <p>There is currently no formal procedure established to run off reports to identify common issues which may affect multiple users or may indicate a widespread problem which may require a general or specific system development resolution. This is due in part to the inadequacies outlined previously, but also due to inadequate categories set up and used within Manage Engine to analyse incidents. Reliance is currently placed upon recording of repeat incidents on a separate log once a common occurrence has been identified through the ICT Help Desk daily debrief.</p> <p>Risk: Common or linked incidents may not be addressed systematically resulting in inefficiencies and failure to address the root cause of a problem.</p>	<p>The categories used to describe incidents should be reviewed and fully utilised to support better analysis and reporting of common issues.</p> <p>Once the capability to run reports by category has been established, regular monitoring of incidents should be undertaken and reported to management so that risks can be identified and resolved.</p>	<p>Response</p> <ul style="list-style-type: none"> - NFRS ICT utilise categories to describe which team within the department will manage the request. Tickets are then organised by sub category (which describes the type of issue) and then finally by item (which describes the service catalogue item which is impacted by the incident or request). This arrangement is considered to be the most appropriate for the needs of the department and Service. - A new custom category report grouped by sub-category and item will be created to facilitate better management oversight of common issues for further investigation and service improvement. <p>Date for implementation 1st June 2020</p> <p>Officer responsible for implementation ICT Service Desk Manager</p>

Audit Finding	Recommendation	Management Response
<p>4. Customer Satisfaction Surveys</p> <p>Once a job has been completed, the person reporting the issue receives an email to advise them that the issue has been resolved and closed. There is an online survey which records customer feedback, leading to a satisfaction score.</p> <p>Although, the system records customer satisfaction feedback from those who complete it, scores are not monitored as a performance measure. We are advised if the survey is opened but not completed, this gives a zero score which then misrepresents the performance figures.</p> <p>Risk: Limited capability to monitor customer satisfaction and identify service improvement actions.</p>	<p>Customer satisfaction surveys should be monitored and reviewed to help identify potential issues so that service improvements can be made.</p> <p>The reason for nil scores should be investigated to determine if they are due to incomplete returns or problems which need to be addressed.</p> <p>This point also links into recommendation 2 above.</p>	<p>Response</p> <p>The customer satisfaction report system will be reviewed. Weekly reports will be run and any with low scores will be investigated.</p> <p>Date for implementation</p> <p>1st June 2020</p> <p>Officer responsible for implementation</p> <p>ICT Service Desk Manager</p>
<p>5. Staff Training</p> <p>A number of the points mentioned above relate to the inability to produce and monitor system reports. The Service Desk Manager and other staff have not received training to produce bespoke reports. However, we are advised that training provision has been sourced and is being arranged for March 2020.</p> <p>Risk: If staff are not adequately trained in the production of system reports, this may hamper the ability to move forwards with other actions.</p>	<p>The provision of training should facilitate the reporting required for KPI monitoring and operational requirements.</p>	<p>Response</p> <p>Training arranged for members of department on 18-19 March 2020.</p> <p>Date for implementation</p> <p>31st March 2020.</p> <p>Officer responsible for implementation</p> <p>ICT Service Desk Manager</p>

OFFICIAL SENSITIVE**To: Chief Fire Officer****Subject: NFRS - Cardiff Checks****Date: March 2020****9 Introduction**

- 1.1 As part of the audit programme, Internal Auditor carry out a Cardiff Checks audit each year. This audit is a comprehensive audit of all aspects of procurement and finance relating to a small number of transactions in the 2018/19 financial year.

An initial analytical review of non-payroll transactions was undertaken to provide an overview of areas of significant expenditure which was then broken down into transaction volumes and values across departments. An initial sample of 16 transactions (total value of £495k) was selected to include a range of originating departments, transaction types and values. Authorisation pathways in the Agresso financial system were reviewed for compliance with ordering and invoice payment rules. Eight items (total value of £239k) in the sample were further reviewed to establish whether they had been correctly procured, were valid transactions and that financial procedures had been complied with. Transaction samples are detailed in Appendix A.

- 1.2 The purpose of this report is to provide assurance that sampled transactions comply with NFRS processes and procedures. Internal Audit were assisted by the NFRS Finance Apprentice in the analysis and testing of transactions.

10 Audit opinion

- 10.1 In the areas examined, we assessed the controls to determine to what extent the risks are being mitigated.
- 10.2 In our opinion the level of assurance we can provide is: -



REASONABLE ASSURANCE **Risk levels are acceptable**

11 Risk areas examined

11.1 During this audit we looked for controls to address the following key risks: -

<i>Risk title</i>	<i>Description</i>
Compliance with Financial Regulations	Transactions may be contrary to Financial regulations and not subject to approved processes.

11.2 The scale of the area reviewed is: -

<i>Metric</i>	<i>2018/19</i>
<i>Non pay expenditure</i>	<i>£10.4m</i>
<i>Sample value</i>	<i>£495k</i>
<i>Sample size</i>	<i>16</i>

12 Audit findings

12.1 Following our work, and with reference to other Internal Audit reviews and the work of the External Auditor, we consider the controls to be effective in the following risk areas: -

- Compliance with processes and procedures: Transactions sampled were found to be compliant with current processes and procedures. Some residual evidence regarding historical contracts is in the process of being provided by officers, however, it is not anticipated that this will impact upon the level of assurance provided above. In the unlikely event that a significant finding subsequently arises this will be brought to the attention of officers and members at the earliest opportunity.

12.2 No failures to comply with the standard controls were identified through our testing and there are no advisory actions or recommendations made.

**Audit conducted by: Rosie Martin (NFRS Finance Apprentice) and Ian Munro
Senior Auditor**

**Audit supervised by: Angela Wendels
Senior Auditor**

Rob Disney, Group Manager Assurance

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NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

EXTERNAL AUDIT PLAN 2019/20

Report of the Chief Fire Officer

Date: 15 January 2021

Purpose of Report:

To present the external auditors' audit plan for work which they intend to carry out on the Authority's 2019/20 financial statements and value for money arrangements.

Recommendations:

That Members note the contents of this report.

CONTACT OFFICER

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Head of Finance

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Email: becky.smeathers@notts-fire.gov.uk

Media Enquiries Contact: Corporate Communications Team
(0115) 967 0880 corporatecomms@notts-fire.gov.uk

1. BACKGROUND

- 1.1 The external audit of the Fire Authority's 2019/20 accounts is to be undertaken by Ernst & Young LLP. This is the second of five years that Ernst & Young will be undertaking the audit under the current contract.
- 1.2 As part of their responsibilities under the external audit regime, the auditors produce an annual plan setting out the areas that they will cover during their audit and this plan is presented to the Finance and Resources Committee.

2. REPORT

- 2.1 The full external audit plan is set out in Appendix A for Members' information. In summary, it covers several areas:
- Overview of the audit strategy;
 - Audit risks;
 - Value for money risks;
 - Audit materiality;
 - Scope of the audit;
 - Interdependencies;
 - Various appendices which provide further detail to support the plan.
- 2.2 The plan also sets out the fees for the audit and the timescales for reporting back to the Fire Authority.

3. FINANCIAL IMPLICATIONS

The PSAA (Public Sector Audit Appointments) has set the audit fee scale for 2019/20 at £23,909. However, EY have indicated that they will be requesting a fee increase – see Appendix A of the Audit Plan.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising from this report.

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because this report relates to statutory audit which is external scrutiny rather than a policy matter.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

The external auditors have statutory powers and responsibilities set out in the Local Audit and Accountability Act 2014.

8. RISK MANAGEMENT IMPLICATIONS

The external auditors provide a key element of the assurances that are given to elected Members and members of the public with regard to the accuracy of the financial statements and the arrangements for value for money.

9. COLLABORATION IMPLICATIONS

There are no collaboration implications arising from this report.

10. RECOMMENDATIONS

That Members note the contents of this report.

11. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

John Buckley
CHIEF FIRE OFFICER



Nottinghamshire Fire & Rescue Authority Audit planning report

Year ended 31 March 2020

March 2020



Private and Confidential
Nottinghamshire Fire & Rescue Authority
Bestwood Lodge Drive
Arnold
Nottingham
NG5 8PD

20th March 2020

Dear Members of the Finance and Resources Committee

Audit planning report 2019/20

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as the auditor to Nottinghamshire Fire and Rescue Authority (the 'Authority'). Its purpose is to provide the Finance and Resources Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Finance and Resource Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Authority, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Finance and Resources Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 3 April 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Henshaw

For and on behalf of Ernst & Young LLP

Contents

01

Overview of our 2019/2020 audit strategy



02

Audit risks



03

Value for Money Risks



04

Audit materiality



05

Scope of our audit



06

Audit team



07

Audit timeline



08

Independence



09

Appendices



Page 90

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Members of the Finance and Resource Committee in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Members of the Finance and Resource Committee and management of Nottinghamshire Fire & Rescue Authority those management of Nottinghamshire Fire & Rescue Authority for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent. matters we are required to state to them in this 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 Finance and Resource Committee and management of Nottinghamshire Fire & Rescue Authority.



pages

01

Overview of our 2019/20 audit strategy



Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Finance and Resources Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue and expenditure recognition: Inappropriate capitalisation of expenditure	Fraud risk	New Risk	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have re-evaluated the perceived fraud risks and consider that this risk is more prevalent over the medium term and is likely to occur through the capitalisation of expenditure that should be accounted for in the Comprehensive Income and Expenditure Statement (CIES).
Valuation of Pension Liabilities - Firefighters' Pension Scheme	Significant Risk	Change in risk	The pension fund valuations separately involve external specialists, to provide these actuarial assumptions. A small movement in these assumptions could have a material impact on the value in the balance sheet. Following the outcome of the McCloud and Sargeant judgements in 2018/19 there remains significant uncertainty around the impact this will continue to have on the valuation of liabilities within the scheme, as well as the implications for the triennial review and funding requirements. Due to the current uncertainty surrounding the valuation of the pension liability as a result of the ongoing repercussions from the McCloud judgement, we have increased the level of risk from inherent to significant for this Financial Year.
Valuation of land and buildings	Significant Risk	Change in risk	The external valuation expert undertakes a rolling programme of valuations that ensures that all land and building assets required to be measured at fair value are revalued at least every five years. The valuation of land and buildings is subject to a number of assumptions and judgements and a small movement in these assumptions could have a material impact on the financial statements. As the Code requires all land and buildings are held at fair value, there is a risk that the remaining asset base is materially misstated.
Valuation of Pension Liabilities - LGPS	Higher inherent risk and area of audit focus	No change in risk or focus	The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations separately involve external specialists, to provide these actuarial assumptions. A small movement in these assumptions could have a material impact on the value in the balance sheet.

Overview of our 2019/20 audit strategy (continued)

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Nottinghamshire Fire & Rescue Authority give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and
- Our conclusion on the entity's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Authority's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Authority.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these are relevant in the context of Nottinghamshire Fire & Rescue Authority's audit, we will discuss these with management as to the impact on the scale fee. We have highlighted a number of these items throughout our audit plan and have included the impact on fees within appendix A.

Audit team changes



Engagement Partner - Helen Henshaw

Helen has over twenty years of audit experience working for EY with significant experience across both the public and private sector.

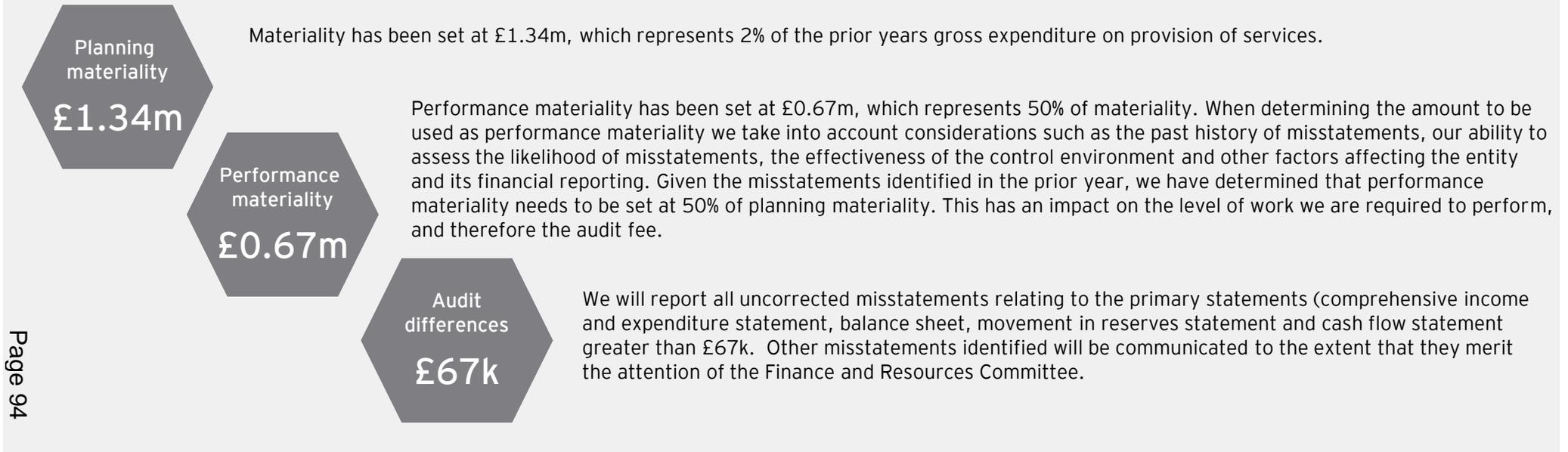


Engagement Manager - Gary Morris

Gary has a significant amount of audit experience within the public sector

Overview of our 2019/20 audit strategy (continued)

Materiality



Audit Timetable

Janet Dawson, the UK Government and Public-Sector Assurance Leader for Ernst & Young LLP wrote to all Chief Financial Officers and Audit Committee Chairs for PSAA audited bodies in February 2020 setting out our views on the sustainability of UK local public audit.

At the end of January 2020, 85 organisations had not yet received their audit opinion on the 2018-2019 financial statements. The factors that have led to this unprecedented position are extensive, impact all audit suppliers in the PSAA contract and need to be considered by public sector finance professionals and Audit Committees. Further details can be found at pages 35 and 36 of this report.

To ensure we deliver the best quality audits, the PSAA, NAO and Local Public Audit Stakeholder forum have been informed that we will be scheduling a number of 2019/20 external audits for completion after the 31st July 2020. One of these is Nottinghamshire Fire and Rescue Authority. The main driver of this decision was the length of time required to complete the audit last year, our desire to retain audit team continuity as far as possible to assist the delivery of an efficient, high quality audit this year.

The requirements of the Accounts and Audit Regulations 2015 are to publish a statement of accounts, annual governance statement and narrative statement by the 31st July with or without an audit opinion. If you are not able to publish an audit opinion at that time, you should explain why. This means the 31st July is not a statutory audit deadline. We will work with management to ensure that the publication requirements are met. Further details on the timetable can be found in section 7 of this report.



Page 95

02 Audit risks



Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*

Page 96

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

In undertaking our fraud risk assessment we have not identified any specific risks for inclusion in our audit plan at this stage. We will continue to monitor this and provide you with an update as required.

What will we do?

We will;

- ▶ Identify fraud risks during the planning stages.
- ▶ Inquire of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understand the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consider the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determine an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including:
 - ▶ testing of journal entries and other adjustments in the preparation of the financial statements;
 - ▶ assessing accounting estimates for evidence of management bias; and
 - ▶ evaluating the business rationale for significant unusual transactions.

Our response to significant risks (continued)

Risk of fraud in revenue and expenditure recognition - Inappropriate capitalisation of expenditure*

Financial statement impact

Misstatements that occur in relation to the inappropriate capitalisation of expenditure could affect the expenditure accounts.

We consider the risk applies to capitalisation of revenue expenditure and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

As the Authority is more focussed on its financial position over the medium term we do not consider there to be a heightened risk for the Authority's standard income and expenditure streams except for the capitalisation of expenditure on Property, Plant and Equipment (PPE) given the extent of the Authority's capital programme.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Reviewing the appropriateness of expenditure recognition and capitalisation accounting policies;
- ▶ Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statement, specifically those that move expenditure to PPE balance sheet general ledger codes; and
- ▶ Performing sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised.

Our response to significant risks (continued)

Valuation of the Firefighters Pension Scheme liability

Financial statement impact

Misstatements that occur in relation to the risk of valuation of the Firefighters Pension Scheme could affect multiple balances and disclosures throughout the financial statements. The Firefighters Pension Scheme had a net liability of £546 million in 2018/19.

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Firefighters' Pension Scheme administered by Leicestershire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet. At 31 March 2019 this totalled £546 million. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Following the outcome of McCloud and Sargeant in 2018/19, initial estimates suggest removing the difference in treatment of discrimination will add around £4 billion per annum to scheme liabilities across public services from 2015. The most recent valuation process set employer contribution rates until 2023 and given there are a number of factors that may impact on the valuation of the scheme before the next triennial there is uncertainty around how the additional costs will be funded.

CIPFA is preparing further accounting guidance to support bodies with the accounting for the McCloud liability in 2019/20. However, the Authority, via their actuaries will need to ensure that they refine their estimate of the impact of McCloud and Sargeant in 2019/20 and how subsequent funding implications may impact on the triennial valuation.

As well as a risk to the valuation of the liabilities, there is also a timetable risk arising from the above, as agreement of remedy (and potential consultations starting in the spring) may necessitate refining of liability estimates by GAD, to update the work completed in summer 2019 to remeasure the McCloud liability.

As a result of the uncertainty associated with the above we have designated the valuation of the Firefighters Pension Scheme liability to be a significant risk.

What will we do?

We will:

- ▶ Understand how the Authority is considering the impact of McCloud and Sargeant on the financial statements arising from the employment tribunals, any resulting consultations and other pronouncements from government on restitution.
- ▶ Assess the work of the actuary (GAD) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;
- ▶ Understand and consider the PwC report for how your actuary has treated the impact of McCloud and Sargeant in calculating the IAS 19 liability and for any impact on the triennial revaluation;
- ▶ Review and test the accounting entries and disclosures made within the financial statements in relation to IAS19;
- ▶ Gain assurance over data that has been provided to the actuaries;
- ▶ Test a sample of lump sums and pension payments for new fire fighter pensioners;
- ▶ Complete a predictive analytical review for both the pensions payroll and employees and employers pension contributions; and
- ▶ Assess management's arrangements to reconcile the active and pensioner membership numbers.

Our response to significant risks (continued)

Valuation of Land and Buildings

Financial statement impact

Misstatements that occur in relation to the risk of valuation of the Land and Buildings affect multiple balances and disclosures throughout the financial statements. Land and Buildings had a valuation of £57 million in 2018/19.

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the entity's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

The Authority will engage an external expert valuer who will apply a number of complex assumptions to these assets. Annually assets are assessed to identify whether there is any indication of impairment. As the Authority's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/ overstated. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

In the performance of audit procedures on the valuation of land and buildings in 2018/19, we identified material misstatements. As a result, we have increased the risk profile attached to this area of the financial statements.

What will we do?

We will:

- ▶ Consider the work performed by the external valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation;
- ▶ Test accounting entries have been correctly processed in the financial statements; and
- ▶ Engage EY Real Estates team to perform a review of the valuer's estimation methods and to review the valuation of a sample of assets.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What will we do?
<p>Pension Liability Valuation - LGPS</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Nottinghamshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2019 this totalled £23 million. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We will:</p> <ul style="list-style-type: none">▶ Liaise with the auditors of Nottinghamshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Authority;▶ Assess the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and▶ Review and test the accounting entries and disclosures made within the Authority's financial statements in relation to IAS 19.

Other matters

What is the risk/area of focus?

IFRS16 - leases

IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as “pay as you go” arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to be published, but in July 2019 CIPFA/LASAAC issued ‘IFRS 16 leases and early guide for practitioners’.

This early guidance provides comprehensive coverage of the requirements of the forthcoming provisions, including:

- ▶ the identification of leases
- ▶ the recognition of right-of-use assets and liabilities and their subsequent measurement
- ▶ treatment of gains and losses
- ▶ derecognition and presentation and disclosure in the financial statements,
- ▶ the management of leases within the Prudential Framework.

The guidance also covers the transitional arrangements for moving to these new requirements, such as:

- ▶ the recognition of right-of-use assets and liabilities for leases previously accounted for as operating leases by lessees
- ▶ the mechanics of making the transition in the 2020/21 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes).

What will we do?

IFRS 16 - leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases.

The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet.

Although the new standard will not be included in the CIPFA Code of Practice until 2020/21, work will be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2020.

In particular, full compliance with the revised standard for 2020/21 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2020 in order to identify:

- ▶ all leases which need to be accounted for
- ▶ the costs and lease term which apply to the lease
- ▶ the value of the asset and liability to be recognised as at 1 April 2020 where a lease has previously been accounted for as an operating lease.

We will discuss progress made in preparing for the implementation of IFRS 16 - leases with the finance team over the course of our 2019/20 audit.

As you will be required to include the estimated impact of IFRS 16 within your 2019/20 financial statements, you will need to provide evidence to demonstrate that an impact assessment has been undertaken, it is complete, and that any disclosures are free from material misstatement.

Other matters

What is the area of focus?

Going Concern Compliance with ISA 570

This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.

The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.'

'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.'

What will we do?

The revised standard requires:

- ▶ auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- ▶ greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Council obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;
- ▶ improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the Council are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements;
- ▶ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- ▶ necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

The revised standard extends requirements to report to regulators where we have concerns about going concern.

We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21.



03

Value for Money Risks





Background

We are required to consider whether the entity has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"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"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

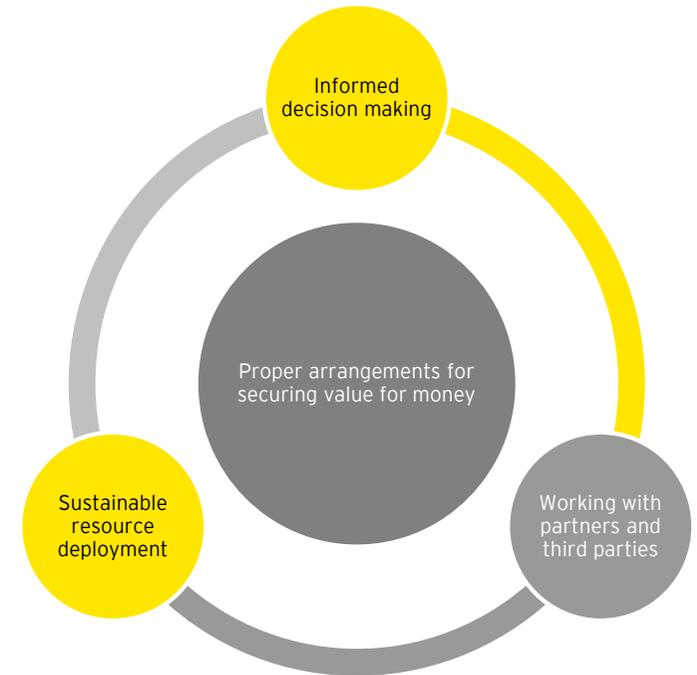
When considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. This has included consideration of the steps taken by the Authority to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risks noted on the following page which we view as relevant to our value for money conclusion.





Value for Money Risks

What is the significant value for money risk?

Securing financial resilience

In common with other Fire and Rescue Services, the Authority is facing significant financial pressures in the medium term.

Whilst the Authority is predicting an underspend for 2019/20, the forecast deficits in the MTFS over the next four years are as follows (based on 0% Council tax increase assumption):

- 2020/21 - £500,000
- 2021/22 - £1,181,000
- 2022/23 - £1,599,000
- 2023/24 - £2,141,000

This decreases overall useable reserves to £4.3 million by the end of the 2023/24 period, which is marginally above the level of £3.9 million considered acceptable by the Authority going into 2020/21.

Given the uncertainty of the funding settlement post 2020/21 and the financial pressures set out above, we have considered this to be a significant area of focus in forming our value for money conclusion.

Establishment of joint Headquarters and setup of Limited Liability Partnership

In September 2018 and February 2019, Members approved the development of a business case for a joint Fire and Police Headquarters at Sherwood Lodge, Arnold through a Limited Liability Partnership (LLP) for a joint headquarters site.

The total estimated costs for the redevelopment of Sherwood Lodge is circa £18.5m, of which the Authority is to contribute £4 million to be offset by the sale of the current Fire Headquarters.

In progressing significant projects there are risks around the arrangements for governance and coming to an informed decision.

What arrangements does the risk affect?

Deploy resources in a sustainable manner.

Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions

What will we do?

We plan to review:

- ▶ the MTFS including the adequacy of any major assumptions;
- ▶ how the organisation has monitored progress of strategic delivery plans;
- ▶ how the Authority has considered the impact of the Local Government settlement on the MTFS;
- ▶ the adequacy of plans that have been developed to identify future savings and the level of reported savings delivered in year.

Take informed decisions

Acting in the public interest, through demonstrating and applying the principles and values of sound governance

We plan to review:

- ▶ the decision making arrangements surrounding the redevelopment of the site at Sherwood Lodge
- ▶ the decision making arrangements and processes undertaken relating to the creation of the limited liability partnership
- ▶ the considerations undertaken in relation to the taxation and legal guidance relating to the governance delivery options for the joint headquarters arrangements.



Value for Money Risks

What is the significant value for money risk?

HMICFRS Inspection Findings - 2019

The HMICFRS inspection, dated June 2019, gave the Authority an overall result of 'requires improvement'. The inspection highlights a number of required improvements.

The Authority has allocated £1.4m of reserves to address the issues highlighted in the inspection.

The negative findings within the inspection and the significant funds allocated to address the issues signifies a significant risk to the value for money arrangements at the authority.

What arrangements does the risk affect?

Deploy resources in a sustainable manner and Taking informed decisions

Acting in the public interest, through demonstrating and applying the principles and values of sound governance and

Managing and utilising assets effectively to support the delivery of strategic priorities

What will we do?

We plan to review:

- ▶ the inspection in full. Assessing the issues identified within NFRA;
- ▶ the NFRA plans proposed to address the issues identified within the inspection report;
- ▶ the procedures undertaken and governance arrangements in respect of the formulation of the proposed actions;
- ▶ The financial impact of the plans that have been developed to address the findings and whether these represent value for money.



04

Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2019/20 has been set at £1.34 million. This represents 2% of the Authority's prior year gross expenditure on the (Surplus)/Deficit on provision of services but excluding the £24m past service cost included as a result of the McCloud adjustment. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.

Page 108



We request that the Finance and Resource Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.67 million which represents 50% of planning materiality. When determining the amount to be used as performance materiality we take into account considerations such as the past history of misstatements, our ability to assess the likelihood of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting. Given the misstatements identified in the prior year, we have determined that performance materiality needs to be set at 50% of planning materiality. This has an impact on the level of work we are required to perform, and therefore the audit fee.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement and balance sheet that have an effect on income or that relate to other comprehensive income. Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Finance and Resources Committee, or are important from a qualitative perspective.

Specific materiality - We have set a materiality for remuneration disclosures, related party transactions and members' allowances. As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.

Pension Fund Materiality - Pension Fund Planning materiality of £329k has been set by using 2% of benefits payable as per the audited 2018/19 Financial Statements. Performance materiality of £165k has been set at 50% of planning materiality and the audit difference threshold is set at £16k.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Authority's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

Addressing the risk of fraud and error;

Significant disclosures included in the financial statements;

Entity-wide controls;

- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2019/20 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Our Audit Process and Strategy (continued)

Audit Process Overview

Analytics: We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Finance and Resources Committee.

Internal audit: We will review internal audit plan and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



06

Audit team



Audit team

Audit team

The engagement team is led by Helen Henshaw, who is supported by Gary Morris, Audit Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the finance team. Both work within our dedicated Government and Public Sector team and have significant experience on local government audits. Jessica Pillay, your lead senior for the audit, will provide continuity in your team and will be responsible for leading the team on site.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Valuations
Pensions disclosures	EY Actuaries

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the organisation's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07 Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20.

From time to time matters may arise that require immediate communication with the Finance and Resources Committee and we will discuss them with the Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	February		
Walkthrough of key systems and processes			
Interim audit testing	March / April	Finance and Resources Committee	Audit Planning Report
Year end audit	September		
Year end audit	October	Finance and Resources Committee	Audit Results Report
Audit Completion procedures			Audit opinions and completion certificates
	Onwards	Finance and Resources Committee	Annual Audit Letter

Page 115



Page 116

08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>▶ The overall assessment of threats and safeguards;</p> <p>▶ Information about the general policies and process within EY to maintain objectivity and independence.</p> <p>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ Written confirmation that all covered persons are independent;</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Helen Henshaw, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the organisation. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved. At the time of writing, there are no non-audit services to be provided.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of senior management of the organisation. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2019

EY Transparency Report 2019
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2019 and can be found here:

https://www.ey.com/en_uk/who-we-are/transparency-report-2019

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

We anticipate that new requirements for other entities will follow and we will continue to monitor and assess the impact.



09

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Total fee 2018/19	Planned fee 2019/20
	£	£
Total Fee - Code work	23,909	23,909
Other	18,151 (note 1)	(note 2)
Total audit	42,060	TBD

All fees exclude VAT

(1) The 18/19 Code work includes an additional fee of £18,151, which relates to the areas set out below. We have discussed, but not agreed, the variation with officers and await a decision from PSAA.

- PPE valuation (use of specialist)
- PPE existence
- Pensions valuation (McCloud and use of specialists)
- Prior period adjustment
- Multiple versions of accounts
- Value for money risks

(2) For 19/20 the scale fee will be impacted by a range of factors (see pages 35 and 36). The specific issues we have identified at the planning stage which will impact on the fee include the use of specialists for PPE valuation and pensions liabilities, additional work required as a result of setting performance materiality at 50%, and the work that will be required to address the value for money risks identified.

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

Any agreed fee is presented based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Corporation; and
- The entity having an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Corporation in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Fees

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. For an organisation such as the Fire Authority the extent of audit procedures now required mean it will take around 900 hours to complete a quality audit. Based on our own modelling of the inputs required to complete an external audit of the Authority concludes that a more appropriate scale fee for the delivery of an external audit to the Authority would be in the region of £70,000.

Summary of key factors

1. **Status of sector.** Financial reporting and decision making in the public sector has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.
- To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.
- Audit of estimates.** There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.
- To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and use of our internal specialists.
3. **Regulatory environment.** Other pressures come from the changing regulatory landscape and audit market dynamics:
- Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.
 - This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting the requirements plus changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

Fees

Summary of key factors (cont'd)

4. As a result Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.
- We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.
 - We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.

Next steps

- In light of recent communication from PSAA, we will need to quantify the impact of the above to be able to accurately re-assess what the baseline fee is for the Corporation should be in the current environment. Once this is done we will be able to discuss at a more detailed level with you.

Appendix B

Required communications with the Finance and Resources Committee

We have detailed the communications that we must provide to the Finance and Resources Committee (F&RC).



Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Finance and Resources Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit results report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit results report

Appendix B

Required communications with the Finance and Resources Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Finance and Resources Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit results report	
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit results report	
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report and Audit Results Report	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report	

Appendix B

Required communications with the Finance and Resources Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Finance and Resources Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the GPWG may be aware of 	Audit results report	
Internal controls	▶ Significant deficiencies in internal controls identified during the audit	Audit results report	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report	
Auditors report	▶ Any circumstances identified that affect the form and content of our auditor's report	Audit results report	
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit planning report Audit results report	
Certification work	Summary of certification work undertaken	Certification report	

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Reading other information contained in the financial statements, the Finance and Resources Committee reporting appropriately addresses matters communicated by us to the Finance and Resources Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

Page 127

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

HER MAJESTY'S INSPECTORATE OF CONSTABULARY AND FIRE & RESCUE SERVICES UPDATE

Report of the Chief Fire Officer

Date: 15 January 2021

Purpose of Report:

To present Members with an update on the Service's response to the outcomes of the inspection by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services.

Recommendations:

That Members note the progress made against the Area for Improvement (AFI) Action Plan.

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1. BACKGROUND

- 1.1 At the meeting of the Fire Authority in July 2019 Members were presented with the report from Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) following the inspection of Nottinghamshire Fire and Rescue Service (NFRS).
- 1.2 Furthermore, at the September 2019 Fire Authority meeting, Members were presented with an action plan detailing the 'areas for improvement' (AFI), that had been highlighted by HMICFRS, and capturing the actions required to address these areas.
- 1.3 It was agreed that scrutiny would be conducted through the Fire Authority committee structure with regular progress reports being presented to Members. Of the 25 AFIs, 12 were aligned to the Community Safety Committee, eight were aligned to Human Rescues Committee, two were aligned to Finance and Resources Committee, and three were aligned to the Policy and Strategy Committee.
- 1.4 Due to the interim governance arrangements being in place because of Covid-19, the reporting of updates to the various committees was suspended, and update papers, detailing progress against all AFIs, have been presented to the Policy and Strategy committee.
- 1.5 As an update, of the 25 AFIs the Service received, there are now just six remaining. Good progress is being made against these with all AFIs scheduled to be complete by April 2021
- 1.6 Of the two AFIs aligned to Finance and Resources Committee, one has now been completed and closed and one remains.
- 1.7 This paper serves as an update for the one remaining AFI.

2. REPORT

- 2.1 HMICFRS highlighted 25 AFIs for the Service to consider. Each improvement area has been allocated to a lead officer, with clear milestones and expected outcomes to deliver the improvement required. Progress against each of the 25 AFIs is monitored each month at the Programme and Performance Board.
- 2.2 All AFIs are monitored, tracked and reviewed through an online 'action tracker'. This allows for ongoing updates and scrutiny.
- 2.3 In respect of Finance and Resources Committee, the remaining AFI to be completed is AFI 15, which relates to: "The Service needs to accelerate its plans to improve ICT so that it makes best use of available technology to support operational effectiveness and efficiency. This action is 70% complete as of 6th January 2021."

2.4 The actions in this AFI comprise:

- **Mobile Working** – enhancement through the provision of Wi-Fi and Sim-card enabled devices for all wholtime stations. This will enable multiple activities to be undertaken when away from the station, leading to real-time data input and retrieval, and reducing the need for subsequent manual data entry.
- **Training and Competency Recording** – rationalisation of systems for accessing and recording training and competencies.
- **Data Management** – collecting, cleansing and presenting information will be improved to support the new performance management software being implemented within the Service. Furthermore, investment made to integrate performance management to enhance scrutiny and drive continuous improvement through effective evaluation.
- **User Training** – adapt training in line with technological and digital progress. This will result in a blended approach utilising on-line learning as well as traditional face to face input.

2.5 Significant progress has been made on all areas of this AFI and all but one area are on track to be delivered within the agreed deadline of 31 March 2021.

2.6 However, the action relating to the recording of competency and training through an integrated learning management system has been delayed, as no solution has been found in the market that meets the Service's requirements. Consequently, the deadline for implementation will not be achieved. Further work is underway to review the Service's specification within the context of capability within systems in the market with a view to moving this action to completion within 2021/2022.

3. FINANCIAL IMPLICATIONS

There are no financial implications arising from this report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising from this report.

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because the information contained in this report does not relate to a change in policy or procedure.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

- 7.1 The Fire and Rescue Service Act 2004 places a duty on NFRS in respect of the delivery of its services to communities.
- 7.2 The Local Government Act 1999 places a statutory duty on NFRS to '*secure continuous improvement in the way in which its functions are exercised*'. The reporting of Service Delivery's performance ensures that the Service is focusing on key objectives as set by the Fire and Rescue Authority and continuous improvement. This ensures that Members can apply effective scrutiny to be satisfied that statutory obligations are being met.
- 7.3 The Police and Crime Act (2017) Chapter 4 Section 11 outlines that the English inspectors must inspect, and report on the efficiency and effectiveness of, fire and rescue authorities in England.

8. RISK MANAGEMENT IMPLICATIONS

There are no risk management implications arising from this report.

9. COLLABORATION IMPLICATIONS

There are no collaboration implications arising from this report, however discussions with Nottinghamshire Police continue in relation to their experience of HMICFRS inspections and how NFRS can learn from that in preparation for future inspections.

10. RECOMMENDATIONS

That Members note the progress made against the Area for Improvement (AFI) Action Plan.

11. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

John Buckley
CHIEF FIRE OFFICER

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