

Annual Audit Letter

Hampshire Fire and Rescue Authority

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local Public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means That we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two parts:

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 9).**

I also comment on some of the future challenges for the Authority (page 10).

Audit opinion and financial statements

1 I issued an audit report on the 27 September 2010, in line with the deadline for statutory reporting of local authority accounts. The report included an unqualified opinion on the financial statements for the year ending 31 March 2010. The arrangements to produce your financial statements were good and the statements contained no material errors.

Value for money

2 The Authority faced a challenging year, with increasing financial pressures and a consequent increasing need to seek savings through changes to services and structures as well as efficiencies. You have improved value for money in several areas in the last year, including changed crewing arrangements and efficiencies from partnership working, to achieve significant savings amounting to £0.9 million or 1.4 per cent of the total budget.

3 You have built up your reserves in response to the recession and the impending spending reviews to provide potential funding for improvement projects and to ease financial pressures in future years. Our work on your approach to your use of natural resources identified some scope to improve still further, however, this may be difficult to progress within the current economic climate.

4 I issued an unqualified value for money conclusion stating you had made proper arrangements to secure economy, efficiency, and effectiveness in your use of resources for the year ending 31 March 2010.

Current and future challenges

5 The economic downturn is having a significant impact on public finances and the bodies that manage them. It is affecting the ability of public sector bodies to fund service delivery and capital programmes, and some sources of income are reducing.

6 With the expected government cuts in future financial support for fire authorities, the pressures are likely to increase and you will have some difficult decisions to take in setting your 2011/12 budget.

7 It is therefore vital to ensure you are making best use of your resources and that you are prepared to be able to deliver significant costs savings while minimising the impact on vital services for local people. The strength of your approach to strategic financial and operational planning means you are well placed to address the risks arising from this challenge.

Financial statements and annual governance statement

The Authority's financial statements and annual governance statement are an important means by which the Authority accounts for its stewardship of public funds.

I gave an unqualified opinion on the Authority's 2009/10 financial statements on 27 September 2010, within the statutory target date.

Overall conclusion from the audit

8 The arrangements to produce your financial statements were good and I did not identify any material misstatements in the Authority's accounts. I identified some minor errors and presentational adjustments during my audit. These did not affect the reported financial position and officers adjusted for them during the audit.

9 I issued an audit report containing an unqualified audit opinion on 27 September 2010 and certified completion of the statutory audit.

Matters of internal control

10 I did not identify any significant weaknesses in internal control from my testing of the operation of your key financial systems. I concluded there was a good control environment in place and this supported my planned testing strategy on the financial statements.

Adoption of International Financial Reporting Standards

11 From 2010/11, local government bodies have to prepare their financial statements to meet International Financial Reporting Standards (IFRS). This will change the calculation of some figures in the accounts and the format of some of the core statements.

12 The Audit Commission undertook a national study on the transition to IFRS in local government. This study aims to assess bodies' progress towards preparing IFRS-based accounts and has two phases. In October 2009 I completed the phase-one survey at the Authority, and assessed the Authority as an 'amber' risk. This reflected my judgement that it:

- had a robust project plan in place;
- was making good progress in addressing some of the key areas;
- still had some significant areas of work to tackle; and
- had a complex leasing arrangement for Information technology equipment with Hampshire County Council which was yet to be evaluated for its accounting treatment against the new IFRS criteria.

13 In July this year I carried out the phase-two survey to assess the Authority's progress, and I decided you had moved to 'green' risk. You are making good progress and have addressed the most challenging issues. Regular progress updates have been made to the Governance Committee and a timetable has been set for restating the accounts.

14 Although there remains much work still to do, I am confident the Authority will ensure the project is completed in good time.

Value for money

I considered whether the Authority is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I gave an unqualified conclusion on 27 September 2010.

2009/10 use of resources assessments

15 At the end of May 2010, the Commission wrote to all Chief Fire Officers to inform them that, following the government's announcement, work on CAA would stop with immediate effect. The Commission would no longer issue scores for its use of resources assessments.

16 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results the work completed on the use of resources assessment up to the end of May, to inform my 2009/10 conclusion.

VFM conclusion

17 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people, against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each category of audited body.

18 Based on this assessment I issued an unqualified conclusion stating the Authority had proper arrangements in place. I have set out my conclusion on each criterion in Appendix 2.

19 You had already established a strong baseline against the specified criteria and performed to a high standard as noted in my 2008/09 assessment. You continue to meet the expected standards and have delivered further improvements and outcomes for local people in this year. I have summarised my findings in the three themes in the following paragraphs.

Managing finances

- You have recognised the risk of uncertain public sector funding and developed plausible scenarios to mitigate the impact of reduced finance over the next three years. Scenarios make assumptions about the future levels of inflation and pay increases, possible levels of grant reduction from 2011/12 onwards, and different levels of council tax levels from 2011/12.
- For the first time you have incorporated an annual report for last full financial year (2008/09) within your Integrated Risk Management Plan (IRMP), showing comparative performance for the year. Simple graphs show strong improvement in performance and for the second year in succession, the IRMP has been awarded the Crystal Mark by the Plain English Campaign.
- Members are fully committed to taking realistic and tough decisions on alternative approaches and models of service delivery. The Service has implemented efficient and flexible crewing, supported by a personnel reserve, which has redirected full-time firefighters from watches to risk reducing work in communities. This has saved £1.5 million over the last two years making you the top performer nationally in 2008/09 and 4th nationally in 2009/10 for achieving cashable savings from revised shift systems and crewing arrangements.
- You have made a national contribution to the development, performance, and current legal status of fire service insurance. The creation of Fire and Rescue Authorities Mutual Limited (FRAML) was a Hampshire – led initiative. It resulted in significant savings in insurance premiums to many Fire Authority's over the country and led to legislative change in powers to run such schemes.

Governing the business

- Your approach to engaging and communicating with local people, staff, and partners is strong and well developed. This has innovatively embraced a wide range of e-communications and social medium such as Face Book, U-tube, and Twitter to ensure you get to a wide cross-section of the community. It has also enabled you to profile users and better target your consultation.
- You are recognised nationally as demonstrating notable practice in several partnership arrangements, including the Ambulances co-responder schemes, the Arson Task Force, and animal rescue.
- You undertake regular benchmarking of your services both externally and internally. The Beacon Station scheme has been particularly successful in engaging staff in taking ownership of, and, driving performance improvement locally. This had led to a reduction in vehicle accidents, sickness, and loss of equipment.
- Your ethical governance arrangements are sound and Members understand the objectives of the Service and the wider environment in which they work. You have been prepared to make difficult decisions around station closures and recruitment freezes and have delivered efficiencies in excess of your targets with no deterioration of performance.

- In 2009/10 you have undertaken a complete review of your governance structure and the roles within it. All committees have reconsidered their objectives and roles in relation to others and identified support and training requirements. The use of Personal Development Plans for members and officers to identify skill gaps and inform training was noted as good practice by the peer review in your latest operational assessment.

Managing resources

- You have a good understanding of the energy consumed in your buildings and for travel. You have established a baseline for your total carbon footprint and as part of your Beacon Station scheme you have incorporated energy consumption as a performance indicator to drive energy reduction.
- You are committed to ensure all future fire stations are designed to be energy efficient with the lowest carbon footprint possible. A new fire station under construction in Winchester incorporates low energy technology such as ground source heat pumps and solar power to make sure it is environmentally friendly. It is expected to receive at least a rating of 'very good' against the Building Research Establishment Environmental Assessment Method (BREEAM) when it is completed later this year.
- You have developed and updated a comprehensive Workforce Strategy to support current and future service delivery. This includes ensuring you have the right staff, skills, and opportunities to provide appropriate service delivery to meet local demands.

Opportunities for further improvement

20 The Authority is keen to identify any areas where there is scope for further improvement. We have identified no specific areas for improvement or recommendations to make in your management of finances, in how you govern your business, or in your management of your workforce.

21 While you have made good progress in developing your approach to the use of natural resources there is scope to focus attention for further improvement in the following areas.

- Strategies and a targeted action plan to deliver your environmental aims are not yet well developed. There is no overarching strategy clearly showing the actions you will take to achieve the planned 20 per cent reduction in your carbon footprint by 2012.
- You should consider developing supporting strategies for wider environmental themes such as waste and biodiversity with improvement targets and measurement mechanisms.
- While you aim to buy goods and services that promote sustainability in the local economy, the operational processes to achieve this are not clear.

22 Members may wish to consider the opportunities, costs, and benefits of the areas for improvement identified by our value for money work in developing future plans.

Approach to local value for money work from 2010/11

23 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible choices for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

24 I will base my work on a reduced number reporting criteria, specified by the Commission, concentrating on how the Authority:

- secures financial resilience; and
- sets priorities for resources within tighter budgets.

25 I will decide a local programme of VFM audit work based on my audit risk assessment, to cover these criteria and my statutory responsibilities. I will no longer provide an annual scored judgement based on my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Authority in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

The economic downturn

26 The economic downturn is having a significant impact on public finances and the bodies that manage them. It is affecting the ability of public sector bodies to fund service delivery and capital programmes and some sources of income are reducing.

27 The Government's Emergency Budget 2010 announced on 22 June 2010 indicated the financial climate for local government was going to get a lot tougher with reduced levels of funding. The expected cuts in future financial support for fire authorities is likely to increase financial pressures. You will have some difficult decisions to take in setting your 2011/12 budget

28 Your Corporate Management Team has already started planning work in anticipation of a future reduction in Government funding.

29 You are already a relatively low cost Authority and have made significant efficiency gains in recent years. This is likely to increase the financial pressure as savings will be harder to deliver. However you have managed to deliver additional savings of over £0.7 million in 2009/10 to be added to reserves. You are currently reporting a balanced budget position during 2010/11. The use of underspends to bolster reserves will provide a small cushion for savings plans and provides a source of investment for further savings schemes.

30 The position over the next three years will not be clear until the government announces its spending review results and publishes the grant determination in December 2010. The Authority has based its current medium-term strategy on a range of potential grant funding increases and council tax criteria. These criteria will need to be revised in November, based on the spending review proposals.

31 The medium-term strategy forecasts that if council tax increases are frozen and grants reduce by 5 per cent then additional savings in excess of £4 million will be required in 2011/12. The Comprehensive Spending Review now indicates significantly higher savings will be required and this represents a major challenge. Early preparation for such a significant savings requirement is essential. You continue to revisit your financial plans in the light of emerging information and are developing plans to respond to the likely level of savings required.

32 I am satisfied that you are currently taking the necessary steps to meet the challenges to your financial stability over the coming years and to ensure you can continue to deliver key services for your community.

Closing remarks

33 I have discussed and agreed this letter with the Chief Officer and the Director of Corporate Services. I will present it to the Governance Committee on 22 November 2010 and will provide copies to all Authority members.

34 I have provided findings, conclusions and recommendations for the areas covered by my audit in the reports I issued to the Authority during the year as summarised in the following table.

Report	Date issued
Audit Fee Letter	April 2009
Opinion Audit Plan	February 2010
Annual Governance Report	September 2010
Annual Audit Letter	November 2010

35 I can confirm the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence. The fees for my audit are levied in accordance with guidance issued by the Audit Commission. The audit fees are detailed in Appendix 1.

36 The Authority has taken a positive and helpful approach to our audit. I wish to thank Members, management and staff for their support and cooperation during the audit.

Kate Handy
District Auditor
November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£48,250	£48,250	£0
Whole of Government Accounts	£ 3,000	£ 3,000	£0
Value for money	£30,500	£30,500	£0
Total	£81,750	£81,750	£0

Appendix 2 – VFM conclusion

Criteria	Proper arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good Governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes
Strategic asset management	N/A in 2009/10
Workforce	Yes

Appendix 3 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code. This includes how it has checked the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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