West Midlands Fire and Rescue Authority

Audit and Risk Committee

You are summoned to attend the meeting of Audit and Risk Committee to be held on Monday, 27 November 2023 at 14:00

to be held at Fire Service Headquarters, 99 Vauxhall Road, Nechells,

Birmingham B7 4HW

and digitally via Microsoft Teams

for the purpose of transacting the following business:

Agenda – Public Session

Item No.

Agenda – Private Session

Item No.

12 **Fraud Awareness Training**

Distribution:

David Barrie - Member, Rizwan Jalil - Member, Wayne Little - Member, Basharat Mahmood - Chair, Sybil Spence - Vice Chair

This meeting of the West Midlands Fire and Rescue Authority will be held at Fire Service Headquarters.
The meeting will also be held digitally via Microsoft Teams allowing observers to access remotely. To access the meeting, please contact a member of the Portfolio Team, West Midlands Fire Service, who will be able to provide login details (please note that Microsoft Teams is not required to join a meeting) or provide guidance if you wish to attend in person at HQ.

Clerk Name:	Karen Gowreesunker
Clerk Telephone:	0121 380 6678
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Agenda prepared by Chandni Patel

Portfolio, West Midlands Fire Service

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This agenda and supporting documents are also available electronically on the

West Midlands Fire Service Committee Management Information System

Audit and Risk Committee

Item 3

Minutes - 25 September 2023 at 14:00 hours

Conducted as a public meeting at Headquarters and digitally via Microsoft Teams

Present: Councillor Barrie, Councillor Jalil, Councillor Mahmood (Chair), Councillor Little, Councillor Atwal

Virtually: Sarah Jassal (Grant Thornton), Peter Farrow

Officers: Karen Gowreesunker, Sofia Mahmood, Chandni Patel, Tom Embury

1/23 **Apologies for Absence**

Apologies for absence were received from Councillor Spence and Simon Barry

Please note: Councillor Atwal substituted on behalf of Councillor Spence.

2/23 **Declarations of Interest**

There were no declarations of interest registered.

3/23 **Minutes of the Audit and Risk Committee held on 24 July 2023**

Resolved:

1. That the minutes of the Audit and Risk Committee held on 24 July 2023 were approved as a correct record.

4/23 **Audit Progress and Sector Update**

Sarah Jassal, Grant Thornton (External Auditor), presented Audit Progress and Sector Update.

The purpose of the report is to seek Committee approval of Grant Thornton's Audit Plan.

There are significant risks identified by ISAs (UK) as risks that require special audit consideration. As per the report, there are common risks attached to the evaluation of abandoned buildings and pension liabilities.

There is a presumed risk that revenue may be misstated due to the improper recognition of revenue. The current assessment of all risks are still being reviewed.

Our approach to materiality was determined at £2.8m, equating to around 2% of the gross expenditure for the period.

There are a team of specialists looking at arrangements the authority has in terms of value of money. There will be a progress report which will cover the 21/22 and 22/23 financial years. This is anticipated to come later in the year as a joint report. There are currently no significant risks to bring to the committee.

The planning work is complete, and the team will be starting the fieldwork phase at the start of November. There is a potential impact on substantive testing because the risk assessment doesn't take into account the control environment.

Resolved

1. That the recommendations provided within the report are agreed upon.

5/23 **<u>Internal Audit Progress Report</u>**

Peter Farrow (Internal Auditor) presented the Internal Audit Progress Report and reminded members that at the start of the year, the internal audit plan was agreed. The progress reports have been brought into the committee to allow members to view and comment on progress being made.

There have been 2 reviews completed this year which were around Data Protection and Partnerships. An overall level of assurance was provided for each area.

Regarding Data protection, there were queries made in the previous review around delays in our service responding to business information requests. Action has been taken and turnaround times have been improved. Having a dashboard such as Power Bi has assisted in this improvement.

The second review was taken on partnerships. Since the previous audit review in this area the partnership activity has reduced in the last 12-18 months due to both COVID-19 and a reduction in the funding available for partnership activities.

Peter Farrow advised the committee that this is focusing on partnership governance arrangements to assure members how well they are embedded in the authority.

Peter Farrow then provided an update on Agenda Item 9, CIPFA Update. He advised that as this is a subscription update, this can be shared with the members however cannot be shared with the wider public.

CIPFA produce updates to help the public sector. This update looks at how as a committee we can ensure their organisations' governance and financial management arrangements are robust. It has provided courses and training information along with useful articles about financial risks.

The article also looks at certain internal audit standards. There have been some changes to some of the standards based on previous consultations, however, there has been no significant impact on how we carry out internal audits.

6/23 **Annual Thematic Audit Report of WMFS Information Governance**

Karan Gowreesunker, Clerk to the Authority, presented a report on behalf of Martina Doolan. The report is aligned with Peter Farrow's previous presentation but focuses on our Information Governance Audit. It is to assure members that information is being monitored effectively.

As part of the report, section 4 provides an overview of the review of our information governance arrangements. The review came out clean, with a substantial assurance level. This confirms that our internal auditors have found that we are operating at a good standard and have addressed the previous outcomes mentioned in the last report.

The annual themed review took place between March and August 2023. As part of the process, a number of practices and documents were reviewed. Substantial assurance has been provided around governance information arrangements and no significant issues were identified where improvements could be made. However, the service consistently reviews our policies and ways of working to ensure continuous improvement.

Resolved:

1. That it be agreed that the Annual Thematic Audit Report of WMFS Information update be noted.

7/23 **Update on Topical, Legal and Regulatory Issues (Verbal Report)**

No topical, legal, or regulatory issues were raised.

8/23 **Audit and Risk Committee Work Plan**

Tom Embury presented the Work Plan.

Resolved

1. That it be agreed to change relevant dates/titles for the next Audit and Risk Committee in November.

9/23 **CIPFA Report (Private Agenda)**

Presented by Peter Farrow under Agenda Item 5

Meeting Closed at 14.20 pm

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

Item 4

AUDIT AND RISK COMMITTEE

27 NOVEMBER 2023

1. **ANNUAL REPORT OF THE AUDIT AND RISK COMMITTEE 2022/23**

Report of Clerk to the Authority.

RECOMMENDED

1.1 THAT the Audit and Risk Committee agree its Annual Report for 2022/23.

2. **PURPOSE OF REPORT**

This report is submitted to gain approval for the draft Annual Report of the Audit and Risk Committee 2022/23, which will be submitted to the Fire Authority.

3. **BACKGROUND**

3.1 To enable the Authority to be fully effective in comprehending and assessing the control environment within which West Midlands Fire Service operates, the Audit and Risk Committee presents a report of its activities to the Authority annually.

3.2 The Annual Report for 2022/23 is attached as **Appendix A** for consideration by the Committee.

4. **EQUALITY IMPACT ASSESSMENT**

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

5. LEGAL IMPLICATIONS

The Authority has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

6. FINANCIAL IMPLICATIONS

The Accounts and Audit Regulations Act states that a relevant body must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”.

BACKGROUND PAPERS

KAREN GOWREESUNKER
CLERK TO THE AUTHORITY

APPENDIX A

1. Background

The Audit and Risk Committee was established by the Fire Authority in January 2008. Its purpose is to provide:

- independent assurance on the adequacy of the risk management framework and the associated control environment,
- independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to
- oversee the financial reporting process.

The key benefits of the Committee are derived by:

- increasing public confidence in the objectivity and fairness of financial and other reporting.
- reinforcing the importance and independence of internal and external audit and similar review processes.
- providing additional assurance through a process of independent review.
- raising awareness of the need for internal control and the implementation of audit recommendations.

The Terms of Reference for the Committee can be found in Section of this report.

2. Meetings

During financial year 2022/23 the Audit and Risk Committee met on the following dates:

- 06 June 2022
- 18 July 2022
- 26 September 2022
- 28 November 2022
- 20 March 2023

	06/06/22	18/07/22	26/09/22	28/11/22	20/03/23
Councillor Miks (Chair)	✓	✓	✓	✓	✓
Councillor Jalil	N/A	✕	Sub Cllr Brackenridge	✓	✓
Councillor Spence	✕	✕	✓	Sub Cllr Atwal	✓
Councillor Barrie	✓	✓	Sub Cllr Waters	✓	✓
Councillor Miller	✕	✕	✕	✕	✕
Councillor Padda	✓	N/A	N/A	N/A	N/A
Mr M Ager	✓	✓	✕	✓	✕

✓ – in attendance
X – not present (name of substitute given if present)

3. The Committee's Business

During the year the Committee conducted the following business:

Governance Statement – 2021/22 Corporate Risk – Regular Updates and addition of new CR Audit Committee – Terms of Reference Review Statement of Accounts 2021/22	CIPFA Audit Committee Updates Updates on Topical, Legal and Regulatory Issues Treasury Management Annual Report – 2021/22 (and Mid-Year Review) Annual Senior Information Risk Officer Report
External Audit Plan 2021/22 External Audit Findings Report External Audit – Annual Audit Letter 2021/22 External Audit – Audit Committee Update External Audit – Communication with the Audit Committee	Internal Audit Annual Report – 2020/21 Internal Audit Progress Reports Internal Audit Plan – 2022/23
The Pension Regulator – Scheme Return Annual Report and quarterly minutes of the Pension Board Restarting of payments for Immediate Detriment to affected pensioners, and monitoring implementation of ID by the pensions team. Commissioning and Receipt of Independent Review of Pension Issues.	

4. Conclusion

The Committee was able to confirm:

- That the system of internal control, governance and risk management in the Fire Authority was adequate in identifying risks and allowing the Fire Authority to understand the appropriate management of these risks.
- That there were no areas of significant duplication or omission in the systems of internal control, governance and risk management that had come to the Committee's attention and had not been adequately resolved.
- That the improvements were necessary in the governance and administration of the service's Pension Scheme, and that the role of Scheme Manager should be transferred to the Chief Fire Officer (which occurred in June 2023).

5. Sources of Assurance

The Committee gained assurance to produce the above conclusion, from the following sources:

The work of Internal Audit

The Internal Auditors gave the following opinion in their Annual Report for 2021/22:

*"Based on the work undertaken during the year and the implementation by management of the recommendations made, Internal Audit can provide *reasonable assurance that the Fire Authority has an adequate and effective framework of governance, risk management and control. *We are pleased to report that this is an unqualified opinion and the highest level of assurance available to Audit Services. As stated in paragraph 1.3 "In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide is reasonable assurance that there are no major weaknesses in the Authority's governance, risk management and control processes".*

The Work of the External Auditors

During the year the external auditors (Grant Thornton) reported back to the Audit Committee on several occasions as detailed in section 4 above. No issues of any significant concern had been raised prior to the preparation of this report.

The Governance Statement

The Governance Statement operated throughout the year ended 31 March 2022 and up to the date of the approval of the annual report and accounts. The systems to ensure the management of the risks have been shown to be sound.

Risk Management
The Committee regularly receives and reviews the Fire Authority's Corporate Risk Register, and assesses the assurance provided to demonstrate how risks are being mitigated.

6. The Committee's Main Achievements

The Committee believes its key achievements during the year were:

- Deciding to resume payments to Immediate Detriment cases and agreeing the approached taken in respect of Immediate detriment Cases under the Sargeant/McCloud ruling, with payments to all currently affected pensioners made by February 2023.
- Commissioning an Independent review of Pensions Issues which occurred between November 2021 and June 2022.
- Creation and agreement of an Action Plan following the publication of The Pension Regulator's Supervisory Report for the service, with ongoing monitoring since.
- Continuity of good working relationships with the Authority's external auditors Grant Thornton.
- Receiving and reviewing several sector updates from the external auditors.
- Receiving and reviewing updates from the Internal Auditors Sandwell MBC
- Receiving the second Senior Information Risk Officer report
- Oversight of the work of the Pension Board, including approving changes to PB Terms of Reference.
- Oversight of the response to implementation of the Whistle Blowing Policy and Regulation of Investigatory Powers Act
- Agreement of new Corporate Risks for Fire Investigation
- Reviewing the Committee's Terms of Reference and the Internal Audit Charter to ensure they remain fit for purpose.
- Providing additional assurance through a process of on-going independent review.
- Raising the profile of internal control issues across the Authority and of the need to ensure that audit recommendations are implemented.
- Regular consideration and review of the Authority's Risk Register and accompanying assurances.
- Building the skills and knowledge of Committee members through regular technical updates and the consideration of related guidance issued by CIPFA.
- The continued presence of an Independent Member to broaden the Committee's experience and independent viewpoint.

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

27 NOVEMBER 2023

1. **INTERNAL AUDIT – PROGRESS REPORT**

Report of the Audit Services Manager [Sandwell MBC].

RECOMMENDED THAT;

the Internal Audit Progress Report be noted.

2. **PURPOSE OF REPORT**.

To ask the Committee to note the issues raised from the work undertaken by Internal Audit so far in the current financial year.

3. **BACKGROUND**

The Internal Audit Progress Report contains details of the matters arising from internal audit work undertaken so far in the current year. The purpose of the report is to bring the Committee up to date with the progress made against the delivery of the 2023/24 Internal Audit Plan. The information included in the progress report will feed into, and inform, the overall opinion in the Internal Audit Annual Report issued at the year end.

It summarises the audit work undertaken in a tabular format, and includes:

- the areas subject to review (Auditable Area).
- the level of risk to the Authority assigned to each auditable area (high, medium or low).
- the number and type of recommendations made as a result of each audit review.
- the number of recommendations accepted by management.
- the level of assurance given to each system under review.
- details of any key issues arising from the above.

4. **EQUALITY IMPACT ASSESSMENT**

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

5. **LEGAL IMPLICATIONS**

The Accounts and Audit Regulations Act states that a relevant body must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”.

6. **FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report.

BACKGROUND PAPERS

None

Peter Farrow
Audit Services Manager, Sandwell MBC

Item 5

Internal Audit Progress Report as at 6 November 2023
Audit and Risk Committee – 27 November 2023

1. Introduction
2. Summary of work completed and in progress
3. Issues arising
4. Other activities
5. Service quality questionnaire feedback

1 Introduction

The purpose of this report is to bring the Audit and Risk Committee up to date with the progress made against the delivery of the 2023/24 Internal Audit plan.

The information included in this progress report will feed into and inform our overall opinion in our Internal Audit annual report issued at the year end.

Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

No Assurance	Limited	Reasonable	Substantial
Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

This is based upon the number and type of recommendations we make in each report. Each recommendation is categorised in line with the following:

Priority rating for issues identified		
Fundamental action is imperative to ensure that the objectives for the area under review are met.	Significant requires action to avoid exposure to significant risks in achieving the objectives for the area under review.	Merits attention action is advised to enhance risk mitigation, or control and operational efficiency.

2 Summary of work in progress as at 6 November 2023

Auditable Area	ANA Rating	Suggested/Agreed Actions					Level of Assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Completed and reported previously:							
Partnerships	Medium	0	6	0	6	6	Limited
Data Protection	High	0	0	0	0	0	Substantial
Completed and reported for first time:							
Fixed Asset Accounting/Asset Planning	KFS	0	0	0	0	0	Substantial
Governance	High	0	1	0	1	Draft	Substantial
In progress:							
Risk Management	High						
Budgetary Control	KFS						
To be started:							
Accounts Payable	KFS						
Payroll	KFS						
Accounts Receivable	KFS						

Auditable Area	ANA Rating	Suggested/Agreed Actions					Level of Assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Absence Management	Medium						
IT	High						

Key: KFS = Key Financial System
ANA = Audit Needs Assessment
Draft = Draft report issued to client and awaiting formal response
NA = Not Applicable

3 Issues arising

Fixed Assets

An audit of fixed asset accounting was undertaken in respect of planned capital expenditure. The review was undertaken to provide assurance that an appropriate process was in place to maintain details of fixed assets and to record them correctly in the accounts. No issues of significance were identified.

Governance

The objective of our review of governance for the current year was focussed upon the adoption, adequacy and application of the Local Government Transparency Code and to ensure that the control system in place mitigated risks to the achievement of the Authority's objectives in this area.

As part of our previous audit review of Governance, we identified one issue relating to the declaration of interest documents for officers within the Authority had not been maintained in accordance with the Code of Conduct as specified in the Constitution and the Anti-Fraud, Corruption and Bribery Policy.

As part of the current review, we followed-up this matter and noted that:

- Declaration of interest forms had been completed by all Members and the Strategic Enabling Team.
- The relevant policy had been reviewed and its requirements re-stated in communications to staff.
- Action was being taken to establish a process through the Oracle system to ensure everyone can consistently record declarations of interest in a way that would be easily accessible to managers and People Support Services, but at the time of the review this task had not been completed

As such, it is acknowledged that improvements had been made, however, there remained an issue in ensuring that all relevant staff complete declarations where necessary and that these are being effectively monitored. As the declaration of interests' process is integral to promoting the transparency of the decision-making process throughout the Authority and for mitigating the risk of reputational loss, we have therefore, repeated the recommendation for an appropriate process to be implemented to record and monitor declarations.

4 Other activities

Advice and Guidance

We provide on-going advice and guidance to the authority to assist with the continuous improvement of the overall control environment.

CIPFA – Audit Committee Updates

We continue to present the regular CIPFA Audit Committee Updates to the Audit and Risk Committee.

Internal Audit Plan 2023/24

We submitted the Internal Audit annual plan for 2023/24 to the committee for approval at the March 2023 meeting.

Internal Audit Annual Report 2022/23

We presented the Internal Audit annual report for 2022/23 to the committee for comment and approval at the June 2023 meeting.

Counter Fraud

We provided Fraud Awareness training to the committee at its meeting held in March 2023.

Counter Fraud

We continue to lead on the Cabinet Office's National Fraud Initiative and their other associated fraud related activity (such as the Annual Fraud Survey), on behalf of the authority and to provide the main point of contact for any investigations into potential fraudulent activity.

5 Service quality questionnaire (SQQ) feedback

Feedback to be provided when completed SQQs are received.

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

Item 6

AUDIT AND RISK COMMITTEE

27 NOVEMBER 2023

1. **AUDITOR'S ANNUAL REPORT 2021/22 AND 2022/23 & AUDIT PROGRESS UPDATE 2022/23**

Report of the Treasurer.

RECOMMENDED

1.1. THAT the Audit and Risk Committee approve the Annual Report 2021/22 and 2022/23.

1.2. THAT the Audit and Risk Committee note the update on the progress of the 2022/23 external audit.

2. **PURPOSE OF REPORT**

2.1. To approve the Annual Report 2021/22 and 2022/23.

2.2. To note the update on the progress of the 2022/23 external audit.

3. **BACKGROUND**

3.1 The Authority is required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy auditors that it has made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office requires auditors to report their commentary to the Audit and Risk Committee.

3.2 The proper arrangements are assessed under three areas: financial sustainability, governance and improving economy, efficiency, and effectiveness.

3.3 The Authority's external auditors are Grant Thornton.

4. **AUDITOR'S ANNUAL REPORT 2021/22 & 2022/23**

4.1 Financial sustainability includes planning resources to ensure adequate finance and maintaining sustainable levels of spending.

4.2 Three recommendations have been made by Grant Thornton, which have been accepted by management:

- the Authority should establish a clear savings target, develop a savings plan and savings monitoring arrangements.
- develop a borrowing strategy to fund the Capital Programme.
- include financial risk reporting in quarterly monitoring of finance report.

4.3 Governance includes ensuring decisions made are based on appropriate information.

4.4 Improving economy, efficiency and effectiveness includes understanding costs and delivering efficiencies to improve service outcomes.

4.5 The Auditor's Annual Report on WMFRA 2021/22 and 2022/23 is included in Appendix B.

5. AUDIT PROGRESS UPDATE 2022/23

5.1 The external audit is being carried out by Grant Thornton on the draft Statement of Accounts 2022/23. The substantive final audit is scheduled from 6th November 2023 to 15th December 2023.

5.2 Progress is being made to provide evidence and support with testing to meet the required deliverables.

6. EQUALITY IMPACT ASSESSMENT

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

7. LEGAL IMPLICATIONS

There are no direct legal implications associated with the implementation of the recommendations set out in this report.

8. FINANCIAL IMPLICATIONS

There are no financial implications associated with the implementation of the recommendations set out in this report.

9. ENVIRONMENTAL IMPLICATIONS

There are no specific environmental impact of this report, as it does not relate to a policy change.

The contacts for this report are Sofia Mahmood, Head of Finance and Procurement (S151) & Avtar S Sohal, Director, Grant Thornton UK LLP

SOFIA MAHMOOD, SECTION 151

Auditor's Annual Report on West Midlands Fire and Rescue Authority

2021/22 and 2022/23

November 2023

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary

Financial sustainability

The Authority have demonstrated sensible financial planning and spending through finishing with a budget surplus in both 2021/22 and 2022/23. Their budget setting and monitoring arrangements allow them to have continuous view of their progress against budget and challenge them to spend on areas that will bring value. However, we have identified 3 areas for improvement; the Authority would benefit from defining a clear savings target, building a savings delivery plan, defining a borrowing strategy and incorporating financial risk reporting in Quarterly Monitoring of Finance reports. This is essential especially since from 2023/24, the Authority will no longer use their reserves to fund the Capital Programme and will likely need to start borrowing. Therefore, the Authority would benefit from developing arrangements to ensure they continue delivering services within budget.

Governance

The Authority's Governance arrangements have proven to be effective, particularly with their budget setting and monitoring. Their budget processes allow for the appropriate stakeholders to contribute, check and challenge final budgets and justify variances. While frameworks around risk management are strong, risk reporting could be more regular and well rounded. We recommend that the Corporate Risk Report is updated before and shared to every Audit & Scrutiny Committee and Fire Authority meeting to ensure preventative measures can be taken as soon as possible.

Improving economy, efficiency and effectiveness

The Authority have exemplary arrangements around improving economy, efficiency and effectiveness. Over the past two years, the Authority have launched new delivery frameworks and resourcing strategies that deliver both costs savings and put less strain on their resources and procurement need. Risk Based Crewing has allowed the Authority more control over how their assets are utilised and reduce inefficient use of resources that could be saved for high-risk emergencies, thus helping them with their goal of responding to emergencies quicker.

We have completed our audit of your financial statements and issued an unqualified audit opinion on XX XXXX 2022, following the Audit Committee meeting on XX XXXX 2022. Our findings are set out in further detail on pages x to x.

Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Authority's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22	We have completed our audit of your financial statements and issued an unqualified audit opinion on XX XXXX 2022, following the Audit Committee meeting on XX June 2022. Our findings are set out in further detail on pages x to x.
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	Provide brief details of what was issued and why. We issued/ we did not issue……
Public Interest Report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	Provide brief details of what was issued and why. We issued/ we did not issue……
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We applied / did not apply…
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We issued / did not issue
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We applied / did not apply…

Securing economy, efficiency and effectiveness in the Authority's use of resources

All Authorities are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Authority's responsibilities are set out in Appendix A.

Authorities report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial Sustainability

Arrangements for ensuring the Authority can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Authority makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Authority makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Authority delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on the Authority's arrangements in each of these three areas, is set out on pages 6 to 14. Further detail on how we approached our work is included in Appendix B.

Financial sustainability

We considered how the Authority:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Financial planning and managing pressure

As with many Local Authorities, WMFRA have faced financial pressures in 2021/22 and 2022/23 due to the impact of Covid-19, rising inflation and cost of living. Despite these pressures, WMFRA delivered an underspend for both years; £175k in 21/22 and £150k in 2022/23. This was largely due to their budget assumptions, which were notably risk-averse and wholly reflected economic and funding pressures. For both years, the Budget demonstrates that the Authority assumed they would not receive further settlement funding from Central Government and that the Firefighter Pay Award would be capped at 2% and that they would have to fund the gap to reach the desired 7% Firefighter Pay Award using their own reserves. In reality a 7% pay settlement backdated to July 2022 plus an additional 5% pay settlement from July 2023 was announced in March 2023. Consequently, the Authority did not have to use their reserves.

WMFRA's biggest area of expenditure is for staffing to deliver fire services. To manage financial pressures and provide more efficient resourcing, the Authority introduced a new service delivery model – Risk Based Crewing (RBC) with a blended fleet. This model allows the Authority to decide how many and what type of vehicles, firefighters and other equipment to send out in response to a low-risk incident rather than sending excess. RBC is exemplary of how the Authority are not reactive but are evidently pre-emptive in their financial planning.

Savings and reserve management

WMFRA have identified a need for transformation and efficiency savings in 2022/23 and 2023/24 due to a number of factors including potential reductions in core Government funding, firefighter pension related issues and a shortfall in capital funding. Measures to deliver these savings have already been put in place and the benefits of this have already been seen. For example, non-pay efficiencies in procurement have saved £300k in 2021/22 and 2022/23. Moreover, according to our conversation with the S151 Officer, the new RBC model, alone, is forecasted to deliver circa £1m of savings by the end of 2023/24. Although, it is important to note that the internal funding requirements for RBC with a blended fleet will not be finalised until 2024/25. This uncertainty must also be factored into the Authority's savings plans.

While we have confidence that the Authority have the ability to deliver savings, there is no clear savings delivery plan in place. The Authority would benefit from a clear overall savings target, a savings plan outlining how savings are to be achieved and establishing monitoring arrangements. In parallel with their budget monitoring, savings monitoring will allow the Authority to track progress against savings targets, discuss and justify variances, have better visibility of financial risk and allow earlier risk mitigation if required.

Improvement recommendation – establish a clear savings target and define a savings plan.

According to the Budget and Precept report, the reserve position for 2021/22 was £42.7m and £28m for 2022/23. The majority proportion of these reserves were earmarked,

Financial sustainability

which contributed to the fact they finished both years within budget and not in a deficit. Thus far, the Authority have been funding their Capital Programme using earmarked reserves, however, have expressed that this will not continue from 2023/24. Their reserves strategy indicates that their reserve levels are reducing from 2023/24, rendering it essential that the Authority has a robust savings plan.

Budget setting

The Authority's approach to budget setting is framed by its Financial Regulations. These Financial Regulations detail the approach to consultation with budget managers during the budget setting process. The budget setting process is led by the finance function of the Authority who liaise with budget managers to revise budget estimates for the following year. Once this exercise has been completed the budget is agreed by the Strategic Enabling Board and then approved by the Fire Authority. This approach to budget setting is consistent with prior year and allows for appropriate levels of scrutiny and consultation.

Resource planning for strategic and statutory requirements

A review of the Budget and Precept reports and conversations with the Chief Fire Officer and S151 Officer demonstrate that WMFRA have aligned their financial planning to their strategic priorities. For example, the Authority's updated 3 Year Strategy for 2023 – 2026, referred to as "Our Plan" outlines WMFRA's priority to respond to emergencies effectively with the right resources and be ready to respond anywhere that is needed, working more closely with communities to keep them safe and taking preventative measures for fire safety incidents. At the core of this is mobilising their staff and resources to deliver these aims. This priority is reflected in the budget; the largest proportion of the corporate budget is allocated to Command Delivery, Fire Control & Workforce Planning in 2021/22. Looking at the 2022/23 Budget and Precept report, the largest proportion of the corporate budget is allocated to resourcing and health, safety & wellbeing.

Financial systems

During 2020/21 the Authority moved from an externally hosted Oracle Business System financial ledger to an internally hosted Oracle Fusion ledger which required a data migration process. As part of our 2020/21 Audit Findings Report we utilised our internal IT specialist team to complete a review of the arrangement for data migration. This report identified 4 significant deficiencies, 2 deficiencies and 2 improvement opportunities.

In response to these recommendations the Authority identified a number of actions that it needed to take. Through our work on the 2021/22 and 2022/23 value for money opinion we have not identified that there have been any failings in addressing these recommendations. This is supported by the Internal Audit reports relating to the financial management system not identifying any issues.

Capital Programme, investment and borrowing

As mentioned, the Capital Programme has been wholly funded by earmarked reserves until 2022/23, however, the S151 Officer explained that the Authority will likely need to borrow from 2023/24 to continue funding the Capital Programme and other assets such as fire vehicles. The Authority have clear investment and borrowing guidance outlined in their Budget and Precept Plan, however, would benefit from a more refined and robust borrowing plan for their Capital Programme from 2023/24 onwards.

Improvement recommendation – develop a borrowing strategy to fund the capital programme.

Financial sustainability

Managing financial risk

WMFRA have all the appropriate measures in place to ensure that financial risks are managed. The Corporate Risk Register includes financial risks and is shared with and discussed among the Audit & Scrutiny Committee and Fire Authority every six months. Moreover, our review of meeting minutes demonstrated budget variances are discussed at every Fire Authority meeting, which inspires confidence in the proactive attitude towards dealing with financial risks and issues.

Although, we have noted that the Authority do not include commentary about financial risk in their Quarterly Monitoring of Finance reports. While they do report on variances and, according to meeting minutes, discuss these variances, financial risk reporting in parallel as part of Quarterly Monitoring of Finances could elevate the Authority's visibility over financial risks and issues. While the Corporate Risk Register captures overarching financial risks, the Authority would benefit from more specific and in-depth financial risk reporting going forward, particularly since their finance strategy is likely to change from 2023/24 onwards due to their increased need for saving and borrowing. As an assurance and monitoring tool, distinctive financial risk reporting will support the Authority in upholding and adhering to new budgets going forward.

Improvement recommendation – include financial risk reporting in Quarterly Monitoring of Finance report.

Conclusion

The Authority's Financial Sustainability arrangements have proven effective thus far. Their budget planning, resource allocation and general tone from the top ensure that the necessary service areas are sufficiently funded.

From 2023/24 onwards, the Authority's financial strategy will likely shift away from relying on existing reserves to maintain a balanced budget to proactively borrowing and increasing savings. Our recommendations are designed to give the Authority the tools they need to support this aim.

Improvement recommendations

Financial sustainability

Recommendation 1	The Authority should establish a clear savings target, develop a savings plan and savings monitoring arrangements.
Why/impact	This will enable the Authority to track progress against savings targets, discuss and justify variances, have better visibility of financial risk and allow earlier risk mitigation if required.
Auditor judgement	Improvement recommendation
Summary findings	Since the Authority aim to reduce their reserve levels and potentially engage in borrowing to continue funding their Capital Programme, committing to a savings delivery plan will be imperative for the Authority to maintain balanced budget.
Management Comments	Since the implementation of risk based crewing from 2022/23, savings have formed a greater element of financial management. This focus will likely increase in future years as reduced funding and increasing pressures create budgetary gaps. A clear savings plan will be created with clear targets as to how this gap will be funded. This will be monitored throughout the year to ensure the target is met and provide early warning signs if this target is at risk.

The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations

Financial sustainability

Recommendation 2	Develop a borrowing strategy to fund the Capital Programme.
Why/impact	If the Authority are going to engage in borrowing, a clearly defined set of guidance and a clear strategy informed by financial advisors and independent research will allow the Authority visibility of exactly how much they need to borrow and create a repayment plan. This can mitigate against the risk of falling into unnecessary debt.
Auditor judgement	Improvement recommendation
Summary findings	The Capital Programme is currently funded wholly using reserves, and this is going to end in 2023/24. Going forward, the Authority will borrow to continue funding the Capital Programme.
Management Comments	The current capital programme has a c. £10m future funding gap. There is also additional works required on estates and vehicle replacement which will need to feed into the capital programme. Due to reduced earmarked reserves, there will be a future need to borrow. In order to ensure that borrowing remains affordable and sustainable, a clear borrowing strategy will be developed.

The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations

Financial sustainability

Recommendation 3	Include financial risk reporting in Quarterly Monitoring of Finance report.
Why/impact	Financial risk reporting in parallel with the reporting of variances would act as an assurance and monitoring tool by allowing further visibility of financial issues and risks, which will support the Authority in upholding and adhering to new budgets going forward as their financial strategy shifts.
Auditor judgement	Improvement recommendation
Summary findings	Currently, Quarterly Monitoring of Finance reports reflect variances but do not comment on financial risks. Since the Authority will have to save and borrow more from 2023/24 onwards, a more robust mechanism to monitor financial variances, issues and risks will be beneficial.
Management Comments	Regular budget monitoring reports highlight actual and forecast spend positions against budgets. Any variances are explained and corrective action is taken as necessary. To add increased context and protection, any relevant financial risks or issues will also be reported on, to enable mitigation action to be taken as early as possible.

The range of recommendations that external auditors can make is explained in Appendix C

Governance

We considered how the Authority:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Risk management

As a Fire Authority, risk management is central to WMFRA's operations. Mitigating and managing risk is at the core of their strategy and service delivery, as reflected in "Our Plan." The Authority have a strong risk management function. This is evident through their risk management arrangements which allow them to have visibility of and mitigate risks as they arise. Risks can be flagged by many bodies including the Audit & Risk Committee, the Strategic Enabling Team (SET), assurance teams and any member of the Authority. Their corporate risk register adopts a standard 4x4 RAG-rated risk scoring matrix to allow visibility on the severity of risks. The Corporate Risk Register is shared with the Audit & Scrutiny Committee and the Fire Authority twice yearly. Also speaking to the Authority's strength in risk management, there is only one serious risk outlined in both 2021/22 and 2022/23. The Authority are unable to provide business continuity arrangements as a result of industrial action, posing the risk of reputational damage and external scrutiny. There is no evidence of any material impact of this risk, which not only demonstrates the Authority's cautious approach to risk monitoring, but the effectiveness of their internal controls.

Budget setting and monitoring

WMFRA have a well-rounded budget setting process. The Financial Regulations confirmed that budget managers are consulted in preparation and the final budget is agreed by the SET and approved by the Fire Authority. Budget monitoring processes are also diligent. Monthly financial monitoring reports are shared with the fire authority to check actual spend against the budget and discussion of any variances. A review of the Financial Monitoring Reports and meeting minutes show that slippages against budget are captured and discussed, demonstrating that the Authority are proactive with capturing variances and taking mitigating action if necessary.

Although, as reflected in the Financial Sustainability section, since there is an overall aim to reduce earmarked reserve levels, increase savings and continue to deliver a balanced budget. The Authority may need to revise their budgeting strategy going forward and perhaps allow more contingency budget since any budget gaps may not be covered by reserve funding.

Decision making

There are arrangements in place ensuring decision-makers are provided with all relevant information before coming to a final decision. For example, budget managers are consulted before finalising the budgets and provide their budget requirements. Another example is how the Authority are currently undergoing a public consultation to gather feedback on their CRMP projects as outlined in the 3Es section. This exemplifies the Authority's effort to gather information from relevant stakeholders and service beneficiaries before making decisions that affects them. Ultimately, all decisions are made by the Fire Authority leadership and the Audit & Risk and Scrutiny committees provide effective check and challenge. Our review of the Scrutiny Committee meeting minutes demonstrate that the Authority are constantly evaluating the quality of their functions and services. For example, the November 2022 Scrutiny meeting minutes reflect how a decision to provide training around diversity and inclusion was finalised after employees expressed the benefit of this.

Governance

Legislative, regulatory and quality standards

The Authority has a Code of Conduct available on their website which ensures that staff are compliant with legislation, uphold appropriate standards of behaviour and understand their requirement for declarations. They also have a gift and hospitality register which is available on their website.

Internal Audit

The Internal Audit function of the Authority is delivered through an arrangement with Sandwell Metropolitan Borough Authority with Peter Farrow acting in role of Head of Internal Audit and John Matthews in the key liaison role with the Authority. The findings of Internal Audit are reported to the Audit and Risk Committee and the areas of focus are framed by the Annual Audit Plan. The Annual Audit Plan is agreed by Audit and Risk Committee and progress against the plan is reported on a quarterly basis.

As per the 2021/22 Annual Internal Audit Report presented in June 2022, Internal Audit conducted reviews in 10 areas. 7 of these reviews received a 'Substantial' level of assurance with the remaining 3 reviews receiving 'Reasonable' assurance. A total of 12 recommendations were identified and none of these recommendations were classified as 'Fundamental'.

As at June 2023, the Annual Internal Audit Report for 2022/23 showed a total of 10 reviews undertaken by Internal Audit. 8 of these reviews had been completed and all areas had received 'Substantial' assurance with a total of 3 recommendations being identified. None of these recommendations were 'Fundamental'. No concerns were raised by Internal Audit around the willingness and ability of the authority to accept and action recommendations raised during these reviews.

One of the areas reviewed by Internal Audit in 2022/23 was 'Freedom of Information'. This review received a 'Substantial' level of assurance but 2 recommendations were raised. These recommendations related to the speed at which the authority responds to Freedom of Information requests due to delays in the approval process before information is released. Internal Audit have confirmed that this has been addressed and appropriate actions have been taken.

The Authority has a robust and effective Internal Audit function that receives good engagement from across all service areas during the review process and to action any recommendations

Workforce Planning

A strong and skilled workforce is crucial for the Authority to be able to effectively discharge its duties. As demonstrated through the HMICFRS inspection the Authority has good procedures in place to ensure there is a strong culture in place where people behave in accordance with its values.

The Authority also has good workforce planning in place and ensures that its skills and capabilities are understood. The effectiveness of workforce planning and succession planning is seen in the progression of the Chief Fire Officer in turning the interim appointment to a permanent appointment. The Authority has also had to manage changes to the leadership of its finance function and has ensured that there is appropriate overlap to assist with knowledge transfer and training. We will continue to monitor the impact this has on the financial governance of the Authority.

Overall, we have not identified any issues with the Authority's approach to workforce planning and managing its workforce.

Conclusion

The Authority have strong governance arrangements which support them in budget setting, maintaining budgetary control, making informed decisions and managing risk. All relevant stakeholders are consulted before decisions are finalised and there is a culture of effective communication to ensure smooth-running of internal operations and service delivery.

As detailed, the Authority would benefit from more regular risk reporting to ensure all risks and issues are reviewed and managed as early as possible.

Improving economy, efficiency and effectiveness

We considered how the Authority:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Financial and Performance Objectives and Assessment

Our review of the Authority's strategic priorities in "Our Plan" illustrates how their focus continues to be on fire emergency prevention, reducing their emergency response time and improving their delivery of community benefits. Moreover, the Authority have made an impressive effort to make their resourcing more efficient and effective. This is evident in their new CRMP projects outlined in their updated Annal Plan:

1. Risk Based Crewing (RBC) of a Blended Fleet
2. Dynamic Mobilising
3. Automatic Fire Alarms
4. Reducing Health Inequalities
5. Emerging Risks

In particular and as alluded to previously, their RBC and Blended Fleet projects, which have already been put into practice, will allow the Authority more autonomy in deciding the number of resources, i.e. firefighters, vehicles, equipment etc, required to respond to low-risk incidents. Not only will this result in cost savings, as outlined on page 6, but will free up resources required to respond to high-risk emergencies by not exhausting unnecessary resources on minor incidents. Consequently, RBC will allow the Authority to deliver value for money and improve their service to communities.

Moreover, due to the RBC and Blended Fleets model, West Midland's Fire and Rescue Authority have the means to be trailblazers in this fire service resourcing space. Other Fire Authorities can learn from and employ these models to make their own resourcing more efficient and deliver better emergency response services.

The Authority have strong performance monitoring measures in place that allow committees to clearly review progress against KPIs. Every Quarter, the Authority provides a KPI progress report. Having reviewed the Q4 reports for 2021/22 and 2022/23, it is evident WMFRA have improved on their delivery against targets between both years. For example, in 2021/22, the number of deliberate fires in derelict buildings was over target by 18%, and in 2022/23 the Authority managed to improve on this target and there were 3% less deliberate fires than their target, exemplifying the Authority's ability to use their KPIs as improvement drivers.

In addition, the latest HMICFRS report for WMFRA reflects how the Authority have higher-than-average performance against many areas. They are particularly strong in how they look after their people; their staff retention rates are significantly higher than the national average. Moreover, 99% of firefighters are full time, compared to the national average where 66% are full time. This is a testament to how well the Authority looks after its people, which translates into more consistent service delivery for communities.

Arrangements for shared learning are essential drivers for Authorities to assess the effectiveness of their performance and improve their services. Various staff across the Authority are members of external networks that provide them with a platform for shared learning. The Procurement Officer, is a member of the NFCC National Procurement Hub. In our conversation they expressed that this network is a source of shared learning, fire service delivery frameworks and training material.

Improving economy, efficiency and effectiveness

Partnership working

For a Fire Authority, partnerships are essential to deliver community benefits. WMFRA have demonstrated that they value partnership working and have involved their partners in curating their strategy. For example, The Authority has established arrangements with neighbouring fire and rescue services in Staffordshire, Warwickshire, Hereford and Worcester and Shropshire, for reciprocal support at times of peak demand.

Procurement strategy

Our conversation with WMFRA's Procurement Officer demonstrated that the Authority have astute arrangements around their procurement and commissioning. They have a clearly defined procurement strategy. If the contract value is less than £25k, the bidder with the lowest quote is accepted; contracts between £25k and £100k, the Procurement Manager authorises, contracts over £100k, the Strategic Enabler (SE) authorises; and finally contracts over £250k will need to be submitted with a report in support of the contract and authorised by the SE.

Over the last two years, the Authority have faced procurement challenges that are typical to any Local Authority in this political and economic climate, such as uncertainty of supply due to Brexit, the ongoing impacts of Covid-19 and the Ukrainian war. The impact of this for WMFRS has largely been on supply of their fleet; it takes an average of 15 months to procure assets and they faced the challenge of making their existing assets last longer. Their new RBC and blended fleet model has helped mitigate this challenge, demonstrating again the Authority's exemplary efforts in countering any risks caused by external factors in their procurement.

HMICFRS Inspection

HMICFRS published their most recent inspection of West Midlands Fire Service in January 2023, covering the period 2021/22. The inspection focuses on the service provided by the Authority and the way in which resources are utilised. It assesses how effectively and efficiently the Authority protects the public against and responds to fires and other emergencies. The report also assesses how well the Authority looks after the people who work for the service.

The outcome of the inspection from HMICFRS is separated into three sections. The performance of WMFRA in 2021/22 across these areas was;

Effectiveness – Outstanding (increase from 'Good' in 2018/19)

Efficiency – Good (static from 'Good' in 2018/19)

People – Good (static from 'Good' in 2018/19)

Within each of these areas there are sub-sections and the Authority either retained its rating at the 2018/19 level across these sub-sections or, as was the case in two areas within People, improved from 'Requires Improvement' to 'Good'. This demonstrates that the Authority has taken proactive steps to address issues raised in previous inspections from HMICFRS.

The report for 2021/22 summarised that the Authority delivered "first-rate performance" in terms of keeping people safe and secure from fires and other risks. It also summarised that excellent progress had been made from the 2018/19 inspection, as evidenced in the improvements demonstrated above.

The inspection from HMICFRS did identify that there were some areas of improvement for the Authority. These areas for improvement were discussed during the Fire Authority meeting held in February 2023 and relevant officers detailed the steps being taken to address these areas for improvement. This indicates that the Authority has taken appropriate steps to address areas for improvement whilst also noting the positive outcome that the report detailed and the 'Outstanding' rating that WMFRA has been given by HMICFRS

Conclusion

The Authority have exemplary arrangements around improving their economy, efficiency and effectiveness. Their new strategies outlined in "Our Plan" demonstrate their commitment to delivering value for money by making more efficient use of resources and implementing preventative measures for fire incidents to reduce the number of emergencies overall.

Opinion on the financial statements

Audit opinion on the financial statements

We gave an unqualified opinion or we qualified the opinion on the Authority's financial statements on xx xxxx 2022.

Other opinion/key findings

List by exception, such as AGS, etc.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Authority's Audit Committee on
xx xxxx 2022.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Authority. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Our work found xyz.

Preparation of the accounts

The Authority provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Issues arising from the accounts:

The key issues were:

To be drafted

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation

Appendices

Appendix A – Responsibilities of the Authority

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

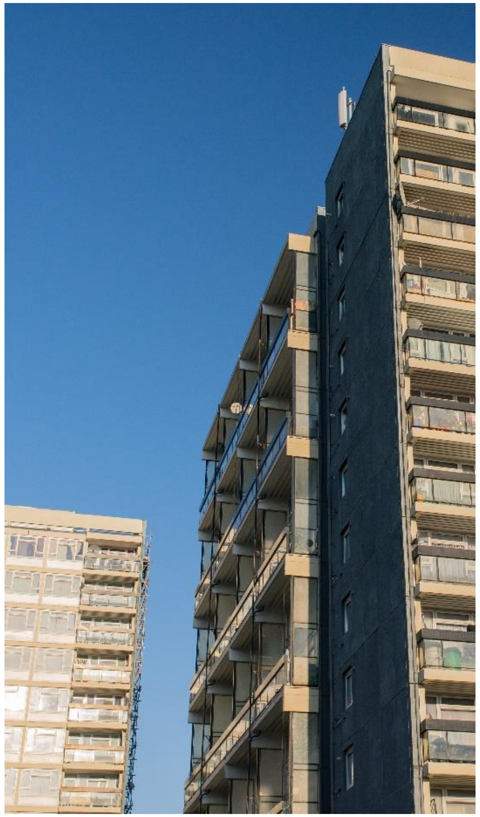
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Authority's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

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



Appendix B – An explanatory note on recommendations

A range of different recommendations can be raised by the Authority's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Improvement	The Authority should establish a clear savings target, develop a savings plan and savings monitoring arrangements.	Yes	8
Improvement	Develop a borrowing strategy to fund the Capital Programme.	Yes	9
Improvement	Include financial risk reporting in Quarterly Monitoring of Finance report.	Yes	10

Appendix C – Sources of evidence

Staff involved

- Wayne Brown, Chief Fire Officer
- Mike Griffiths, Director of Finance
- Kal Shoker, Deputy Director of Finance
- Mandy Beasley, Procurement Officer
- John Matthews, Head of Internal Audit
- Peter Farrow, Head of Internal Audit

Documents Reviewed

- Constitution
- Community Risk Management Plan
- Audit Risk Committee Annual Report 21-22
- Budget and Precept 21-22
- Budget and Precept 22-23 and Forecast
- Monitoring of Finances February 2022
- Monitoring of Finances February 2023
- KPI Status Q2 21 – Appendix 1
- KPI Status Q2 22 – Appendix 1
- Procurement Procedures Policy
- Three Year Rolling Strategy 23-26
- HMICFRS West Midlands Fire Service Report 21-22

Meetings Observed

- Audit Committee – 27 November 2023

WEST MIDLANDSFIRE AND RESCUE AUTHORITY

Item 7

AUDIT AND RISK COMMITTEE

27 NOVEMBER 2023

1. TREASURY MANAGEMENT – MID YEAR REVIEW REPORT 2023/24

Report of the Treasurer.

RECOMMENDED

1.1. THAT the Audit and Risk Committee note the Treasury Management update including prudential and treasury indicators.

2. PURPOSE OF REPORT

2.1. To note the mid-year performance of the Treasury Management function.

3. BACKGROUND

3.1 The Authority approved the Treasury Management Strategy as part of the Budget and Precept 2023/24 and Budget Forecast 2024/25 to 2025/26 report on 13 February 2023.

3.2 The Treasury Management Strategy requires a mid-year treasury management report to update members with the progress of the capital position, amending prudential indicators as necessary any detailing whether any policies require revision.

3.3 This should meet the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code of Capital Finance in Local Authorities (the Prudential Code). The Authority is required to comply with both Codes through regulations issued under the Local Government Act 2003.

3.4 The Authority's treasury management functions are provided by Sandwell Council and their appointed advisors.

4. TREASURY MANAGEMENT – MID YEAR REPORT

4.1 Appendix C details the elements required as part of the mid-year review.

4.2 The key areas to note are:

- There are no changes to the Prudential Indicators from that approved in February 2023 as part of the Annual Budget.
- The capital programme forecast position for 2023/24 is £6.177m, reduced from an approved budget of £9.191m due to slippage.
- There is no borrowing budgeted or expected for 2023/24.
- The current level of borrowing is £32m.
- The current level of investment is £36m, with forecast investment income in 2023/24 of £1m

5. EQUALITY IMPACT ASSESSMENT

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

6. LEGAL IMPLICATIONS

6.1 There are no direct legal implications associated with the implementation of the recommendations set out in this report.

7. FINANCIAL IMPLICATIONS

7.1 These are contained within the report and relate to the revised capital programme forecast for 2023/24 and the current level of borrowing and investments.

8. ENVIRONMENTAL IMPLICATIONS

8.1 There are no specific environmental impact of this report, as it does not relate to a policy change.

BACKGROUND PAPERS

Budget and Precept 2023/24 and Budget Forecast 2024/25 to 2025/26 – Authority 13 February 2023

The contact for this report is Sofia Mahmood, Head of Finance and Procurement (S151).

SOFIA MAHMOOD,
SECTION 151

Item 7

Treasury Management Strategy Statement and Annual Investment Strategy

Mid-Year Review Report 2023/24

Date of issuance: 04.10.23

Contents

1. Background

1.1 Capital Strategy

In December 2021, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

1.2 Treasury Management

The Authority operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning to ensure the Authority can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Authority risk or cost objectives.

Accordingly, treasury management is defined as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2. Introduction

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives.

3. Receipt by Authority of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.

4. Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Authority the delegated body is the Audit & Risk Commitee:

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2023/24 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Authority's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Authority's investment portfolio for 2023/24;
- A review of the Authority's borrowing strategy for 2023/24;
- A review of any debt rescheduling undertaken during 2023/24;
- A review of compliance with Treasury and Prudential Limits for 2023/24.

Recommendations

The *Audit & Risk Committee* is asked to recommend the following to the full Authority:

- **Note the report, the treasury activity and recommend approval of any changes to the prudential indicators.**

3. Economics and Interest Rates

3.1 Economics Update

- The first half of 2023/24 saw:

- Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- A 0.5% m/m decline in real GDP in July, mainly due to more strikes.
- CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).

- The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.
- But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.
- CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.
- In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".

- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.
- The yield on 10-year Gilts fell from a peak of 4.74% on 17th August to 4.44% on 29th September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).
- The pound weakened from its cycle high of $1.30 in the middle of July to $1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.
- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.

3.2 Interest Rate Forecasts

The Authority has appointed Link Group via Sandwell Council as its treasury advisors and part of their service is to assist the Authority to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 25th September sets out a view that short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.

Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

4. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement, (TMSS), for 2023/24 was approved by the Authority on 13 February 2023. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Prudential Indicator 2023/24	Original £m	Revised Prudential Indicator £m
Authorised Limit	39	39
Operational Boundary	36	36
Capital Financing Requirement	32	32

5. The Authority's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Authority's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

5.1 Prudential Indicator for Capital Expenditure

This table shows the actual spend as at October-23 for capital expenditure and the revised budget requirement for 2023/24 since the capital programme was agreed at the Budget.

The main variance is the deferral of the vehicle replacement programme due to additional trials for brigade response vehicles.

Capital Expenditure by Service	2023/24 Approved Budget £m	Current Position – October 23 £m	2023/24 Forecast Outturn £m
Vehicle Replacement Programme	6,678	1,285	4,315
Boiler Replacement Programme	148	50	209
Rewires	167	-	-
Roof Replacement	325	54	505
Windows & Doors Replacement	677	9	677
Drill Tower & Burns Facility Upgrade	432	13	357
HQ Modernisation	44	26	71
C&C Upgrade-Vision 4/ESMCP	-	11	43
Fire Ground Radio Replacement	290	-	-
MDT Replacement	430	-	-
Total capital expenditure	9,191	1,448	6,177

5.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. There is no additional borrowing element, which would increase the underlying indebtedness of the Authority by way of the Capital Financing Requirement (CFR).

5.3

Capital Expenditure	2023/24 Approved Budget £m	Current Position £m	2023/24 Forecast Outturn £m
Total capital expenditure			
Financed by:			
Capital receipts	2,749	-	2,749
Capital grants	-	11	43
Capital reserves	-	-	-
Revenue	6,442	1,437	3,385
Total financing	9,191	1,448	6,177
Borrowing requirement	-	-	-

Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement.

Prudential Indicator – the Operational Boundary for external debt

	2023/24 Original Estimate £m		2023/24 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement			
Total CFR	32		32
Prudential Indicator – the Operational Boundary for external debt			
Borrowing	36		36
Total debt (year end position)	**30**		**30**

5.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. **Gross external borrowing** should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Authority has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2023/24 Original Estimate £m	2023/24 Revised Estimate £m
Borrowing	30	30
CFR (year end position)	32	32

A further prudential indicator controls the overall level of borrowing. This is **the Authorised Limit** which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2023/24 Original Indicator	2023/24 Revised Indicator
Borrowing	40	40

6. Borrowing

The Authority's capital financing requirement (CFR) for 2023/24 is £32m. The CFR denotes the Authority's underlying need to borrow for capital purposes. If the CFR is positive the Authority may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 5.4 shows the Authority has borrowings of £30m and has for several years utilised revenue cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring if further upside risk to gilt yields prevails.

The capital programme is being kept under regular review due to the effects of inflationary pressures, shortages of materials and labour. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure in the long-term.

It is anticipated that further borrowing will not be undertaken during this financial year but is likely to be required in 2024/25.

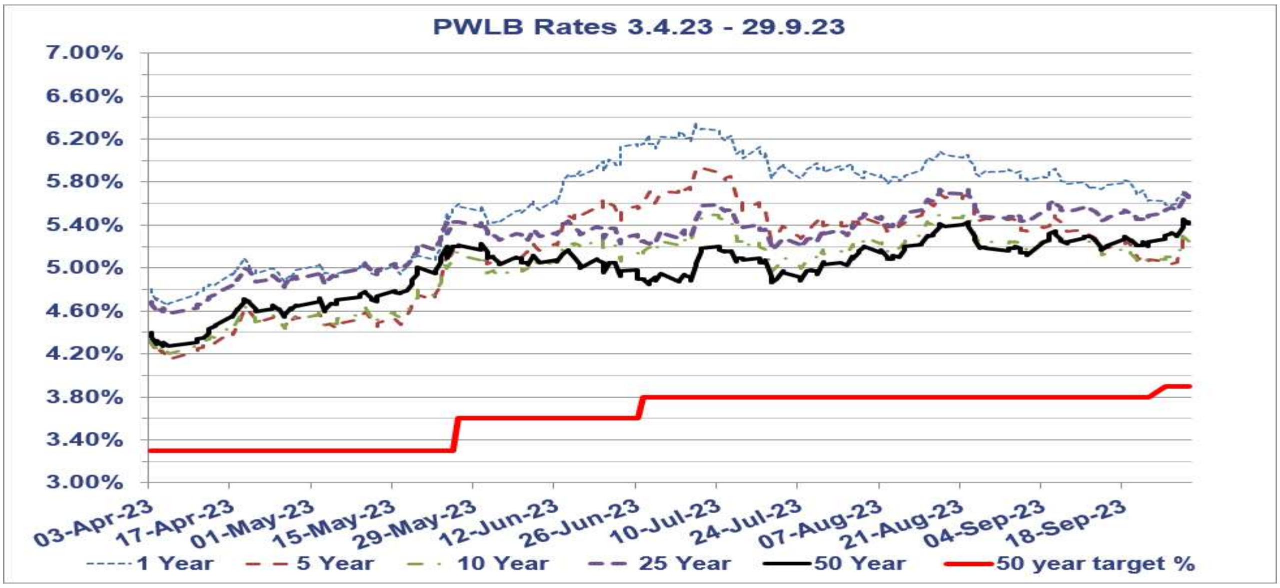
PWLB maturity certainty rates (gilts plus 80bps) year to date to 29th September 2023

Gilt yields and PWLB certainty rates were on a generally rising trend throughout the first half of 2023/24. At the beginning of April, the 5-year rate was the cheapest part of the curve and touched 4.14% whilst the 25-year rate was relatively expensive at 4.58%.

July saw short-dated rates peak at their most expensive. The 1-year rate spiked to 6.36% and the 5-year rate to 5.93%. Although, in due course, short-dated rate expectations fell, the medium dates shifted higher through August and the 10-year rate pushed higher to 5.51% and the 25-year rate to 5.73%. The 50-year rate was 4.27% on 5th April but rose to 5.45% on 28th September.

We forecast rates to fall back over the next two to three years as inflation dampens. The CPI measure of inflation is expected to fall below 2% in the second half of 2024, and we forecast 50-year rates to stand at 3.90% by the end of September 2025. However, there is considerable gilt issuance to be digested by the market over the next couple of years, as a minimum, so there is a high degree of uncertainty as to whether rates will fall that far.

PWLB RATES 03.04.23 - 29.09.23



HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

7. Debt Rescheduling

Debt rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt rescheduling has been undertaken to date in the current financial year.

8. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Authority to determine and keep under review the affordable borrowing limits, During the half year ended 30th September 2023, the Authority has operated within the treasury and prudential indicators set out in the Authority's Treasury Management Strategy Statement for 2023/24. No difficulties are currently envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Authority's Treasury Management Practices.

9. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Authority on 13 February 2023. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Authority's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Authority's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit quality financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

Creditworthiness.
Following the Government's fiscal event on 23rd September 2022, both S&P and Fitch placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and a challenging economic outlook. Nothing further has evolved in the first half of 2023/24.

Investment Counterparty criteria
The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

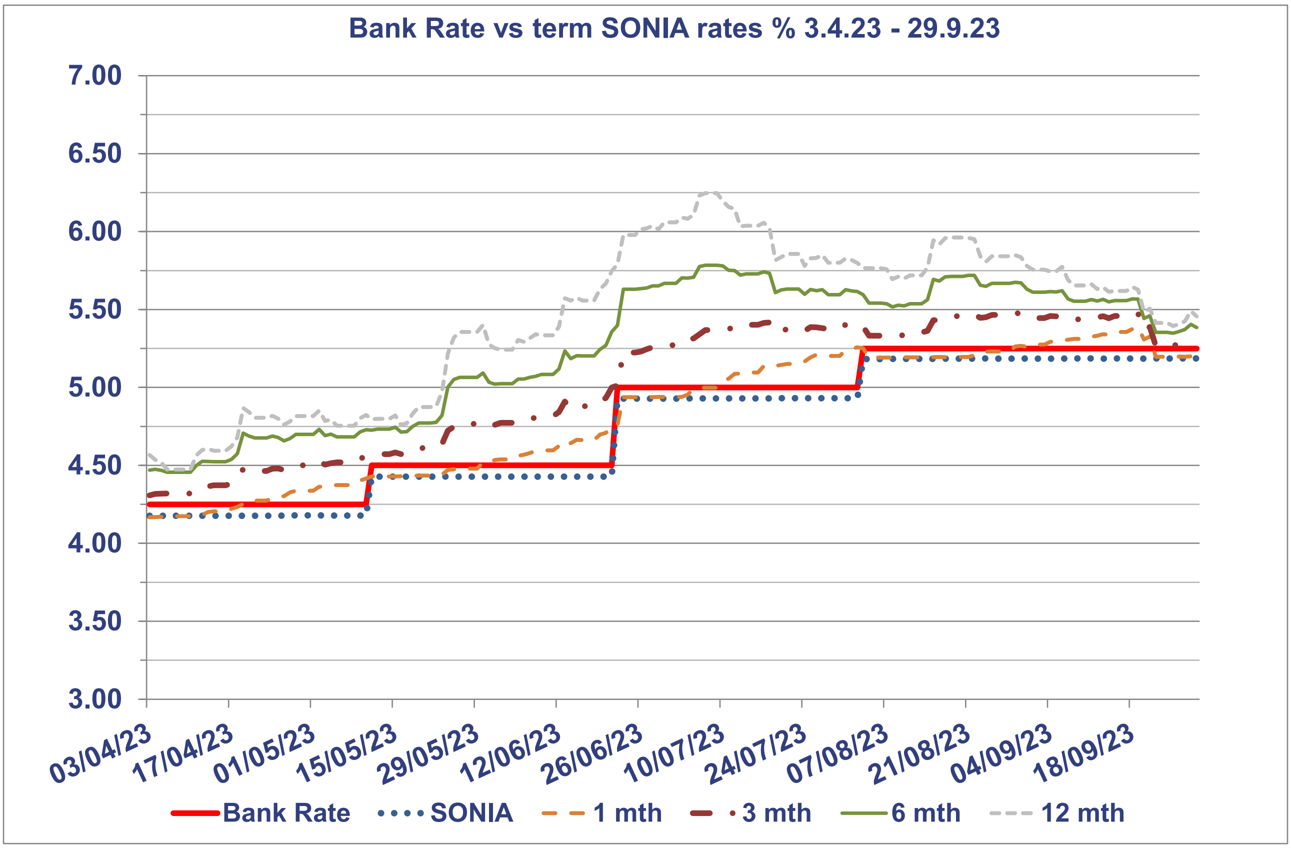
CDS prices

It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment balances

The average level of funds available for investment purposes during the first half of the financial year was £36.4m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

Investment performance year to date as of 29th September 2023



	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	5.25	5.19	5.39	5.48	5.78	6.25
High Date	03/08/2023	29/09/2023	19/09/2023	30/08/2023	07/07/2023	07/07/2023
Low	4.25	4.18	4.17	4.31	4.46	4.47
Low Date	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
Average	4.81	4.74	4.83	5.03	5.26	5.45
Spread	1.00	1.01	1.22	1.17	1.33	1.77

The table above covers the first half of 2023/24.

Investment performance year to date as of 30th September 2023

The investment portfolio yield for the first six months of the year is 4.95% against a benchmark average SONIA (Sterling Overnight Index Average) rate of 4.74%. This is equivalent to a forecast return of £1.0m.

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the period ended 30th September 2023.

10. Other

Changes in risk appetite

The 2021 CIPFA Codes and guidance notes place importance on risk management. Where an authority changes its risk appetite e.g., for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

Item 8

AUDIT AND RISK COMMITTEE

27 NOVEMBER 2023

1. CORPORATE RISK UPDATE

Report of the Chief Fire Officer

RECOMMENDED

1.1 THAT Audit and Risk Committee approve the Corporate Risk Summaries (Quarter 1 2023/24, Appendix 1 and Quarter 2 2023/24 Appendix 2) and note the management of Corporate Risk. In particular, the addition of a new risk Matrix and risk scoring.

1.2 THAT Audit and Risk committee approve the removal of the Prevention Corporate Risk 3.2.

3.2 The Fire Authority is unable to establish effective partnership arrangements and deliver community outcomes, resulting in a significant impact upon the organisation's financial standing, reputation and ability to deliver key objectives.

2. PURPOSE OF REPORT

This update covers a six-month period and is provided to ensure Members remain informed about all aspects relating to the management of the Authority's Corporate Risks. It covers Quarter 1 2023/24 and Quarter 2 2023/24.

3. BACKGROUND

3.1. This report includes the Corporate Risk Summary for Quarter 1, 2023/24 and Quarter 2 2023/24 in addition, it provides an update on the management of Corporate Risk.

3.2. Corporate Risks are those risks which if they occurred would seriously affect the Authority's ability to carry out its core function or deliver its strategic objectives as set out in 'Our Plan'. Currently, the Service maintains eight Corporate Risks, some of which have more than one element.

3.3. Each Corporate Risk is assigned to a risk owner, who is a member of the Strategic Enabling Team (SET). The risk owner has the overall responsibility for monitoring and reviewing the progress being made in managing the risk.

3.4. To enable for effective risk management, the risk owner will review and assesses each Corporate Risk monthly. A report is subsequently submitted to SET on a quarterly basis.

3.5. The review and the estimated risk rating undertaken is based on likelihood multiplied by impact. This quarter has seen the introduction of the new risk matrix as shown below.

3.6. The likelihood is a measure of probability of a given risk occurring using a scale of 1 (low) to 5 (high). The impact is a measure of the severity or loss should the risk occur again, using a scale of 1 (low) to 5 (high).

RISK MATRIX

	Impact				
Likelihood	Negligable	Minor	Moderate	Critical	Catastrophic
Remote	1	2	3	4	5
Unlikely	2	4	6	8	10
Possible	3	6	9	12	15
Likely	4	8	12	16	20
Almost Certain	5	10	15	20	25

= Risk Appetite = Risk Tolerance = Unacceptable Risk

Risk Appetite will be awarded Green confidence which is the highest level that can be awarded.

Risk Tolerance will be awarded Amber confidence In all cases, work is in progress to enable for a green rating to be attained.

Unacceptable Risk will be awarded Red confidence in all cases work is progress to enable for an amber/green rating to be obtained.

3.7. In undertaking a review of the Corporate Risks, the risk owner will consider the following: -

- The direction of travel of the risk
- The overall confidence that the risk owner has in the risk being realised. This is a professional judgement as to the risk owner's confidence in the control environment
- The current risk scores (Likelihood and Impact)
- Any issues that have emerged during the previous month
- Any forthcoming changes that may emerge that could affect the risk

- Any changes to the control measures that are in place which are designed to reduce the likelihood of risk realisation, or its impact should the risk be realised
- The requirement for additional control measures to further reduce the likelihood or impact and strengthen the control environment
- Any interdependencies with other Corporate Risks
- The recommended risk score rating

3.8. As part of the review the risk owner has to consider the risk score and rating and updated the summary sheet. The risk owner has provided assurance that the control measures identified are still effective in the management of the risk and identified whether any new risk events or controls have been implemented or are required.

3.9. Where ongoing additional controls are being implemented, risk owners have confirmed the progress in implementing such controls. Risk has been transferred from an Excel document to our 3PT project management system, which is working very well. We are also now reporting risks live month by month and no longer reporting retrospectively which is a significant improvement and means recording and reporting are both more accurate and readily available.

4. QUARTER 1 2023/24 (April, May, June)

4.1. The Corporate Risk Assurance Map Summary for Quarter 1 is attached as **Appendix 1**. It provides the confidence levels of the risk management activity in respect of the Authority's 8 Corporate Risks. It should be noted that some risks have more than one element, providing an update on 16 elements of the risks. The following is the status at the end of Quarter 1 (June 2023).

4.2. A summary of the changes in Risk Scores is shown below:

Risks within Appetite (Green) = 11

Risks within Tolerance (Amber) = 5

Unacceptable Risks (Red) = N/A

- Corporate Risks 1.2, 2.1, 2.2, 2.3, 3.2, 3.3, 4.1, 5.1, 5.2, 8.1 and 8.2 were awarded a **Green** confidence (within appetite) which is the highest level that can be awarded.
- Corporate Risks 3.1, 6.1, 7.1, 7.2 and 7.3 were awarded **Amber** confidence (within tolerance). In all cases, work is in progress to enable for a green rating to be attained.
- There were no Corporate Risks awarded **Red** (Unacceptable)

4.3. **Increase/Decrease in Overall Corporate Risk Score**

During Quarter 1 there was a decrease in 7 Risk scores.

- **2.1** – The risk score has reduced from a rating of 9 which is within risk tolerance to a risk rating of 3 which is now within risk appetite level
- **3.2** – Risk Score reduced from a 9 which is within risk tolerance to a risk rating of 6 which is now within risk appetite level
- **3.3** – Risk Score reduced from 4 to 2 both within risk appetite level
- **5.1** – Risk Score reduced from 8 which is within risk tolerance to a risk rating of 6 which is now within risk appetite level
- **6.1** – Risk Score reduced from 12 which is within Risk tolerance rating to a risk rating of 8 which remains within Risk Tolerance level
- **8.1** – Risk Score reduced from 9 to which is within risk tolerance to a risk rating of 4 which is now within Risk Appetite level
- **8.2** – Risk Score reduced from 6 to 4 with both within Risk Appetite level

4.4. During Quarter 1, (April – June 2023) there was no change to 9 Risks

- **1.2** – Risk Score remained at 6 within Risk Appetite level
- **2.2** – Risk Score remained at 6 within Risk Appetite level
- **2.3** – Risk Score remained at 6 within Risk Appetite level

- **3.1** – Risk Score remained at 9 within Risk Tolerance level
- **4.1** – Risk Score remained at 4 within Risk Appetite level
- **5.2** – Risk Score remained at 6 within Risk Appetite level
- **7.1** – Risk Score remained at 12 within Risk Tolerance level
- **7.2** – Risk Score remained at 9 within Risk Tolerance level
- **7.3** – Risk Score remained at 12 within Risk Tolerance level

5. QUARTER 2 2023/24 (July, August, September)

5.1. The Corporate Risk Assurance Map Summary for Quarter 2 is attached as Appendix 2. It provides the confidence levels of the risk management activity in respect of the Authority's 8 Corporate Risks. It should be noted that some risks have more than one element, providing an update on 16 elements of the risks. The following is the status at the end of Quarter 2 (September 2023).

5.2. A summary of the changes in Risk Scores is shown below:

Risks within Appetite (green) = 8

Risks within Tolerance (amber) = 8

Unacceptable Risks (red) = N/A

- Corporate Risks 1.2, 2.2, 2.3, 3.2, 3.3, 4.1, 5.1, and 8.2 were awarded a **green** confidence (within appetite) which is the highest level that can be awarded.
- Corporate Risks 2.1, 3.1, 5.2, 6.1, 7.1, 7.2, 7.3 and 8.1 were awarded **amber** confidence (within tolerance). In all cases, work is in progress to enable for a green rating to be attained.
- There were no Corporate Risks awarded **red** (Unacceptable)

5.3. **Increase/Decrease in Overall Corporate Risk Score**

During Quarter 2, (July- Sept 2023) there was a decrease in 2 Risk scores.

- **1.2** - the risk score has decreased from a rating of 6 which is within Risk Appetite to a risk rating of 3 remaining within risk appetite

- **3.3 -** the risk score has decreased from a rating of 4 which is within Risk Appetite to a rating of 2 which remains within Risk Appetite

5.4. During Quarter 2, (July – Sept 2023) there was an increase in 4 Risk scores.

- **2.1 -** the risk score has increased from a rating of 3 which is within Risk Appetite to 12 which is now within Risk Tolerance
- **5.2** - the risk score has increased from a rating of 6 which is within Risk Appetite to a rating of 9 which is now within Risk Tolerance
- **8.1 -** the risk score has now increased from a rating of 4 which is within Risk Appetite to a rating of 12 which is within Risk Tolerance
- **8.2** - the risk score has now increased from a rating of 4 which is within Risk Appetite to a rating of 6 which remains within risk appetite

5.5. During Quarter 2, (July – Sept 2023) there was no change to 10 Risk scores.

- **2.2** – Risk Score remains at 6 within Risk Appetite
- **2.3** - Risk Score remains at 6 within Risk Appetite
- **3.1** – Risk Score remains at 9 within Risk Tolerance
- **3.2** - Risk Score remains at 6 within Risk Appetite
- **4.1** – Risk Score remains at 4 within Risk Appetite
- **5.1** – Risk score remains at 6 within Risk Appetite
- **6.1** - Risk score remains at 8 within Risk Tolerance
- **7.1** - Risk score remains at 12 within Risk Tolerance
- **7.2** - Risk score remains at 9 within Risk Tolerance
- **7.3** – Risk Score remains at 12 within Risk Tolerance

6. CORPORATE RISK STATEMENT SUMMARY

6.1. Corporate Risk 1.2, External (Political and Legislative Environment)

The risk owner reported the following during Quarters 1 and 2:-

6.1.1. In Quarter 1 Unison had asked their members to ballot for Industrial Action (IA) and although there would have been an impact on the service had good and effective plans in place through Business Continuity Planning and impact to the external environment was deemed to be minimal, the Industrial Action did not go ahead.

6.1.2. In Quarter 2 the likelihood of the risk occurring had decreased due to the increase in partnership activities such as the Tri-Service (three Chiefs) meeting that has not yet taken place.

6.2. Corporate Risk 2.1, People (Positive staff engagement)

The risk owner reported the following during Quarters 1 and 2:-

6.2.1. In Quarter 1 Unison had balloted their members for strike action and, whilst the majority voted in favour of strike action, the overall engagement in the ballot meant that there was no mandate to strike. This meant that Business Continuity Planning was stood down with all learning being captured and stored for future processes.

6.2.2. Ongoing discussions with representative were reported as positive and there was progress being made across a number of areas. For example, Risk based crewing. There was an acknowledgement that effective communication and engagement helped to build and continues to maintain positive relations.

6.2.3. In Quarter 2 (August) collective grievances were submitted by both Fire Officers' Association and Fire Brigades' Union, both of which were responded to. Fire Officers' Association accepted the outcome and at present have not raised an appeal. However, Fire Brigades' Union have appealed the decision and remain firm in their view of the situation.

6.3. **Corporate Risk 2.2, People (Insufficient or ineffective employees)**

The risk owner reported the following during Quarters 1 and 2:-

6.3.1. During Quarters 1 & 2 there was minimal activity to report, and the risk score remained the same as a result.

6.4. **Corporate Risk 3.1, Prevention (Engagement with Community)**

The risk owner reported the following during Quarters 1 and 2:-

6.4.1. In Quarter 1 The long waiting list for people who have multiple and complex needs who require the support of a Complex Needs Officer (CNO) continued to be an issue.

6.4.2. There was a system issue that had been identified however that was rectified making it easier to get a clear idea of the scale of the issue. Prevention Team are working on mitigation plan.

6.4.3. Also there was an action plan developed to manage Safe and Well To-do lists on stations. There were 5,500+ referrals on the system. Following a focussed effort by Ops crews this was reduced to below 3,000.

6.4.4. In Quarter 2 The Home Safety Centre had reduced the inbox to Zero and this has been maintained. The Home Safety Centre is now working on assisting crews to make appointments from the station to-do-lists

6.5. **Corporate Risk 3.2, Prevention (Partnership arrangements)**

The risk owner reported the following during Quarters 1 and 2: -

6.5.1. In Quarter 1 The risk to partnerships had been reported to have decreased over a long period, mainly as there are now very few formal partnership arrangements in place. It was recommended to disestablish this risk and incorporate it under corporate risk 3.1 a report will be submitted to support this.

6.5.2. In Quarter 2 there was no change to the Risk Score and there was no further detail to report.

6.5.3. It is requested that the Audit and Risk Committee approve the removal of this risk 3.2.

This Corporate Risk was established 10-15 years ago when there was the potential for the service to have significant liability related to grant funding and the delivery of projects that were externally funded and/or required match funding. At this time Local Area Agreements were in operation and there were significant amounts of regeneration and European funding available that the service was able to access. This is no longer the case and therefore it is proposed that there does not need to be a separate Corporate Risk.

It is proposed that risks associated with effective partnership arrangements are incorporated into Corporate Risk 3.1. and managed as a new risk trigger 3.1.7. stating: Partnership arrangements are not effective in delivering community outcomes, resulting in a significant impact upon the organisation's financial standing, reputation and ability to deliver key objectives.

6.6. **Corporate Risk 3.3, Prevention**

The risk owner reported the following during Quarters 1 and 2: -

6.6.1. In Quarter 1 The risk score had decreased, this was because we had recently started to implement the FI Quality Management system in preparation for submission for ISO accreditation. There was also significant support in place from neighbouring Police Forces and the Forensic Regulator to indicate that we are making good progress towards accreditation.

6.6.2. In Quarter 2 The ISO Quality Management System was reported to have been operational for 4 months and was proving to be effective in managing risk and processes. The Audit and non-conformance procedures are both now live awaiting authorisations. It was also reported that the peer review system had been operational for 10 months and was proving effective.

6.7. **Corporate Risk 4.1, Protection**

The risk owner reported the following during Quarters 1 and 2: -

6.7.1. In Quarter 1 and 2 there weas minimal information recorded and the risk scoring remained the same for both quarters.

6.8. **Risk 5.1, Response (Operational)**

The risk owner reported the following during Quarters 1 and 2:-

6.8.1. In Quarter 1 An Incident Command Project was established following the Level 2 Assurance Review of our Incident Command (IC) function/capability. This included the review and revision of policies, structures, systems and processes to enable the assertive, effective and safe resolution of incidents.

6.8.2. In Quarter 2 Risk based crewing went live at the 3 multi pump stations (Highgate, Coventry, Walsall) and this was confirmed to ensure that we can proportionately resource to the risk.

6.9. **Corporate Risk 5.2, Response (Fire Control)**

The risk owner reported the following during Quarters 1 and 2: -

6.9.1. In Quarter 1 the risk score remained the same with nothing significant to report.

6.9.2. In Quarter 2 Ongoing performance issues with the Command & Control System (Vision 4) were reported and they had the potential to slow down our ability to mobilise appliance within 80 seconds (PI1a). There were also a number of priority issues that were being investigated by the supplier.

6.10. **Corporate Risk 6.1, Business Continuity & Preparedness**

The risk owner reported the following during Quarters 1 and 2: -

6.10.1. In Quarter 1 UNISON, balloted for Industrial Action with a closing date of the 4th of July. The outcome of the ballot was that they did not reach the required 50% threshold (43.5%), meaning they did not have a mandate to take industrial action.

6.10.2. WMFS then undertook an impact assessment to determine any likely foreseeable impacts that may arise from UNISON members entering into strike action with mitigation plans in place.

6.10.3. In Quarter 2 The Minimum Service Levels Bill (now Act) received Royal Assent on 20 July 2023. The new law allows regulations to be laid that will enable minimum service levels to be applied in six key sectors: health services; fire and rescue services; education services; transport services; decommissioning of nuclear installations and management of radioactive waste and spent fuel; and border security.

6.10.4. This means that once regulations are in place for these sectors, then in the event of future strike action, employers that provide the services set out in the regulations will be able to issue work notices to specify the workforce required and the work to be done in order to meet the minimum service level. The union that has called the strike action must take reasonable steps to ensure that their members who are listed on the work notice comply with that notice.

6.10.5. There is a view that we are heading towards further rounds of pay negotiation in 2024/25 (grey book), and ongoing focus on areas such as pensions detriment, as well as local changes in the coming years, it is felt reasonable to say that medium term further industrial action is likely and there for the risk score and rag rating for 6.1 likely is to move from a Risk Score of 8 which is Amber within Risk Tolerance level to a Risk Score of 12 Amber which remains within Risk Tolerance level

6.11. **Corporate Risk 7.1, Digital and Data (Provide and support ICT)**

The risk owner reported the following during Quarters 1 and 2:-

6.11.1. In Quarter 1 the risk score remained the same with nothing significant to report.

6.11.2. In Quarter 2 Ongoing discussions with SSS indicated that there would be a need to maintain status quo when windows operating system was updated, and we would continue to support our C&C and ICCS systems. Upgrades to these two systems are planned to be implemented in 2024/25. This is due to SSS capacity to upgrade these for us in year. Timeline for implementation of UKG replacing SMART has been agreed in principle for Jan 2024.

6.12. **Corporate Risk 7.2, Digital and Data (Management of information)**

The risk owner reported the following during Quarters 1 and 2: -

6.12.1. In Quarter 1 the risk score remained the same with nothing significant to report.

6.12.2. In Quarter 2 there was some issues highlighted around ongoing data breaches and complex Freedom of Information (FOI) and there was also some progress on the ongoing upskilling and improving confidence in dealing with complex issues as people were embedded into new roles.

6.13. **Corporate Risk 7.3, Digital and Data (Cyber Security)**

The risk owner reported that during Quarter 1 and 2: -

6.13.1. In Quarter 1 the risk score remained the same with nothing significant to report.

6.13.2. In Quarter 2 it was reported the status around cyber security remained the same with a positive trajectory along with the planned update of the window 12 operating system which was due to be completed by 31st October 2023.

6.14. **Corporate Risk 8.1, Finance & Assets (Funding)**

The risk owner reported the following during Quarters 1 and 2: -

6.14.1. In Quarter 1 The provisional Out-turn position for 2022/23 was presented to SET on 29th May. By releasing funding, predominantly from the Insurance Reserve, the pay award impact above the 2% pay award assumption has been accommodated and a number of other funding priorities in the current year were also able to be dealt with by creating a number of new Earmarked Reserves.

6.14.2. A report was submitted to SET and subsequently to JCC proposing the extension of Risk Based Crewing to multi-pump and late Stations. This would be the most significant contributor to the Authority's efficiency target of £1.9M which needs to be met in the current year.

6.14.3. In Quarter 2 Insufficient funds means that we are in the process of budget setting for 2023/24, so will be able to provide more assurance later in the year. As earmarked reserves have reduced, and there are increasing capital & revenue pressures.

6.15. **Corporate Risk 8.2, Finance & Assets (Financial management)**

The risk owner reported the following during Quarters 1 and 2:-

6.15.1. In Quarter 2 The Annual Whistleblowing report was submitted to the Audit and Risk Committee on 19th June, along with the potential for future ICT security breaches and the possibility of inappropriate acts by employees.

6.15.2. In quarter 2 Additional work is required around the misuse use of funds to improve monitoring & forecasting so that relevant information is presented timely & corrective action can be taken as required.

7. EQUALITY IMPACT ASSESSMENT

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

8. **LEGAL IMPLICATIONS**

There are no direct legal implications associated with the implementation of the recommendations set out in this report.

9. **FINANCIAL IMPLICATIONS**

There are no financial implications associated with the implementation of the recommendations set out in this report.

10. **ENVIRONMENTAL IMPLICATIONS**

There are no specific environmental impact of this report, as it does not relate to a policy change.

BACKGROUND PAPERS

- Corporate Risk Update to Audit Committee Qtr 3 & 4
- Appendix 1 Assurance Map Qtr 1
- Appendix 2 Assurance Map Qtr 2
- Audit and Risk Committee Report 19 June 2023

The contact for this report is Head of Portfolio Marc Hudson, telephone number 07973 810139

Wayne Brown
CHIEF FIRE OFFICER

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

Item 9

AUDIT AND RISK COMMITTEE

27 NOVEMBER 2023

1. **BUSINESS CONTINUITY – RESILIENCE CONTRACTS**

Report of the Chief Fire Officer

RECOMMENDED

1.1. THAT Members note that Corporate Risk 6.1 relating to Business Continuity remains amber rated, as reported previously to both Audit and Risk Committee and Fire Authority.

1.2. THAT Members note the legal and statutory duties of the Authority to respond to emergencies, and to maintain robust business continuity arrangements.

1.3. THAT Members review previously considered options for mitigation and Scrutiny Committee's previous recommendations.

1.4. THAT Members recommend that Fire Authority consider a proposal to implement Internal Resilience Contracts as a means of mitigating this risk.

2. **PURPOSE OF REPORT**

2.1. To outline previous Authority considerations and decisions relating to Corporate Risk 6.1 Business Continuity, in particular in relation to industrial action.

2.2. To provide the Committee with detail on the option of Internal Resilience Contracts, which they can recommend to Fire Authority for consideration and approval.

3. **BACKGROUND – STATUTORY DUTIES**

3.1. The Fire and Rescue Service National Framework (The Framework) outlines that Fire and Rescue Authorities (FRA) are required to assess the risk of emergencies occurring and use this to inform contingency planning.

3.2. The Fire and Rescue Services Act 2004 and the Civil Contingencies Act 2004 outline the legal and statutory duties of an FRA in relation to provision for responding to incidents and the maintenance and management of the provision of business continuity plans to ensure that an FRA can deliver key services in the event of an emergency. Such emergencies include periods of Industrial Action.

3.3. In line with the Framework every FRA must assess foreseeable risks that could affect their communities and states that regard must be had to Community Risk Registers (CRR) produced by Local Resilience Forums (LRF).

3.4. The Community Risk Management Planning (CRMP) process continually identifies risk locally, regionally, and nationally, and this includes the scenarios identified in the National Security Risk Assessment. These identified risks are delivered through the FRA Strategy. The Chief Fire Officer (CFO) is accountable to the FRA and community for ensuring the Service delivers against the requirements of the Fire and Rescue Act, Regulatory Reform (Fire Safety) Order, Civil Contingencies Act and the National Framework in an assertive, effective, and safe way.

4. <u>BACKGROUND - CORPORATE RISK 6.1</u>

4.1. All Corporate level risks are recognised and managed through the WMFS Corporate Risk Register which is kept on constant review and reported quarterly to the Strategic Enabling Team (SET) via Strategic Performance Review Board (SPRB). There is also a six-month review to the Fire Authority via the Audit and Risk Committee.

4.2. Corporate Risk (CR) 6 relates to Business Continuity and Preparedness. CR 6.1 concerns a situation where "*The Fire Authority is unable to provide business continuity arrangements, to maintain delivery of core functions, as a result of extensive disruption to normal working arrangements, including national and international deployments, significant and major events, resulting in increased community risk; reduced confidence; increased reputational damage; and external scrutiny*."

4.3. In November 2019, the CFO presented to the Fire Authority a recommendation to engage an external provider to enhance business continuity and resilience arrangements, to enable the Fire Authority to meet expected resilience level. It was also recommended that the Fire Authority approve the funding to implement the required business continuity option. The recommendations were not approved by the Fire Authority based on the resolution of the Scrutiny Committee, which recommended that the Fire Authority continues to use existing arrangements for business continuity using volunteers from existing staff.

4.4. As a consequence of this decision, Corporate Risk 6.1 was raised to 12 (Impact 4, Likelihood 3) in December 2019. This was as a result of the impact rising from 3 to 4 due to the limited capability offered by the agreed business continuity approach.

4.5. In June 2022 the CR 6.1 was raised to 16 (Impact 4, Likelihood 4) as a result of growing likelihood of industrial action relating to the firefighter pay claim. As a result of this, in October 2022, the CFO presented a further paper to Fire Authority to recommend options to mitigate CR 6.1 either through the employment of external providers or implementation of internal resilience contracts. The matter was referred to the Scrutiny Committee in November 2022.

4.6. The Scrutiny Committee on 7 November 2022 considered both proposals, hearing evidence from the Deputy Chief Fire Officer, FBU and National Resilience Assurance Team. The Scrutiny Committee again recommended that the Fire Authority continues to use existing arrangements.

4.7. Corporate Risk 6.1 is currently at 12 (Impact 4, Likelihood 3), an AMBER rating under the new 5x5 risk matric adopted for corporate risk. This is because there is no immediate threat of strike action, but forthcoming pay negotiations and other matters mean industrial action remains likely in the medium term.

5. BACKGROUND - NATIONAL RESILIENCE ASSURANCE TEAM SURVEY

5.1. Further to CR 6.1, In August 2022 a survey was commissioned by the Home Office and undertaken by the NRAT on preparedness for Industrial Action, which will be used to RAG rate (Red, Amber, Green) Fire and Rescue Services according to the resilience of their Business Continuity Arrangements in the event of industrial action. WMFS responded to the Survey in August 2022, making clear that officers had limited confidence or understanding of the predicted cover that might be achieved during future periods of industrial action.

5.2. The Home Office provided their outcome to the survey in September 2022. They acknowledged that WMFS are unable to provide information about the number of staff that would be available during a period of firefighter industrial action and consequently no information about the number of fire and rescue response assets we expect to maintain available to respond to incidents during industrial action. Without clarity and detail in respect of these areas the Home Office were unable to conclude that WMFS arrangements to maintain an effective emergency response in the event of firefighter industrial action are suitable and sufficient and therefore concluded that WMFS arrangements would be considered **red, high risk**. We remain at that level.

6. CURRENT POSITION

6.1. Current business continuity arrangements for loss of staff due to industrial action involve the use of non-striking operational and support staff (including Fire Control). Appliances are then strategically placed across the West Midlands, using tools such as the Dynamic Cover Tool (DCT). Some appliances are ‘dual staffed’ to ensure National Resilience capabilities are maintained during industrial action i.e. DIM capability, USAR.

6.2. Analysis has previously been completed of business continuity arrangements based on two previous periods of industrial action as a result of the West Midlands trade dispute that was registered on 11th April 2018. Pre-planned coverage for a scheduled period of industrial action (30th July 2018) demonstrated WMFS were not able to meet the Home Office target of 30% appliance availability.

6.3. It remains the view of the Chief Fire Officer and Strategic Enabling Team that the current business continuity approach in the event of industrial action does not provide sufficient assurance that the Authority can meet its statutory obligations under the Fire and Rescue Services Act 2004 and the Civil Contingencies Act 2004.

7. RESILIENCE CONTRACTS – CONTEXT AND EXAMPLES

7.1. Resilience Contracts are used in other fire and rescue services in the UK as a means of providing additional assurance around minimum service levels in the event of industrial action and have been used successfully during strikes.

7.2. Merseyside FRS have had resilience contracts for over a decade, having successfully used them during periods of industrial action in 2006 and 2013/14. They have a three-month notice period, and pay a flat rate of £1,100, which will increase by 5% in April 2024 in line with agreed grey book pay rises. Staff are expected to work flexibly outside their usual shift pattern during industrial action to cover whatever period of strikes may occur.

8. RESILIENCE CONTRACTS – PROPOSAL

8.1. It is proposed that WMFRA consider a proposal for the use of an internal resilience contract scheme. The Committee are advised to recommend a proposal is taken to Fire Authority for consideration and decision on this matter.

8.2. Such contracts could provide the Service and Home Office with assurance as to minimum staffing levels during periods of industrial action. They would allow us to plan for a specific number of staff to be available and make appropriate arrangements for resources and staffing ahead of time.

8.3. Resilience contracts, appropriately written, could also be used to address issues with understaffing during key periods (such as the summer holidays and Christmas) with those taking resilience contracts agreeing not to take annual leave during these peak periods.

8.4. However, there are limitations to an internal resilience contract approach. While the contracts are themselves binding, staff are free to exit the contract at any time by giving appropriate notice. Given the usually significant lead-in time to industrial action, this means staff could agree to the contracts when industrial action is not imminent but then leave the contracts if industrial action appears likely. Staff could also simply exit the contracts at short notice and accept a financial penalty.

8.5. There is also a risk that resilience contracts will reduce the number of staff who would otherwise have volunteered to work during industrial action without the need for the additional contract. Not only does this mean the Service is incurring additional cost, but if those on the resilience contracts were to leave the contract those that might otherwise have volunteered may not do so.

8.6. Any resilience arrangement, including resilience contracts, would also be tested by prolonged industrial action, especially where it includes sustained periods of strike (i.e. four consecutive days or more). While those on resilience contracts could work a number of consecutive shifts if split into two groups, there would be limitations to this approach.

9. <u>EQUALITY IMPACT ASSESSMENT</u>

A full Equality Impact Assessment would be undertaken as part of the development of a full proposal for decision by the Fire Authority.

10. <u>LEGAL IMPLICATIONS</u>

10.1. As highlighted within section 3, the Fire Authority has a legal duty to provide a response to emergencies and to ensure robust business continuity arrangements are in place.

10.2. Resilience Contracts are in place in other parts of the UK FRS and have not been found to be unlawful. However, they do not remove the right of an individual to withdraw their labour, which could only be removed by legislation (see 10.3 below).

10.3. The Strikes (Minimum Service Levels) Act 2023 was passed into law in July 2023, and may render resilience contracts unnecessary. Government has recently finished consulting on a statutory code of practice and regulations which will dictate how the law would work. There may be some delay before these regulations are brought into force, and it is likely that unions will challenge the law in the courts, which may further delay implementation. The Labour Party, currently on course to win the next General Election due by January 2025, has also promised to repeal the Act. Therefore, it is not clear for how long (if at all) the law will be in effect.

11. FINANCIAL IMPLICATIONS

11.1. The potential cost of Resilience Contracts, if agreed, will vary depending upon the payment approach and level of staffing that is required to provide resilience. Figures given in table 1 below are illustrative of potential costs depending on the model developed for approval by the Fire Authority. The annual cost could exceed the CFO's delegated authority and therefore require specific Authority approval.

Table 1 - Indicative Annual Resilience Contract Costs

No. of Contracts	Resilience Contact Value p/a	Assumed Grey Book award p/a	Cost 2024/25 (£ ,000s)	Cost 2025/26 (£ ,000s)	Cost 2026/27 (£ ,000s)
350	£1,100	3%	385	396	408
300	£1,100	3%	330	340	350
250	£1,100	3%	275	283	292

11.2. It should be noted that these would be the Business as Usual (BAU) costs without any period of industrial action. Were industrial action to take place there would be additional costs associated with paying staff on resilience contracts for their hours worked, which will be offset by reductions in salary costs from those staff that to undertake industrial action.

12. ENVIRONMENTAL IMPLICATIONS

There are no specific environmental implications of this report, as internal resilience contracts will make use of existing staff and resources.

BACKGROUND PAPERS

- 10 October 2022 – Fire Authority – Business Continuity Arrangements.
- 7 November 2022 - Scrutiny Committee Working Group – Business Continuity Arrangements.
- Example Contract – Merseyside FRS.
- Strikes (Minimum Service Levels) Act 2023.

The contact for this report is Area Manager Alex Shapland, alex.shapland@wmfs.net

WAYNE BROWN
CHIEF FIRE OFFICER

WEST MIDLANDS FIRE AND RESCUE AUTHORITY
AUDIT AND RISK COMMITTEE
WORK PROGRAMME 2023/24

Date of Meeting	Item	Responsible Officer	Completed
2023			
24 July 2023	Statement of Accounts 2022/23 (Draft Unaudited Approval)	Treasurer	24 July 2023
	Treasury Management Annual Report 2022/23	Treasurer	24 July 2023
	Audit Plan 2022-2023	Grant Thornton	Deferred.
	External Auditors Sector Progress Report		24 July 2023
	Terms of Reference	Deputy Clerk	Fire Authority - 26 June 2023
	Pension Board Action Plan and Risk Register	Deputy Clerk	N/A.
	Minutes of the Audit and Risk Committee held on 19 June 2023	Democratic Services Officer	24 July 2023
	Minutes of the Pension Board held on 29 March 2023	Democratic Services Officer	N/A.
	Audit and Risk Committee Draft Work Plan 2023/24	Democratic Services Officer	24 July 2023

25 Sept 2023	Audit Progress & Sector Update	Grant Thornton	25th September
	Internal Audit Progress Report	Audit Manager	25th September
	CIPFA Report	Audit Manager	25th September
	Annual Thematic Audit Report of WMFS Information Governance	Data and Governance Manager	25th September
	Minutes of the Audit and Risk Committee held on 24 July 2023	Democratic Services Officer	25th September
	Audit and Risk Committee Work Plan 2023/24	Democratic Services Officer	25th September
9 Oct 2023 [Authority]	Minutes of the Audit and Risk Committee held on 24 July 2022	Democratic Services Officer	
27 Nov 2023	Minutes of the Audit and Risk Committee held on 25 September 2023	Democratic Services Officer	27 November
	Audit Findings 2022/23	Grant Thornton	Deferred
	Statement of Accounts 2022/23 (for approval)	Treasurer	Deferred
	Audit Progress & Sector Update	Grant Thornton	27 November
	Audit and Risk Committee Annual report	Clerk	27 November
	Internal Audit Progress Report Update	Audit Manager & Treasurer	27 November

	Treasury Management Mid-Year Report 2023/24	Treasurer	27 November
	Corporate Risk Update Q1 & Q2 2023/24	ACFO Strategic Enabler (Enabling Services)	27 November
	Business Continuity Corporate Risk – Resilience Contracts	Area Manager/Head of Response	27 November
	Fraud Awareness Training	Phil Tromans John Matthews	27 November
	Audit and Risk Committee Work Plan 2023/24	Democratic Services Officer	27 November
11 Dec 2023 (Authority)	Audit Findings 2022/23 Statement of Accounts 2022/23 Minutes of the Audit and Risk Committee held on 25 September 2023	Grant Thornton Treasurer Democratic Services Officer	Deferred

2024			
12 Feb 2024 (Authority)	Audits Annual Report 2022/23 (May be A&R March 2024)	Grant Thornton	
25 March 2024	Minutes of the Audit and Risk Committee held on 27 November 2023	Democratic Services Officer	
	Audit Progress & Sector Update	Grant Thornton	

	Internal Audit Progress Report	Audit Manager	
	Monitoring Policies and RIPA (Annual Whistleblowing Report) (May be June 2024)	Monitoring Officer/ACFO Strategic Enabler (Enabling Services)	
	Internal Audit Plan 2023/24	Audit Manager	
	Audit Plan 2023/24 (possibly in June 2024 - tbc)	Grant Thornton	
	Internal Audit Charter – Annual Review	Audit Manager	
	Informing the Audit Risk Assessment – West Midlands Fire and Rescue Authority 2022/23 (possibly in March 2023 but may need to be June 2023 - tbc)	Grant Thornton	
	Auditors Annual Report (May be Authority in February 2023)	Grant Thornton	
	Internal Audit Report - Data Governance	ACFO Strategic Enabler (Enabling Services) /Data and Governance Manager	
	Annual SIRO report	ACFO Strategic Enabler (Enabling Services)	
	Audit and Risk Committee Work Plan 2023/24	Democratic Services Officer	
	Committee Members' Private meeting with Internal Auditors (to follow Committee)	*Audit Manager*	

15 April 2024	Minutes of the Audit and Risk Committee held on 27 November 2023	Democratic Services Officer	
17 June 2024	Annual Internal Audit Report 2023/24	Audit Manager	
	Governance Statement 2023/24	Treasurer	
	Monitoring Policies and RIPA (Annual Whistleblowing Report) (May be March 2024)	Monitoring Officer/ACFO Strategic Enabler (Enabling Services)	
	Corporate Risk Update Q3 & Q4 2023/24	ACFO Strategic Enabler (Enabling Services)	
	Audit Plan 2023/24 (possibly in March 2024 - tbc)	Grant Thornton	
	Informing the Audit Risk Assessment – West Midlands Fire and Rescue Authority 2022/23 (possibly in March 2023 but may need to be June 2024 - tbc)	Grant Thornton	
	Audit Progress & Sector Update	Grant Thornton	
	Internal Audit Progress Report (TBC)	Audit Manager	
	Terms of Reference	Democratic Services Officer	
	Minutes of the Audit and Risk Committee held on 25 March 2024	Democratic Services Officer	

	Audit and Risk Committee Work Plan 2023/24	Democratic Services Officer	
	Committee Members' Private meeting with External Auditors	*Grant Thornton*	
	Workshop for Members on Statement of Accounts 2022/23	*Treasurer*	
24 June 2024 [Authority]	Governance Statement 2023/24 Minutes of the Audit and Risk Committee held on 25 March 2024	Treasurer Democratic Services Officer	

22 July 2024	Minutes of the Audit and Risk Committee held on 17 June 2024	Democratic Services Officer	
	Statement of Accounts 2023/24 (Draft Unaudited Approval)	Treasurer	
	Annual Report of the Audit and Risk Committee 2022/23 for approval	Deputy Clerk / Democratic Services Officer	
	Treasury Management Annual Report 2023/24	Treasurer	
	Audit and Risk Committee Draft Work Plan 2024/25	Democratic Services Officer	

*deferred items from 2022-2023 work plan - Vacant Residential Properties Update – Date – TBC.