

Continuing to deliver value to West Midlands Fire & Rescue Authority

December 2014

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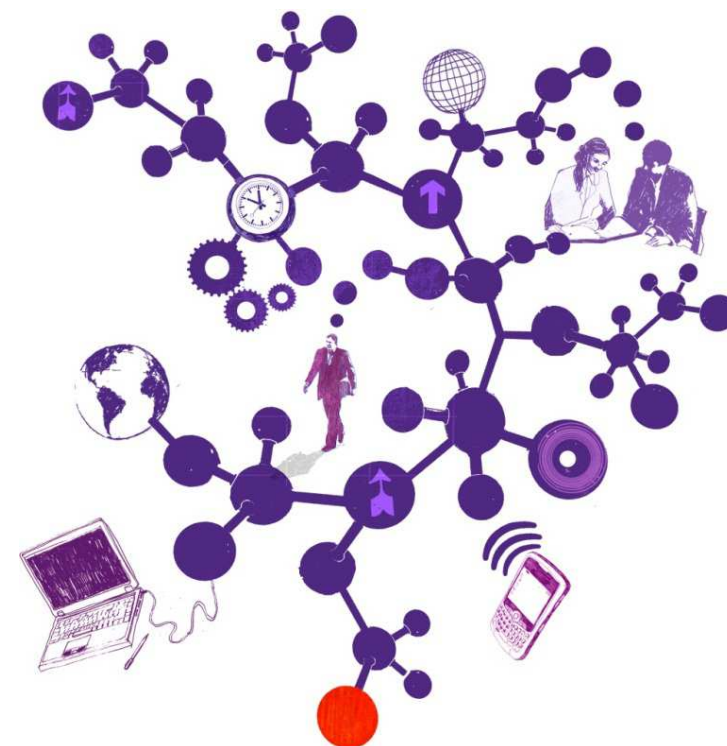
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“

Two years on from our appointment as your external auditor, I wanted to take an opportunity to reflect on the relationship we have continued to build with you in this period.

West Midlands Fire & Rescue Authority is a valued client of the firm and I hope we demonstrated this during the audit. We pride ourselves on delivering a high quality service and have set ourselves the goal of being second to none in our client care. To help us achieve this, we propose to carry out an independent client service review with you in the coming year. More informally, I would value any feedback from you or your team on areas where you believe we could improve our service to you.

I thought it would be useful to summarise the services we have provided during the year, and to demonstrate how we feel we have added value to you through the other work we do with you. We have made investment in our relationship with you this year, and have included some thoughts as to how we could build on this in the future.

We think our knowledge of the Authority, coupled with our wider experience of the Fire & Rescue and Local Government sectors, puts us in a strong position to help you with the challenges you face.

We look forward to the opportunity to demonstrate our desire and enthusiasm to work with you in these challenging times.

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James Cook

Engagement Lead

for Grant Thornton UK LLP

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The client names quoted within this report are disclosed on a confidential basis. All information in this document is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP.

How we brought you added value this year

Authority leadership

We:

- provided assurance on financial reporting and financial resilience by giving a timely audit opinion and value for money conclusion
- shared our thinking on key issues, including issuing members and management with our annual reports on Governance and Financial Health (Tipping Point) and our reports on Pensions Governance, Alternative Delivery Models, High Growth Index and 2020 Vision
- welcomed Senior Officers to our National Fire Summit meetings on current topics for Fire Authorities

Audit committee

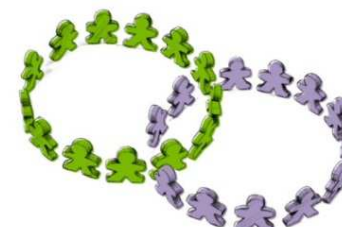
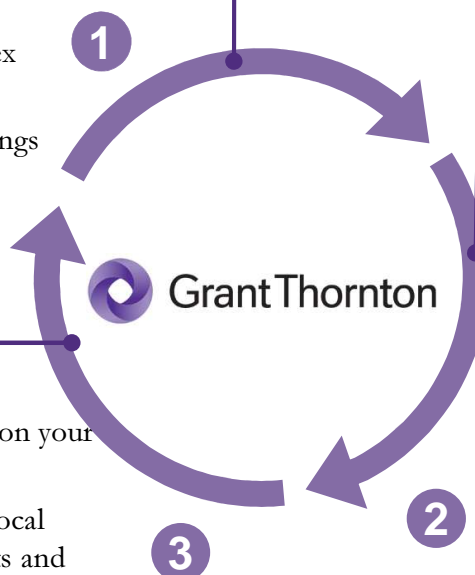
We:

- provided independent external audit commentary and insight on your key issues through senior attendance at every audit committee
- shared a Local Government publication to help members of local authority audit committees understand the financial statements and discharge their responsibilities as they review the accounts
- invested in regular dialogue with the audit committee to ensure there were no surprises and to maintain a robust and independent stance throughout our audit
- provided regular, timely and transparent reports from our work and briefing notes on key sector developments
- hosted a Local Government specific Member Development network which has been attended by Members of the Authority Audit Committee

Authority management

We:

- ensured a smooth external audit process through regular dialogue and meetings to promptly discuss financial accounts opinion audit and Whole of Government Accounts work to ensure you submit accurate figures to central government
- engaged early on audit requirements reflecting our engagement and partnership working with finance
- shared technical knowledge, provided early warning on key risks and provided an opportunity to network with other Local Government bodies at our annual finance seminar
- liaised with internal audit to minimise duplication
- provided on-going support for your business in relation to the impact of the HS2 line discussing key issues affecting your specific business model
- introduced tax colleagues who specialise in Fire & Rescue issues to provide tailored support in key areas
- engaged actively with Senior Officers to keep abreast of the key challenges facing your Authority and provided support where possible



Added value this year through our programme of seminars and workshops

We seek to add value to you by organising a range of seminars and workshops on topical issues affecting our Local Government and Fire & Rescue Authority clients. Both Senior Officers and Members have benefited from the learning at these events throughout the year.



Seminar or Workshop	Attended by Officers	Attended by Members
Fire Summit. Helping the fire and rescue sector improve value for money through effective collaboration – Spring 2014	✓	
CIPFA FAN Local Government Accounts Closedown workshop – March 2014	✓	
Local Government Tax Forum – April 2014	✓	
Local Government Legal Risks Seminar – July 2014		
Local Government Member Development Network – July 2014		✓
The Impact of HS2 for Midlands Based Businesses. A Seminar jointly hosted by Grant Thornton, Lloyds Bank and BNP Paribas Real Estate – September 2014	✓	
Fire Summit. Better collaborative procurement in the fire sector – September 2014	✓	
Local Government Member Development Network – October 2014		✓
Fire Summit. Better use of staff and equipment – November 2014	✓	

Added value this year through our national publications

We have helped you keep up to date with emerging practices across Local Government and the Fire & Rescue Authorities by sharing our range of sector specific publications regularly throughout the year. These thought leadership publications include a mix of good practice examples drawn from organisations inside and outside each sector. Our publications this year have included:



Publications	Provided to Officers	Provided to Members
2016 tipping point? Challenging the current – December 2013	✓	✓
Responding to the challenge. Alternative Delivery Models in Local Government – January 2014	✓	✓
Fire & Rescue Collaboration. Helping the fire and rescue sector improve value for money through effective collaboration – Spring 2014	✓	
Local Government Governance Review. Working in tandem – March 2014	✓	✓
A guide to Local Authority Accounts – March 2014		✓
Where Growth Happens? The high growth index of places – Autumn 2014	✓	✓
2020 Vision. Exploring finance and policy futures for English local government as a starting point for discussion – October 2014	✓	✓
Fire Rescue Collaboration. Better collaborative procurement in the fire sector – November 2014	✓	
Rising to the challenge. The evolution of local government – December 2014	✓	✓

Focus on financial resilience

In the current challenging economic climate, we invest in providing enhanced analysis and reporting on your financial resilience. This includes a RAG rated assessment of where you are performing well and any areas requiring increased attention.

We reported the findings from our 2013/14 financial resilience review to the September 2014 Authority meeting. Some key highlights from our work are set out opposite. Our latest national report on Local Government financial resilience will be published in December 2014. It draws on the results of our assessment of financial resilience across all of our Local Government bodies in England.

We are also able to benchmark you against your peers to help support continued improvement. We can provide and discuss more detailed comparative data with you and consider what this means for your financial resilience, if that is of interest.



Download findings from our National Financial Resilience report from December 2013:

<http://www.grant-thornton.co.uk/en/Publications/2013/2016-tipping-point-Challenging-the-current-/>



The Authority had effective arrangements in place which enabled it to deliver its challenging savings programme in 2013/14.

The Authority is considered to be in a sound financial position at this time with total usable reserves of £43.6 million together with a track record of delivering financial performance in line with budgets. The un-earmarked General Fund balance of £9.2 million.

There is an even greater challenges in the future with the need to achieve further savings over the next three years, estimated at £14.3 million.

These findings are as at September 2014, when our Financial Resilience work was reported to the Authority meeting.

Rising to the challenge - The evolution of local government

Download findings from our Rising to the challenge report from December 2014:

<http://www.grant-thornton.co.uk/en/Publications/2014/Rising-to-the-challenge---The-evolution-of-local-government/>

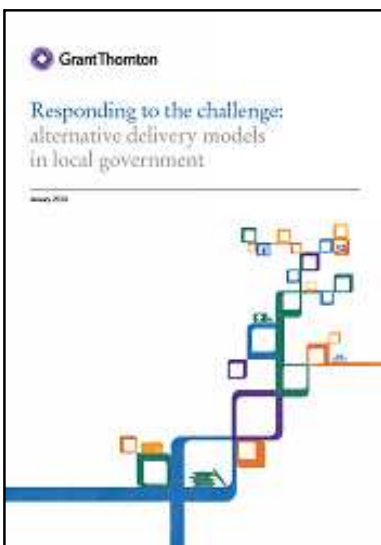
Our report, based on a review of 40% of the sector, assesses whether English local authorities have the arrangements in place to ensure their sustainable financial future.

The fourth in an annual series, 'Rising to the challenge – the evolution of local authorities' has a positive message overall. Most local authorities have continued to rise to the challenge posed by government funding reductions, supported by an evolution in financial management arrangements over the past four years.

However, with austerity challenges facing local government over the medium-term set to continue, authorities must continue to evolve. For those that do not, a financial tipping point is likely to become apparent by 2016. Our report makes suggestions on what still needs to be done for this outcome to be avoided.



Alternative Delivery Models in Local Government



In 2013, we surveyed a sample of 70 clients in the local government sector and identified nearly 40 different services they had externalised and provided under an alternative delivery model.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating, if they are to remain financially resilient and commission better quality services at reduced cost.

This report

- outlines the main alternative delivery models
- aims to assist other authorities as they develop their options and implement innovation strategies
- considers aspects of risk.

Download findings from our Alternative Delivery Model report from January 2014:

<http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/>

Supporting corporate governance

Each year, we review good governance in Local Government as part of our wider analysis of UK governance practice. This complements our reviews on corporates in the FTSE 350, the NHS and charities. We aim to help organisations improve their governance by learning from other sectors and their peers and to identify examples of good practice and areas where there is scope for further development.

Our national reviews of Local Government corporate governance include analysis of the financial statements and survey responses. We include insight from similar reviews we undertake at FTSE 350 listed companies, which allows us to promote the highest standards of good governance and public reporting. Some key highlights are set out opposite.

We would be happy to engage with you during the year to benchmark your performance against the national group. In this way, you can benefit from good practice across our national Local Government client base.



Download findings from our Improving Local Governance report from March 2014:

<http://www.grant-thornton.co.uk/en/Publications/2014/Local-Government-Governance-Review-2014/>

Our audit includes an annual assessment of the key corporate governance controls using audit software specifically tailored to the local authority sector.

In reviewing your annual governance statement, we assess your arrangements for providing assurance to those responsible for signing the statement.

Your audit committee members are invited to attend our local government audit committee member network which discusses relevant and current topics.

We share our sector insights to ensure you are fully apprised of sector developments and challenges that may affect your governance or risk management arrangements.

'National tools improve governance arrangements by giving a framework... but most of the work needs to be locally driven and locally responsive'

Survey response



Fire and Rescue collaboration – Grant Thornton's National Fire Summits



The 2013 'Facing the future' report by Sir Ken Knight highlighted changes in the demand for fire and rescue services and the need to modernize the fire service and make efficiency savings.

One of the main conclusions of the report is that the current 46 local fire authorities in England "does not make for a sensible delivery model". This has prompted lively debate in the sector about structural change.

Our report, based on discussions with clients, treasurers from the sector and a round table discussion, highlights the learning points from previous successful and abandoned mergers, other potential ways of joint working and how to manage a merger or collaboration project successfully. It is also illustrated by case studies covering a range of collaboration arrangements, including closer working with other fire and rescue, ambulance and police services.

Download findings from: our Fire and rescue collaboration report from February 2014:

<http://www.grant-thornton.co.uk/en/Publications/2014/Fire--rescue-collaboration/>

Since the mid-1990s there has been a series of reviews which have drawn a clear conclusion for the need of better joined-up procurement in the fire and rescue sector, which would result in delivering significant savings and improved efficiency.

This clear conclusion was more recently reached from research sponsored by the Government and the Chief Fire Officers Association (CFOA), despite this there has been limited progress in establishing a framework for joined-up procurement across the fire service so far. Although the situation could be changing. Most significantly, CFOA has published a new procurement strategy for fire and rescue authorities and is seeking to transform the way the sector procures going forward.

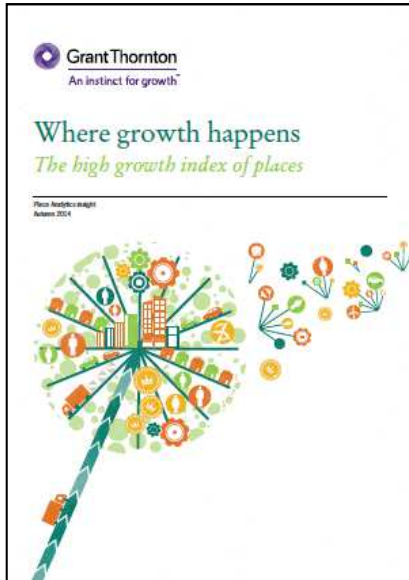
Our recent UK fire summit examined the prospects for achieving better collaborative procurement within the fire sector. It considered the attitudes to collaborative procurement, the barriers to making progress and crucially what needs to happen to achieve the step change that the new CFOA strategy is seeking to achieve.

Download findings from our Better collaborative e-procurement report from November 2014:

<http://www.grant-thornton.co.uk/en/Publications/2014/Better-collaborative-procurement-in-the-fire-sector/>



High Growth Index in Local Government



In 2014, we issued a report on where growth happens in the local government sector in England.

The report focuses on the high growth, dynamic growth and growth corridors. The key messages include:

- **High Growth** – Our High Growth Index of places, based on economic and demographic measures, shows the pivotal role played by London in driving growth nationally and the role of cities for driving growth regionally. Outside London, Manchester is the strongest performer, with Birmingham, Milton Keynes, Bristol and Brighton and Hove all ranking in the top five.
- **Dynamic Growth** – Highlighting past areas of growth, however, may not necessarily be an indicator of future growth or sustainability. A dynamism index, ranked by assessing a basket of productivity drivers, indicates the quality of growth. The emerging picture shows that dynamism clusters around cities and their wider conurbations. Again, London leads, but is followed by Cambridge, then Reading, Manchester, Bristol, Oxford, Brighton and Hove, Milton Keynes, Leeds and Warrington.
- **Growth Corridors** – Combining rankings for both growth and dynamism reveals a pattern of growth in England based around nine growth corridors. Birmingham to Warwickshire is one of these corridors. These are functional, large scale, economic areas which have been at the heart of growth over the last decade and are likely to maintain a pivotal role in shaping that growth in the future. Based around key cities, these corridors extend across district borders and create key strategic linkages with other high growth and dynamic areas. There is potential for further corridors to develop once the HS2 lines are completed.

Download findings from:
our **Where Growth
Happens** report from
Autumn 2014:

http://www.grant-thornton.co.uk/Global/Publication_pdf/Where-growth-happens-the-high-growth-index-of-places.pdf

Our unique credentials

**Biggest
UK CIPFA employer**



Overview

You are an ambitious Authority with a vision for being a leading Fire Authority and maintaining service delivery levels across the wide West Midlands Metropolitan area. We are proud to be associated with you. You are important to us and we are passionate about supporting you to achieve your strategic goals.

As the largest supplier of external audit to local government in the country, we are uniquely placed to work with you and support you in achieving your goals. We understand the political and public sector environment you work in and the challenges and pressures you are facing. We have a genuine insight and understanding into your business and your needs, from our many decades of dedication working in the public sector and our longstanding commitment to local government.

With Grant Thornton, you benefit from the full commitment of an experienced team that has worked together over many years and has a passion for helping you achieve your success.

We believe in Local Government. All our Local Government specialist staff know and understand the unique issues faced by Local Government bodies. We have the experienced resources available to meet your needs and support you in responding to the challenges you face. Our commitment to you is that we will work with you and help and support management and the Audit Committee in achieving your goals. We believe that with our extensive knowledge of your Authority and our highly skilled and experienced local audit team, we are exceptionally well placed to support you over the next few critical years.

At a national level, our extensive access to our wider audit practice, our networks with central government, local government and healthcare bodies and

our focus on people as the driving force for quality and innovation set us apart. Grant Thornton provides benefits for you by:

- bringing its commitment to improving public sector financial and service management for the benefit of users;
- fielding local experts in the strategic and operational needs of the Authority;
- sharing best practice, knowledge and up to date information from across local government, drawing on the knowledge gained from our unparalleled market share;
- delivering a high-quality audit focused on the specific issues facing Fire Authorities. We audit more Fire Authorities than any other audit firm and draw on the insights this provides us to tailor our work to your specific needs.

At a local level, we offer you:

- an audit team which understands the Authority, its direction and objectives and the environment in which you operate, identifying areas where we can support you;
- an audit team which is not afraid to deliver difficult messages to you and provide robust challenge to management;
- a proven track record of delivering high quality audit work, working with you in partnership to deliver better services for local people.

We are confident we can continue to meet your requirements for a comprehensive, efficient and effective external audit service. You will benefit from our relationship as you face the challenges of delivering a modern and customer focused service. We look forward to continuing our working relationship with you.

National and local expertise

138

Local Government
audit clients

400+

Dedicated public
sector staff

National credentials

- Through our Audit Commission framework contract, we have been **external auditors to Local Government since 1982**. Over this time, and based on the quality of our work, we have increased our Local Government audit presence.
- Following the outsourcing of the Audit Commission's in-house audit practice Grant Thornton is proud to be **the largest external provider of audit services** to Local Government, serving **40% of the market**.
- We are currently auditors to 138 Local Government authorities, including **19 of the 46 Fire Services within England**.
- We have **audit staff on secondment** to local authorities, helping our staff learn about local government from the inside out. We also train our staff on the latest developments within Local Government. We also receive staff on secondment from clients. We would be happy to discuss secondment opportunities with you.
- We also deliver a **national programme of Grant Thornton closedown workshops in partnership with CIPFA FAN**; a joint approach which allows the opportunity for delegates to hear both the key accounting issues and the audit considerations for the accounts in one combined event.
- We run a **National Grant Thornton UK Fire Summit** with meetings moving around the Country as part of our on-going commitment to the sector. Leading Fire Officers are invited to share innovative approaches to **strategic and operational issues** in a round table discussion. Written outputs are then shared across the wider sector.

Local focus

- Our Midlands Public Sector Assurance team is made up of over **65 dedicated local government and NHS external audit specialists** with extensive skills and experience with local Government. The regional team undertakes external audit services **two County Councils, four Unitary Council, five Metropolitan Councils, 19 District Councils and 17 other local government, pension, police and fire authorities**.
- We have audited a number of other bodies over the last few years, and are currently auditing eight NHS Trusts, 19 Clinical Commissioning Groups (CCGs) and two Foundation Trusts in the midlands region. We therefore have extensive knowledge of partnership working across health and social care.
- We work flexibly across our assurance and advisory teams. For example, we have a **rolling programme of secondments into the advisory team**, which gives our auditors the broader perspective that our clients appreciate.
- We also have VAT, employment tax, real estate, infrastructure, governance, performance improvement and anti-fraud experts with **significant experience** of our current Local Government clients.
- We have an established **Local Government Member Development Network** which delivers workshops on a range of topical and relevant issues and facilitates networking and the sharing of good practice.
- Local staff attend the Fire Finance Network to ensure that we are understanding and responding to the sector relevant information you are provided with.

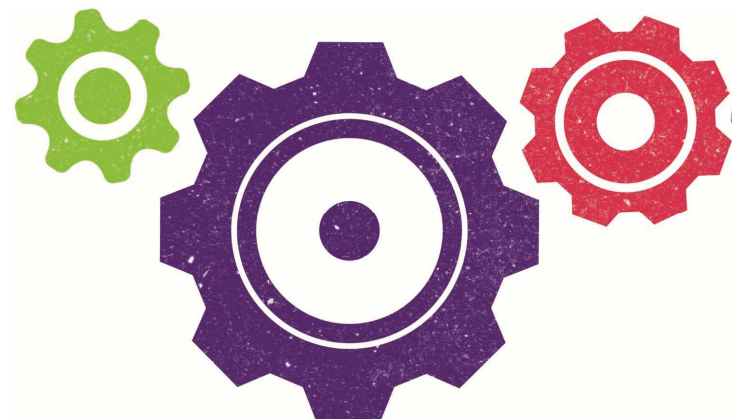
All of this means that our Local Government clients can be assured of relevant expert knowledge and expertise to support them with current and forthcoming challenges.

Experience of Local Government issues

We have significant experience of the local government sector, and are aware that this is a challenging period for Local Government.

Challenges include the demands for higher and more consistent quality of service, the reduction of central government grants, the localisation of funding and increasing financial pressures.

Our experience, both locally and nationally, has enabled us to develop a number of audit and advisory services to support our clients in achieving their objectives. We set out opposite some of our areas of specialism:



Regulatory requirements	<ul style="list-style-type: none">• Value-added assurance services; external audit; internal audit; governance reviews; financial reporting reviews; IFRS reporting; risk management including IT and systems assurance
Governance	<ul style="list-style-type: none">• Advice on governance including: assessment of governance effectiveness and the roles, responsibilities and capabilities of individual directors, working with leaders and Members developing strategy• Assurance mapping, particularly across complex business arrangements e.g. partnerships or joint ventures• Internal Audit Effectiveness Reviews
Efficiency agenda	<ul style="list-style-type: none">• Operational services reorganisation; turnarounds; skills gap analysis; performance management; service and cost savings reviews; costing analysis and benchmarking; shared service project support; procurement support; treasury and finance department reviews
Asset management	<ul style="list-style-type: none">• use of assets for regeneration, reviews of efficiency and cost in use; diagnostics of performance of inventory, evaluating and prioritising options and implementing rationalisation of assets• Lease evaluation solutions for significant assets
Major investments, mergers and acquisitions	<ul style="list-style-type: none">• Investment appraisals; business case support; investment due diligence; due diligence and advisory services
Establishment of property trading arms and companies	<ul style="list-style-type: none">• Assisting with procurement of development partners, structuring and establishing development vehicles such as Strategic Partnerships, Local Asset Backed Vehicles, and Joint Venture Companies
Alternative Delivery Models	<ul style="list-style-type: none">• Outsourcing; quantitative data analysis and stakeholder interviews, benchmarking results against our database of outsourced partnership activity
Tax advice	<ul style="list-style-type: none">• Corporate and international tax; indirect tax; employer solutions

Helping to address your challenges

Area of focus	Your challenges	Examples of how we have helped you and other Local Government bodies
Optimise operations	<ul style="list-style-type: none"> • Significant budget pressures – you face a significant challenge over the forthcoming three years (2015/16 to 2017/18) to find £14.3 million recurrently in your budget plans. • Cost Improvement Plans (CIPs) – you have set a challenging budget in 2014/15 containing significant cost reductions. This is coupled with the challenge of maintaining response times and staffing structures to serve the Metropolitan area. Future budgets are likely to contain a similar level of savings. Continued delivery on such scale becomes increasingly difficult without recourse to non-recurrent savings. 	<ul style="list-style-type: none"> • We review your arrangements for setting and monitoring your savings plans and assess whether they are realistic and feasible. • We review whether you have appropriate financial management arrangements and plans in place to tackle financial resilience in the longer term. • We are well positioned to work as advisors across yourself and other public sector bodies where collaborative or joint working could be developed. One such area is around asset management where you are considering shared bases with other blue light providers. • We are currently engaging with you to explore a scope that would provide a deeper, more detailed review of your performance measurement which would support your detailed reporting to Members and the public as an Authority.
Realise strategic ambition	<ul style="list-style-type: none"> • Restructure – you have recently changed the structure of your Senior Management Team to support the Chief Fire Officer (CFO) in delivering the strategic priorities set out by the Authority in 'The Plan 2014-17'. The CFO has also re-configured the strategic decision making framework replacing the current Corporate Board arrangements in enabling effective decision-making. • Pace of change – the government reductions in funding and changes to capital bids provides a dynamic environment within which Officers and Members are operating. 	<ul style="list-style-type: none"> • We meet with Senior Officers to ensure that we understand the challenges facing the Authority and are ideally placed to support you in delivering your strategy. • Introducing you to 'the CEO Room' – a structured, facilitated space that provides 'a critical thinking environment for business leaders'. • We review governance arrangements to ensure that day to day decisions are made within a robust framework, particularly during a significant period of change. • We have worked with other Local Government bodies to review their medium term strategies to ensure that the overall strategy remains clear and the decisions which are being made are consistent with it.

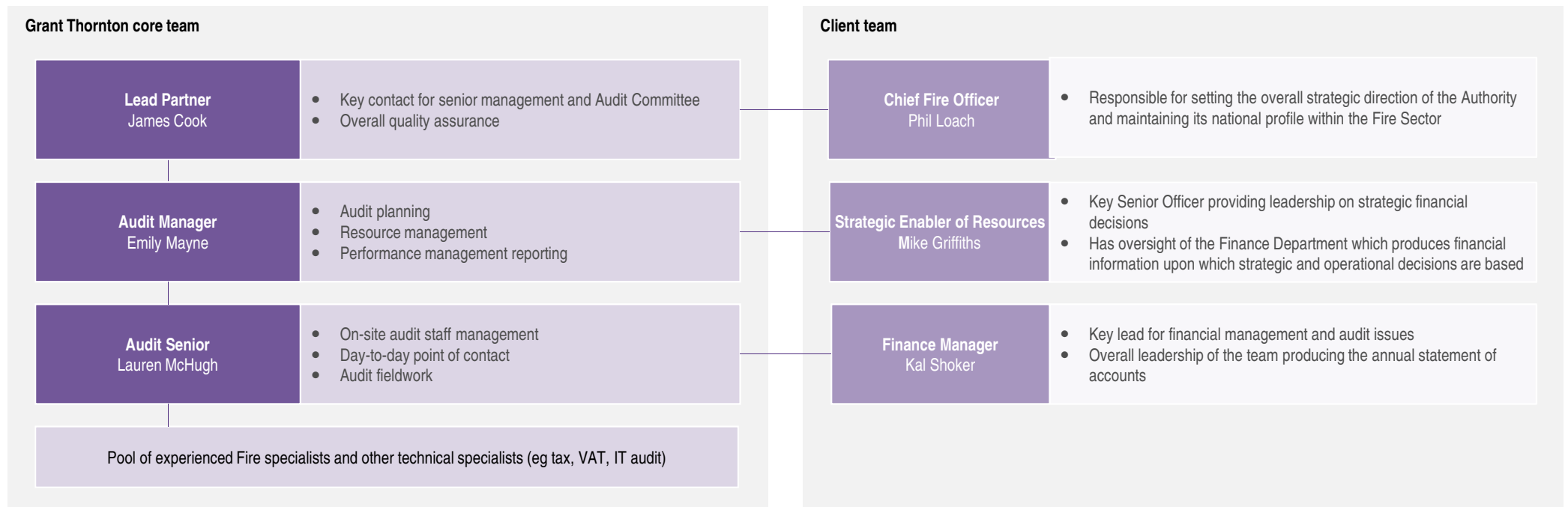
Your audit team will be happy to further discuss these and other challenges with you, and will involve relevant specialists where this is of value to you.

Your client service team

We understand what you expect from us: an approachable, proactive, locally based and highly skilled team with access to a national network of specialists and expertise as required.

The existing team will continue to:

- understand you and your priorities, and provide innovative and constructive advice;
- challenge you where necessary to support your continued improvement;
- be readily accessible and responsive to your needs but independent and challenging to deliver a rigorous audit;
- be connected into a Local Government network; and
- communicate relevant information to you in a prompt, clear and concise manner.



Our fees

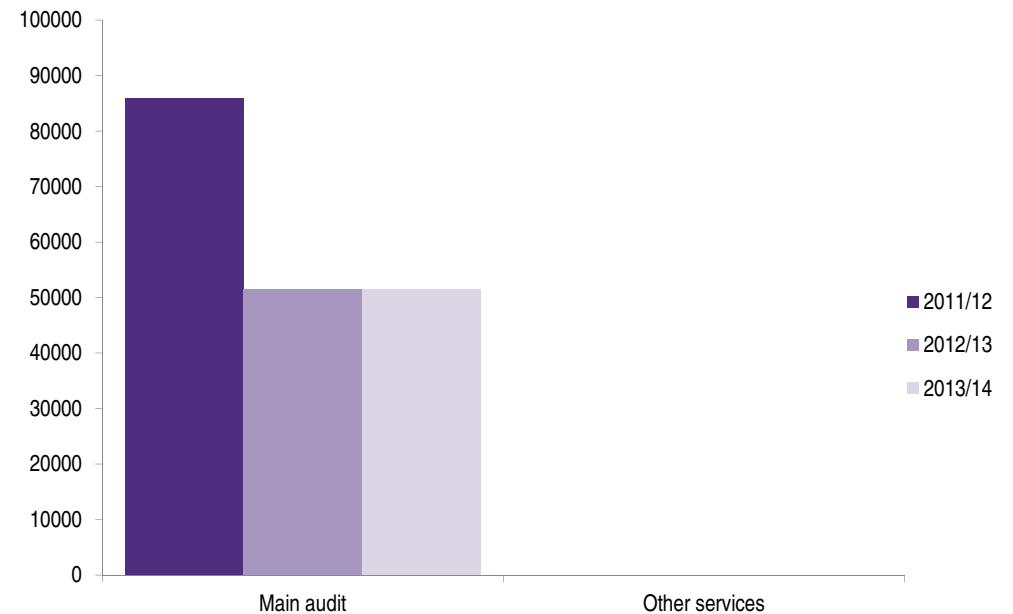
Our fee proposal provides you with transparency and value for money.

Our fees over the past two years and for the current year are set out in the chart to the right. These fees are set by the Audit Commission.

We are committed to openness and transparency in our fee with you – now and in the future. We know that you want an external audit that continues to offer a transparent fee structure which represents best value for money.

To deliver against your needs our fee includes:

- discounted rates – our position as the largest auditors to local government allows us to offer a discount on our usual rates;
- no hidden costs – the fee we propose is the fee we will charge (plus VAT);
- investment in our relationship – the value in the core audit and the additional added value inputs we describe in this document are all included in the fee;
- certainty over fee levels year on year – we hold the fee for the duration of the contract, absorbing fee inflation through audit efficiencies;
- specialist, qualified staff – 100% of the time spent on the audit will be from qualified or part qualified staff, with over 60% from fully qualified staff, all specialists in working with local government;
- expenses are included – saving you the 5%-10% that may typically arise on a contract; and
- no assumption of additional fee income – our external audit fee includes no assumption around you commissioning additional paid for services from us.



N.B. 2011/12 fees relate to the Authority's previous auditor, the Audit Commission





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