

# Report on Value for Money for West Midlands Fire and Rescue Authority

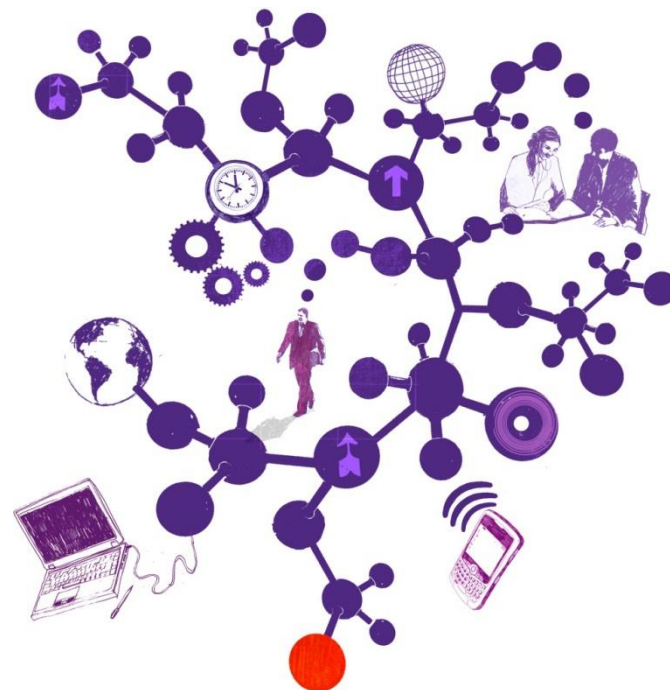
**Year ended 31 March 2015**

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**James Cook**  
Director and Engagement Lead  
T 0121 232 5343  
E [james.a.cook@uk.gt.com](mailto:james.a.cook@uk.gt.com)

**Emily Mayne**  
Manager  
T 07780 456112  
E [emily.j.mayne@uk.gt.com](mailto:emily.j.mayne@uk.gt.com)

**Lauren McHugh**  
Executive  
T 0121 232 5368  
E [lauren.a.mchugh@uk.gt.com](mailto:lauren.a.mchugh@uk.gt.com)



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# Contents

<b>01 Introduction</b>	<b>Page 2</b>
<b>02 Executive Summary</b>	<b>Page 4</b>
<b>03 Key Indicators of Financial Performance</b>	<b>Page 6</b>
<b>04 Strategic Financial Planning</b>	<b>Page 7</b>
<b>05 Financial Governance</b>	<b>Page 8</b>
<b>06 Financial Control</b>	<b>Page 9</b>
<b>07 Prioritising Resources</b>	<b>Page 10</b>
<b>08 Improving Efficiency &amp; Productivity</b>	<b>Page 11</b>
<b>09 Partnership working</b>	<b>Page 12</b>

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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# Introduction

## What is this report?

This report summarises the findings from our work supporting our Value for Money (VfM) conclusion, which is required as part of the statutory external audit responsibilities.

It compliments our Audit Findings Report, by providing additional detail on the themes that underpin our VfM conclusion.

## Value for Money Conclusion

The Code of Audit Practice 2010 (the Code) describes the Authority's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission, which support our reporting responsibilities under the Code.

These criteria are:

**The Authority has proper arrangements in place for securing financial resilience:** the Authority has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future (defined by the Audit Commission as "twelve months from the date of issue of the report").

**The Authority has proper arrangements for challenging how it secures economy, efficiency and effectiveness:** the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Code require auditors to identify significant risks to the VfM conclusion and to plan sufficient work to evaluate the impact of those risks, if any.

## Our approach

The approach involves:

- desktop analysis of relevant documentation
- meetings with key internal stakeholders
- a risk assessment to identify any significant risks.

Our approach is designed to assess:

- arrangements in place related to the specified criteria
- performance during 2014/15 and what that says about those arrangements
- any significant risks that we have identified.

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# Introduction

## What is this context?

### Nationally

The last Parliament saw reductions in central funding to Local Government that will have reached 40% by the end of 2015/16.

The Conservatives made a manifesto commitment to move public finances into surplus during 2018-19, so a further three years of deficit reduction are planned. The commitments specific to local government have a key focus on growth and devolution and include:

- devolving far-reaching powers over economic development, transport and social care to those large cities that choose to have elected mayors;
- rebalancing the economy by building a Northern Powerhouse and by backing elected Metro Mayors;
- introducing financial incentives to Authorities for promoting economic growth, including piloting the retention of 100% of business rate growth (with Cambridgeshire, Greater Manchester and Cheshire East);
- delivering more bespoke Growth Deals with local Authorities, where backed by LEPs;
- supporting Business Improvement Districts to bring greater collaboration on local issues.

The level of further departmental spending cuts – including those affecting local government – will not be announced until this Autumn's Spending Review.

### Locally

West Midlands Fire and Rescue Authority faces even greater challenges over the coming years than it has in more recent years. The level of savings to be delivered over the next three years are a significant challenge.

Estimated at around £14 million over the next three years, the Authority will be required to deliver £5 million (8%) in 2016/17, £5 million (8%) in 2017/18 and £4 million (8%) in 2018/19. This is on top of recurrent savings of £21.8 million already delivered to 31 March 2015 and £6.2 million savings planned for 2015/16.

Grant funding for West Midlands Fire and Rescue Authority was £81m in 2010/11 and based on current forecasted grant reductions until 2018/19 will have reduced by £42m.

Now, more than ever, it is important that Authorities have sound arrangements for securing Value for Money.

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# Executive Summary

## Overall Risk Assessment

There were no significant risks identified during our VfM planning. Our planning did identify that partnership arrangements were key for the Authority going forward and as this touches each area of the Audit Commission assessment, we have reported this separately at the end of the document.

## Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Authority's arrangements against key indicators of financial performance and the three expected characteristics of proper arrangements, as defined by the Audit Commission:

- strategic financial planning
- financial governance
- financial control.

Overall our work highlighted that the Authority is financially resilient, having a strong balance sheet, good levels of reserves and is developing arrangements to deliver savings to meet funding gaps going forward.

### Challenging economy, efficiency and effectiveness

We have reviewed whether the Authority has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Overall our work highlighted that resources are currently utilised appropriately to deliver value for money, but the Strategic Enabling Team is aware that the future of Fire Authorities and the services they will deliver is uncertain. Work is on-going to ensure that the Authority is well placed to respond with agility to these changes to sustain the overall objective of the Authority in relation to 5 minute response times.

# Executive Summary

We use a red/amber/green (RAG) rating with the following definitions.

<b>Green</b>	<b>Adequate arrangements appear to be in place</b>
<b>Amber</b>	<b>Adequate arrangements, with areas for development</b>
<b>Red</b>	<b>Inadequate arrangements</b>

## Overview of arrangements

Risk area	Summary observations	High level risk assessment
<b>Key Indicators of Financial Performance</b>	The General Fund stands at £9,231k at the 31 March 2015. Whilst this is an increase on the opening balance the Authority has made appropriate movements to earmarked reserves as well to cover financial liabilities and risks going forward. The General Fund balance is in line with the financial strategy. Reserves are at a generally high level and are not used to subsidise the day to day transactions of the Authority.	<b>Green</b>
<b>Strategic Financial Planning</b>	The authority continues to use a 3 year rolling corporate plan as a basis for planning and delivering objectives. This plan links the three objectives of prevention, protection and response. Review of this plan confirms that the Authority's overall priority is to maintain response times to 999 calls at 5 minutes. All other parts of the strategy support this whilst also linking to the prevention and protection elements, making the 5 minute response time the 'golden thread' which drives all strategic priorities.	<b>Green</b>
<b>Financial Governance</b>	The Authority has demonstrated a drive and commitment to making changes in response to the recent reductions in Government funding. There is an understanding of the current financial position of the Authority and finance is a continuing thread evidenced through all elements of the corporate plan.	<b>Green</b>
<b>Financial Control</b>	The Authority has a healthy cash surplus and delivers a balanced budget each year. Ear marked reserves are used where cash has been held back for projects put on hold whilst decisions on the wider delivery of the service are made.	<b>Green</b>
<b>Prioritising Resources</b>	The Corporate Plan determines the overall use of resources within the Authority, outlining the strategic direction for the Authority over a 3 year period. This includes the Key Priorities, Outcomes and Strategic Objectives. Staff interviewed considered that there has been a tangible shift in the culture of the Authority in the past few years.	<b>Green</b>
<b>Improving Efficiency &amp; Productivity</b>	The overall strategy is clear and the decisions which are being made are consistent with it. Some service redesign has already been delivered successfully and the Authority has learned from this experience. There is considerable uncertainty surrounding the future service delivery of the Fire Service, both in the West Midlands, Regionally and Nationally.	<b>Green</b>
<b>Partnership working</b>	Specifically identified as a risk for the Authority and overarching all areas of the Audit Commission's risk areas, we have reported separately. Whilst arrangements are developing in this area, the present arrangements do not present a risk to the Authority at this stage.	<b>Green</b>

# Executive Summary

Risk area	Summary observations	High level risk assessment
<b>Key Indicators of Financial Performance</b>	<p>The Authority has a strong balance sheet and low levels of debt. The out-turn positions for 2014/15 for both revenue and capital delivered ahead of the financial plans. Performance in 2015/16 is ahead of the financial plan. There is no evidence of a process of asset sales to enhance liquidity and provide short term funding. The Authority's savings initiatives have concentrated on efficiencies which have a medium to longer term benefit. The Authority has delivered deliberate underspends in the previous three years to transfer money into their reserves. These underspends have been reported to the Authority and Strategic Enabling Team throughout this period.</p> <p>A review of the 14/15 audited financial statements shows that the authority maintains a healthy cash surplus. The Authority plans for cash on a 12 month rolling programme through its estimated rolling balance prediction for Treasury Management. There are no cashflow concerns. The precept and budget setting report detail the Treasury Management Policy. There is no evidence that the Authority has not complied with capital or other statutory requirements. Treasury management is adequate as evidenced by the reports sent to the Fire Authority. The Authority does not monitor key financial ratios, but does report prudential indicators to the Authority annually with an interim update.</p> <p>The Authority is aware of the current climate and market conditions, they continue to maintain a healthy cash position to ensure sufficient liquid resources are available to fund future expenditure. There is a demonstrable drive and commitment to making changes in response to the recent reductions in Government funding.</p> <p>The financial performance in year does not indicate subsidy of service. The Authority is clear on its priorities to deliver a service with a deminimus level of staff and achieving the core attendance time of 5 minutes within a balanced budget. Going forward, there is uncertainty around sustaining this delivery, but this is being managed as a key priority for the organisation as a whole.</p>	<b>Green</b>

# Executive Summary

Risk area	Summary observations	High level risk assessment
<b>Strategic Financial Planning</b>	<p>The Authority uses the Corporate Plan and Community Safety Strategy (integrated Risk Management Plan) to inform its approach to use of resources and ensuring they are used in the best way for the risks facing the Authority.</p> <p>The Medium Term Financial Strategy (MTFS) has been reviewed and no weaknesses have been identified. The savings set out for the previous 3 years have been made, indicating a track record of delivering savings. The authority has not planned further than 4 years ahead financially as there is such uncertainty around grant funding that it would not be considered a worthwhile exercise. The Authority's level of reserves remains high to support it through tough times. The objectives of the Authority are in line with the National Framework and so are focused on prevention and working with communities and partnerships more closely</p> <p>The Medium Term Financial Strategy has been revised in the year. The savings that were planned to occur so far have been made, and the levels of reserves continue to remain relatively constant. Given the Authority remains one of the lowest cost Fire Authorities whilst still delivering fully employed Fire Officers, the MTFS appears reasonable. There is a prudent view of potential income generation but this is an area the Authority is seeking to maximise by using its staff to apply their current skills and expertise to deliver work which supports other public sector bodies and grow the additional income element.</p> <p>The Authority is delivering savings in a measured way - i.e. tackling service efficiencies rather than deliver savings as cuts to services. There are sufficient risk assessments within the financial plans (RAG) and financial monitoring information, and also back up plans in relation to savings to support any slippages or non-delivery of the main schemes.</p> <p>None of the projects being undertaken by the Authority are short term. All projects reviewed had financial plans for at least 5 years and had been taken to the authority and so had full agreement from members. Some projects support the longer term strategy, for example, establishing a presence in a new market.</p> <p>The Authority had effective arrangements in place which enabled it to deliver its challenging savings programme in 2014/15. Achieving these savings is critically important, as the level of planned reductions in grant funding from central government until 2018 exceeds the level of the Authority's reserves that are not specifically earmarked. The Authority has identified that it may require additional funding from Council Tax payers to continue to provide current service levels and response times. The additional funding may be above the percentage increase that would trigger a referendum that would require approval from Council Tax Payers. The Authority will need to weigh up very carefully the costs and risks associated with holding a referendum across such a large Council Tax base.</p> <p>The Authority has an asset strategy. There has not been a significant deterioration of asset values and the Authority has reviewed the appropriateness of all assets as part of its on-going programme of work. There are no plans to sell key assets, other than planned disposals to support the revised training strategy. The Authority is not dependent upon their sale and the income from the sale is not the key driver for the decision.</p> <p>Staff are aware of the vision of the Authority. Members are also aware. Further work is being undertaken to ensure that a consistent corporate message is communicated to every employee of the Authority regardless of their location and team structure. This is a specific focus for the Strategic Enabling Team (Corporate Board) in 2014/15.</p>	<b>Green</b>



# Executive Summary

Risk area	Summary observations	High level risk assessment
<b>Financial Governance</b>	<p>There is a strong Strategic Enabling Team in place driving forward a clear vision to ensure that the Authority keeps pace with the changing agenda within the Fire Service, regionally and also nationally. The Authority is considering alternative delivery models and as part of this has considered outsourcing, retendering, the use of shared services and partnership arrangements. They are also considering bringing the company out of dormancy to facilitate the delivery of a more commercial venture. A key focus going forward is developing partnerships across a broad range of organisations.</p> <p>The Authority has recently taken autonomy for its own governance by changing its dependence upon Sandwell MBC and taking the s151 and Clerk function back in house. The Strategic Enabler of Finance and Resources is now the designated s151 officer, reporting directly to the Chief Fire Officer. The Authority is keen to maintain links with Sandwell and so still use their Monitoring Officer and Internal Audit function. There is a project to look at strategic alliance with Sandwell MBC as there are close working relationships which the Authority wish to maintain.</p> <p>There is an understanding of the current financial position of the Authority and finance is a continuing thread evidenced through all elements of the corporate plan. Many of the key projects undertaken by the Authority have a financial plan which indicates the best option to choose and the proposed payback, There is also a consideration of the overall use of resources. There is a demonstrable focus on the long term with the planning and financial decisions which are being made by the Authority. There are limited short term fixes and there is a focus on service efficiencies.</p> <p>There is an understanding by the Strategic Enabling Team of where costs are high and they are driving service efficiencies as a way of delivering savings rather than top slicing and slashing budgets evenly across all areas. This is acknowledged by all Senior Management as a sensible and pragmatic way forward which they are all supportive of. The Authority is aware of the current climate and market conditions. They have deliberately kept cash back to ensure there is sufficient to fund future expenditure. It is held in earmarked reserves and these are reported to the Authority on a regular basis.</p> <p>The Authority has delivered deliberate underspends in the previous three years to transfer money into their reserves. These underspends have been reported to the authority and Strategic Enabling Team (Corporate Board) throughout the financial year. The outturn reports we have read indicate that there was appropriate forecasting during the year, with no unexpected surprises at the year end.</p> <p>The Community Safety Strategy is the Integrated Risk Management Plan and has undergone extensive consultation both within the Authority and with the public.</p> <p>The Audit Committee provides some robust challenge. The information going through the Committee is cohesive to enable them to offer informed challenge and support the overall business of the Authority. The Strategic Enabler of Finance, Deputy Chief Officer and Auditors (both internal and external) support the Committee significantly.</p>	<b>Green</b>

# Executive Summary

Risk area	Summary observations	High level risk assessment
<b>Financial Control</b>	<p>The Strategic Enabler of Finance and Resources has overall responsibility for the accounts. There is a team beneath him led by the Finance Manager who is responsible for the technical accounting and day-to-day work completing the statements. Both the senior staff and other officers within the department have been in post for the last four year. There is no lack of capacity in the department and no high turnover.</p> <p>We have regularly liaised with Internal Audit during the year and worked with the Strategic Enabler of Finance and Resources and Deputy Chief Fire Officer. Our relationship with Internal Audit is one which is sound and strengthening. There are no concerns about the adequacy of its internal audit arrangements.</p> <p>The Financial Strategy takes into account the financial implications and risks (where known) to the Authority. These are mitigated or accepted but transparently communicated to Members and the public where applicable. The Annual Governance Statement has not identified any weaknesses in this area. We have no concerns to date regarding risk management at the Authority. We have met with the Risk Manager to ensure we have a sound understanding of the risks and can confirm that he is strategic as well as operational in his thinking. The MTFS shows that financial risks are managed in the medium to long term.</p> <p>We have no concerns around the levels of staff within the Finance department. Whilst they are a lean team, there is sufficient separation of duties and staff have the agility to fulfil other roles, e.g. manning stations during the recent strikes. The final accounts audit was completed in a short timescale with Finance staff making us a priority, not providing any indication of stress due to lack of resource.</p>	<b>Green</b>

# Executive Summary

Risk area	Summary observations	High level risk assessment
<p><b>Prioritising Resources</b></p>	<p>"The Plan 2015-2018" defines the range of services that will be provided by the Authority, outcomes that will be achieved and the commitment to work in partnership with others.</p> <p>The Authority has confirmed its operational model and its key commitment to attending high risk incidents within 5 minutes and to focus on prevention and protection. The operational and financial strategy is clearly set out in "The Plan 2015-2018". This document combines the priorities, performance targets and the funding plans and complements the Medium Term Financial Strategy which provides detailed plans for three years based on sensitivity analysis and scenario planning. The Authority has a clear understanding of the financial impact of its decisions. The most significant of these have been in respect of staffing levels versus the maintained delivery of the 5 minute standard for the most critical incidents.</p> <p>The Chairman and Chief Fire Officer visit key people together representing a strong voice for the Authority. The Chief Fire Officer has also developed relationships with all 7 Chief Executives from the West Midlands Councils to ensure they are aligned to service delivery within each area. The Authority consults with the public, but previous responses have been low in number. The Authority is investigating why this was and how they can better engage with the public on future occasions. The Authority is seeking to use Members to represent the Authority externally. However, part of this is on hold whilst Birmingham City Council consult on ward areas and the number of Councillors they have. Staff are widely consulted and communication with them is high as evidenced through the consultation documents taken to the Authority.</p> <p>Changes to the internal management structures, driven by the Chief Fire Officer alongside external changes with government cuts and a drive to increase the size of delivering bodies, either through regional models or combined authorities, have provided an opportunity for the Authority to drive the future of the Authority in a positive way. The Authority changed its management structure in September 2014, moving away from a Corporate Board to a more diverse and representative group of Strategic Enablers who ensure that the Chief Fire Officer and his Deputy and Assistant are able to make more informed decisions. The Authority has recently commissioned a review of the impact of this change which will examine the impact of the Team as a whole and also individuals to ensure that the team is seen to demonstrate effectiveness and each individual has the investment required to maximise their performance. A future aspiration is for all Strategic Enablers to be able to cover each other to solidify the leadership and ensure that the strategic vision is leading decisions rather than area knowledge. The focus going forward will be to improve the performance of middle management who will receive additional support and investment to ensure that they are equipped to consistently cascade corporate messages through the organisation.</p> <p>There is evidence of challenge from the Strategic Enabling Team and communication is more consistent and filters further through the organisation. Whilst there is progress in this journey, the Authority is positioning itself well to succeed going forward. The Authority is aware that they are facing a tipping point and that greater collaborative working within the region is a key factor to sustaining their business. The Authority links closely with the Chief Fire Officers Organisation (CFOA) and also the Association of Metropolitan Fire and Rescue Authorities (AMFRA). This enables them to keep in tune with Fire Sector issues both on a national and wider public sector basis. The Authority has a Community Member Scheme to enable local residents to support the Authority in developing closer links with the general public.</p> <p>Communication from the Strategic Enabling Team has improved to ensure that alternative channels and gateways are used as well as the more traditional. This includes Management Briefings, Webinars and Q&amp;A forums. The Chief Fire Officer and members of the Strategic Enabling Team have been more visible out at Stations over the past few months to ensure that firefighters in every location feel connected with the decision making body.</p>	<p><b>Green</b></p>

# Executive Summary

Risk area	Summary observations	High level risk assessment
<b>Improving Efficiency &amp; Productivity</b>	<p>The Authority delivers services in line with its remit and meets its performance targets in the main. Focus on delivery of the 5 minute response time is a key priority. Operationally the Authority is performing well. There are some indicators on the people side where improvement is curtailed by other factors, e.g., they cannot change the demography of employees whilst there is a recruitment freeze in place.</p> <p>The Authority is looking for 100% disclosure on disability and working hard to tackle the stigma associated with common disabilities e.g. dyslexia. Sickness absence in uniformed officers has risen but there are no identifiable trends. Sickness absence in Non-uniformed staff is the lowest since data was gathered at the Authority. However, sickness levels overall are still amongst the lowest in the public sector. The re-prioritisation of resources is customer driven, taking into account local needs and views to ensure that services delivered are what is wanted by the local community. Next year, the Authority is looking to apply lean thinking to areas of delivery, but this will need to be delivered by the employees to ensure that there is a commitment and buy-in from staff to implement any changes which are identified. The Authority is currently not planning to sell key assets. There have been some disposals due to the new Cradeley Heath Fire Station in recent years and some further disposals are planned to support the revised training strategy or deliver services more efficiently. The Authority continues to develop strong links with its regional neighbours and encourages any joint working opportunities. Barriers include political will (both within other Fire Services and other blue light services) as well as a hesitation due to the speed of change with Combined Authorities. Thinking changes on a quarterly basis as legislation and policy are released. There is also a keen interest to see how Metropolitan Fire Authorities take this agenda forward. The local positioning of the health sector within any combined arrangements will be a significant factor in decisions made.</p> <p>The Authority is seeking opportunities for generating income from tasks already performed or easy to deliver within current staffing and structures. This is known as upstream fire fighting. This work is forging links with the health and social care sector and provides an excellent opportunity for different agencies to work together for the good of the tax-payer. A pilot is due to start regarding the delivery of telecare response which is a service commissioned from the Authority by a local council where firefighters will provide additional support to vulnerable people in their homes. There is also opportunity to work with discharged patients going forward.</p>	<b>Green</b>

# Executive Summary

Risk area	Summary observations	High level risk assessment
<p><b>Partnership working</b></p>	<p>The Authority is keen to work in partnership wherever possible, demonstrated by the Joint Control Room with Stoke &amp; Staffordshire Fire &amp; Rescue Authority and future projects linking into the health agenda locally. The established key partnerships in place are well developed, managed and controlled. The Authority needs to be clear that the current decision making arrangements and layers of governance in place for partnership arrangements are appropriate and continue to remain receptive to collaborate opportunities. A number of other collaboration initiatives are planned as the Authority has recognised that it needs to link with other public and private sector bodies to build on its core strengths and its position within the market. Creating a more sustainable, further reaching service will enable the Authority to continue to deliver its core objectives. The Safeside facility continues to make an important contribution to the prevention and protection agenda, and is an excellent example of effective partnership working across a wide range of partner organisations including the police and ambulance services, a supermarket, a bus company, Network Rail as well as local schools and colleges.</p> <p>There is evidence that the Authority is building sound and strong relationships with its partners and the local community. The drive to win additional work is to be able to retain firefighter numbers to build capacity whilst also removing silo working which has historically been present in the structure to some degree to ensure that the Authority has the agility at all levels to respond to forthcoming changes. There is a clear commitment from the top of the organisation to empower managers at all levels to apply principles to support their local decision making. As long as a decision is risk based, managers are encouraged to make these decisions to ensure that the organisation can remain agile in this volatile environment.</p> <p>The Authority is currently reviewing its partnership arrangements. This will encompass both SLA partnerships and more strategic partnerships. The report is focusing on the outcomes for the Authority and the tax-payer. It is hoped that this review will enable the Authority to ensure governance is strong for all partnership arrangements, and also use the results to inform where future partnerships should be developed to maximise value for money.</p> <p>Partnerships are a corporate risk (as the risk is out of the control of the Authority) but a database is maintained to capture information. Each partnership with a financial aspect has an SLA, Business Case, Risk Register and Terms of Reference. The Authority is also establishing a process for capturing information around non-financial partnerships to enable the Authority work to be more accurately mapped and the governance arrangements secured. The new structure is more conducive to getting this set up.</p> <p>All projects are put through an extensive option appraisal to ensure that they represent the best use of resources. The Authority has put some schemes on hold whilst overall service delivery is confirmed, e.g. expenditure on assets including buildings and vehicles which have been carried forward until service delivery is determined.</p> <p>As the Authority develops its income generation, particularly with the health and social care sectors, it will need to ensure that its tendering and procurement skills are appropriate. Commissioning and delivering work for external bodies requires particular skills which it will need to ensure are sufficient to gain maximum benefit from any work of this nature.</p>	<p><b>Green</b></p>



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