



# ESSEX POLICE, FIRE AND CRIME COMMISSIONER, FIRE AND RESCUE AUTHORITY

## Budgetary Control and Financial Planning

**DRAFT Internal audit report: 6.17/18**

**12 January 2018**

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# 1 EXECUTIVE SUMMARY

## 1.1 Background

An audit of Budgetary Control and Financial Planning was undertaken as part of the approved internal audit periodic plan for 2017/18. This review has primarily focused on the Budgetary Control and Financial Planning processes for 2018/19 to date.

In May 2016, the Government offered Fire and Rescue Authorities a four-year funding settlement for the period 2016/17 to 2019/20 following the submission of a robust efficiency plan. The Authority has in place a combined Medium Term Financial Plan (MTFP) and Efficiency Plan known as their Medium-Term Efficiency Plan (MTEP) that was approved via a formal letter of acceptance by the Home Office in December 2016. The Authority's MTEP has been guaranteed funding until 2020 by the Government and this MTEP informs their budget.

The 2018/19 budget represents a transitional period in the move towards a balanced budget for 2020 and onwards. The potential for future savings in the costs of enabling services and property through collaboration and integration with Essex Police remains, but the timing of these savings is not in the direct control of the Authority and have therefore not been included in the 2018/19 budget; but have in the MTEP.

The Fire Authority approved a budget of £70.13m for 2017/18 and at the time of audit the Essex Fire and Rescue Strategic Board had provisionally approved a budget of £70.04m for 2018/19. We have included a summary of the 2018/19 budget and current forecast for 2017/18 in Appendix A of this report.

As part of this review we have also undertaken a survey on budget holders to gather feedback on the Authority's budget process and the training and support available to these individuals. The findings of this survey have also been summarised in Appendix A of this report but also support the one low priority management action agreed as part of this review.

The objective of this audit was to review the control framework in place for Budgetary Control and Financial Planning to ensure that the overall cost of the Authority is effectively managed so the organisation can continue to serve and protect the community.

## 1.2 Conclusion

Overall our review found that the control framework in place for budgetary control and financial planning was adequate. Variances had been identified in the current budget and in the delivery of the MTEP 2016-2020 especially with regards to increases in pay. To ensure the achievement of a balanced budget within the Medium-Term Efficiency Plan, the Authority has earmarked £16.5m of reserves out of £19.2m reserves balance as at 31 March 2017 to be used if required.

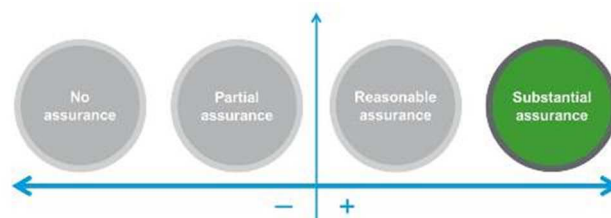
Whilst these reserves have been earmarked for use over the lifetime of the plan, in the 2017/18 budget, the Authority have actually planned to use only £1346k of reserves. But as the Service is currently £1.1million underspent in this year's budget, no reserves have yet been used and have forecasted their overall spend for 2017/18 to be in line with the budget. Furthermore, though there have been reserves earmarked for use in the delivery of the plan for 2018/19 and beyond, the Authority have planned to use only £684k reserves in the budget 2018/19.

As part of the Medium Term Financial Strategy and Report on Progress Against Efficiency Plan that was presented to the Essex Fire Authority on 6 September 2017 the Authority had identified the key risk implications for 2018/19 and projections for the remainder of the plan. We found that the Authority had also considered key risks beyond the plan that need to be considered. After 2020 the Authority have predicted that there is a high risk of further reductions in government funding and noted that work will need to start in 2018 to consider how this risk should be addressed.

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#### Internal audit opinion:

Taking account of the issues identified, the Police, Fire and Crime Commissioner, Fire and Rescue Authority can take substantial assurance that the controls upon which the organisation relies to manage the identified risks are suitably designed, consistently applied and operating effectively.



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## 1.3 Key findings

The key findings from this review are as follows:

### Medium Term Efficiency Plan and 2018/19 Budget

We reviewed the MTEP for 2016 – 2020 and found that the Authority had covered key aspects of the financial plan including service change and savings proposals, financial projections and the Authority's strategy to use reserves to balance the budget. The MTEP also set out their approach to collaboration, key risks and the Authority's performance management strategy.

We reviewed the letter from the Home Office in May 2016 to the Chief Fire Officer that set out the requirements of the MTEP. Compliance with the Home Office MTEP requirements was demonstrated in the Home Offices letter of acceptance dated December 2016 to the Authority, following the submission in October 2016. Subsequently, the Authority have been guaranteed the funding settlement until 2020.

### Alignment of the MTEP and 2017/18 & 2018/19 Budgets

On review of the February 2017 Essex Fire Authority (EFA) minutes we found that the 2017/18 budget had been approved and included a Council Tax increase of 1.99 percent and the 2017/18 provisional settlement figures that were announced on 15 December 2016 which reflected those expected in the MTEP.

We reviewed the 2018/19 budget paper to the Essex Fire and Rescue Strategic Board on 6 December 2017 and we were advised by the Assistant Director of Finance that the budget had been provisionally approved (minutes had not been formalised at the time of review) based on an assumed council tax precept of 1.99 percent. The budget included a one percent provision for pay settlements and a continued provision of £0.4m of additional costs for community safety activities in the year using support staff roles that we found was in line the MTEP. We found that the budgets included the phased delivery of service changes in accordance with the agreed 2020 programme and therefore the Authority's budgets had been informed by the MTEP.

### Assumptions

The MTEP was reviewed by the Authority in September 2017 and subsequently approved. We reviewed the MTEP progress report that was presented to the EFA on 6 September 2017 and the 2018/19 budget paper to the Essex Fire and Rescue Strategic Board on 6 December 2017. On review, we found both documents adequately detailed the assumptions made to underpin the plan/ budget and the Authority's rationale for these assumptions. We reviewed the 2018/19 budget working papers and found that the current FTE compared to the required FTE had been calculated by budget area and any new or reduction in posts to the establishment had been rationalised. We also found that the Authority have budgeted for a pay increase of one percent year on year as per the MTEP. The Finance Manager advised that pensions had been based on historical information and we found the logic behind these calculations were reasonable. We therefore found that the EFA had used reasonable assumptions to underpin the MTEP and the 2018/19 budget.

The Efficiency Plan assumes an increase in the council tax precept of two percent for 2018/19 and 2019/20. For recent years the government set a cap on council tax increases of two percent (before a referendum is required for any proposed increases above 2 per cent).

## Sensitivity Analysis

**Options Paper:** When the service was remodelled to create efficiency, and set out to have a balanced budget by 2020, a range of options were considered following a summary report by Operational Research in Health Limited. On review of the report we found it provided an overview of the analysis and modelling options undertaken. The Assistant Director of Finance advised that the results from this review formed part of the Service's 2020 Programme to develop a set of options for service delivery for 2020 to meet the challenges of a reduced budget and informed the MTEP. We also reviewed the Options for Change 2016-20 – Change Programme paper to the EFA on 8 June 2016 and found the paper had set out the various options and the financial impact on the service.

**MTEP:** We reviewed the Medium Term Financial Strategy and Report on Progress Against Efficiency Plan that was presented to the EFA on 6 September 2017 and found that a range of scenarios and implications had been considered for 2018-2020. This included key risks such as pay increases, funding changes, establishment and inflation projections. In forming the MTEP, Finance completed a high-level sensitivity analysis and formed financial projections for 2020-2024. This forward planning included an analysis of the financial implications of key budget influencing factors such as funding, inflation and cost savings across a range of three different views (optimistic, realistic and pessimistic). We therefore found that the Authority had undertaken sensitivity analysis for the MTEP that included a range of scenarios.

## Budget Holder Statements

We reviewed three months emails (April, June and July 2017) from the Finance Team to all budget holders stating that the initial budget reports were available for review and a link to where these had been stored on the shared drive. We found these emails had been sent within the first five working days of the month as required.

For the same three months, we reviewed the emails from Finance to all budget holders stating that the final budget reports were available for review and a link to where these had been stored on the shared drive. In all cases we found that the final reports had been sent by month end.

## Review of Statements and Variances Monitoring

Through review of correspondence between Finance and budget holders from 1 April – 6 December 2017; for a sample of 10 variances / issues with the budgets we found in all cases variances or issues with the budget had been identified, discussed and actions taken to address them where necessary.

## Financial Performance Reports

**Performance and Resource Board (PRB):** We reviewed the minutes for the (October - November 2017) PRB meetings and found that the Finance report had been presented and discussed. Through review of the minutes we found actions had been recorded in an action log and assigned action owners and dates for completion. The minutes showed that the PRB had reviewed action logs from the previous meetings and had agreed closures and updates on the actions raised.

We reviewed a sample of actual expenditure against budget figures in the October and November 2017 Finance reports and found these reconciled to the source data on DREAM. Therefore, we found the financial information reported was accurate.

**Strategic Board:** The Police, Fire and Crime Commissioner, Fire and Rescue Authority took over the Essex Fire Authority as of 1 October 2017. Since then, a Strategic Board has been in place and a meeting was held was 6 December 2017. Whilst the minutes had not been formalised at the time of audit; we reviewed the agenda and reports and found that the Board had initially been presented key documents such as the MTEP, the September 2017 MTEP progress report and the draft budget for 2018/19. We also reviewed Strategic Board meeting planner and found regular Board meeting dates had been scheduled until December 2018.

We have also agreed one low priority management action in relation to budget holder training that we have detailed in section two of this report.

## 1.4 Additional information to support our conclusion

The following table highlights the number and categories of management actions made. The detailed findings section lists the specific actions agreed with management to implement.

Risk	Control design not effective*		Non-Compliance with controls*		Agreed actions		
					Low	Medium	High
SRR150001 - If we have a large or unexpected loss in our income or cash there is a risk that we will have to reduce the level of prevention, protection and response services we provide to our communities.	1	(9)	0	(9)	1	0	0
<b>Total</b>					<b>1</b>	<b>0</b>	<b>0</b>

\* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

## 2 DETAILED FINDINGS

### Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible regulatory scrutiny/reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, regulatory scrutiny, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

This report has been prepared by exception. Therefore, we have included in this section, only those risks of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Ref	Control	Adequate control design (Yes/No)	Controls complied with (No/N/A)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
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**Risk: SRR150001 - If we have a large or unexpected loss in our income or cash there is a risk that we will have to reduce the level of prevention, protection and response services we provide to our communities.**

1.1	<b>Budget Holder Training</b>  The Authority has introduced a new course called Finance for Non-Financial Managers.  This course is externally given and there have been two courses to date.  Not all budget holders have yet attended this course due to class sizes but there are further dates planned for the remaining staff to attend.  The training includes training on generic financial topics as well as budgeting. This is so	No	Yes	<b>Finance for Non-Financial Managers Course</b>  We reviewed the course information for the Finance for Non-Financial Managers training and found that the externally training is a generic Financial course that included an area on the types of budgets, budget preparation and budget monitoring.  Through discussion with the Assistant Director of Finance we were advised this Finance course was introduced so that key management staff as well as budget holders could gain a wider overall understanding of Finance and financial implications. This is so that staff have a greater understanding of their budget and financial impact in the	Low	We will review the effectiveness of budget holder training and update this as required following the results of the survey		
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Ref	Control	Adequate control design (Yes/No)	Controls complied with (No/N/A)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
	that all management have an overarching understanding of Finance.  Also, budget holders have responsibility for providing the budget figures but have support of the Finance Managers informally if needed throughout the budget build process.			<p>context of the Authority as a whole; and so that budgets are not prepared with a silo view within budget areas.</p> <p>We reviewed a report from the training and development system for the course and found that two of these courses run had been held since September 2016.</p> <p>Of the 14-budget holders, we found five had received and attended the course as per the training records on the training and development system.</p> <p>Through discussion with the Assistant Director of Finance we were advised that the Authority will have more of these external courses planned for 2017/18 where key staff will be trained. We were advised not all staff have attended the course thus far, due to limitations on the number of attendees and this course being externally delivered.</p> <p><b>Budget Holder Support and Training Survey</b></p> <p>Through discussion with the Assistant Director of Finance and a Finance Manager we were advised that budget holders have continuous support of the Finance Managers informally throughout the entire budget process pre-and post-build.</p> <p>As part of this audit we developed a budget holder questionnaire to gather direct feedback from staff on whether they felt the support and training provided was for their role as a budget holder.</p> <p>Our survey found that generally:</p>				



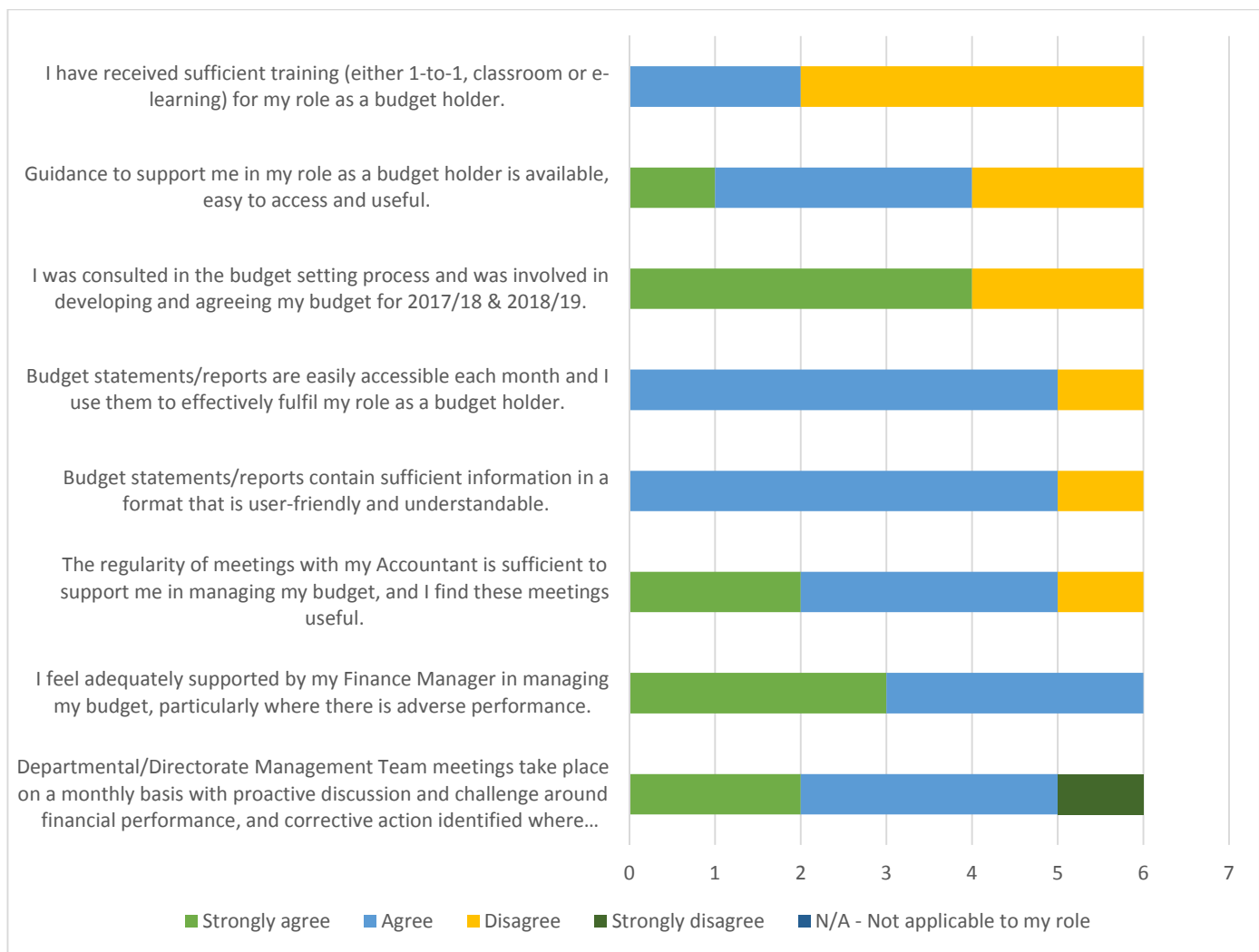
Ref	Control	Adequate control design (Yes/No)	Controls complied with (No/N/A)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner	
				<ul style="list-style-type: none"><li>Staff found guidance to support them as a budget holder was easy to access and useful.</li><li>The regularity of meetings with their Finance Manager was sufficient to support budget holders in managing their budget, and staff found these meetings useful;</li><li>Budget holders felt adequately supported by their Finance Manager in managing their budget, particularly where there is adverse performance.</li></ul> <p>However, our survey identified in the majority of cases budget holders felt they had not received sufficient training (either one-to-one, classroom or e-learning) for their role as a budget holder.</p> <p>If budget holders do not receive or feel like they have received sufficient training there is a risk that the required budget build process will not be as efficient and effective as practicably possible. This could also lead to a lack of budget holder buy in to the Authority’s budgetary control and financial planning process to the financial detriment of the organisation.</p>					

## APPENDIX A: FURTHER BUDGET INFORMATION AND BUDGET HOLDER SURVEY RESULTS

As per the 2018/19 Budget paper presented to the Essex Fire and Rescue Strategic Board on 6 December 2017 the budget for 2018/19 is summarised below and compared to the most recent forecast for 2017/18.

Description	2017-18 Budget £'000s	2017-18 Forecast £000's	2018-19 Budget £'000s"
Firefighters	28,849	28,785	29,674
Firefighters - Retained Duty System	6,086	5,925	6,353
Control	1,382	1,375	1,436
Support Staff	13,209	13,582	12,433
<b>Total Employment Costs</b>	<b>49,526</b>	<b>49,668</b>	<b>49,896</b>
Support Costs	1,944	1,988	1,802
Premises & Equipment	10,474	10,138	10,673
Other Costs & Services	3,761	3,658	3,549
Firefighters' Pension Scheme	2,118	2,221	2,200
Financing Items	6,160	5,349	4,515
Operational income	(3,781)	(4,127)	(3,299)
Contribution to/(from) Reserves	(73)	(73)	700
<b>Total Other Costs</b>	<b>20,602</b>	<b>19,153</b>	<b>20,141</b>
<b>Total Budget</b>	<b>70,128</b>	<b>68,821</b>	<b>70,037</b>
<b>Total Funding</b>	<b>(70,128)</b>	<b>(69,913)</b>	<b>(70,037)</b>
<b>Funding Gap / (Surplus)</b>	<b>0</b>	<b>(1,092)</b>	<b>(0)</b>

In this review, we also undertook a survey of budget holders to gather feedback on the budget process and the training and support they have received within their roles as budget holders. 43 percent of the current budget holders provided a response to our survey and the results are detailed in the graph below.



Further feedback from budget holders included:

“I get a great service from Finance personally but I’ve scored the reports lower as they are not really user friendly. I have never been asked what financial management information I would like to see. I was asked to provide the figures I would like to see in my budget next year, there is no draft budget issued for discussion or any negotiation so I would not consider I am consulted; I am informed.”

## APPENDIX B: SCOPE

The scope below is a copy of the original document issued.

### Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following risks:

Objective of the risk under review	Risks relevant to the scope of the review	Risk source
Financially Sustainable: Identifying ways to ensure that the overall cost of the Service is managed to accommodate future reductions in Government funding while limiting any council-tax increases to thresholds set by Government or the Fire Authority.	SRR150001 - If we have a large or unexpected loss in our income or cash there is a risk that we will have to reduce the level of prevention, protection and response services we provide to our communities.	Strategic Risk Register

### When planning the audit the following areas for consideration and limitations were agreed:

This review will ensure that:

- A medium term financial plan and annual plan have been established;
- Reasonable assumptions have been made to underpin the plans which are consistent with national planning guidelines;
- Sensitivity analysis have been completed for the medium term financial plan including a range of scenarios;
- The medium term financial plan and annual budget have been reviewed and approved at an appropriate level;
- The annual budget has been accurately uploaded to the finance system;
- Budget Holder statements are produced on a monthly basis;
- Statements are subject to review by the Finance and the Budget Holder. Variances are identified, discussed and actions taken to address them where necessary;
- Actions are logged and monitored through to completion;
- Financial performance reports are reviewed by senior management and the governing body. Variances are discussed and where necessary, actions are taken to address performance; and
- Support and training is provided to Budget Holders.

### Limitations to the scope of the audit assignment:

- Our testing was primarily based on the budget build and financial planning period for 2018/19. Some areas of testing we will only be able to test the current financial period for 2017/18;

- We will not verify the accuracy of any financial forecasting;
- We will not verify that the financial plan is sufficient to meet the needs of the service users;
- We will not provide assurance on the ability to meet the financial and budget plans, or that the financials are sufficient to meet the Business Plan.
- We will not confirm that adequate contingency has been included within the plan;
- We will not confirm that accuracy of transactions on the ledger;
- We will not guarantee that the financial plan will be achieved;
- All testing will be sample based compliance testing only; and
- Our work will not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

## APPENDIX C: FURTHER INFORMATION

### **Persons interviewed during the audit:**

- Glenn McGuinness, Assistant Director of Finance
- Jayesh Padania, Finance Manager
- Paula Drane, Finance Manager - Reporting

## FOR FURTHER INFORMATION CONTACT

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