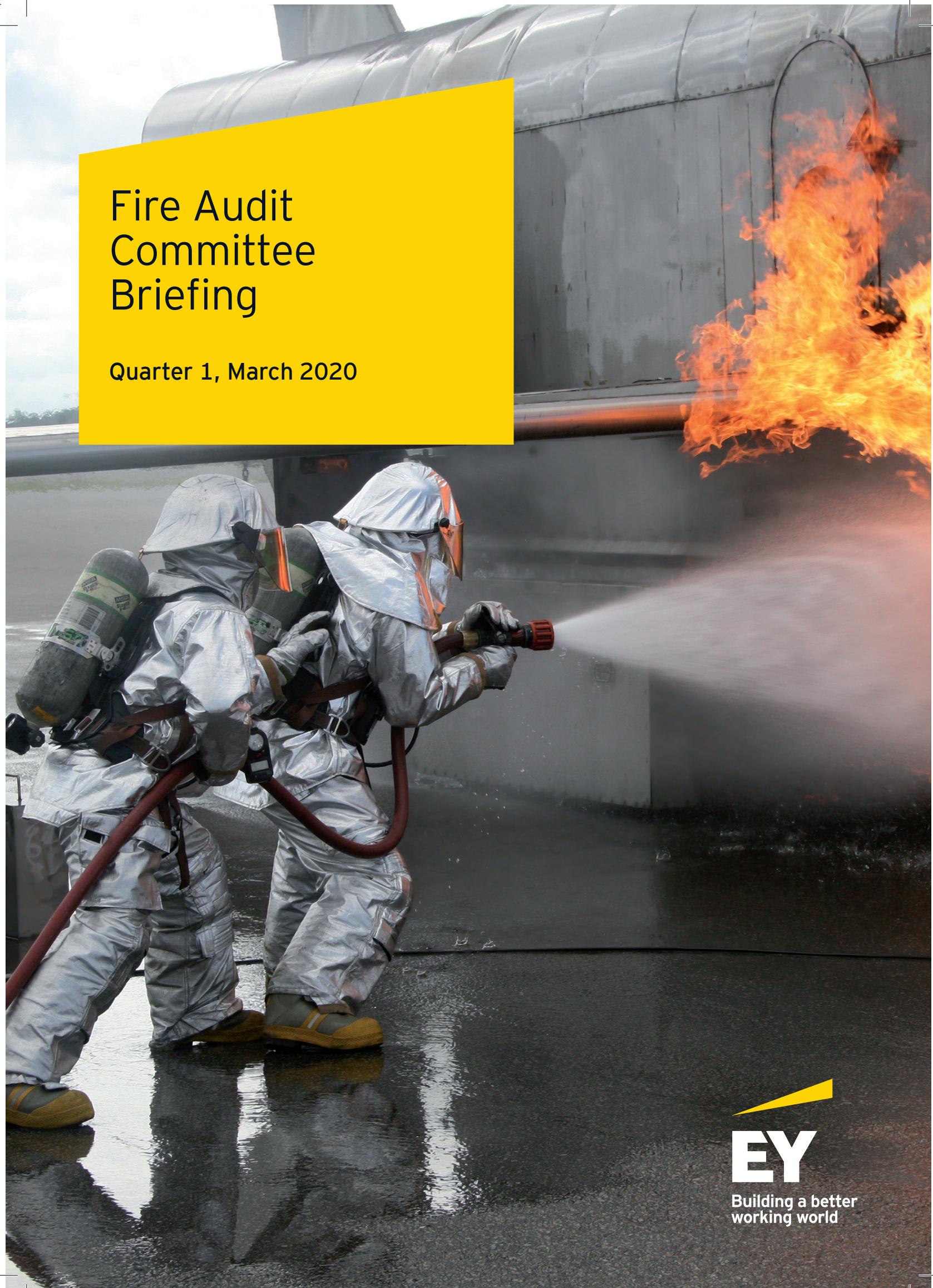


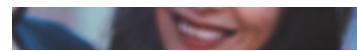
Fire Audit Committee Briefing

Quarter 1, March 2020



EY

Building a better
working world



Contents at a glance



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This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation and the Fire sector as a whole.

Our national Government and Public Sector (GPS) team have produced this briefing using our public sector knowledge, and EY's wider expertise across UK and international business.

This briefing brings together not only technical issues relevant to the Fire sector but also wider matters of potential interest to you and your organisation.

You can find out more about any of the articles featured by following the links at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please contact your local audit team.



Government and economic news

EY Club Item

The outlook for the UK economy has improved over the last three months, with the decisive nature of the General Election result and the resulting clarity on the first stage of Brexit expected to provide a short-term boost to economic activity. The strong performance of the labour market in terms of new jobs – although less so in pay growth – suggests there may be more momentum than previously thought, and it appears the global slowdown may be bottoming out. Reflecting these factors, The EY ITEM Club's Winter Forecast has increased its projection for GDP growth to 1.2% in 2020 and 1.7% in 2021, compared to the 1% and 1.5% predicted in its last quarterly previous forecast.

Significant uncertainty may still exist, but we can be certain that change is coming. The UK is leaving the EU, the new Government has talked of an ambitious programme, the global policy consensus is under real pressure, and demographics, technology and the climate emergency will all impact the economy in the coming years. These factors may come together in new ways: concerns over the climate may lead to further reductions in trade, and support for localism that boosts towns may be possible through deploying technology in new ways. The economic outlook is challenging and now is the time for businesses to think creatively about their long-term strategy and plans to deliver it.

Budget 2020

Chancellor Rishi Sunak delivered his first Budget in the House of Commons on 11 March 2020, announcing the government's tax and spending plans for the year ahead. Key points have been summarised below.

Coronavirus – £30 billion stimulus package to counteract the COVID-19 outbreak, equivalent to 1.3% of GDP.

- This includes £5 billion for the NHS and other public services and £7 billion to businesses and families
- The government announced that statutory sick pay (SSP) will be paid to all those who choose to self-isolate, even if they aren't presenting any symptoms. Small- and medium-sized business will be refunded eligible SSP costs
- Local Authorities will be provided with £500mn hardship fund to support vulnerable people in the local area
- Small firms will be able to access up to £1.2mn of business interruption loans
- Business rates will be abolished for small business in the retail, leisure and hospitality sectors with a rateable value below £51,000

Personal taxation

- ▶ NIC threshold will be raised saving individuals £100 a year

Transport, Infrastructure and housing

- ▶ More than £600 billion to be spent on roads, rail, gigabit broadband and housing. This includes £12.2 billion for the Affordable Homes Programme and a commitment to create an average 300,000 homes a year
- ▶ Additional funding to help tackle potholes- £2.5 billion will be made available in 2020/21 then £500 million per year until 2024/25

Borrowings

- ▶ Public sector net borrowing is expected to increase by 0.3% to 2.1% of GDP in 2019/20 and rising to 2.4% and 2.8% in subsequent years

Environment

- ▶ The Plastic Packaging tax rate was confirmed at £200 per tonne of plastic packaging for manufacturers and importers whose products are less than 30% recyclable. This tax rate will be effective from April 2022

Investment in flood defences will double to £5.2 billion over the next five years. £320 million has been made available for communities affected by this year's winter flooding.

PWLB

Alongside the Budget, the Treasury launched a consultation on changes to the PWLB, which it said would attempt to "focus PWLB loans on service delivery, housing, and regeneration, and ensure that this money is not diverted into financial investments that serve no direct policy purpose. Once a workable system is designed and implemented, the government intends to cut the interest on all new loans from the PWLB."

The government said it would hold workshops with local authorities to develop rules that would prevent local authorities buying investment assets primarily for yield.

The consultation said: "Local authorities that wish to buy investment assets primarily for yield would remain free to do so but would not be able to take out new loans from the PWLB in the year in which they have bought the asset."

As a result of this budget, the Office of Budget Responsibility predicts a 1.1% GDP growth in 2020 and 1.8% in 2021 without taking into consideration the impact of COVID-19. This is in line with the EY Club Item predictions above.

Local Government Pension Scheme (LGPS) news: Exit Pensions Credit Payments and Pooling

The Ministry of Housing, Communities and Local Government (MHCLG) has announced amendments to regulations which require funds to pay exit credits where pension liabilities have been overfunded. This announcement is in response to concerns that outsourced contractors are claiming exit payments on top of existing arrangements designed to share pensions risk. MHCLG stated that "it became clear that service providers were becoming entitled to exit credits where this would not have been the intention." In response to this MHCLG have proposed changes to the 2013 Regulations which will required LGPS administering authorities to consider the level of risk that an employer has borne in determining the amount of exit credits.

Critically, this change means that administering authorities will have discretion over the amount of exit credit paid. Responding to this announcement, actuary partner and pension advisor at Hymans Robertson, Richard Watson, said that "Amending regulations were needed to better reflect historic risk-sharing arrangements"; however, there is a fear that the new discretionary powers for funds may lead to more claims and disputes from outsourced contractors. The LGPS Advisory Board has been called upon to issue guidance on how to interpret the new regulations.

In other LGPS news the government has estimated that the shift to mandatory pooling of assets has saved more than £155mn between November 2015 and March 2019. It has also estimated that the total savings that will be achieved through asset pooling by 2033 is in the region of £2bn.

In a response to the growing climate emergency, that many local authorities have officially recognised, one LGPS asset pool, Brunel Pensions Partnership, has announced a five-point plan to increase the green credentials of its investments and to divest from investments in companies with high carbon emissions. This plan will include stress-testing its portfolios under a range of climate scenarios such as alignment of emissions with the benchmark set in the Paris Climate Agreement. The Government minister for pensions has welcomed the move saying that they have their full support.



Accounting, auditing and governance

The local public audit environment

In our last briefing we highlighted the outcome of the Brydon review which was focused on the quality and effectiveness of audit in the UK and Ireland. We note that the recommendations seek to enhance transparency, including more focus on resilience, internal control and the public interest, for the benefit of investors and stakeholders (including the public). It has also increased the responsibility of boards, audit committees and auditors. A number of the recommendations go to the heart of what we do as auditors and will require pragmatic implementation.

Running side by side with the Brydon review has been the MHCLG review of local government financial reporting and audit, led by Sir Tony Redmond. We now expect the Redmond review to report its findings and recommendations this summer. These reviews, as well as the Competition and Markets Authority and Kingman reviews, have been carried out during a period of significant challenge for local public auditors and local government audited bodies.

On 10 February 2020, Janet Dawson, EY's UK Government and Public-Sector Assurance Leader, wrote to the audit committee chairs and chief finance officers (CFOs) of the local government bodies EY audits under its contract with Public Sector Auditor Appointments (PSAA) Ltd. The letter focused on the concerns we all share regarding the timetable for financial reporting and auditing, audit fees and the regulatory, contractual and legal context of delivering local government external audit. The key messages Janet highlighted were:

- ▶ We believe the current timetable and expectations for financial reporting and external audit are unsustainable and need to change
- ▶ Because of our views on the factors driving an unsustainable timetable, to ensure we deliver the best quality audit, we have informed PSAA, the NAO and the Local Public Audit Stakeholder forum that we will be scheduling a number of 2019/20 external audits for completion after the 31st July 2020

- ▶ We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment
- ▶ In the face of all these unprecedented factors, we still remain committed to deliver high quality sustainable local public audit that serves the public interest and stakeholder needs. It is clear therefore that audit fees for local public audit will have to rise

At the end of February, PSAA emailed CFOs with an update on audit matters. PSAA referenced several of the issues highlighted in Janet's letter and stated that it is encouraging audited bodies and local auditors to have early dialogue about when the audit will take place and the likelihood of additional audit work being required which may lead to a fee variation proposal.

Your Audit Partner has been discussing the proposed timing of your 2019/20 external audit with your CFO and a current estimate of your audit fee and will communicate with the audit committee in due course.

PSAA Report on the Future Procurement and Market Supply Options Review

On 4 March PSAA released a report it commissioned from independent consultants to inform its future procurement and market supply options review project. The consultants were asked to capture the views of current and potential local public audit providers on how to structure a future procurement approach and audit contracts in order to maximise a sustainable audit supply in the next procurement exercise. The report's summary findings were that the sustainability of audit supply will be difficult to achieve and will depend to a great extent of factors that are outside PSAA's control.

Specific findings to note:

- ▶ A lack of experienced local public auditors is the main threat to the future sustainability of the market.
- ▶ It will be difficult to bring in new providers to the market due to a lack of enthusiasm for entering the market in its current state, barriers to entry and a lack of belief from these providers that they would not be successful against the existing providers in a tender exercise.
- ▶ All existing providers highlight that their risks have increased significantly since they bid for the current contracts and fees have not increased to compensate for the increased risk and the timing of local audits.

The report suggests some options for PSAA including changing the balance of price and quality in its tender evaluation arrangements and considering the number and size of contracts. However, the report recognises that some of the issues that impact the future sustainability of local audit are outside of PSAA's control, including the:

- ▶ Fragmentation of the market for procurement of public sector audits (including distinctive arrangements in local government, health and central government)
- ▶ Accreditation regime for local audits
- ▶ Timing of local authority audits
- ▶ Regulatory regime for quality checking of audits

PSAA have shared the report publicly to inform the debate and support the work ongoing to strengthen the system of local public audit.

In the next quarter, we will be publishing thought leadership papers and thereafter a series of articles setting out our point of view on several areas that we believe are critical to secure the future sustainability of local public audit.



Regulation news

State of Fire and Rescue Report – Annual Assessment of Fire and Rescue Services in England

On 15th January 2020, Her Majesty's Chief inspector, Sir Thomas P Winsor, published the first annual assessment of fire and rescue services (FRS) in England. This is the first formal inspection of all 45 services in over a decade. The assessment focuses on the effectiveness and efficiency of FRS' in England based on inspections carried out between June 2018 and August 2019. The grading on the three inspections pillars of effectiveness, efficiency and people are summarised below:

- ▶ For **effectiveness** pillar, 29 services were graded as 'good' and 16 as 'requiring improvement'. None were noted to be outstanding or inadequate.
- ▶ For **efficiency**, 26 services were grades as 'good', 18 as "requiring improvement" and 1 as 'inadequate'. None were noted to be outstanding.
- ▶ For **People**, 18 services were graded as 'good', 25 as 'requiring improvement' and 2 as 'inadequate'. None were noted to be outstanding.

Overall, the inspection noted that most services are keeping people safe from fires and other emergencies and are using their allocated resources efficiently. A number of FRS' were praised for their strong commitment to the profession and their communities, life-saving prevention initiations and their highly skilled emergency response. However, some services still need to urgently improve how well they looked after their people and ensuring buildings are safe for the public. The report highlighted that more than 300 buildings still have the same cladding as Grenfell Tower.

On the People pillar, the report noted that some services need to address a 'toxic' bullying culture . Overall, 24% of staff reported feeling bullied or harassed across the 45 services- in one service as many as 46% of respondents reported feeling bullied. Sir Thomas Winsor believes that the service would benefit from a Code of Ethics to reinforce how individuals should be treated and to empower staff at all levels to challenge any behaviour contrary to the code.

The report noted that more needs to be done to improve diversity including attracting, recruiting and retaining women and black, Asian and minority ethnic (BAME) people. As of 21 March 2019, only 16.7% of staff are female and only 5% are from a BAME background across a workforce of just under 44,200 employees.

There are 4 recommendations within the report:

1. To create modern fire and rescue services fit for the future – By June 2020, the Home Office, in consultation with the fire and rescue sector, should determine the role of (a) a fire and rescue service and (b) a firefighter
2. Reform of employment arrangements in the fire sector – By June 2020, the Home Office, the Local Government Association (LGA), the National Fire Chiefs Council (NFCC) and trade unions should consider whether the current pay negotiation machinery needs fundamental reform. If so, a plan for reform should be established and an independent pay review body considered. This should also include consideration of the future of the 'grey book' and whether it should be replaced with local contracts
3. Operational Independence for chief fire officers – By August 2020, the Home Office should consider giving chief fire officers operational independence. In the meantime, it should issue clear guidance on the demarcation between governance by the fire and rescue authority and operational decision-making by the chief fire officer
4. To establish a code of ethics for FRS – By June 2020, NFCC, in consultation with the LGA, should produce a code of ethics for the fire sector. The code should be adopted by every fire and rescue service in England and considered as part of each employee's progression and annual performance appraisal

The Chair of the NFCC, Roy Wilsher has responded to the report citing austerity and a 23% reduction in wholetime firefighters since 2010 as contributing factors to the reduced protection capacity noted in the report. On building regulation, Mr Wilsher argued that the overall responsibility lies with government and local authorities, not fire services.



Other news

Fire and rescue services incident statistics

The latest statistical figures (year ending September 2019) released from the Home Office shows that overall incidents attended by the fire service was 554,269. This was made up of 41% fire false alarms, 30% fire incidents and 29% Non-fire incidents.

There was an overall 5% decrease in incidents attended compared with the previous year of 584,408. This decrease was driven by a decrease in the number of fires attended. FRS' attended 163,039 fires, representing a 10% decrease compared to the previous year in all fire types. Primary fires decreased by 7% compared to the previous year. Secondary fires in particular decreased by 13% although this was driven by the hot, dry summer in 2018 as the comparator year. Fire-related fatalities remained consistent – 252 for the year ending September 2019, compared to 251 in the previous year. Of these fatalities, 203 were in dwelling fires

compared with 187 in the previous year. This increase in dwelling fatalities highlights the significant challenges fire and rescue services face in the built environment. This is consistent with the findings from the Grenfell Tower Inquiry, reviewed in our 2019 quarter 4 audit committee briefing, and the State of Fire and Rescue Report, reviewed above. FRS' attended 162,921 non-fire incidents representing a 4% decrease from previous year. This was largely driven by 27% decrease in medical incidents as a result of the removal of support for the emergency medical responding trials by the Fire Brigades Union.

The Chair of the NFCC, Roy Wilsher has raised concerns about fatalities not falling, despite the reduction in the number of incidents attended over the same timeframe. He also noted that the Fire Services should not become complacent about the reduction in incidents as the bigger picture shows a more worrying scenario.

Key questions for the audit committee

Budget 2020

How does the Budget 2020 impact your fire and rescue authority?

Has your authority assessed the impact of the coronavirus on day-to-day operations?

Local Government Pension Scheme (LGPS): Exit Pensions Credit Payments

Is your fire and rescue authority impacted by the change in regulation regarding LGPS payment of pensions exit credits?

How is your fire and rescue authority's LGPS scheme achieving value for money through asset pooling?

The local public audit environment

Are you clear on the timing of your 2019/20 audit and an indication of the fees being proposed by your auditor?

PSAA Report on the Future Procurement and Market Supply Options Review

Have you considered what procurement approach and audit contract would suit your organisation?

State of Fire and Rescue – Annual Assessment of Fire and Rescue Services in England

What grade did your fire service obtain in each of the sections i.e., effectiveness, efficiency and people? What improvements can your fire authority make going forward in order to increase their rating in the future?

What work is your fire authority doing over how people are treated at work and how employees are looked after at work?

What is your fire authority doing in recruit and retain women and black, Asian and minority ethnic (BAME) people?

Fire and rescue services incident statistics

What are the statistics from your Fire Authority, are they following the same trends as the statistics released by Home Office?

How does your fire authority align with the national picture of fire fatalities? What is your authority doing to improve the service provided?

Find out more

EY Club Item

https://www.ey.com/en_uk/growth/ey-item-club/ey-item-club-winter-forecast-2020

Budget 2020

<https://www.gov.uk/government/publications/budget-2020-documents/budget-2020#executive-summary>

<https://www.bbc.co.uk/news/uk-politics-51832634>

Local Government Pension Scheme (LGPS): Exit Pensions Credit Payments

<https://www.publicfinance.co.uk/news/2020/02/lgps-funds-given-discretion-over-employer-exit-payments>

<https://www.publicfinance.co.uk/news/2020/02/pooling-lgps-schemes-has-saved-ps155m-four-years>

<https://www.publicfinance.co.uk/news/2020/01/lgps-pension-pool-demands-action-climate-change>

The local public audit environment

<https://www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852960/brydon-review-final-report.pdf

PSAA Report on the Future Procurement and Market Supply Options Review

<https://www.psaa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf>

State of Fire and Rescue – Annual Assessment of Fire and Rescue Services in England

<https://www.justiceinspectorates.gov.uk/hmicfrs/news/news-feed/chief-inspector-calls-for-significant-reform-across-frs-in-england/>

<https://www.nationalfirechiefs.org.uk/news/nfcc-responds-to-the-first-national-state-of-fire-report-243534>

Fire and rescue services incident statistics

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/865256/fire-and-rescue-incident-sep19-hosb0620.pdf

<https://www.nationalfirechiefs.org.uk/News/nfcc-responds-to-latest-home-office-fire-statistics>

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