



# Cambridgeshire and Peterborough Fire Authority

DRAFT Auditor's Annual Report: Year ended 31 March 2021

Report to the **Policy and Resources committee**



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# Welcome

## Executive Summary

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This Auditor's Annual Report provides a summary of the key issues arising from our audit of Cambridgeshire and Peterborough Fire Authority for the year ended 31 March 2021.

### Financial statements

We issued an unqualified opinion on the Authority's financial statements on 14 February 2022.

This means that we considered that the financial statements give a true and fair view of the authorities position and its expenditure and income for the year.

### Value for money

We have not identified any significant weaknesses in respect of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources having regard to the specified criteria in the Code.

### Other reporting

We did not consider it necessary to use our auditor powers or report on other matters.



**Rachel Brittain**  
**Engagement lead**

t: +44(0)20 7893 2362  
m: +44(0)7971 716 487  
e: rachel.brittain@bdo.co.uk

# Purpose and responsibilities

## Executive summary

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### **Purpose of the Auditor's Annual Report**

This Auditor's Annual Report summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2021.

It is addressed to the Authority but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

### **Responsibilities of the Authority**

It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

The Authority is also responsible for preparing and publishing its financial statements, annual report and governance statement.

### **Responsibilities of auditors**

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice - April 2020 (the 'Code').

Under the Code, we are required to review and report on:

- Whether the financial statements give a true and fair view of the financial position of the Authority and of its income and expenditure for the year and have been properly prepared in accordance with the relevant legislation;
- Whether the other information published together with the financial statements is

consistent with the financial statements;

- Whether the governance statement complies with the guidance issued;
- Whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- Where appropriate, make statutory recommendations, or issue a Public Interest Report.



# Financial statements

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### Audit conclusion

We issued an unqualified audit opinion on the financial statements on 14 February 2022.

This means that we considered that the financial statements give a true and fair view of the authority's position and its expenditure and income for the year.

We reported findings to the 12 January 2022 Overview and Scrutiny Committee and issued a final Audit Completion Report for their consideration.

### Significant deficiencies in controls

We did not identify any significant control deficiencies during the audit of the financial statements.

### Audit differences

The audit identified no material misstatements.

There were 10 unadjusted audit differences identified by our audit which would decrease net operating expenditure for the year by £742,000. Management did not adjust the financial statements for these items as the impact was not material.







# Value for Money

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### Scope

We are required to review and report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where we identify significant weaknesses in these arrangements we are required to report this in the auditor's report included in the financial statements and to make recommendations for improvement in the Auditor's Annual Report.

### Specified criteria

The NAO has issued guidance for auditors to report against three specified reporting criteria:

- Financial sustainability - How the Fire Authority plans and manages its resources to ensure it can continue to deliver its services
- Governance - How the Fire Authority ensures that it makes informed decisions and properly managing risks
- Improving economy, efficiency and effectiveness - How the Fire Authority uses information about costs and performance to improve the way the Fire Authority manages and delivers its services.

The NAO guidance also includes a number of further areas for review within each criteria to allow the auditor to assess those arrangements.

### Risk assessment

Our risk assessment did not identify any areas of potential significant weakness

### Context of Covid-19

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Fire Authority has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.





# Value for Money

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### Audit conclusion

We have not identified any significant weaknesses in the Fire Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the 2020/21 Financial year.

We had no matters to report by exception in the audit report on the financial statements.





# Financial Sustainability

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### Auditor's commentary on arrangements

#### Areas reviewed

- *How significant financial pressures relevant to short and medium-term plans identified and built into plans*
- *Plans to bridge funding gaps and to identify achievable savings*
- *Whether financial plans support the sustainable delivery of services in accordance with strategic priorities*
- *The consistency of financial plans with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system*
- *Identification and management of risks to financial resilience e.g. unplanned changes in demand, including challenge of assumptions underlying its plans.*







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### Auditor's commentary on arrangements

#### *How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them*

The Authority's medium term financial planning is primarily formulated through the Medium Term Financial Strategy (MTFS). The MTFS maps out expected financial changes over a rolling six-year period. This is presented as part of the budget setting paper annually but also updated periodically as part of the consultation process with Members in setting the parameters for budget setting. This identifies financial pressure, changes in funding, and savings required so the overall financial direction of Authority can be set and appropriate action taken.

A Comprehensive Spending Review (CSR) is prepared externally every year and received by the authority. Based on the CSR the authority prepares its budget and identifies any financial pressures which may have been noted on the CSR report. These will then be addressed through the budget that is prepared and ways in which savings can be identified and used to address those financial pressures. The budget is built using the input of each budget holder; each budget is reviewed and amended at specific budget holder and finance meetings. The information from each group is then consolidated into the final budget the by ensuring that the financial plan is consistent with other plans of the authority.

The MTFS recognises that some of the sources of significant financial pressure are outside the Authority's control, such as uncertainty around future funding arrangements beyond 2022, along with council tax capping limits and potential Authority decisions around referendum, all require the Authority to take proactive steps to mitigate risks to financial sustainability. The Authority currently holds a general reserve of around £2 million, which is set aside for unforeseen significant financial issues. The Authority also carries an earmarked reserve of £1 million to aid transition should a change in operating model or restructure be required.

The Pandemic caused significant uncertainty around future funding specifically with regard to Council Tax collection rates and Business Rates. Government sought to mitigate the impact of lost Council Tax revenue on all public bodies by providing a special grant that can be used to reduce the impact over a 3 year period. The 2020/2021 deficit in Council Tax revenue is being spread over 3 years with the support of government. Additional Covid-19 support grants received during 2021/22 amounted to £902k, this has been used to cover the additional cleaning and staff costs.

In 2020/21 the Chief Officers Advisory Group led a piece of work to identify £375k of savings which enabled the Authority to meet the demands of an unbudgeted 1.5% cost of living pay award. Although the saving was made through a reduction in posts, this was achieved without an impact on service delivery, however, it did reduce a significant amount of flexibility from Authority budgets and made the process of finding additional savings more challenging.



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### *How the body plans to bridge its funding gaps and identifies achievable savings*

The Medium Term Financial Strategy, as well as identifying known gaps identifies the tools needed to address these.

As a precepting authority there is a requirement under the Local Government Act 1992 for the authority to hold reserves in order to meet any unforeseen emergencies and manage uneven cash flows.

The Authority currently holds a general reserve of around £2 million, which is set aside for unforeseen significant financial issues. The Authority also carries an earmarked reserve of £1 million to aid transition should a change in operating model or restructure be required. In the context of the overall Authority budget, these are relatively modest sums, that in the current economic environment cannot be replenished and can only be used once. Should sufficient increased funding flexibility be offered for future years, the Authority will use its earmarked reserve to prevent the requirement to reduce service provision. Alternatively, should the funding situation remain, the earmarked reserve will be used for a limited time to ease the transition to a smaller less capable organisation. At 31st March 2021 the Authority's usable General Reserve balance was £2.098m, representing 6% of the revenue budget. The General Reserve will be used in accordance with the Medium Term Financial Strategy.

To manage the ongoing challenge of the current funding mechanism the Authority has undertaken a cost scoping exercise of the whole organisation. This extensive piece of work, which commenced in early 2022, allows the Authority to understand where savings can be made and the impact this would have on service delivery. This work recognises the symbiotic relationship between professional support and the operational workforce, and as such identifies prioritised options to allow the whole service to be downscaled in the least impactful way. It recognises that protection, prevention and response services are vital and must be preserved as much as practicable, however, it underlines that without appropriate underpinning professional support services the front-line service cannot operate in an effective way.

As mentioned on the previous page, in 2020/21 the Chief Officers Advisory Group led a piece of work to identify £375k of savings as part of its budgeting activities.





# Financial Sustainability

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### *How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system*

The annual financial planning process is presented in the full Fire Authority meeting concurrently alongside updates to a number of supporting strategies given the integral nature of these to delivering financial planning as a whole. Financial sustainability does not exist in isolation and is effectively integrated with service level financial monitoring arrangements. These are fundamental to the delivery of the Medium Term Financial Strategy.

The budget is built using the input of each budget holder; each budget is reviewed and amended at specific budget holder and finance meetings. The information from each group is then consolidated into the final budget then by ensuring that the financial plan is consistent with other plans of the authority.

### *How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans*

The MTFS includes an element of scenario planning. For example, the Authority has been preparing for the potential challenges that the CSR may present. An example is the professional support service (i.e provision of training) has been subject to rigorous challenge, with each group providing scenarios for savings, highlighting the impact on service delivery for each scenario.

Operational scenarios are now being robustly analysed by management so they best understand the impact changes will have on the operational response model of the authority. Similarly to the professional support scenarios, the focus on operational delivery will highlight savings and impact on service delivery. These are monitored and reported on a regular basis in the fire authority meetings.

### **Financial sustainability - Conclusion**

We have not identified any significant weaknesses in this area. Whilst the Authority demonstrated above that robust arrangements are in place to enable planning and managing of resources, we would highlight that the MTFS for 2022 to 2028 talks of the uncertainty around future funding arrangements beyond 2022. Along with council tax capping limits and potential Authority decisions around referendum, all require the Authority to take proactive steps to mitigate risks around financial planning and service delivery. We will continue to monitor the Authority's financial position and financial sustainability to ensure it remains able to set a balanced budget, manage its financial resources and deliver services as expected.

# Governance

Informed decisions and properly managing risks

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## Auditor's commentary on arrangements

### Areas reviewed

- *Risks are assessed and monitored to gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.*
- *The annual budget setting process is appropriate*
- *Effective systems and processes are in place to ensure budgetary control, support statutory financial reporting requirements and ensure corrective action is taken where needed*
- *The Authority makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency*
- *The Authority monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour.*







# Governance

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### Auditor's commentary on arrangements

#### *How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud*

The monitoring and assessing of risk is primarily the role of the Overview and Scrutiny Committee. The Committee oversees the Authority's systems of internal control. The Authority has a Risk Management Strategy, its purpose is to ensure that risk management is embedded into the governance structure and that it effectively underpins and enables the business. The risk strategy sets out the Authority's controls assurance mechanisms. The Authority has developed and approved an Integrated Risk Management Plan which is monitored and reviewed by internal audit and reports are prepared and presented to the Overview and Scrutiny committee on the implementation of the plan.

One of the main tools the Overview and Scrutiny committee uses to monitor and assess risk is the Strategic Risk and Opportunity Management register. This register, which is presented to the Committee on a quarterly basis, scores corporate risks on a traffic light system based on magnitude and likelihood.

We considered the extent to which the risk register covered the three VFM sub-criteria against which we report and found that the level of coverage was proportionate and adequate. The Overview and Scrutiny committee has received assurance over a wide range of areas; alongside the results of individual internal audit reports, the results of follow up reports and deep dives have been reported. In addition, there has been evidence of involvement of the Overview and Scrutiny committee in setting and reviewing the annual and strategic audit plans. In line with good practice, the internal audit charter is reviewed annually.

The Authority has an internal audit (IA) function in place, outsourced to a third party, RSM, to gain assurance over the effectiveness of internal controls and to provide assurance against other risk areas. The Internal audit programme is reviewed annually by the Overview and Scrutiny committee and is informed by risk. Changes to the IA programme can be made where items need an urgent response. Recommendations arising from IA work are tracked for appropriate action and timescales.

Once reports and feedback have been received from the Overview and Scrutiny committee, IA and external audit, the Democratic services officer together with assistance of the section 151 officer consider both the internal and external reports on the controls that exists within the authority and how effectively they are implemented. Based on this assessment they determine what needs to be done going forward to ensure that the authority's internal control environment remains effective, and this is all reported within the Annual Governance Statement of the authority.



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### *How the body approaches and carries out its annual budget setting process*

The budget is built using the input of each budget holder; each budget is reviewed and amended at specific budget holder and finance meetings. The information from each group is then consolidated into the final budget.

The budget has been prepared for the medium term after making a number of assumptions, which are:

- A 2% increase in Council Tax for 2021/22;
- Non pay inflation will be 1%

The detailed medium term estimates for the next three financial years, as shown on page 4 of the authority's budget book, include assumptions on the Comprehensive Spending Review. We have also looked at the 2022/23 budget as the above process relates to 2021/22 to assess whether the assumptions used to draft the budget have been consistently applied or has the been any significant changes in the ways in which the budget was prepared and we have noted that the assumptions for the 2022/23 budget did not significantly change as detailed below:

- A 2% increase in Council Tax for 2022/23;
- Non-pay inflation will be 2%

The annual budget process brings together the Medium Term Financial Plan, Council Tax setting, Business Rates, approval of the Capital Strategy and changes to the Treasury Management Strategy.

Budget monitoring forms part of the agenda for the Overview and Scrutiny committee which meets regularly, and key monitoring measures referred to are:

- 1) The financial position against the profiled to date budget.
- 2) Progress on capital programme.

The Pandemic has caused significant uncertainty around future funding specifically with regard to Council Tax collection rates and Business Rates. Government has sought to mitigate the impact of lost Council Tax revenue on all public bodies by providing a special grant that can be used to reduce the impact over a 3 year period. The grant received for Cambridgeshire & Peterborough Fire Authority is £312k. This will be kept in reserve and applied each year as the impact on collection rates is known.

### *How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed*

The Financial Accountant prepares a detailed budget monitoring report which is shared with the Deputy Chief Executive on a monthly basis. This includes commentary on any significant variances from the expenditure in the previous year. The in-year monitoring process contributes to identifying immediate financial concerns, and the MTFS update and annual budget setting process commented above would identify issues in future financial years.





# Governance

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### *How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee*

The authority has eight committees within it that exist to ensure that the authority makes informed decisions that are in line with its statutory mandate and would also benefit the communities that the authority services.

Cambridgeshire and Peterborough Fire Authority Terms of Reference documents outline the remit and membership requirements for all eight committees at the Authority. Quoracy requirements for these committees are included in the standing orders.

Review of minutes of these meetings have demonstrated the agendas cover the areas we would expect, and demonstrate that challenge and discussion happen in these forums.

Due to the Covid-19 pandemic and in order to ensure compliance with Covid-19 regulations the authority has had to make considerable investments in ICT to enable staff to work from home during the pandemic. One of the key investments made was the upgrade to Office 365 which allowed for everything to be cloud based and providing staff with laptops and equipment to work from home. This ensured that meetings were able to be held and committee members were able to meet and ensured that the authority continued with its functions.

### *How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer and member behaviour (such as gifts and hospitality or declarations/conflicts of interest)*

The Authority has a system of internal control which comprises a network of policies, procedures, reports and processes. These arrangements clarify the Authority's vision, objectives, priorities, risk management arrangements, performance management processes and financial controls and aim to ensure compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful.

The Authority has policies and processes in place to ensure that staff operate in accordance with relevant legislative and regulatory requirements, including the acceptance of gifts and hospitality, declaration of business interests and additional occupations.

At the start of meetings members of the authority committees are given an opportunity to declare any interests. The Authority also has a code of conduct that each employee must comply with which states that employees must perform their duties with honesty, integrity, impartiality and objectivity, also that they report any impropriety or breach of procedure to the appropriate level of management. This ensures that everyone has a responsibility to ensure that the authority will be able to hold everyone accountable in cases of any breaches to the code and thereby ensuring compliance with the requirements of applicable legislation and expected members behaviour.

### **Governance - Conclusion**

We have not identified any significant weaknesses in this area. The authority has arrangements in place which are sufficient to ensure the effective operation of internal controls and ensuring that budgetary controls are in place and monitored regularly. The authority adapted quickly to the challenges that came with the Covid-19 pandemic and this was evident even through the IT investments made to ensure that operations were able to continue with others working remotely.



# Improving economy, efficiency and effectiveness

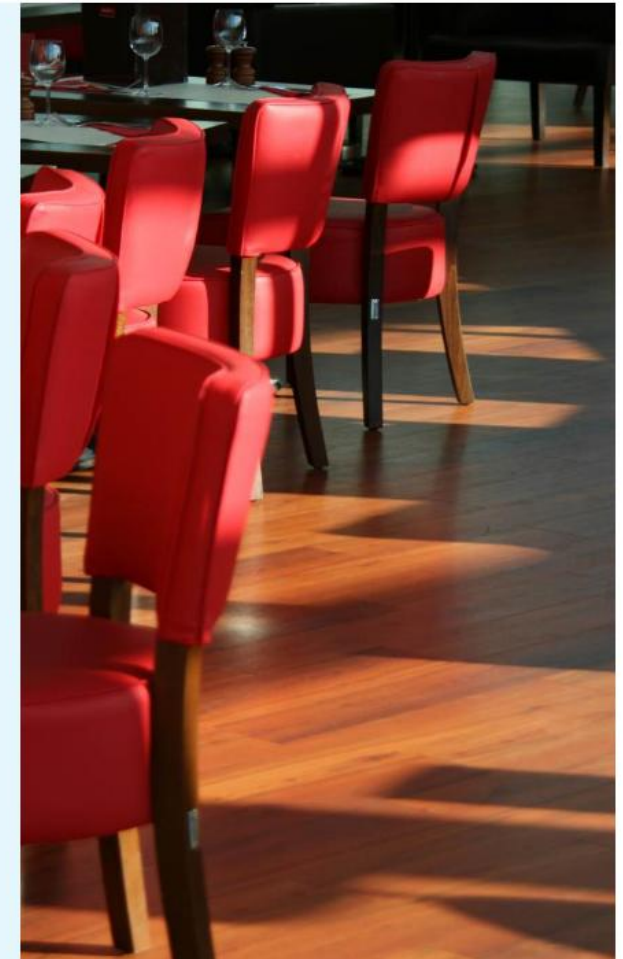
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## Auditor's commentary on arrangements

### Areas reviewed

- *Financial and performance information has been used to assess performance to identify areas for improvement*
- *Services provided are evaluated to assess performance and identify areas for improvement*
- *The Authority delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve*
- *Where the Authority commissions or procures services, this is done in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits of officer or member behaviour*





# Improving economy, efficiency and effectiveness

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### *How financial and performance information has been used to assess performance to identify areas for improvement*

The quarterly fire authority committee agenda includes Strategic Performance and Budget Monitoring. The reports and discussions consider areas for improvement, review and good performance. We have noted that assessment of performance takes place at a Committee and Sub Committee level.

In the monthly Strategic Performance update to the Chief Officer Assurance Group (COAG), the authority provides an update of its performance against its strategic objectives as listed in the integrated risk management plan and provides detailed dashboard reports which shows how the authority is performing against any planned or targeted objectives. In the report performance of each group of objectives is assessed and areas for improvement are highlighted and followed up in the following months meeting to determine if there has been any improvements from the previous month.

### *How the body evaluates the services it provides to assess performance and identify areas for improvement*

As noted in our review of Governance arrangements above, the Overview and Scrutiny Committee receives regular updates from internal audit. The presence of a strategic internal audit plan and risk-based one-year plans (which, as noted above, can be updated during the year if the risk profile changes) ensures that the Authority gets regular feedback on areas for improvement. While the overall Head of Internal Audit Opinion found that "the Authority has an adequate and effective framework for risk management, governance and internal control", it also stated that 'However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective'. On review of minutes of meetings, we have noted that the authority has been providing progress updates to the Overview and Scrutiny committee on progress made on the implementation of internal recommendations.

The Authority has set performance objectives that they want to achieve as detailed in the Integrated Risk Management Plan and performance against these objectives is reported twice a year to the Fire Authority members meetings where progress will be assessed and recommendations for improvements will be made.

The Authority is also regularly inspected by His Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS). The latest report was received in December 2021 and assessed the Authority as good in all three areas. The previous inspection undertaken in 2018/19 assessed the Authority as 'good' in all three areas reviewed being,

- the extent to which the service is effective at keeping people safe and secure from fire and other risks,
- the extent to which the service is efficient at keeping people safe and secure from fire and other risks; and
- the extent to which the service looks after its people.

Even though the overall assessment results were good some areas of improvements were identified, and we have included these at the end of the report with recommendations on how the authority can ensure that these are addressed.





# Improving economy, efficiency and effectiveness

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*How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve*

The Authority's strategy is to ensure that they are delivering value for money for their communities, monitor collaborations and the benefits that these bring to them, their partners and communities.

Collaboration savings achieved through improving business practices may be financial or provide more efficient ways of working. The authority collate details of all collaborations on their collaboration register and monitor the benefits that these are delivering whether to the authority, to the community or to their partners. This is done through recording on the register the objective of the collaborations and how these link to the strategic aims of the authority and then presenting these to the fire authority meeting where members will have an opportunity to evaluate the collaborations and determine whether it is beneficial for the authority to continue with these agreements or they need to be terminated.

In the review of the Integrated Risk Management Plan performance undertaken as part of the regular Fire Authority meetings the Authority discusses collaboration with other blue light services, including a rationalisation and sharing of estates and well as looking for joined up working practices. Exploring opportunities for sharing their estate with blue light partners continues. The authority has seen the introduction this year of a blue-light collaboration in the use of drones across Bedfordshire, Cambridgeshire and Hertfordshire, providing resilience and a reduction in overall costs of this key asset.

The collaborations are assessed and progress is maintained for each in order to determine whether the objective has been achieved and any areas of improvement are noted and included in the register. This control ensures that only partnerships where there is a benefit to the authority will be maintained.



# Improving economy, efficiency and effectiveness

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### *How the body ensures that the commission or procurement of services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits*

The commercial team of the authority has worked with groups/departments and budget holders to identify spend across all categories both in contract spend and off contract spend work with budget holders to raise commercial awareness and encourage early engagement in potential tender opportunities to ensure they run as efficiently and effectively as possible and deliver value for money.

The commercial team has worked with Heads of Groups (Department heads) to identify procurement pipelines and consolidate opportunities where possible.

A Commercial Awareness Strategy has been drafted to "Raise Commercial Awareness" across the organisation to improve procurement and commercial processes from initial concept pre-procurement to end of contract life and transition and to support this training packages have been developed for delivery in 2021/22. In addition to the above, preparations have been made to introduce new procurement regulations into the Authority once enshrined in law and amend current processes accordingly. This will assist in ensuring that the authority procures goods and services in compliance with the requirements of the applicable laws and regulations.

The commercial team of the authority worked with the wider blue light organisations and local resilience forum to procure Covid-19 related goods and services to consolidate buying power and reduce unit costs whilst having confidence, through the collaborative due diligence processes, that goods procured met necessary standards for the Authority. This further demonstrate what has been discussed above on the Authority's ability to ensure that it is involved in partnerships that will result in benefits for the authority and the communities it serves.

### *Improving economy, efficiency and effectiveness - Conclusion*

We have not identified any Significant weaknesses in this area. The authority has demonstrated that it has arrangements in place to ensure that it effectively uses information about its costs and performance to improve the way it manages and delivers its services.

# Recommendations

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We have concluded throughout the report that the Authority has appropriate arrangements in place and that we have not identified any significant weaknesses in relation to arrangements in any of the 3 criteria, Financial sustainability, Governance and Improving economy, efficiency and effectiveness.

We have however noted throughout the report areas where the arrangements could be further enhanced in a small number of areas

	Area	Significant weakness noted?	Recommendation	Management response
1	<b>Improving economy, efficiency and effectiveness</b> - How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve.  HMICFRS has raised recommendation for improvement of the performance management system.	No	The authority needs to ensure that performance discussions are made compulsory for all employees and appropriately documented. A performance cycle should have a deadline and everyone needs to participate in the process.	
2	<b>Financial sustainability</b> - How the body plans to bridge its funding gaps and identifies achievable savings.  HMICFRS has raised an area for improvement on while the service has identified areas where it can make savings, it hasn't linked them to the risks in its integrated risk management plan (IRMP).	No	The authority needs to ensure that they are able to link services identified to their integrated risk management plan.	



For more information:

Rachel Brittain

e: [rachel.brittain@bdo.co.uk](mailto:rachel.brittain@bdo.co.uk)

m: +44(0)7971 716 487

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. BDO is an award winning UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,500 offices in over 160 countries.

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