

EAST SUSSEX FIRE AUTHORITY

Panel: **Scrutiny & Audit**

Date: **10 January 2008**

Title of Report: **Audit Commission consultation on fees and charges for 2008/09 and beyond**

By: **Chief Fire Officer & Chief Executive**

Purpose of Report: **To seek the Panel's approval of a draft response to the Audit Commission consultation on fees and charges for 2008/09 and beyond on behalf of the Fire Authority.**

RECOMMENDATION: The Panel is asked to approve the draft response.

MAIN ISSUES

1. The Audit Commission has issued a consultation document on proposed fees and charges for 2008/09 and beyond. (copy available on request from the Clerk to the Fire Authority)
2. The proposed fees and charges are substantial increases on those applied in previous years and the Consultation document goes into some detail to try to explain why the changes are required. However, the exact amounts for each Authority are not specified, but remain within bandings on a risk assessed basis as set out below. There are two options, the second offering a smoother profile for the proposed increases, but this might have implications for future increases, as queried in our draft response.

	Option 1		Option 2 – smoothed increase	
	Amount	increase	Amount	increase
	£	%	£	%
2007/08	60		60	
2008/09	85	41	73	22
2009/10	92	8	90	23
	97	5	111	23

3. The fees incurred by the Fire Authority in recent years are set out below, for the Panel's background information:

	Amount	increase
	£	%
2004/05	52	
Less one off work associated with pay verification	-18	
Adjusted 2004/05	34	
2005/06	38	12
2006/07	50	32
2007/08 (to be confirmed)	54	11

Des Prichard
CHIEF FIRE OFFICER & CHIEF EXECUTIVE
 4 January 2008

DRAFT RESPONSE TO THE AUDIT COMMISSION CONSULTATION

Dear Ms Waterman,

Audit Commission Fees and Charges 2008/09 and beyond

I refer to the recently issued consultation paper on the above matter.

This draft response is made on behalf of East Sussex Fire Authority bearing in mind the previous concerns raised by Members on the ever increasing costs of the Audit Commission audit arrangements placed upon the Authority in recent years. This draft response has been approved by the Scrutiny & Audit Panel at its meeting today, on behalf of the Fire Authority, in order to meet your deadline.

The following issues are considered relevant:

1. It is recognised that an element of the perceived spiralling costs of audit and inspection costs upon the FRS are New Burdens impacts which have failed to be recognised by the CLG through the transfer of FRS inspection costs from within its remit to the Audit Commission following the demise of the HM Fire Service Inspectorate in its previous guise. Whilst it is recognised that this is not an issue that can be resolved by the Audit Commission on its own, it continues to damage the integrity of the New Burdens principles of the Government and CLG in the eyes of many FRS Members.
2. For ESFRS, excluding the separate pay verification work in 2004/05, costs have increased from £33,991 to £53,950 in 2007/08, an increase of 59% and on to a projected increase of £76,070 in 2008/09 – an overall increase of 124% with a likely 41% increase between 2007/07 and 2008/09. This is an unacceptable increase, bearing in mind:
 - a. The level of Formula Grant increases achieved over the same period;
 - b. The Government's overriding efficiency and effectiveness agenda for local government;
 - c. The high gearing effect of ever lower levels of Formula Grant particularly for this Fire Authority in proportion to our net expenditure and need for the organisation to achieve significant efficiency savings to balance budgets to meet Government capping limits – now at their most critical bearing in mind the latest low level of Formula Grant increase provided to ESFRS for 2008/09 and beyond.
 - d. The additional financial commitments being imposed upon all FRAs by further statutory duties not matched by any recognisable funding support e.g. civil contingency provisions.
3. The previous promises made by the Commission of a future 'lighter touch' audit and inspection regimes are so far removed from reality that even for an Authority of our size, the onerous burden created by the current audit processes now require additional staff to support them for months, rather than weeks, at a time. This in itself is a significant cost in strategic management time along with the commensurate loss on other important work areas delayed at best or, in some cases, not capable of being addressed within the specialist resources available to single service authorities such as FRAs. As such these proposals are exceptionally disappointing and appear to show a complete disconnection from the reality of the financial, size and single service nature of the FRAs as bodies that are being audited.

Whilst the Commission states that there will be a "significant overall reduction in the total costs of regulation" it is difficult to see who exactly will benefit from this – certainly not FRAs given the proposed 61.7% rise in fee levels. This seems to be another occasion where the Commission has failed to take the opportunity to give practical effect to its stated aim of reducing both the burden and the cost of audit and inspection. The proposed fee increases go way beyond what could be described as reasonable. Given that CSR07 has delivered cash increases in FRA grant funding of 2.4%, 1.4% and 1.4% cent respectively over the next 3 years (and of course less for East Sussex) it seems wholly unreasonable that the Commission should set fee increases averaging over 20% p.a. over the same period. We do need to get a measure of perspective in relation to audit regime and the nature of our service costs. Our predicted Service budget for 2008/09 is £37m of which £24m are staffing costs; £3.4m pensions, £1.2m balances - some £28.6m or 77% of our net costs. The bulk of the audit work is not associated with specifics associated with these key expenditure heads rather the intricacies of the remainder. This, it could be argued, is another example of the imbalance between the level of audit and actual service costs involved.

4. Whilst there is recognition that changes in accounting and audit standards and practice have, and will continue to impact upon the scope of the audit work undertaken by the Commission, they will also have an impact on audited bodies who will have to absorb that impact within their cash limited budget (often increasing at levels below the headline 4% grant increase as audited bodies rightly focus any additional resources on frontline services). This Authority would expect the Commission to also demonstrate a similar level of good financial management and efficiency and absorb these additional costs within their 2.25% inflation based fee increase rather than imposing an additional charge of 7% in 2009/10 and a further 4% in 2010/11. It is worth noting that these increases are in addition to the 5% by which the Commission has already uprated its fee scales in 2006/07 to take account of the impact of changes in the International Standards for Auditing.
5. Whilst there is also recognition of the benefits achieved from the national Modernisation and Improvement agenda which has taken place over the last few years, and supported by the Commission CPA regime, there has to come a time when the higher levels of strategic advice and guidance, detailed KLOE prompting, as followed up by monitoring and review processes become affected by the laws of diminishing returns. It is the considered view of this Authority that the investment made by both the Commission, and itself as an organisation, has achieved benefit in terms of standards of corporate governance, use of resources, value for money, performance outcome management and also in operational management terms. The question now posed by this Authority is the extent to which such a continued high level of 'support' and costly focus will continue to derive further efficiency benefits or become an unacceptably high cost for little benefit derived.
6. Consequently, the increase in fees as a result of the changes to the Use of Resources (UoR) assessment, at £12,000 is also somewhat perplexing. At the same time as all the evidence from the CPA / UoR assessments is that audited bodies have across the board improved their standards of financial management, control, governance etc meeting the harder test and, therefore, becoming presumably less risky – or at least demonstrating a better capability to manage their risks, then the need for an expanded scope UoR at additional cost is difficult to fathom.

The Commission states that part of the reason for the expanded UoR is the fact that they will no longer be able to rely on the corporate assessment to inform their judgements – on this basis, given that the corporate assessment only took place once every 3 years, shouldn't the expanded UoR only be required once every 3 years, with a more limited refresh exercise in the intervening 2 years, especially for bodies that achieve at least level 3 or its equivalent?

7. On the matter of the importance of reliable data, whilst this is not in dispute, it is questionable whether the 80% of the authorities who responded positively to the proposal for more in-depth work in this area did so in the expectation that it would lead to a significant rise in fees. In depth work on data quality has formed part of the Commission's programme for county councils for the last 2 years and this was achieved with no increase in fees, so it seems inequitable that FRAs should bear the cost of its wider roll out. With the intended rationalisation in the number of Performance Indicators in use nationally it could be argued that a reduction in current fee levels is required. Increases in fees at nearly 22% of the current average for FRAs appears disproportionate and to have little justifiable basis in risk. In addition there should be more clarity about the relationship between risk and fees for this work in future years – can bodies that achieve a satisfactory outcome from the first year's work expect to see a substantial reduction in the fee in ensuing years?
8. The Commission currently charges additional fees for both Whole of Government Accounts (WGA) and National Fraud Initiative (NFI) and whilst no increase in these charges is mentioned in the consultation, there are indications that the scale of the Commission's work for both may increase. It would be helpful if the Commission consulted upon and agreed all of its fees at the same time. This could be perceived as a continued 'back door' way of deriving more fee income which is not transparent to Members.
9. Whilst the removal of the requirement for an audit of the BVPP is welcomed as is related £1,000 reduction in the fee, this seems to bear no relation to the level increase imposed several years ago which was attributed to this additional requirement.
10. With the shift in emphasis towards Comprehensive Area Agreements, it is not clear from the consultation paper whether an additional charge will be made to cover the costs of the Comprehensive Area Assessment, over and above the elements that are covered by the UoR. It is recognised that FRAs will require continued strategic support from both the Audit Commission and CLG to ensure they achieve effective recognition within the local strategic priorities, performance outcomes within communities and related structures, processes being put in place within this new regime. However, it would be unfair if the financial costs of measuring FRAs individual and collective performance within a much wider regional and strategic local authority context had to be met by the FRAs concerned. A more equitable arrangement must be found to make judgements upon collective partnership working. FRAs are not the key stakeholders and players within their local government environment and should not be made to pay for collective performance assessment on a disproportionately high basis.

11. Finally, the consultation paper offers an alternative option which smoothes the profile of the proposed increases as follows:

2007/08 = £60k

2008/09 = £73k (+ 22%)

2009/10 = £90k (+ 23%)

2010/11 = £111k (+ 23%)

Both options give an equal cost over the 3 year period (i.e. £274k) and the alternative certainly avoids the large rise in 2008/09. However, if the proposed fee level for 2010/11 is to form the baseline for increases in future years then the alternative is a worse deal as it would effectively set the starting point at £111,000 rather than £97,000 under the original proposal.