

MERSEYSIDE FIRE AND RESCUE AUTHORITY ANNUAL GOVERNANCE STATEMENT

1.0 SCOPE OF RESPONSIBILITY

- 1.1** Merseyside Fire and Rescue Authority (the Authority) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty to make arrangements to secure continuous improvements in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2** In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs, delivering its functions, and which includes arrangements for the management of risk.
- 1.3** The Authority sets out the arrangements for the governance of its affairs in its constitution (a copy of this can be found at www.merseyfire.gov.uk). The Authority has also approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE framework "*Delivering Good Governance in Local Government*". A copy of the Code is attached as Appendix B to this statement.
- 1.4** This statement explains how the Authority has complied with the Code and also meets the requirements of the relevant legislation and applies best practice in governance.

2.0 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1** The governance framework comprises the systems and processes, culture and values, for the direction and control of the Authority and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.
- 2.2** The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3** The governance framework has been in place at the Authority for a number of years and in particular for the year ended 31 March 2012.

3.0 THE GOVERNANCE FRAMEWORK

3.1 Attached as Appendix B to this Annual Governance Statement is the current Code of Corporate Governance that the Authority has committed to in carrying out its duties and responsibilities

3.2 Summarised below are some of the key elements of the systems and processes that underpin the Authority's governance arrangements:

3.3 Identifying and Communicating the Authority's mission and outcomes for citizens and service users:

3.3.1 After consulting with the citizens of Merseyside and service users, assessing current risks and service priorities, the Authority prepares an Integrated Risk Management Plan (IRMP) that sets out the mission, aims and service objectives for the organisation. The Authority approved the 2011 – 2014 IRMP at its meeting on the 17 February, 2011, and the IRMP established the service priorities for 2011/12.

3.3.2 Following the appointment of the new Principal Officer team on 1 September, 2012, and the subsequent reorganisation approved by the Authority on 27 September, the Authority refreshed its Mission Statement and revised its Aims in order to reflect the Authority's clear focus on its core duties and functions in relation to Operational Preparedness, Operational Response and Prevention and Protection.

3.3.3 Authority's mission is to **achieve; Safer Stronger Communities – Safe Effective Firefighters**. To deliver this the Authority has established four key corporate aims:

- **Excellent Operational Preparedness**

We will provide our firefighters with the training, information, procedures and equipment to ensure they can safely and effectively resolve emergency incidents.

- **Excellent Operational Response**

To maintain an excellent emergency response to meet risk across Merseyside with safety and effectiveness at its core.

- **Excellent Prevention and Protection**

We will work with our partners and our community to protect the most vulnerable through targeted local risk reduction interventions and the robust application of our legal powers.

- **Excellent People**

We will develop and value all our employees, respecting diversity, promoting opportunity and equality for all.

3.3.4 The Mission statement is more in keeping with the mindset the Authority wishes to engender, which is one of focused upon outcomes around operational preparedness and response. It is very important that the organisation's priorities are unambiguous and easily understood by Members, staff, communities and other stakeholders. In particular, it is essential that the safety and effectiveness of fire fighters is seen as a fundamental factor in the achievement of safer, stronger communities.

3.4 Monitoring the achievement of the Authority's objectives through a comprehensive performance management framework:

3.4.1 IRMP and other service projects are incorporated into one document – the Service Delivery Plan. There is an ongoing system of monitoring and reporting on the achievement of projects in the Service Delivery Plan via regular reports to the IRMP Scrutiny Panel and the senior management team. Local IRMPs have also been developed to give details of the activities taking place in each district. The reporting process applies traffic light status to each action point in the Service Plan and attention is drawn to progress achieved and matters to be addressed. Copies of the Service Delivery Plan can be found on the Authority's website.

3.5 The Internal Control Environment:

3.5.1 The Authority's internal control mechanism comprises many systems, policies, procedures and operations, however the system can not eliminate all risks of failure to achieve the Authority's aims and objectives. Once a risk has been identified the Authority where possible eliminates the risk. If this is not possible then procedures are established to manage the risk effectively, efficiently and economically. Some of the significant control processes are outlined below:

3.5.2 Policy and decision making process

The Authority has meaningful democratic control over its activities via an **approved committee structure** and scrutiny arrangements with agreed powers and duties that are reviewed once a year at the Authority's annual general meeting. The Authority has a **written constitution** that was reviewed in 2011/12 and approved by the Authority meeting on 16th June 2011 (CFO/065/11), which is published and sets out how the Authority operates, how decisions are made, and the procedures which are followed to ensure these are efficient, transparent and accountable to local citizens. The Constitution is reviewed every year at the Authority's AGM

The Authority operates an **Executive Leadership Board** at which the Chairman, Vice-Chairman, and Party Group Leaders meet with senior management and other stakeholders as required to consider the strategic vision and instigate future plans/targets for the Authority..

The Authority also runs Member away-days and "learning lunches" to help Members discuss issues in more detail and in an informal environment.

3.5.3 Management Structure

Management Structure - The Authority has a **clear management structure** with defined roles and responsibilities. A Strategic Management Group, SMG, meet on a fortnightly basis to review and agree on issues that arise during the year. The Authority has an **approved scheme of delegation** to officers that is reviewed by Members on an annual basis.

3.5.4 Established Policies, Procedures & Regulations

The Authority ensures compliance with established policies, procedures, laws and regulations. The Information regarding policies and procedures is held on the intranet, and these are continually enhanced and developed through the introduction of new policies and procedures as and when required. The

Authority has established policies on anti-fraud, fraud response and confidential reporting. The Authority carries out an annual review of standing orders, financial instructions and the scheme of delegation which clearly define how decisions are taken and the processes and controls required to manage risks. The list below outlines some of the **key policies and process in place to enhance the internal control system** that are reviewed as and when required:

- Treasury Management Strategy
- Procurement Strategy
- Financial Regulations, Procedural & Contract Standing Orders, Scheme of Delegation
- Anti Fraud & Corruption Policy & Strategy
- Fraud Response Plan
- Confidential Reporting Policy
- Complaints procedure
- Code of Corporate Governance
- Constitution
- Code of Conduct
- Full range of Equality and Diversity schemes
- Staffing Model
- Full range of robust policies and procedures to underpin the conduct of staff from operational procedure, discipline process, through to performance development reviews

3.5.5 SMG carries out a continuous assessment of the implementation of policies and procedures throughout the organisation, including following up on progress against the action plans.

3.5.6 Internal Audit function

The Authority has a strong Internal Audit function arrangement with Liverpool City Council, and has well-established protocols for working with External Audit. The Audit Commission through its Inspectorate functions also reviews compliance with policies, procedures, laws, and regulations within their remit.

3.5.7 Risk Management Strategy

The Authority has a well established and embedded risk management strategy. The Audit & Value for Money Scrutiny Panel has corporate ownership of the risk register and receive quarterly updates on any new risks or changes to risks. SMG has corporate risk/opportunity and horizon scanning as a standing item for discussion at their fortnightly meetings. The Authority has a nominated Member Champion for Risk Management.

3.5.8 Financial Management

The Authority produces a 5 year financial plan that takes into account Revenue, Capital, Reserves and Prudential Borrowing forecasts. The Authority has a history of strong and effective financial management, as confirmed in the 2010/11 Annual Audit Letter;

"..Along with all publicly funded bodies, Merseyside Fire and Rescue Authority is responding to the need to make major savings to deliver balanced budgets in 2011/12 and over the medium-term. In its spending review the Government confirmed there will be a 25 per cent decrease in fire funding over the next four years. The Authority is aware of the future financial challenge and has established

a strategy for dealing with the situation. One element of the strategy involves maximising savings in order to increase reserves to assist in delivering the budget saving target. The Authority's strong financial performance has continued in 2011/12. So far the early signs are that the Authority is well placed to deliver its savings plans in 2011/12...."

Financial management in the Authority and the reporting of financial standing is undertaken through a general ledger and management information system which integrates the general ledger function with those of budgetary control and payments. Monthly budget statements are sent out to all cost centre managers and the Authority receives regular comprehensive financial review reports to update members on the current and anticipated year-end financial performance.

4.0 REVIEW OF EFFECTIVENESS

4.1 The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive leadership team and other senior managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 Maintaining and reviewing the effectiveness of the governance framework throughout the financial year has been carried out by the following:

- The Authority and its Committees
- Management Review
- Internal audit
- External bodies

4.3 The Authority and Its Committees

4.3.1 The Authority Committee

The committee considered at its Annual General meeting on 16th June 2011 the format and structure of its democratic decision process by approving the powers and make-up of the approved committees. The full and detailed list of committee responsibilities can be found in the constitution document on the Authority's web site, but are summarised as follows;

- Authority – consider; variations to standing orders & financial regulations; the revenue budget and capital plan; issuing of a precept; adopting a members' allowance scheme; appointment to committees; scheme of delegation to officers; any matters which by law must be reserved to the Authority itself; maintain a constitution.
- Strategic Assets Committee – to determine new strategies, policies or changes in strategy relating to the development and delivery of services. Exercise financial control over expenditure within the approved revenue budgets and capital programme of the Authority. Establish and direct procedures for the implementation, monitoring and amendment of the

revenue budget and capital programme and all other financial matters that impact on the Authority's financial position. Consider all matters related to the management of the Authority's assets including buildings, land, ICT and other assets.

- The Community Protection Committee – Consider all matters related to the development and delivery of services appropriate to this Committee. Consider all matters related to the delivery of services to the diverse communities of Merseyside, and the development, promotion and delivery of a coordinated strategy for developing and maintaining safer communities. To include safer & healthier communities, emergency response, reduction in fires, deaths & injuries, reduction in road traffic collisions, community cohesion, and youth engagement. To consider all matters relating to involvement with and delivery of Local District Plans, and the preparation and delivery of the Authority's IRMP.
- The Standards Committee - charged with promoting and maintaining high standards of conduct by the elected and co-opted independent Members of the Authority. To monitor the operation of The Code of Conduct and to consider guidance from the Standards Board relating to conduct of Members. There have been no issues in 2011/12.
- Audit and VFM Scrutiny Panel – to act as the Authority's Audit Committee and ensure that the Authority provides value for money in all its work. Scrutinise reports referred from the Authority or any of its Committees in relation to VFM issues. Receive reports on the effectiveness of internal control processes, including probity and to receive Internal Audit reports in this respect. Liaise with Audit Commission over the appointment of the external auditor. Comment on the scope and depth of external audit work, consider in detail the recommendations of the external auditor's annual audit's letter. Consider all matters relating to internal and external audit activity and all matters relating to the regulatory framework.
- Asset Management Scrutiny Panel – undertake general reviews of the Services relevant to this Panel with a cross-cutting planned approach.
- IRMP Scrutiny Panel – undertake general reviews of the Services relevant to this Panel with a cross-cutting planned approach.
- Community Safety Scrutiny Panel – undertake general reviews of the Services relevant to this Panel with a cross-cutting planned approach.
- Executive Leadership Board – meeting of the Chairman, Vice-Chairman, and Party Group Leaders. The Board consider the strategic vision and instigate future plans/targets for the Authority. The group consider new strategies for policies or changes in policy relating to the development and delivery of services appropriate to the Board. The Board contributes toward the overall savings target of the Authority through the regular scrutiny of expenditure and other budget related issues. Members and officers continued to work effectively together throughout the year in a constructive way.

4.4 Management Review

4.4.1 Included in the day to day management of the organisation are a number of key officers, systems and procedures designed to provide core elements of the internal control mechanism, with a nominated lead officer responsible for reviewing the effectiveness of these systems.

4.4.2 There is a comprehensive system of performance management and review embedded within the Authority management structure and processes. The ¹2011/12 Service Plan broke down the Authority's key objectives for the year and identified a lead officer for each project. A "traffic light" system identified the actual progress against targets throughout the year and any areas of concern with options to bring the project back on track were reported to management and the Community Protection Committee. SMG received regular updates from managers on the deliver of services against targets throughout the year and this allowed senior management an opportunity to scrutinise progress.

4.4.3 The Risk Register was updated for new risks and the status of existing risks was re-assessed during the year. Risk management continued to be an integral part of the project management process and was a fundamental aspect of the business of the Authority.

4.4.4 The Authority employed appropriate professional staff:

- A Statutory Monitoring Officer (Section 5 LGHA) responsible for ensuring the legality of Authority actions and supporting the Committee decision making process. The Director of Legal Services fulfils this role and is a qualified and experienced lawyer. The Director of Legal services is supported by a suitably robust and fit for purpose legal team. No actions of the Authority were deemed ultra vires in the year and all relevant laws and regulations have been complied with.
- A Responsible Finance Officer (Section 73 LGA 1985) to ensure the proper and effective administration of the financial affairs of the Authority. The Deputy Chief Executive fulfils this role and is a qualified and experienced accountant. The Deputy Chief Executive is supported in this role by a Head of Finance and finance team that includes a number of professionally qualified and experienced finance staff. The Deputy Chief Executive ensures the Authority has an approved, realistic and affordable five year financial plan for both revenue and capital expenditure which links to the IRMP and the Service Delivery Plan. The financial planning process is well embedded and understood across the Authority by staff and Members. Details of the approved budget are available to all stakeholders in a simple and summarised statement on the Authority's website.
- The above statutory posts both are key members of SMG

4.4.5 Budget monitoring remained robust at strategic and service levels via the production of monthly financial monitors for cost centre managers. The "funds management" system prevents orders being raised against accounts with insufficient budget and provides an affective enhancement to the budget control process.

¹ The term "Service Delivery Plan" has been adopted for 2012/13 and beyond.

4.4.6 The Audit Commission approved an unqualified Statement of Accounts for 2010/11 and it is anticipated this will be repeated in 2011/12. A presentation by the Deputy Chief Executive on the final accounts together with a detailed year-end report to the Authority helped communicate the year-end message to Members in a clear and understandable format. A simplified summary statement of accounts is available on the Authority's Website to ensure the outturn position is communicated effectively to all stakeholders.

4.5 Internal Audit

4.5.1 The Authority procured its internal audit service under a service level agreement from Liverpool City Council and the arrangement and service was in accordance with the CIPFA Code of Practice for Internal Audit in Local Government 2006. The internal audit plan for 2011/12, prioritised by a combination of the key internal controls, assessment and review on the basis of risk, was approved by the Authority during the year. All internal audit reports included an assessment of the internal controls and prioritised action plans, if relevant, to address any areas needing improvement. These reports were submitted to the relevant managers as appropriate and the Head of Finance. All finalised reports were submitted to the Audit and VFM Scrutiny Panel as part of the quarterly financial review reports, including a summarised statement on internal audit findings. The Annual Review of Internal Audit Report concluded that:

“the Authority’s internal control environment is adequate and generally effective, bearing in mind that any control system can provide only reasonable assurance and not absolute assurance”....“Based on the audit work carried out in 2011/12 we are not aware of any significant control weaknesses within MFRS which impact on the Annual Governance Statement”

Internal Audit carried out a review of the Authority's governance arrangements in 2010/11 and concluded that the Authority has ***“a sound system of control in place with controls in the area of governance being consistently applied and effectively managed”***.

The service has in place a system of policies, procedures and processes to enable it to support the six core CIPFA/SOLACE principles of good governance.

4.6 External Review

4.6.1 External audit services are carried out by the District Auditor on behalf of the Audit Commission. Under the revised Code of Audit Practice, the District Auditor is required to focus on corporate performance management and financial management arrangements, as these form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives, determining policy and making decisions;
- ensuring compliance with established policies, procedures, laws and regulations including the general duty of best value, where applicable;

- identify, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
- managing its financial and other resources, including arrangements to safeguard the financial standing of the Authority;
- ensuring that the Authority's affairs are managed in accordance with proper standards of conduct and to prevent and detect fraud and corruption.

4.6.2 The District Auditor will comment upon whether the Authority is carrying out these arrangements satisfactorily during the 2011/12 financial year in the Annual Governance report and Annual Audit and Inspection Letter. These documents reflect the Auditor's findings and conclusions from auditing the Statement of Accounts. The Auditor's Annual Governance Report and District Audit Annual Letter (covering 2010/11) confirmed the Authority's overall performance continues to be strong and the Authority received an unqualified opinion on the 2010/11 financial statements.

SIGNIFICANT GOVERNANCE ISSUES

4.7 The Authority faces a significant challenge over the coming years as a result of the Government cutting grant funding for fire services on average by 18% in cash terms between 2011/12 – 2014/15. The Government has stated that this reduction will be 'back loaded' with two thirds of this to be applied in 2013/14 – 2014/15.

4.8 In the first two years of the spending review the Authority received a grant cut of over 13%, double the national average, (2011/12 – 2012/13), and had to approve a plan to deliver over £9m of savings to compensate for this loss of grant. It is on track to deliver the majority of this saving, as planned, by the end of 2012/13. The Service has commenced work on formulating a strategy and identifying savings during 2012/13 that will meet the financial challenge anticipated in 2013/14 – 2014/15.

4.9 Whilst no significant weaknesses have been identified in control systems at present, the following have been identified as critical internal control issues for the forthcoming year;

4.9.1 The Authority has identified proposals to continue to tackle the financial challenge expected in 2013/14 – 2014/15 and to deliver a balanced medium-term financial plan. This involves significant rationalisation of support and back office services and a review of the provision of front line services. The Authority will need to ensure its control frameworks make sure that the efficiencies and improvements expected are delivered.

4.9.2 The assumptions made in the medium term financial plan, particularly around approved savings in 2012/13, inflation, pay awards, fire fighter pension contributions and future Government grants whilst based on the best

information available are subject to change in such volatile times from the economy and public finances in general. The delivery of the savings in cash terms also assumes an estimate of the rate of staff turnover and in particular firefighter retirements. Taken together these factors result in a significant potential risk to the Authority's medium term financial plan. Reliable monitoring and forecasting processes are in place and the Head of Finance will ensure any variation to assumptions made in the medium term financial plan are identified at the earliest possible time. The Financial Review reports will keep Members informed on the impact of any variation to the assumptions in the financial plan and recommended corrective action. SMG and the Executive Board will work to develop a range of contingency plans for managing risks.

4.10 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review

Signed.....
A. NEWMAN
CHAIRMAN

Signed.....
D. STEPHENS
CHIEF FIRE OFFICER

Signed
K. TIMMINS
DEPUTY CHIEF EXECUTIVE