

Financial Management Capability Review of West Mercia Police

July 2020

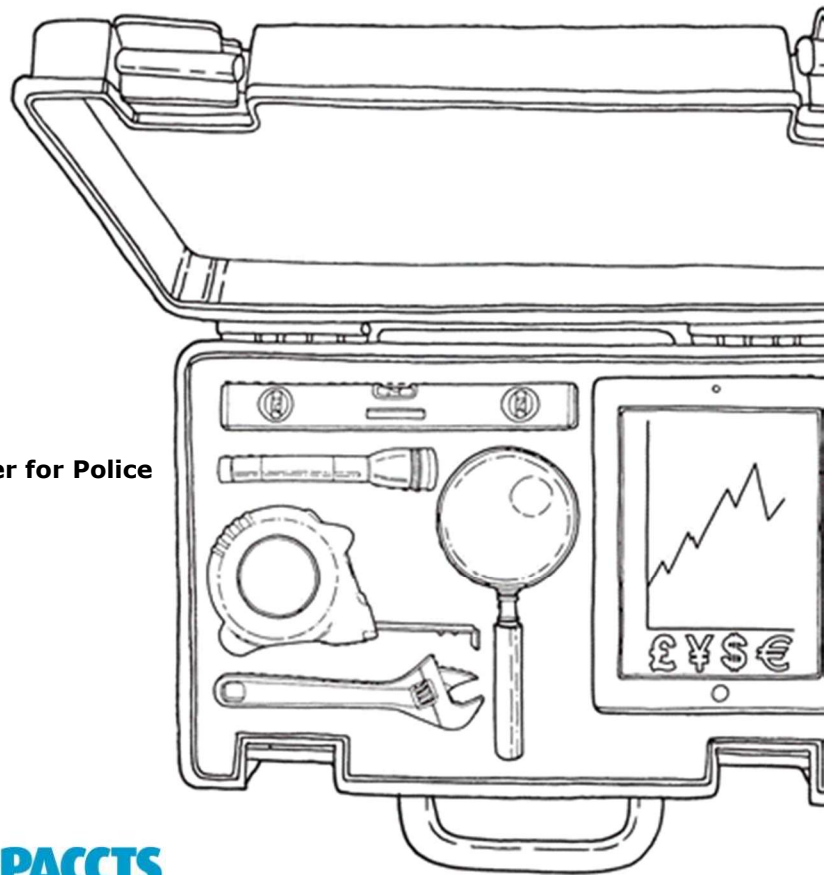
Final Report

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Executive Summary

From April 2020 to May 2020, CIPFA conducted a Financial Management Capability Review (FMCR) at West Mercia Police. Gathering data through an electronic survey, one-to-one interviews with staff and a review of key documentation, and using a benchmark of best practice in the public sector, CIPFA has reviewed the financial resilience and quality of financial management of the organisation.

Financial Resilience Review

Medium Term Financial Plan (MTFP)

A sustainable financial position to 2022-23 dependent on savings.

The MTFP covers a relatively short time period (3 years including the current financial year rather than the expected 5 years).

Reliance on Central Funding

There is a below average dependency on central government funding.

West Mercia's dependency on central government funding is below average for UK police forces at 58% compared to an average of 65%.

Reserves

There is a significant overall reduction in reserves through to 2022/23.

West Mercia maintains a healthy level of General Reserves.

Financial Management Review

Overall Assessment

Using CIPFA's five-star rating system, West Mercia was rated overall as two-stars, although it was at the higher end of the range. It scored highly in the management dimensions of "Delivering Accountability" and "Leadership" but its main area of weakness is the "People" dimension. Whilst its financial management style is strongest in "Delivering Accountability" (which is most closely related to the traditional role of finance), it is weakest in "Enabling Transformation" (consistent with many other organisations). A current snapshot of West Mercia's ratings is provided below.

CURRENT SNAPSHOT	Management Dimensions			
	Leadership	People	Processes	Stakeholders
	***	*	***	****
	*	*	***	****
	**	*	*	****
Overall Rating	**			

Residual issues

West Mercia has been in a strategic alliance (known as the Alliance) with Warwickshire Police since 2012. This relationship came to an end in 2019. A financial settlement was agreed earlier in 2020 and both parties have agreed to move on in parallel with a range of separation activities. Warwickshire will continue to work closely with West Mercia and especially where West Mercia will continue to provide selected Finance-related transactional support services until March 2021 when Warwickshire will cut-over to a new partnering arrangement with West Midlands Police.

The dissolution of the Alliance has created a range of organisational and procedural/process issues for West Mercia to consider and take forward. Firstly, the split of the Finance organisation has had an impact on West Mercia, where it is considered that a number of the more experienced staff have opted to move to Warwickshire. Whilst West Mercia has been strident in standing-up a newly-formed Finance team, the immediate challenge for the team is one of finding its feet and maintain a business as usual service.

Ways of working and Finance-related processes will also start to change alongside keeping up with the regular drum-beat of demands from the organisation. What we found striking was that Finance, as a fledgling organisation, is aware of the current challenges and is ready and accepting of these challenges. However, whilst the team's senior managers come across as competent and experienced, we felt that some of the team members, whilst willing and enthusiastic, are not as experienced as we would have expected to find.

Wider change management programme

In line with best practice, budget holders should take responsibility for managing their own budgets and understanding the financial consequences of their operational decisions; this allows Finance to play a more strategic role in decision making. When we spoke to a range of senior operational managers, we concluded that this (required) culture shift has not yet been achieved and Finance have a key role to play in helping to facilitate wider organisational and cultural change. Budget holders still rely on the Finance function as a result of a lack of financial management capabilities, insufficient emphasis of the importance of financial management in their roles, and a lack of understanding of the strategic value of the Finance team.

We recommend a change management programme to deliver the culture shift. Key components should include:

- A Financial Management competency framework to help define roles, responsibilities and desired capabilities for budget holders, management and staff. The work being done on delivering annual accountability with individual budget holders should be continued and is actively encouraged by CIPFA.
- Training to build skills and confidence in budgeting, forecasting and financial literacy for budget holders directed at both budget holders and Finance functions.
- A service plan to define and measure the performance targets for Finance in the new world, post Alliance. This will also help Finance to set out their service offer to the wider organisation as well as communicating to the Force what the boundaries of Finance's responsibilities are.
- Performance appraisal systems which include financial management measures in order to encourage desired behaviours. From the people we interviewed, this was not

something that West Mercia has addressed and, in line with best organisational practice, we would see this as a positive step forward.

- Further formal training on business partnering skills to enable the Finance team to be effective business partners (we note that this has been started but requires expansion).
- Communication and engagement with budget holders on the strategic value of Finance as business partners and will help to re-enforce the point about the boundaries and service offer from Finance.
- Finance Senior Management to proactively provide support and promotion of business partnering across the organisation by selling the benefits of added strategic value to budget holders.
- Finance senior management to, with immediate effect, publicise the savings and efficiencies regime (including the framework and the governance approach) for this current fiscal.

We appreciate that West Mercia are moving into a new post-Alliance operating environment and with that comes a range of challenges. Some of the solutions are already known and new structures have been established. However, the Finance team are reliant on other key stakeholders within the Force to support them on this journey.

What is important, is that Finance sets out its stall early on in this process to ensure that the expectations are clear as to what can be delivered and by when. What was evident from our review is that capacity is finite, and the welfare of individuals needs to be carefully considered over the next 12 months to ensure that the function does not end up with change overload.

Introduction

About this Report

This report, in respect of West Mercia Police ("West Mercia"), is addressed to the Chief Constable, the Director of Business Services, and the Head of Commercial Services. It aims to highlight the key results from CIPFA's Financial Management Capability Review (FMCR).

The FMCR encompasses a review of the organisation's Financial Resilience and Financial Management and the report sets out findings in respect of each element. It seeks to highlight key observations, issues and recommendations, along with a more detailed Improvement Plan that has been agreed with West Mercia.

Background

The Government's provisional police funding settlement for 2019-20 was approximately £14 billion, an increase of almost £970 million on 2018-19. Expectations of excellent financial management are high, as are the levels of local and national scrutiny on the performance of police forces.

The "Financial Excellence in Policing" programme, which has been driven by the Finance & Co-ordinating Committee of NPCC but is equally owned by the Police and Crime Commissioners Treasurers' Society (PACCTS), seeks to raise the bar in financial management across UK forces and PCCs.

The programme has 11 objectives categorised into one of three key themes: Financial Management, Data and People. The FMCR is part of the Financial Management theme.

What is the FMCR?

The FMCR is an independent 'as-is' assessment of a force's capability to effectively manage its current finances, internal process and operations, as well as how it plans future financial management. Key outputs include identification of areas of best practice and areas for improvement.

The process is repeated in 12 months' time to review progress made and provide an updated report on the full FMCR.

The FMCR at West Mercia was conducted over a six week period from April 2020 – May 2020. CIPFA obtained data from West Mercia as follows:

- Electronic survey – 80% overall completion rate (39 out of 49)
- One-to-one interviews – 26 staff from both West Mercia PCC and Force
- Document reviews – e.g. Medium-Term Financial Strategy, Reserves Strategy

More detailed information on the response to the electronic survey, those interviewed, and the documents reviewed can be found in the Appendix I: FMCR Information Sources.

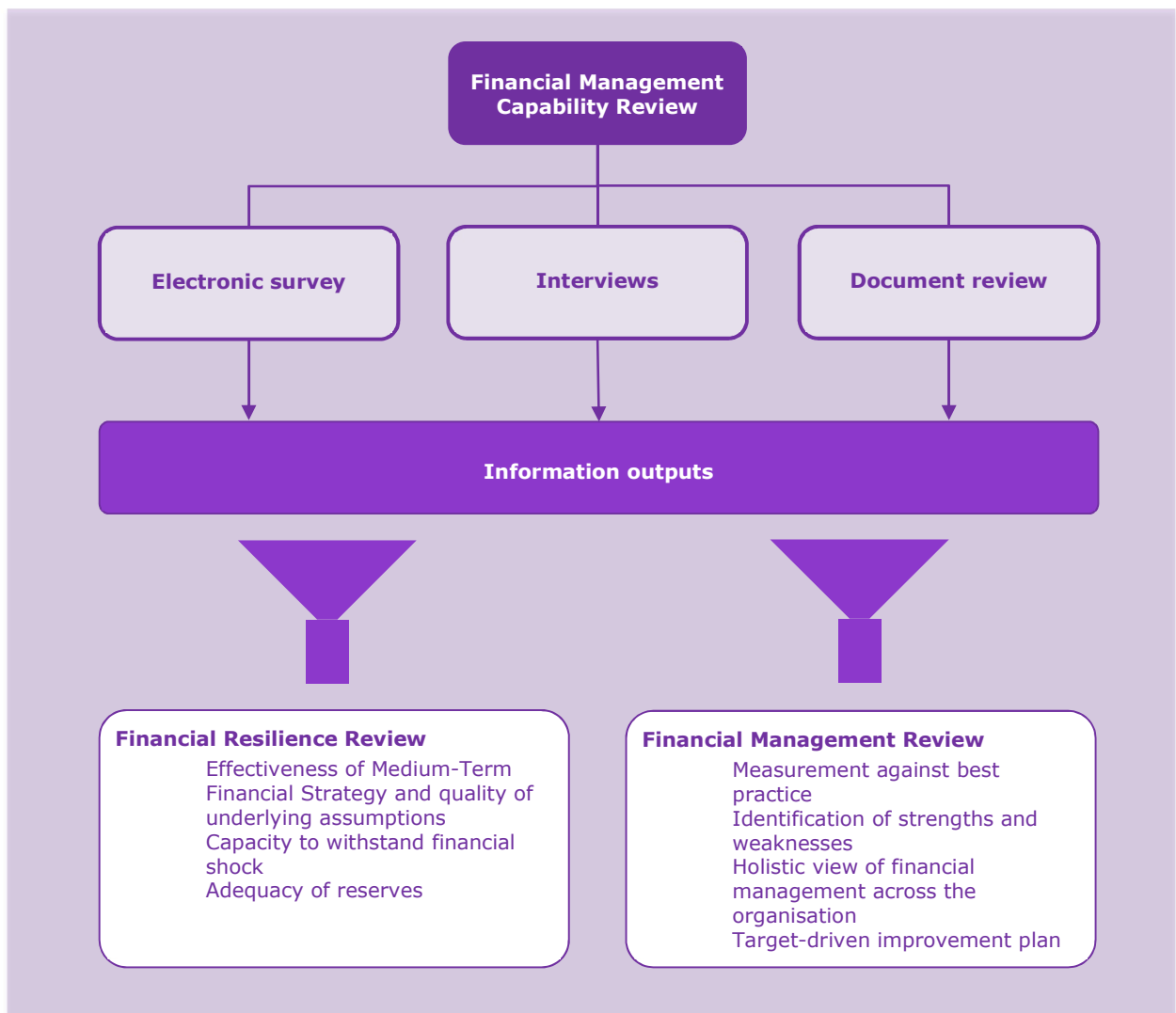
Further information about the FMCR approach is set out in the next section.

Financial Capability Review Approach

How is the FMCR conducted?

As explained by the diagram below, the FMCR consists of two elements:

- 1) **A financial resilience review** – an assessment of the financial sustainability of an organisation and its ability to withstand financial shock.
- 2) **A financial management review** – an assessment against best practice and other organisations who have also been reviewed using the FM model to identify issues and create an improvement plan that can be tracked.



Financial Resilience Review

Key Findings

The review of Financial Resilience encompassed three key areas:

- Robustness of the Medium-Term Financial Plan (MTFP)
- Reliance on Central Government Funding
- Level of Reserves

Each of these areas is explored in more detail further on, however the key findings are summarised below

Summary	Key points
Robustness of the MTFP	
Sustainable financial position to 2022-23 dependent on savings	<ul style="list-style-type: none">• The MTFP covers a relatively short time period (3 years including the current financial year rather than the expected 5 years).• The MTFP is predicated on the achievement of significant savings of £9.858m with £5.284m (54%) of these savings expected to be realised in 2020/21. The MTFP presents a sustainable position over this short time period dependent on achievement of these planned savings and so is vulnerable to any slippage in their realisation.• In addition, concerns have been expressed during the course of our work over the robustness of the MTFP and given the anticipated reduction in reserves through to 2022/23 West Mercia has little flexibility over the relatively short life of the MTFP and beyond.
Reliance on Central Government Funding	
Below average dependency on central government funding	<ul style="list-style-type: none">• West Mercia's dependency on central government funding is below average for UK police forces at 58% compared to an average of 65%.• This makes West Mercia less vulnerable to reductions in government funding than the majority of other forces but does emphasise the need to optimize local funding.• West Mercia increased the police precept below the maximum allowable in 2019/20 and in 2020/21 meaning level of local funding available to West Mercia Police is less than it could otherwise have been in the current financial year and in future years.
Level of reserves	
Significant overall reduction in reserves through to 2022/23	<ul style="list-style-type: none">• The MTFP anticipates a significant reduction in Earmarked Reserves over from the position on 31st March 2019 through to 31st March 2023.• West Mercia maintains a healthy level of General Reserves despite a reduction of £1m in 2019/20 though any slippage in the achievement of planned savings would imply further depletion in the General Reserve below the level set in the Reserves Strategy.

Robustness of the MTFP 2020-21 to 2022-23

Planned spending to 2022/23 is summarised below as set out in the MTFP

	2020/21	2021/22	2022/23
Projected Net Expenditure After Savings	£235.805m	£237.958m	£243.441m

Source: West Mercia Budget 2020/21 and Medium-Term Financial Plan 2020/21 – 2022/23

The MTFP covers a limited timescale of only three years. Usually, the MTFP would be expected to cover a period of five years including the current financial year and, therefore, extend to 2024/25.

Planned net expenditure in 2020/21 includes significant growth (£5.957m) including investment in additional police officers (£2.794m).

However, the MTFP depends on the achievement of significant savings over the three years from 2020/21 to 2022/23, with the majority (circa 54%) of these savings expected to be delivered in 2020/21 as is illustrated below:

	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
2020/21 Savings Previously Identified	0.498	0.000	0.000	0.498
2020/21 Savings Plan:				
Buying Better (Procurement)	1.490	0.000	0.000	1.490
Maximising Officer Time	1.395	0.000	0.000	1.395
Back Office/Administration	1.086	0.000	0.000	1.086
Capital Financing	0.346	0.000	0.000	0.346
IT efficiencies	0.213	0.000	0.000	0.213
Working more economically	0.210	0.000	0.000	0.210
Travel Efficiencies	0.046	0.000	0.000	0.046
2021-2023 Business Services Programme (including Estates)	0.000	2.789	1.785	4.574
Total	5.284	2.789	1.785	9.858

Source: West Mercia Budget 2020/21 and Medium-Term Financial Plan 2020/21 – 2022/23

The West Mercia Budget 2020/21 and Medium-Term Financial Plan 2020/21 – 2022/23 states that “the Commissioner has directed the Chief Constable to produce a detailed ‘Savings Plan’. This plan will be developed over the coming months and will be monitored closely and regularly throughout the year”. The MTFP also includes £2.024m slippage of savings from 2019/20 in relation to Business Services.

The need to produce a detailed ‘Savings Plan’ would imply that the MTFP is predicated on the achievement of savings for which no detailed plans yet exist. Given current circumstances, there must be some concern that planned savings in 2020/21 will not be fully realised. In the course of our interviews we reviewed a version of the proposed savings plan for 2020/21 which includes around 32 savings entries along with owners.

Each entry has been profiled over the twelve months of the financial year, but there is no indication as to which entries are at risk and which have a high probability of succeeding.

The MTFP anticipates that £2.784m of non-recurring costs will be funded from reserves in 2020/21, including £1m in relation to the restructuring of Business Services. The MTFP does not identify any further contribution from reserves to fund the revenue budget in 2021/22 and 2022/23.

Any shortfall in planned savings in 2020/21 and beyond could potentially be met from reserves. The determination of the level of General Reserves set out in the Reserves Strategy includes a provision of £3.1m held to cover potential delays in the delivery of savings. However, this would mean that the General Reserves would fall below the level recommended in the Reserves Strategy and their replenishment would need to be incorporated into any future MTFP. In addition, the MTFP anticipates a significantly reduced level of Earmarked Reserves by 31st March 2022 of £1.705m.

Our comments in relation to planned savings notwithstanding, the MTFP appears to be based on reasonable assumptions that present a sustainable position over a relatively short time period. However, concerns have been raised during the course of our work over the robustness of the MTFP (which we address later in this report in the context of Financial Management). Reserves do provide some flexibility but it is already anticipated that Earmarked Reserves will fall significantly by 31st March 2023 though West Mercia does expect to maintain the General Reserve at a relatively healthy level.

Taking all of these factors into account, West Mercia has little flexibility over the relatively short life of the MTFP and beyond.

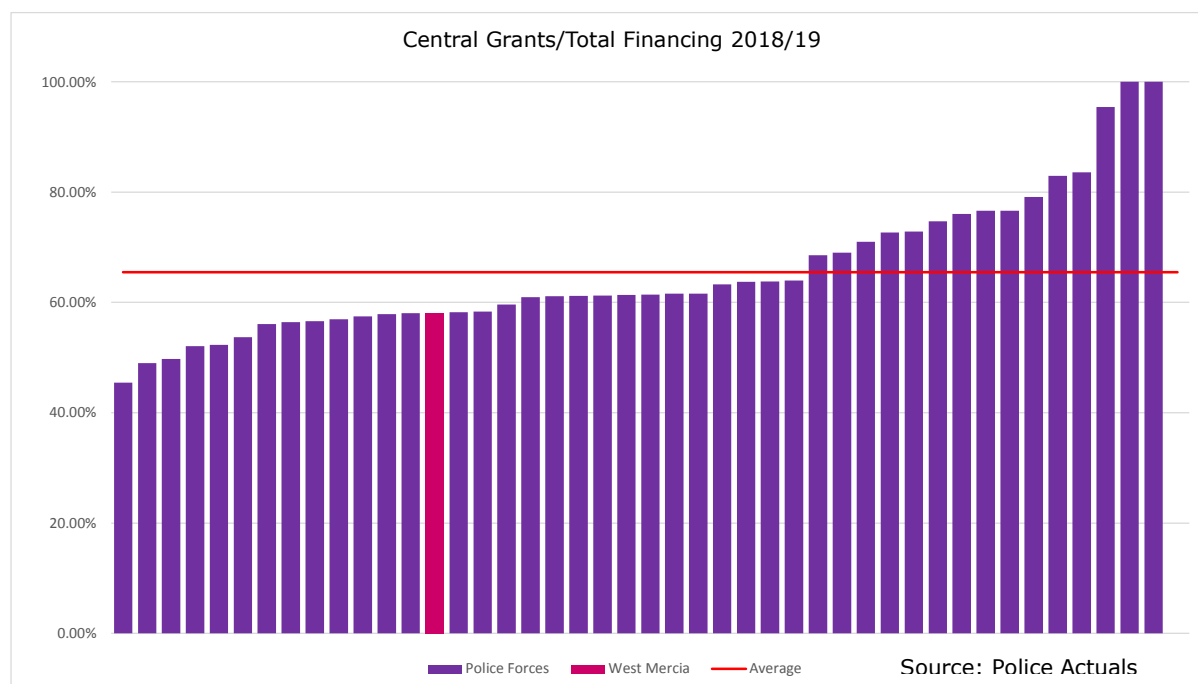
With regard to capital spending, we believe that this is lacking in two main respects. Firstly, in 2019/20 the capital programme was planning to spend around £28m but the year-end outturn was £7.4m. During the interviews we conducted, some stakeholders expressed concerns that lessons on capital spending had not been learnt. Significant underspends had also been a consistent practice in previous years. Secondly, there are revenue consequences to not spending planned capital in-year and CIPFA would recommend a more structured and corporate view to the development of better informed capital plans, based on an agreed set of evaluation criteria for future years.

Whilst there is a strong separation between the Force and the PCC with regards to responsibility for estates, we feel that there is even more of a requirement for both organisations to work more collaboratively to ensure that the strategic requirements of the PCC are in line with the funding requirements of the Force.

On the procedural aspects of the MTFP, we think that the Force would benefit from spending more time, on an annual basis (and potentially as part of the Annual Development & Assessment process we have recommended later in the report) in working through a series of scenarios to "stress test" the MTFP. We developed a sense that some stakeholders felt that the MTFP, in its current form, was very one-sided and lacked the rigour required to test it against potential shocks. Where we have seen this work well, is where the corporate management team engage in a series of discussions around likely scenarios thus enabling them to think about risks and resilience in a wider financial context.

Reliance on Central Government Funding

In 2018/19, the West Mercia had a below average reliance (58% compared to a 65% average) on central government funding than other police forces, as is illustrated below.



The West Mercia Police precept was increased by £8.54 (3.94%) for a band D property in 2020/21. The 'West Mercia Budget 2020/21 and Medium-Term Financial Plan 2020/21 – 2022/23' states "This increase, coupled with changes in the tax base to reflect new house building, and including the collection fund surplus, is expected to increase income from Council Tax by £5.482m a year". The precept was increased in 2019/20 by £19.59 (9.94%).

The current MTFP assumes a precept increase of 1.99% in 2021/22 and thereafter. The MTFP 2019/20 – 2021/22 had assumed a precept increase of 2.99% in 2020/21 and thereafter. Thus, the increase in 2020/21 is higher than had previously been assumed (whilst below the maximum £10 allowable) but the assumption about increases in the precept from 2021/22 has been reduced by 1%.

West Mercia's Police Funding Settlement for 2020/21 provided for an increase in central government funding of £8.268m (6.75%) from £122.449m to £130.717m. The MTFP assumes increases in Formula Grant and RSG combined of 1.5% in 2021/22 and 2022/23 (with Council Tax Support Grant and Council Tax Freeze Grant remaining the same as in 2020/21).

The MTFP calls for significant savings totaling £9.858m in the period 2020/21 – 2022/23; with savings in 2021/22 – 2022/23 subject to the production of a detailed savings plan. The assumption must be, therefore, that how these savings will be achieved has not yet been identified. This, together with the potential for slippage in the savings of £5.284m in 2020/21, emphasises the need to maximise local funding wherever possible.

In 2020/21 and in 2019/20 the increase in the precept has been below the maximum allowable (£10 in 2020/21 and £24 in 2019/20 for a band D property).

The decision on how much to raise the precept in any one financial year is clearly a decision that warrants very careful consideration of local circumstances. However, by not increasing the precept by the maximum allowable, the level of local funding available to West Mercia Police is less than it could otherwise have been in the current financial year and in future years. Consequently, the overall level of funding available to West Mercia Police is less than it otherwise could have been at a time of continuing financial challenge.

Level of Reserves

The table below, illustrates anticipated levels of usable reserves to 31st March 2023 setting out planned use of reserves over this period which shows a greater depletion of reserves than had been anticipated by the MTFP.

Source: West Mercia Police

	31/03/2019	31/03/2020	31/03/2021	31/03/2022	31/03/2022
	£m	£m	£m	£m	£m
General Reserve	10.587	9.587	9.587	9.587	9.587
Earmarked Reserves					
Infrastructure	4.823	1.083	0.690	0.297	0.297
YJS	0.537	0.354	0.354	0.354	0.354
CCTV and Rock Project	0.782	0.304	0.054	0.054	0.054
PCC Grants and Initiatives	0.485	1.231	0.881	0.825	0.825
Insurance and Legal	0.300	0.657	0.657	0.407	0.157
Safer roads	1.564	1.775	0.418	0.018	0.018
Other	5.372	0.000	0.000	0.000	0.000
Total Earmarked Reserves	13.863	5.404	3.054	1.955	1.705
Total Reserves	24.450	14.991	12.641	11.542	11.292

The Infrastructure Reserve has been reduced by £7.679m and the Collaboration and Demand Management Reserves have been eliminated. There has been an increase in the Safer Roads Reserve of £0.542m and in the PCC Grants and Initiatives Reserve of £0.570m together with the creation of a CCTV and Rock Project Reserve of £0.304m.

Earmarked Reserves have now fallen from £13.863m on 31st March 2019 to £5.404m on 31st March 2020; a fall of 61%. It is anticipated that Earmarked Reserves will fall further to £1.705m by 31st March 2023 with the PCC Grants and Initiatives Reserve accounting for almost half of total Earmarked Reserves as at 31st March 2022.

The MTFP 2020/21 – 2022/23 states “The use of a significant proportion of reserves over the life of the Medium Term Financial Plan is an important element of the financial strategy” and that “As part of the Commissioner’s commitment to reform, he will continue to focus on improving the ICT infrastructure and to rationalise the estate”.

Earmarked Reserves exist for a purpose. Where that purpose ceases it is appropriate to reduce the level of the relevant reserve. However, it is important that the level of specific earmarked reserves is based on a rationale and maintained at a level indicated by that rationale. This may require consideration of replenishing specific earmarked reserves over the life of the MTFP.

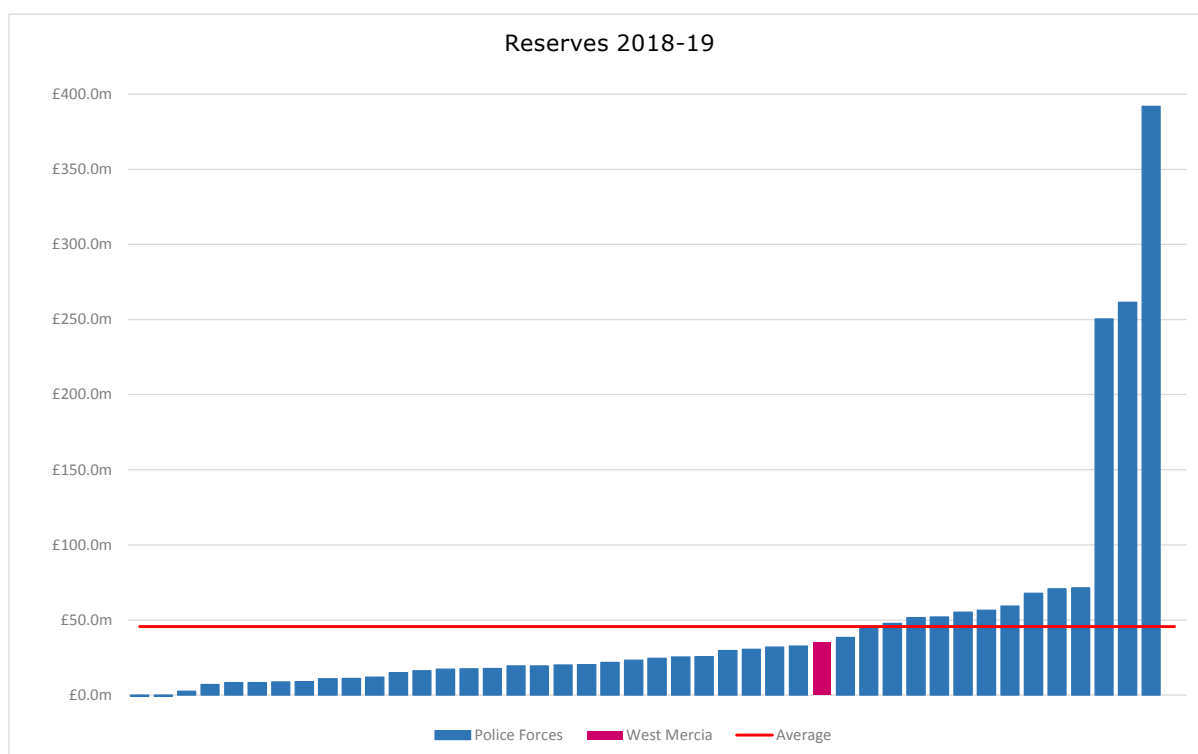
The General Reserve has been revised downwards by £1m to £9.587m. It is anticipated that it will remain at this level over the life of the MTFP. The Reserves Strategy clearly sets out the rationale for the level of the General Reserve. This level of General Reserve

equates to around 4.3% to 4.4% of net expenditure after savings over the life of the MTFP and was 5% when the Reserves Strategy was set. Notwithstanding the reduction in the General Reserve of £1m, this compares well with the level of General Reserves held by other police forces as a proportion of net spend.

Given the concerns expressed during the course of our work over the robustness of the MTFP together with the significant reduction in overall reserves since 31st March 2019 through to 31st March 2023 and the savings required over the life of the MTFP, West Mercia has little flexibility over the relatively short life of the current MTFP and beyond.

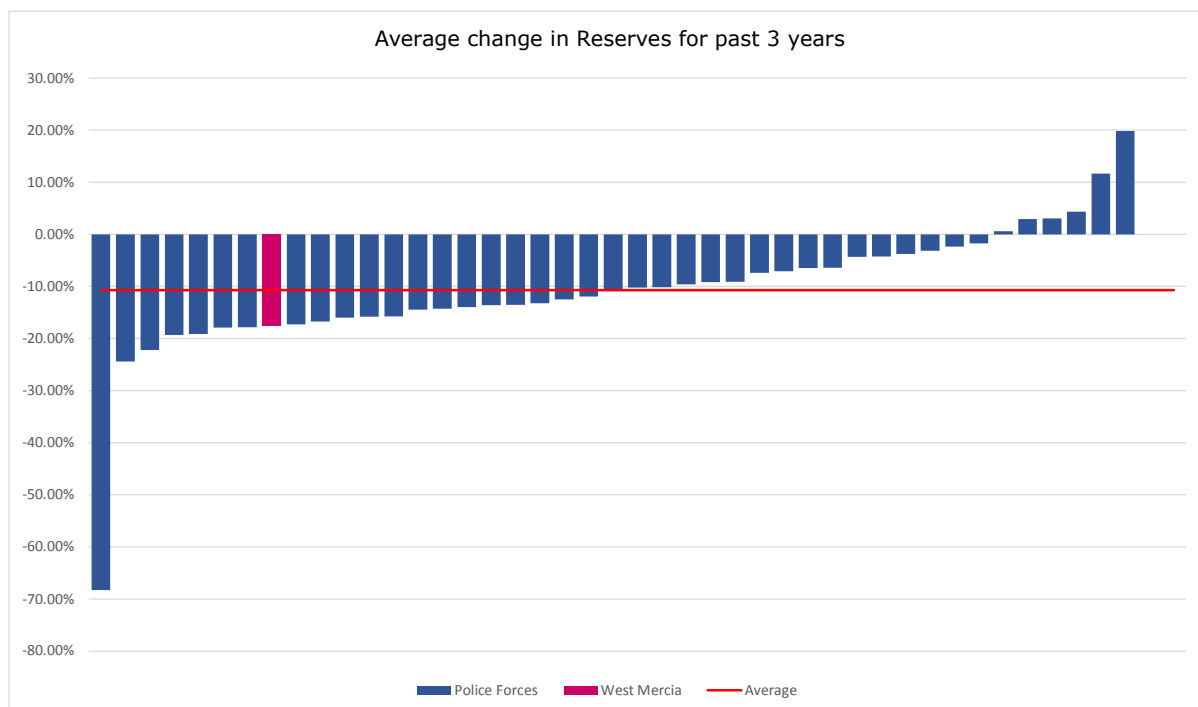
However, it will be difficult to replenish reserves prior 31st March 2023 albeit consideration should be given to such replenishment in the longer-term.

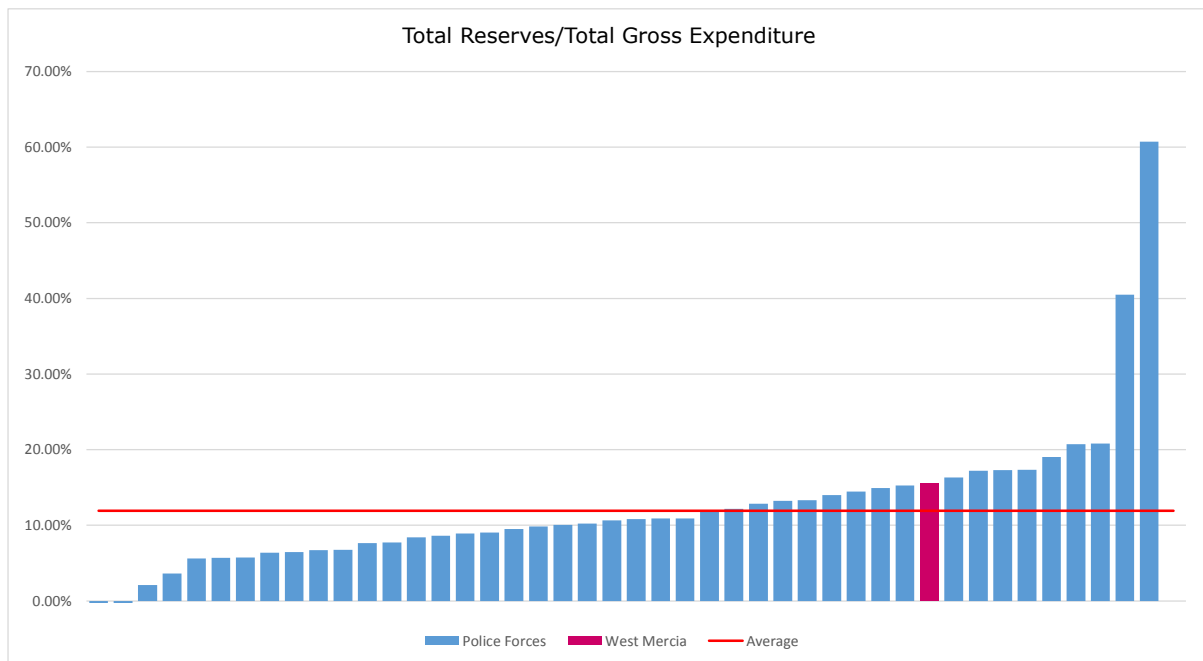
Reserves – Comparison with other Police Forces



Source: Police Actuals

As at 31st March 2019, total general and earmarked reserves (including provisions) were circa £35m which was below the average of circa £45m but not significantly so especially taken into account the size of West Mercia Police.





Source: Police Actuals

West Mercia Police's reserves as a proportion of spend were marginally higher (15%) than the average (12%).

Financial Management Review

Context

Up until 2019, the Force worked collaboratively across a whole range of shared services with Warwickshire Police. On the whole, those that we interviewed thought that the service provided by Finance, under the Alliance, was a good service although a number of interviewees felt that the service was provided from a distance and had too much of a “corporate” feel to it. Managers cited examples where, often, they didn’t get the help and support they required at the time that they needed it.

The Force now finds itself on a different change trajectory and has re-organised the Finance function such that it can deliver an effective service to its stakeholders and within the bounds of what the Force considers affordable. There have been a number of changes at senior management level too and a number of staff, who worked under the Alliance structure, have been given career advancing opportunities by fulfilling new roles under the new structure.

West Mercia was keen to retain local skills and to build experience and expertise by “growing their own” and this approach is to be commended.

The organisation has demonstrated that it has, at the strategic Finance level, strong modelling skills and has a good understanding of cost drivers and how these affect the operational policing environment. We also noted that the team had a well-developed understanding on the impact of underfunding in previous years but there was some concern over value for money around key transformation projects.

We understand that the transformation work is now being re-structured and led in a different way to that which was previously orchestrated. Some of those we interviewed suggested that the transformation functions re-invented themselves almost every year and that, often, scant regard was paid to the underlying quality of business cases and demonstration of value for money. Other examples further demonstrated the point through a consistent narrative of failed projects. However, the tide appears to have changed and there is much more focus on the development of business cases with Finance being at the table at the outset of the process rather than reviewing toward the back-end of business case development.

Despite the impact of Covid, the Finance team are working-up a new service offer. This work is being done collaboratively with Procurement. Despite some of the shortcomings in projects as mentioned above, we were impressed with the way in which Procurement is being run. There appears to be strong leadership, supported by a team that knows what it is doing and has to do.

Policies and procedures for Finance (and Procurement) are still Alliance-focused but the teams recognise that they need to update the policies and procedures during this financial year. The teams also recognise that in doing so, they can use the re-launch of such policies and procedures as a springboard to influencing further culture change within the wider corporate stakeholder community.

We note some of the positive structural changes in the creation of the Business Operations Centre (the BOC) which emanated from the Business Services Review. Whilst the Review was originally conceived towards the end of the Alliance era, West Mercia has now adopted it. The BOC supports a range of transactional services and is complemented by facilitating

software including capture and manager workflow requests (through the ASSYST software platform). The services range from purchasing and supplies and logistics and payroll, payments, HR transactional functions, Purchase to Pay (P2P).

A Positive Direction of Travel

Despite the issues around the dissolution of the Alliance and all of the associated distractions that have come with that split over the last 12 months, the Finance team, under new leadership, has emerged under a new structure. West Mercia has made great strides to improve - a view shared by many budget holders and Finance staff.

Whilst CIPFA's scoring in relation to best practice reflects the current position, it is important to acknowledge that West Mercia has a number of planned or current initiatives to improve, including:

- A new governance structure to track savings and to hold people to account for their savings delivery plans;
- Plans for embedding a "cost conscious culture" across the organisation whilst at the same time ensuring that appropriate levels of accountability are established;
- Bringing together financial and operational activity in relation to performance management. Our interviews and desk-based research and review of key documents was relatively silent on the link between performance management and Finance, but we did detect a willingness to address this area in the months to come;
- We understand that some members of the Finance team have attended the CIPFA Finance Business Partnering course to increase their knowledge of strategic value-added abilities in their roles (especially those now working at a senior Finance level) and we understand that there are plans to widen this (and other related) training to other members of the team;
- Whilst governance around the transformation programme has not worked so well in the past, a number of those we interviewed were encouraged by some of the recent changes to the governance process. Finance now have a seat at Investment Board and the Change Design Authority. The new Head of Commercial Services now represents Finance and Procurement at the Executive Board and has a seat at the Transformation Board;
- Above, we commented on the work to take forward the in-year savings tracker which is to be supported but we were concerned that the importance and scale of the savings challenge, apart from the most senior managers, was not visible or recognised across the Force. We also detected a general nervousness from some about the budget build this year and all the changes that were made up to the point when the budget was signed off. Some were very nervous about amount of change to the budget at such short notice resulting in last minute changes to the cost centre structure to support the creation of the new directorates. This was further exacerbated by a lack of resources to do it. However, the new DCC has instigated a framework for change to support future year's planning called "Planning for the Future" to establish the business planning cycle, and
- Risk management is good and the overall approach to risk is well thought through. The approach to identifying new risks and managing current key risks is robust. Strategic risk are regularly reviewed at the Executive Board and key risks/updates are

presented to the Audit Committee. Many of the key strategic risks are financially themed.

The general outlook for the Force is positive and CIPFA are confident that the new Finance team will establish itself as a strong and effective player within the organisation. Finance have been subject to constant change activity for some time and trying to re-orientate the team from delivering a centralised set of services under the Alliance to a more devolved and local delivery model has been challenging at times.

Whilst many of those we interviewed understood the challenges around the changes either required or those that have already taken place, they were supportive of a new model for Finance that would enable the Force to sustain a strong financial outlook for the future. The Chief Constable and the PCC have also been clear in that they want to reconnect finance and money with policing and to become more efficient and effective.

Overall Assessment

West Mercia's Financial Management was assessed against best practice and results are shown in the first table below "Current Snapshot". It is envisaged that, in 12-18 months, following a series of developments and improvements within an Improvement Plan Programme West Mercia could attain an higher star rating. The plan will be discussed and agreed with West Mercia following discussion and included within the final report.

CURRENT SNAPSHOT Financial Management Style	Management Dimensions			
	Leadership	People	Processes	Stakeholders
	***	*	***	****
	*	*	***	****
Enabling Transformation	**	*	*	****
Overall Rating	**			

Current Snapshot: Overall Star Rating

CIPFA has independently assessed 81 organisations against best practice using its Financial Management Model.

Overall, West Mercia received a **two-star rating** when compared with these other organisations, although it was at the upper end of this range.

CIPFA's Definition of a Two-Star Rating:

"The organisation has basic financial capability. Financial management arrangements are in place that allow the organisation to meet the minimum of practice standards and provides functional capability in the short term and a minimum level of support in the delivery of organisational outcomes but does not support organisational transformation change.

Financial management style is predominantly stewardship in nature rather than supporting effective decision support. There is a disconnect between operational and financial strategies."

West Mercia Police's star rating in relation to each of the FM Model statements is set out in Appendix II: FM Model Statement Definitions and Scoring.

Current Snapshot: High Level Assessment

Analysis of the information gathered showed that West Mercia is:

- Reviewing the model dimensions West Mercia scored best in the delivering accountability with strong scores in Leadership, Process and Stakeholders. The latter achieving 4*.
- The weakest was enabling transformation. This is consistent with other organisations though the stakeholder element did score well at 4*.
- From a management dimension perspective the stakeholder element was the strongest over all three areas scoring 4* on each of delivering accountability, supporting performance and enabling transformation.
- Particularly weak however was the people related dimension that scored 1* in each area. This is not uncommon often as a consequence of issues around a lack of a finance competency framework and a lack of accountability for financial performance, resulting in high levels of dependency from budget holder on the finance function.

Key Strengths

The remainder of this document is dedicated to highlighting issues identified through the FM review. However, it is important to acknowledge that the review also identified a number of areas in which West Mercia is particularly effective:

- Strong risk management and internal control arrangements including effective oversight groups.
- Strong procurement capability.
- Good, close working relationship between the respective Chief Financial Officers of the Chief Constable and the Police and Crime Commissioner.
- Timely preparation of the financial statements with a clean audit opinion.
- Importantly despite the issues around the dissolution of the Alliance and all of the associated distractions the Finance team West Mercia has made great strides to improve and has a clear direction of travel.

Improvement Target

This section of our review sets out how financial management might operate – the transition and improvement plan is addressed in the following section. On this basis, it is envisaged that, in 12-18 months, West Mercia Police could attain the results overleaf, which we have denoted as the 'Improvement Target'.

IMPROVEMENT TARGET	Management Dimensions			
	Leadership	People	Processes	Stakeholders
	Financial Management Style	Delivering Accountability	Supporting Performance	Enabling Transformation
	****	**	****	****
	**	**	****	****
	***	**	**	****
Overall Rating	***			

Issues and Recommendations

The issues outlined below are all linked and therefore the accompanying recommendations are interdependent. The recommendations regarding the wider change management programme that will enable the “culture shift” such that budget holders become more proactive with their budget management responsibilities and the Finance team act more fully as strategic Finance Business Partners.

These recommendations have been translated into a more detailed Improvement Plan which have been agreed with West Mercia.

Summary	Issues	Recommendation
Finance needs to ensure it has capacity to support all the systems projects, drawing on appropriate resource as necessary	<p>The various changes to processes, policies and procedures will require significant manpower within the Finance function.</p> <p>Finance needs to consider whether it has the capacity to fully support these work packages.</p>	<p>Review finance resource alongside detailed implementation plans and timescales, and consider whether the Finance function can reasonably and realistically support these implementations, factoring in staff absences and turnover.</p> <p>Develop mitigation plans for shortfall with appropriate lead times to acquire and embed suitable resource.</p>
Budgeting and forecasting processes can be improved through a new approach	<p>The budgeting processes is highly incremental which tends to perpetuate inefficiencies</p> <p>The forecasting process is acknowledged as being problematic, both as a result of lack of knowledge but also data error.</p>	<p>Deliver training on budgeting and forecasting to improve skill levels (as per recommendations overleaf) for both budget holders and staff.</p> <p>Use a bottom-up budgeting process (at least intermittently) to encourage larger-scale efficiency savings.</p>
Clarity and measurement of responsibilities required for both budget holders and finance function	<p>Many budget holders are not actively managing their budgets which means they are less aware of the financial consequences of their decisions. Instead, they rely on the Finance function which ties up valuable resource.</p>	<p>Ensure that performance appraisal systems for budget holders include financial management responsibilities so as to incentivise proactive behaviours. This should be linked to a competency framework – see below.</p> <p>Create a Finance Service Plan to define responsibilities, ensure that performance</p>

	There was also no evidence of defined finance service metrics which suggests that responsibilities and accountabilities are unclear and that it is not possible to measure performance against targets.	of the Finance function can be measured, and also resource can be planned and monitored. This will encourage the finance function to focus on strategic tasks.
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Summary	Issues	Recommendation
Financial Management competency framework required to clarify responsibilities and capabilities	<p>There was no evidence of a Financial Management competency framework.</p> <p>This suggests insufficient emphasis on the importance of financial management responsibilities (vs. core/functional responsibilities) and lack of clarity around expectations and desired capabilities. This makes it easier and more likely for budget holders to 'side-step' their budget management responsibilities, and rely on the finance function.</p>	<p>Create a Financial Management competency framework to articulate the various accountabilities and responsibilities for financial management across the organisation. This should clarify the budget management expectations of budget holders as well as the more strategic responsibilities of the finance function.</p> <p>The competency framework should be used as a basis to assess current performance, desired performance and the skills gap.</p>
Provide budget management & forecasting training to budget holders build skills and confidence and help to improve attitudes	<p>Budget holders lack the skills required to effectively manage their budget. These skills include: financial management literacy, forecasting, VFM and contract management.</p> <p>Some budget holders (particularly those with operational responsibilities) are also resistant to taking on these responsibilities. This is a particular problem when it comes to forecasting.</p> <p>These issues make them more inclined to rely on the Finance function.</p>	<p>Review development needs across the organisation, ideally against the aforementioned competency framework) and provide necessary training programmes to improve financial literacy, budget management and forecasting skills, VFM and contract management, as well as the confidence to use those skills.</p> <p>Training programmes can also contribute to the changing of attitudes through clear messaging about the importance of budget holders carrying out budget management responsibilities and the evolving strategic role of the Finance team.</p>

Summary	Issues	Recommendation
Embed Finance Business Partnering by continuing to upskill the Finance team and promoting the value of their strategic role to budget holders	The role of Finance business partners is still not fully established. Not all budget holders appreciate the potential value-add of a Finance business partner; this, combined with their own lack of proactivity in budget management, results in the Finance team performing lower-value tasks which conform to the traditional role of Finance. This is time consuming and perpetuates dependence.	<p>Communicate with budget holders to clarify the role and responsibilities of the Finance team (as Finance Business Partners) versus the rest of the organisation and how they can support the organisation. Change of mind set is required for budget holders.</p> <p>Continue to upskill the Finance team with the necessary skills to effectively perform the Finance business partnering role. Change of mindset is required for Finance staff.</p>

The success of the Finance business partnering model depends on the implementation of the finance systems and the shift of responsibilities towards more self-service using existing systems where possible.

Clearly define the benefits of the restructuring to support achievement and monitoring

The benefits of the recently completed reorganisation of the Commercial and Financial Services were not well defined, making it harder to monitor, measure and take remedial action if necessary.

Clearly define the intended benefits of the reorganisation, with inclusion of targets and timescales as well as methods of achievement and monitoring. This will help to ensure the benefits are indeed realised.

Improvement Plan

The table below details the steps required to implement the recommendations which have been made. These actions have been agreed with West Mercia Police, together the appropriate persons to take responsibility.

Actions required	Current position	Lead responsibility	Timescale
Deliver training on budgeting and forecasting to improve skill levels for staff. Specifically business partner.	The forecasting process is acknowledged as being problematic, both as a result of lack of knowledge but also data error.	Management Accounting Manager	2020 Q4
Deliver training on budgeting and forecasting to improve skill levels for budget holders.	Budget managers have had very limited budgets to manage and little accountability.	Management Accounting Manager	2020 Q4
Develop priority based budgeting process to build a better view of costs and demand across the Force.	The budgeting processes is highly incremental which tends to perpetuate inefficiencies. The budget process does not link to force priorities.	Head of Commercial Services	2021 Q3
Create a Financial Management competency framework.	No current assessment of competencies	Management Accounting Manager & Financial Accounting Manager	2021 Q2
Review development needs against the competency framework and provide necessary training programmes to improve financial literacy, budget management and forecasting skills, VFM and contract management.	No current assessment of competencies	Management Accounting Manager & Financial Accounting Manager	2021 Q3
Performance appraisal systems for budget holders to include financial management responsibilities.	Not currently included	Head of POD	2021 Q1
Deliver system training for staff (Excel & BOXI)	Expertise limited to the financial systems team	Management Accounting Manager	2021 Q1

Produce stand alone chart of accounts	ChartofAccounts incorporates WM & WK codes. Limited use of project codes and some mixing of cost centres with account codes.	Financial Accounting Manager	2021 Q1
Develop self service capability for budget holders	Limited self-service in place, CP under-utilised.	Management Accounting Manager	2021 Q2
Update and expand MTFP	MTFP doesn't reflect known pressures and is limited in scope. Limited recognition of sensitivities and contingency plans	Head of Commercial Services	2020 Q3
Based on completion of some of the above, develop and rollout a Finance Service offer to key stakeholders and budget holders across the Force	The current service delivery offer is based on a post-Alliance model, but needs to be further refined to be sustainable for the Force	Management Accounting Manager & Financial Accounting Manager	2021 Q2
Develop Force-specific policies and procedures	A number of current policies and procedures are based on the Alliance ways of working. Focus first on policies, followed by procedures.	Management Accounting Manager & Financial Accounting Manager	2021 Q4
Develop an Annual Directorate/Departmental Assessment & Review process to assess demand and financial requirements for next fiscal and to look at the requirements for resources in a corporate setting. The ADAR process would then feed into the annual budgeting process.	As per "action required" column	Head of Commercial Services	2021 Q2
Improved governance process including better project and programme gateway checkpoints. More focus on prioritisation and qualification of opportunities as well as a focus on benefits and risks.	As per "action required" column	Head of Change	2021 Q1

Appendix I: FMCR Information Sources

Electronic Survey

39 out of 49 people surveyed submitted data/evidence; this represents an overall response rate of 80%.

The minimum level acceptable as evidence is normally 50% for each survey group and this was surpassed in total for each survey group.

Response rates for each of the survey groups are set out in the table below:

Group	Survey Groups	Invited	Completed
SG1	Strategic/Corporate Finance	4	4
SG2	Operational Finance	8	7
SG3	Service Directors	6	5
SG4	Operational Managers	25	19
SG5	Board Members/Stakeholders	6	4
	Total	49	39

List of Interviewees

Interviewee	Role
Anthony Bangham	Chief Constable
John Campion	PCC
Andrew Champness	PCC Chief Executive
Elizabeth Hall	PCC Treasurer
Richard Muirhead	Head of Commercial Services (S.151 officer CFO)
Julian Moss	DCC
Rachael Hartland-Lane	Director of Business Services
Damian Barratt	ACC - Public Protection
Morwenna Lansdale	Superintendent
Mark Colquhoun	Superintendent
Stephanie Brighton	Superintendent
Simon Neville	Risk Manager
Ann Church	Procurement Manager
Mike Kaine	Financial Accounting Manager
Sarah Phillips	Management Accounting Manager

Melinda Taylor	Transactional Finance Lead
Chris O'Hara	PCC Strategic Estates Manager
Helen Danks	Business Services Budget Holder
Tom Harding	Local Policing budget holder
Simon Bennett	ICT Budget Holder
Sam Parsons	Finance Business Partner (ICT & Change)
Hannah Lilley	Finance Business Partner(Crime & Vulnerability)
Louise Evans	Finance Business Partner(Crime & Vulnerability)
Alan Day	Audit Committee member
Lynne Duffy	Chair of Audit Committee
Laurelin Griffiths	External Audit Lead
Paul Clarke	Chief Internal Auditor

List of Documents Reviewed

The documents reviewed by CIPFA included but were not limited to the following:

- WMP Group and PCC Statement of Accounts
- PCC Annual Governance Statement
- Money Matters Report Q3 2019-2020
- Medium Term Financial Plan 2019-2020
- Chief Constable Annual Governance Statement
- Schemes of Delegation for West Mercia
- Joint Financial Regulations October 2019
- Small and Medium Business Case example
- Large Business Case example
- Record of Decisions – Capital Strategy
- Raising Concerns – Whistleblowing Policy
- Anti-Fraud and Corruption Reporting
- Finance Structure Chart
- Budget Holder Memorandum of Accountability
- Budget holder MOA
- Change canvas
- Governance TOR
- Internal Audit Report 2018-19
- New Structure for Procurement
- Savings Plan progress
- Strategic Risk Management Policy

Appendix II: FM Model Statement Definitions and Scoring

Three Financial Management styles:

Delivering Accountability

Emphasis on control, probity, meeting regulatory requirements and accountability.

Supporting Performance

Responsive to customers, efficient and effective, and with a commitment to improving performance.

Enabling Transformation

Strategic and customer-led, future orientated, proactive in managing change and risk, outcome focused and receptive to new ideas.

Four Management dimensions

Leadership

Strategic direction and business management, and the impact on financial management of the vision and involvement of the organisation's Board members and senior managers.

People

Includes both the competencies and the engagement of staff. This aspect generally faces inward to the organisation.

Processes

Examines the organisation's ability to design, manage, control and improve its financial processes to support its policy and strategy.

Stakeholders

Relationships between the organisation and those with an interest in its financial health; customer relationships within the organisation, between finance services and its internal users.

Rating	Qualifying Scoring	
*****	4.0	World Class
	3.75	Totally evidenced
	3.50	Strong
****	3.25	Highly evident
	3.0	Highly evident
***	2.75	Evident
	2.50	Mostly
**	2.25	Competent
	2.0	Basic
*	1.75	Lower than basic
	1.5	Minimal
	1.25	Weak
	1.0	Weak
	0.75	Inadequate
	0.5	Inadequate
	0	Not at all

West Mercia Police Scoring by Statement

	Leadership		West Mercia	West Mercia
Delivering Accountability	L1	Financial capability is regarded as integral to supporting the delivery of the organisation's objectives. The CFO is an active member of the board, is at the heart of corporate strategy/business decision making and leads a highly visible, influential and supportive finance team.	****	3.00
	L2	The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the board through executive and non-executive directors to front line service managers.	****	3.00
	L3	Within an annual budget setting process the organisation's leadership sets income requirements including tax and allocates resources to different activities in order to achieve its objectives. The organisation monitors the organisation's financial and activity performance in delivering planned outcomes.	***	2.50
Supporting Performance	L4	The organisation has a developed financial strategy to underpin medium and longer term financial health. The organisation integrates its business and financial planning so that it aligns resources to meet current and future outcome focussed business objectives and priorities.	**	2.00
	L5	The organisation develops and uses financial/leadership expertise in its strategic decision-making and its performance management based on an appraisal of the financial environment and cost drivers.	*	0.75
Enabling Transformation	L6	The organisation's leadership integrates financial management into its strategies to meet future business needs. Its financial management approach supports the change agenda and a culture of customer focus, innovation, improvement and development.	**	2.00

	People		West Mercia	West Mercia
Delivering Accountability	P1	The organisation identifies its financial competency needs and puts arrangements in place to meet them.	*	1.00
	P2	The organisation has access to sufficient financial skills to meet its business needs.	***	2.50
Supporting Performance	P3	The organisation manages its finance function to ensure efficiency and effectiveness.	*	1.00
	P4	Finance staff provide business partner support by interpreting and explaining performance as well as advising and supporting on key business decisions.	***	2.75
	P5	Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. Financial literacy is diffused throughout the organisation so that decision takers understand and manage the financial implications of their decisions.	*	1.50
Enabling Transformation	P6	The organisation develops and sustains its financial management capacity to help shape and support its transformational programme.	*	1.25

	Processes		West Mercia	West Mercia
Delivering Accountability	PR1	Budgets are accrual-based and robustly calculated	***	2.75
	PR2	The organisation operates financial information systems that enable the consistent production of comprehensive, accrual based, accurate and up to date data that fully meets users' needs.	***	2.50
	PR3	The organisation operates and maintains accurate, timely and efficient transactional financial services (eg creditor payments, income collection, payroll, and pensions' administration).	**	2.00
	PR4	The organisation's treasury management is risk based. It manages its investments and cash flows, its banking, money market and capital market transactions, balancing risk and financial performance.	****	3.00
	PR5	The organisation actively manages budgets, with effective budget monitoring arrangements that ensure 'no surprises' and trigger responsive action.	**	2.25
	PR6	The organisation maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action.		N/S
	PR7	Management understands and addresses its risk management and internal control governance responsibilities.	*****	3.75
	PR8	Management is supported by effective assurance arrangements, including internal audit, and audit and risk committee(s).	*****	3.50
	PR9	The organisation's financial accounting and reporting are accrual based and comply with international standards and meet relevant professional and regulatory standards.	*****	3.50
Supporting Performance	PR10	The organisation's medium-term financial planning process underpins fiscal discipline, is focussed upon the achievement of strategic priorities and delivers a dynamic and effective business plan.	***	2.75
	PR11	Forecasting processes and reporting are well developed and supported by accountable operational management. Forecasting is insightful and leads to optimal decision making.	**	2.00
	PR12	The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.	***	2.50
	PR13	The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement, commissioning and contract management.	****	3.00
Enabling Transformation	PR14	The organisation continually re-engineers its financial processes to ensure delivery of agreed outcomes is optimised.	***	2.75
	PR15	The organisation's financial management processes support organisational change.	*	1.00

	Stakeholders		West Mercia	West Mercia
Delivering Accountability	S1	The organisation provides external stakeholders with evidence of the integrity of its financial conduct and performance, and demonstrates fiscal discipline including compliance with statutory/legal/regulatory obligations.	****	3.25
Supporting Performance	S2	The organisation demonstrates that it achieves value for money in the use of its resources.	****	3.00
Enabling Transformation	S3	The organisation is responsive to its operating environment, seeking and responding to customer and stakeholder service and spending priorities that impact on its financial management.	****	3.25
Total Score				70.00
Average Score				2.41
Overall Star Rating				**