

# Auditor's Annual Report on the Police and Crime Commissioner and Chief Constable for West Mercia

2020-21

November 2021



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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Police and Crime Commissioner and Chief Constable have made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Police and Crime Commissioner and Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the PCC or CC or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Executive summary

## Value for money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Police and Crime Commissioner (PCC) and Chief Constable have put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources. We are required to report in more detail on the overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. The specified criteria are set out below

Criteria	Risk assessment	Finding
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations made.
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified.
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but an improvement recommendation made.

### Key

	No significant weaknesses in arrangements identified.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weakness in arrangements identified and key recommendation made.



### Financial sustainability

The PCC and Chief Constable have a good track record of sound financial management and delivered an overall underspend in year, after taking into account central Government funding and the planned use of reserves. The PCC and Chief Constable understood the financial risks which they faced and managed these risks by maintaining an appropriate level of reserves. Overall we are satisfied that the PCC and Chief Constable had appropriate arrangements in place to manage the risks they faced in respect of its financial resilience. We have not identified any risks of significant weakness, but have identified improvement recommendations relating to savings and the planned capital programme.



### Governance

Overall, we found no evidence of significant weaknesses in the PCC's or Chief Constable's governance arrangements for ensuring that they made informed decisions and properly managed its risks.



### Improving economy, efficiency and effectiveness

The PCC and Force have put in place effective arrangements to improve economy, efficiency and effectiveness. This includes significant collaboration with local fire and rescue services in regard to estates and control room, and a successful extraction from a strategic arrangement with Warwickshire Police. Our review has not identified any significant weaknesses in arrangements in this regard, although we have made some improvement recommendations.



## Opinion on the financial statements

We propose to give an unqualified opinion on the Group & PCC and Chief Constable financial statements following the Joint Audit and Standards Committee on 22 November 2021 and the subsequent approval of the financial statements.

# Commentary on the PCC's and the Chief Constable's arrangements to secure economy, efficiency and effectiveness in their use of resources

All PCCs and Chief Constables are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The PCC's and Chief Constable's responsibilities are set out in Appendix A.

PCCs and Chief Constables report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the PCC and Chief Constable have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



## Financial sustainability

Arrangements for ensuring the PCC and CC can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



## Governance

Arrangements for ensuring that the PCC and CC make appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the PCC and CC make decisions based on appropriate information.



## Improving economy, efficiency and effectiveness

Arrangements for improving the way the PCC and CC deliver their services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 5 to 19. Further detail on how we approached our work is included in Appendix B.



# Financial sustainability



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

**We considered how West Mercia Police:**

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## Overview of the Arrangements to ensure financial sustainability

The PCC and Force have faced significant financial challenges in 2020/21 and these will continue through to 2021/22. Despite this, a sustainable financial position has been achieved, subject to the achievement of planned savings and the successful mitigation of the financial risks. The Force have demonstrated a reasonable track record of delivering savings over the past 5 years and the PCC has established a sustainable level of reserves to help manage financial risks, though improvements can be made. This has been achieved in the context of COVID-19 cost pressures, the investment in infrastructure to support a growing police establishment and the need to complete the withdrawal from the Strategic Alliance with Warwickshire Police in areas such as IT infrastructure. In addition, a number of transformational projects and capital investments are in the process of being developed and delivered.

Priority based budgeting is being implemented as part of the business planning process. Panels of senior Force leaders, chaired by the Deputy Chief Constable, assess business proposals against the Police and Crime Plan and the Force's vision, priorities, likely funding streams and demand. The process involves managers at all levels providing the maximum opportunity to capture internal and external changes. To ensure it is fully integrated with business planning and the Force Management Strategy, the process is administered between finance and SP&I (Strategy, Policy & Intelligence). This process ensures that informed decisions can be made on investments, and that budgets align to the PCC and Force vision.

The MTFP (Medium Term Financial Plan) is embedded within the annual budget setting cycle to provide a longer term view of priorities and demand for services. Council Tax assumptions are a key element of planning and the Office of the Police and Crime Commissioner (OPCC) are working closely with their Billing Authorities to understand assumptions around the Council Tax base and also the surplus/deficit on the Collection Funds. The Comprehensive Spending Review and Government Settlements are reviewed on an ongoing basis to try and model future resource envelopes that West Mercia will operate in. As for all police bodies, annual settlements and the lack of longer term assurances over funding make financial planning more short-term in its focus. Indications from central Government of a longer term funding settlement would help bring further clarity around these planning assumptions.

Our work has not identified any risk of significant weakness with regard to financial sustainability although we have raised some improvement recommendations in regard to savings plan delivery and the arrangements for capital programme management.

## Key Financial Assumptions – Funding

We have reviewed the key financial assumptions in the MTFP and found these to be reasonable. The precept will increase by 6.66% in 2021/22 and 1.99% thereafter. The Council Tax base will be reduced by 0.32% in 2021/22, will grow by 0.5% in 2022/23 and then increase by 1% a year thereafter, with an additional Local Council Tax Support Grant to be awarded in 2021/2022.

It is estimated that there will be a deficit on the Collection Fund for 2020/21 of £1.219m. The Government will fund 75% of the irrecoverable deficit, with the remaining balance being recovered over three years beginning in 2021/22. The Medium Term Financial Plan assumes that the Council Tax Collection Fund will return to surplus over three years – with neither a surplus or deficit on the Collection Fund for 2021/22 (distributed or recovered the following year in 2022/23), a surplus of £700k on the Collection fund for 2022/23 (distributed in 2023/24) and £1m a year thereafter distributed from 2024/25 onwards. Indicative allocations published by the Government estimate that the West Mercia PCC will receive £1.5m. These assumptions are informed via liaison with the Billing Authorities.

# Financial sustainability



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

**We considered how West Mercia Police:**

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

General revenue grants will be increased in 2021/22 to meet the costs of the additional 91 police officers that West Mercia will employ as part of the national uplift, and associated infrastructure funded by the central Government capital grant. In future years it is assumed central Government grants will also increase to meet the costs of additional police officers and to fund inflationary pressures, once a long promised review of the funding arrangements and funding formula takes place.

## Key Financial Assumptions – Cost Pressures

We are satisfied that West Mercia have appropriately considered the key pressures that the bodies will face. For example, pay is typically the largest area of expenditure for the Force, and hence forms a significant portion of the budget allocation from the PCC. As part of the budget, it is evidenced that (following the Chancellor's Spending Review) there has been no pay increase in 2021/2022. Increases for 2022/2023 have been forecast at 1% and 2.5% per annum thereafter, which is in line with our expectations (an increase in the demand for services) and these assumptions therefore appear to be appropriate.

## Managing the funding gap and use of reserves

For the financial year 2020/21 the OPCC and Force achieved an overall underspend on budget of £0.881m. This was achieved despite a number of overspends, particularly in regard to staffing budgets, due to prudent measures taken in year to reduce costs in regard to supplies and services as a direct response to managing the pay overspends. We note that the planned use of circa £1.5m of reserves were deployed to balance the 2020/21 budget. The MTFP sets out a relatively small net reduction in reserves up to 2024/25 of £531k over the period, however this is for specific planned one-off purposes for which funds had been set aside. The core budget position, excluding planned one-offs, is planned to provide a net contribution to reserves over the period.

Within the MTFP the Treasurer's Statement on the Soundness of the Budget and the Adequacy of Reserves outlines and checks compliance with the 7 key principles as set by CIPFA guidance, which ensures that public sector entities discuss the adequacy of their financial reserves and review them.

The budget plan assumes that the level of general reserves should stay above the recommended minimum level through to 2024/2025, subject to the successful delivery of savings targets. Sufficient provision has been made in earmarked reserves to fund expected one-off pressures. For example, we note that the Force may be required to undertake an investigation into allegations of corporate manslaughter at an NHS Trust. The potential costs of this are likely to be significant and this is underlined by PCC's need to make an application to the Home Office for a Special Grant. The access criteria for the aforementioned grant states that PCCs may be required to fund up to 1% of their net budget requirement themselves before the Government considers grant aid (applied on an annual basis), meaning the Force could be facing additional costs of £2.4m a year for which provision has been made.

A potential pressure on the adequacy of the budget was posed by the global pandemic in 2020. Whilst this undoubtedly caused financial challenges, potential negative effects were ameliorated by the provision of additional funding from central Government. Whilst policing did not receive anywhere near the scale of COVID-19 funding that other Local Government bodies received, the additional grants allowed any pressures to be mitigated, with increased spend over and beyond COVID-19 funding levels accommodated within their budgets.

# Financial sustainability



## How the PCC and Force plans to bridge its funding gaps and identifies achievable savings

### We considered how West Mercia Police:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

### Development of a sustainable MTFP through force transformation, benefits realisation and the delivery of savings

The 2021/22 budget, the Medium Term Capital Programme and the Medium Term Financial Plan aims to address the financial challenges that it sets out and invest in key areas, whilst keeping Council Tax increases as low as possible. To achieve this the PCC and the Chief Constable have undertaken a detailed review of all income and expenditure and have prepared a savings plan, and they have assessed the savings that can be achieved whilst ensuring that West Mercia Police can continue to meet the needs of their communities and keep people safe.

The Force has a reasonably good track record of savings delivery, although it has faced challenges to delivery and has managed shortfalls through short term alternative savings plans and underspends. It should be noted that this has been affected by the withdrawal from the strategic alliance with Warwickshire Police. In 2017/18, 2018/19 and 2019/20 cumulative recurring efficiencies of £14.3m were achieved. In 2020/21 the Force developed a detailed plan to achieve savings of £5.5m, which included a contingency of £0.8m. The actual outturn fell short of the total plan by £0.9m and made additional provision in the MTFP to cover future shortfalls based on this track record, which reflects a sensible and pragmatic approach to managing risk. The savings target for 2021/22 is £4.6m rising to £5.5m in 2022/23.

### Improvement Recommendation

*The Force should consider how the risk assessment of savings plans can be made more robust to improve delivery and reduce the reliance on shorter term mitigation measures such as budget underspends.*

Stakeholders are consulted during the development of savings plans, and this includes residents, in order to identify where the needs are, which helps to determine the plan. The PCC approves savings schemes through the budget report annually.

A savings tracker (which is independent of the budget tracker) which details progress against each initiative is updated and reported on monthly. There is a RAG rating in place so any at risk are easily identified at a glance. Finance Business Partners also include savings progress as a standard heading in the monthly report to their budget holders' Directorate strategy boards. A summary version of the savings tracker is presented in the Money Matters report, with narrative on any at risk items. In terms of quality of savings initiatives, all those which do not have a readily identifiable plan at the time of budget setting are coded out to 'staff savings' and 'non pay savings' code lines. These are then monitored monthly and where a viable plan, attributable to a specific budget, is brought forward, the savings are then moved from the generic 'savings' code to the appropriate budget heading. This demonstrates a robust approach to monitoring and developing savings and ensuring that they are monitored appropriately in the budget.

# Financial sustainability



**How the Force and PCC plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities**

**We considered how West Mercia Police:**

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## Corporate Strategic Priorities – Capital Programme

The current capital programme reflects the priorities of the PCC and includes significant investment in estates and ICT over the next 4 years. The PCC is planning significant capital investment of £93.8m over the next four years, which is primarily funded from borrowing. Significant opportunities exist to deliver efficiencies and improvements to estates by working with partner agencies, including the Fire and Rescue Service. The new estates team is currently being embedded, and will need to be equipped to manage the significant investment in estates based projects over the MTFP period.

### Improvement Recommendation

The PCC will need to ensure that sufficient capital programme management process is in place to accommodate the increased level of investment and borrowing set out in the MTFP. This should include enhanced capital programme monitoring and reporting arrangements to manage the financial implications of slippage and budget performance. It should also incorporate the upskilling of the estates team or use of the Force's current change management capability for managing large scale capital projects.

As part of the annual refresh of the Capital Programme, capital projects are reviewed. This process runs alongside the revenue budget preparation and associated running costs of capital projects are built into the revenue budget at this stage. The associated capital financing costs are also calculated for inclusion in the revenue budget (Minimum Revenue Provision and interest). Business cases for new capital projects also require revenue lifecycle costs to be considered and are reviewed by finance before submission to Chief Officers / PCC for scrutiny and approval.

## Financial Plan – consistency with other key strategies.

In addition to the Capital Strategy, the workforce plan is managed through a regular meeting attended by both the Director of Commercial Services and the Head of People and Organisation Development (POD). The principle of business partnering is in place for both Finance and POD, providing alignment at the operational level. The integration at these three levels ensures the plans are aligned. In addition, as part of the PBP (Priority Based Planning) process, the departmental plans are shared at an early stage with the key support departments (incl. POD) to enable the proposals to be considered from the earliest draft of the workforce plan. We are satisfied that these arrangements ensure financial plans are consistent with other key plans and strategies.



# Financial sustainability



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

### **We considered how West Mercia Police:**

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

### **Arrangements for incorporating risks into financial plans**

There is a risk register in place which details and outlines all of the financial risks. This register is reviewed by the Joint Audit and Standards Committee. The key risks identified are: The risk of failing to manage our finances effectively, The Office of the PCC and Force being unable to operate effectively or respond immediately due to a public health emergency such as the Coronavirus outbreak, Failure to Deliver the Police and Crime Plan and Delivery of an effective Estates Function. The risks are discussed amongst Executive Managers on a quarterly basis, both internally and externally. The risks are also reported the governance board. It has been confirmed that the risks are considered when preparing budgets, and are considered as individual specific risks as opposed to percentages. The risk analysis is also within the budget report.

The PCC undertook a two-stage public consultation on this year's budget given uncertainties around COVID-19 and its impact on budget setting. The first took place in October and November 2020, and the second in December 2020 which lasted until January 2021. The PCC sought to hear the views of the public on local policing, contact and engagement, crime and anti-social behavioural issues and views towards the Council Tax precept to help inform the budget. It is clear that these consultations fed into the overall budget that was set.

Sensitivity analysis and scenario modelling has been conducted as part of the budget preparation. This includes securing general reserves and considering major risks. Horizon scanning is also conducted which considers changes to government policy and what the potential arrangements and resultant financial impact might be.

In addition to the PCC's reserves which we have discussed previously, the Chief Constable retains an operational contingency within the annual revenue budget to help finance large scale operations or issues and to deal with day to day changes in demand and pressure. This is normal for policing bodies and is a prudent method to account for these potential uncertainties.

### **Development of the finance function following the end of the strategic alliance**

The newly established finance team will have a key role to play in delivering the Force Transformation programme. The team has embedded well over the course of 2020/21 and 2021/22 and is operating an effective service. This process has included the recruitment of experienced professionals and the development of other team members in their roles. The Internal Audit Summary report for 2020/21 indicates that core finance functions, such as payroll, accounts payable/ receivable and budget management are performing effectively and this is borne out by the comprehensive analysis presented in the MTFP and in year financial reporting, and the favourable outturn position for the year.

We have made recommendations for improvement in regard to savings development and delivery, assessing capital management capability earlier in this report. In making these recommendations we acknowledge the work that is already in train to ensure that the Finance team is operating at a level that is 'future fit' in order to meet the significant financial challenges over the MTFP period.

# Improvement recommendations



## Financial Sustainability

<b>01 Recommendation</b>	The Force should consider how the risk assessment of savings plans can be made more robust to improve delivery and reduce the reliance on shorter term mitigation measures such as budget underspends.
<b>Why/impact</b>	Continued slippage, such as that seen in 2020/21, could undermine the delivery of the medium term financial plan.
<b>Auditor judgement</b>	Ensuring sufficiently robust savings plans are delivered will help to ensure the financial sustainability of the organisations. Continued reliance on one-off or non-recurrent measures will impact on the longer-term financial sustainability of the organisations and reduce the reliance on shorter term mitigation measures such as holding staff vacancies.
<b>Summary findings</b>	Whilst savings plans are considered and reported regularly, the savings targets for 2020/21 were not fully delivered for the 2020/21 financial year on a recurrent basis.
<b>Management comment</b>	XXX



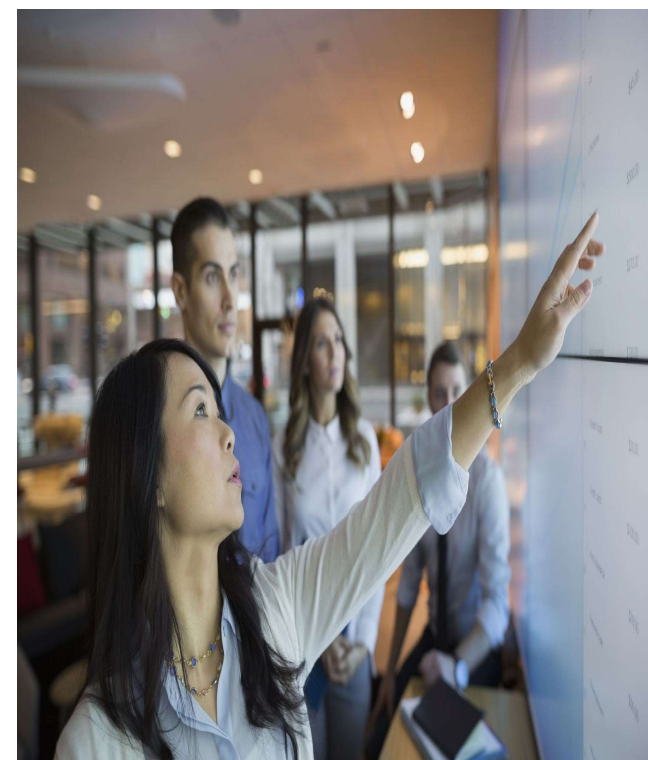
The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Financial Sustainability

<b>02 Recommendation</b>	The PCC will need to ensure that sufficient capital programme management process is in place to accommodate the increased level of investment and borrowing set out in the MTFP. This should include enhanced capital programme monitoring and reporting arrangements to manage the financial implications of slippage and budget performance. It should also incorporate the upskilling of the estates team for managing large scale capital projects.
<b>Why/impact</b>	The capital programme is due to expand significantly over the next four years and current arrangements may come under strain in the context of increased financial risk and scale of projects.
<b>Auditor judgement</b>	Ensuring appropriate skills and infrastructure to allow effective management of the capital plan will help to ensure that the programme can be delivered as planned and provide the expected benefits.
<b>Summary findings</b>	We understand that there is significant capital programme investment due to take place, including in the estate and significant ICT investment. It is recommended that arrangements are reviewed as the demands placed on them will be greater than has been tested in recent years.
<b>Management comment</b>	XXX



The range of recommendations that external auditors can make is explained in Appendix C.

# Governance



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

### We considered how West Mercia Police:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

## Overview of Governance Arrangements

The PCC and Force have established effective governance arrangements around financial oversight, risk management and review. Our work has not identified any risks of significant weakness in arrangements with regards to governance.

### Budget setting and monitoring

The Force has demonstrated that they have an appropriate annual budget setting process in place. Key stakeholders are involved in the process, which includes timely approvals and budget reviews. Service activity against plan is presented and integrated into reports to the Finance Committee on a regular basis to allow review and challenge. The budget plan is supported with comprehensive medium term financial plans with budget setting principles informed by the medium term strategy and engagement with external stakeholders.

### Financial management and reporting

Financial plans are reviewed by budget holders as part of the priority based planning process. These are assessed by senior leaders at timetabled Panel meetings. Once the final budget is signed off by the PCC, Directorate budget holders are provided with a Memorandum of Accountability (MOA) which details their budget subjectively and sets out the responsibilities of budget ownership. Budget holders are required to sign the MOA to indicate acceptance of their budget and acknowledgement of their responsibilities. This sets clear lines of accountability throughout the organisation relating to financial management.

### Monitoring and ensuring appropriate standards

There are various policies and procedures in place which monitor and ensure compliance with legislation and regulatory standards. The website has a section with a list of policies, which include all key policies that we would expect to see, including an Anti-Fraud and Corruption policy. These are available online to the public.

### Arrangements in place to identify strategic risks

There is a PCC risk register as well as a separate Force risk register. These set out the strategic risks identified, the mitigating actions that have been put in place to manage that risk and an assessment of the current risk to the PCC. The risk registers are up to date and reviewed on a regular basis for updates, as evidenced by the changes that were made during the pandemic (see Covid-19 section). The risks are routinely discussed amongst the OPCC managers, executive managers and the Chief Constable on a quarterly basis. They are also reported to the Joint Audit and Standards Committee.



# Governance



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

## We considered how West Mercia Police:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

## Risk reporting

Each year the Treasurer carries out an assessment of the risks facing the PCC to determine the minimum level of reserves which the Commissioner needs to continue to hold. The Commissioner holds a General Reserve, Earmarked Reserves and Capital Reserves. These will, in part, be governed by known or likely commitments, and, in part, by the appetite for risk. From the work performed, it appears that the Treasurer has an erudite understanding of the financial risks facing policing in West Mercia and reassesses the level of reserves required when appropriate. The Treasurer has also taken into account the assessment of reserves undertaken by CIPFA in its Financial Management Capability review of West Mercia Police.

## Arrangements in place for the finance team to engage with budget holders to review financial performance and identify actions to resolve adverse variances and develop financial skills

Continued attention to levels of spend in 2021/22 will be required to minimise the risk of future budget pressures. Funding continues to be tight (whilst being adequately managed to date), with little prospect of significant increases in the post COVID-19 environment. Reserves have diminished over recent years and remain low which presents a risk exists that any overspends in future may not be able to be funded. However, the level of reserves planned in the MTFP is sufficient to remain significantly above minimum levels, providing that a minimum level of savings plans are developed in future years and planned contributions to reserves continue to be made.

The PCC reviews the adequacy of reserve levels on the basis of a detailed analysis of risks, which is clearly set out in the MTFP. In our view, the calculation of minimum reserves is logical and takes into account consideration of future financial risks.

It will be critical for all budget managers to grasp spending decisions and manage those within the Force's means to ensure the organisations remain viable and successful into the future. In response to this, in May 2020, a series of budget holder sessions were held, focussing on managing finances at a local level, with a view to increasing awareness and understanding of the Force's financial position and how to manage budgets accordingly. This is one example of how the Force have reacted and put in place arrangements and support for the finance team who monitor financial performance.

An Internal Audit function has been appointed following the move away from the strategic alliance with Warwickshire Police. The 2020/21 Internal Audit Summary Report indicates that effective core financial controls are in place and functioning as expected.

Regular financial reporting to the PCC and those charged with governance is made via regular 'Money Matters' reports, which provide a comprehensive overview of performance to enable effective governance. The Force Management Statement also provides a comprehensive overview of financial governance outcomes. Monitoring standards are also considered here. Actions arising from discussions at the Governance Board are agreed between the PCC and the Chief Constable and recorded on the website.

# Governance



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

## We considered how West Mercia Police:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

## Financial Monitoring

Virement rules and responsibilities are set out in the Financial Regulations (last reviewed Dec 2020) and the MOAs. A virement log containing the virement rules is maintained to ensure compliance.

Regarding new areas of spend, funding for new schemes in-year (usually set out in a Business Case) must be approved by the PCC and Chief Constable at the Governance Board meeting. No significant overspends or underspends have been noted to date.

## Non-Financial information

The Money Matters reports to the Governance Board and the "Deep Dive" reports provide significant non-financial information relating to the service activities as well as workforce allocation. For example, the Money Matters report includes service related analysis of budget position and highlights key risks and pressures on services. The Deep Dive reports provide a more details look into specific issues and links to service updates to governance boards and service improvement plans. The Annual Budget Report provides the financial context to the key priority areas of West Mercia and includes details and context of performance against the key performance matrix.

# Improving economy, efficiency and effectiveness



## We considered how West Mercia Police:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

## Overview of Arrangements for improving economy, efficiency and effectiveness

The PCC and Force have put in place effective arrangements to improve economy, efficiency and effectiveness. This includes significant collaboration with local fire and rescue services in regard to estates and control room, and a successful extraction from a strategic arrangement with Warwickshire Police. Our review has not identified any significant weaknesses in arrangements in this regard, although we have made some improvement recommendations.

## Performance monitoring

The Force has demonstrated that it has a robust performance monitoring and reporting regime in place. This is in place across both its internal performance and the performance of external partnerships that the Force manages. The Force Delivery Group is the body that oversees the performance of the Force and it is presented with a quarterly overview of the Force's performance. This document reports on 'Gold level' KPIs that are constantly refined but focussed on five key performance areas;

- 1) Delivering a high quality, consistent service to the public;
- 2) Delivering an efficient service;
- 3) Delivering an ethical service;
- 4) Delivering innovative, problem-solving practices and processes;
- 5) Delivering a skilled, sustainable workforce in a constantly learning and improving environment.

These performance areas align closely with the strategic aims of the PCC as set out in the 'Safer West Mercia Plan 2016-2021'. The PCC has developed a 'holding to account' programme that, framed by a dynamic 'Safer West Mercia Plan', provides oversight and scrutiny of the Force's performance. The PCC also has access to performance reporting from the Force to assess overall performance. The PCC in turn is held to account by the Police and Crime Panel which includes elected members from the Local Authorities. There are a number of KPIs where the Force is not performing at the target level, but there is evidence that reporting clearly sets out both the mitigating factors driving this performance and actions required to address performance.

## Service improvement

The Force is subject to inspection by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) and the last inspection was completed in 2018/19. This review concluded that there are areas of the Force that 'require improvement' and that the Force is good at preventing crime and tackling anti-social behaviour but improvements need to be made in how it investigates crime and how quickly it brings offenders to justice.

The inspection from HMICFRS identified a number of specific causes of concern, recommendations and areas for improvement. A review of the Force's success in addressing these areas was presented to the Force in July 2021. This review identified that the Force still had 5 causes for concern, 74 recommendations and 19 areas for improvement open. When benchmarked nationally and against similar Forces it showed that the Force had achieved closure of more of each of the respective areas than the average of the benchmark groups.

# Improving economy, efficiency and effectiveness



## We considered how West Mercia Police:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

## Improvement recommendation

*We recommend that the Force should continue to actively engage with HMICFRS and continue to work towards the completion of the outstanding actions yet to be addressed.*

## Partnership working and risk of progress of transitioning the remaining Strategic Alliance services to their agreed service model following the end of the agreement

The Force ended its strategic alliance with Warwickshire Police in March 2021. We specifically reviewed the way in which the Force managed its exit from this partnership as it had the potential to significantly impact upon the way that the Force operates, especially given that the most recent HMICFRS report identified concerns around the ability of the Force to offer a full, uninterrupted range of public services once the alliance ended. As a result of the cessation of the alliance the Force has gained greater flexibility in how it uses its resources. This has enabled initiatives such as a Digital Services Transformation Programme to be implemented, with the aim of enhancing the ICT platform and improving the delivery of services. The Force also continues to have some joint working arrangements through Section 22 Agreements covering the hosted and shared Services with Warwickshire Police. These arrangements have been put in place to support the transition of Warwickshire Police and the Warwickshire OPCC from the strategic alliance.

It should be noted that the impact of Covid-19 on the Force and the changes made to the performance monitoring framework has made it more difficult to assess the impact of the end of the alliance on the Force's performance. However, the performance reporting available does not indicate any perceptible drop in performance during the transition.

Our work has identified that there is evidence that the Force has implemented appropriate steps to manage the exit from the alliance, however this will need to continue to be closely monitored through to completion and a post implementation report should be considered at that stage.

## Improvement Recommendation

*The PCC and Chief Constable should ensure the ongoing monitoring of the outcome of the final arrangements to transfer services out of the Warwickshire strategic partnership and consider a post implementation report on completion.*

## Commissioning and procurement

The Force has a Contracts and Procurement Strategy in place covering the period 2020-2023. This sets out the five levers the Force uses in its commissioning and procurement to become a more commercially focussed and financially sustainable organisation. These five levers are: performance culture; responsibility; collaboration; knowledge & innovation; governance & compliance; and empowering workforce. During our work we have not identified any evidence of a failure to meet the requirements of the Contracts and Procurement Strategy.

West Mercia Police have made use of both peer reviews and external consultants to assess and improve its approach to crime prevention and problem solving. This has been identified by HMICFRS as an appropriate mechanism for continuous improvement.

Our work has not identified any risks of significant weakness in the arrangements with regards to improving economy, efficiency and effectiveness.

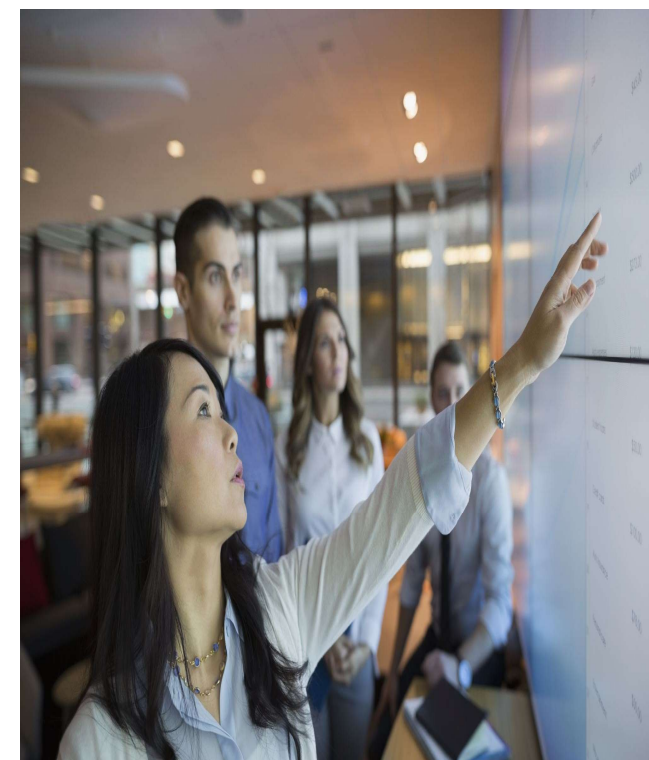


# Improvement recommendations



## Improving economy, efficiency and effectiveness

<b>04 Recommendation</b>	We recommend that the Force continue to actively continue engage with HMICFRS and continue to work towards completing the outstanding actions yet to be addressed.
<b>Why/impact</b>	Addressing the actions identified in the most recent HMICFRS review will improve the performance of the Force and impact upon the findings of the next scheduled HMICFRS inspection.
<b>Auditor judgement</b>	Responding appropriately to regulator recommendations will allow the Force to evidence it's continuous improvement and will impact upon future reviews.
<b>Summary findings</b>	The most recent HMICFRS inspection of West Mercia was in 2018/19. A follow-up review in 2021 identified that the force still had 5 causes for concern, 74 recommendation and 19 areas for improvement yet to be addressed. This benchmarks better than the average nationally and across comparable forces, but still shows that a number of recommendations require closure.
<b>Management comment</b>	The force welcomes the auditors findings that the appropriate actions are being taken to address HMICFRS recommendations and will continue on this course.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Improving economy, efficiency and effectiveness

<b>03 Recommendation</b>	The PCC and Chief Constable should ensure ongoing monitoring of the outcome of the final arrangements to transfer services out of the strategic alliance with Warwickshire Police and consider a post implementation report on completion.
<b>Why/impact</b>	It is important to ensure that services are transferred in a timely and efficient manner and that ongoing risks are fully understood and managed, as well as benefits and learning appropriately captured.
<b>Auditor judgement</b>	The transition from the strategic alliance with Warwickshire Police has a significant impact on the operations of the OPCC and the Force.
<b>Summary findings</b>	Whilst the PCC and Force have undertaken review of the transfer of services and operations from the strategic alliance with Warwickshire Police, transition arrangements continue. In addition, the impact of COVID-19 has in some cases made it more difficult to understand the impact of this transition on performance.
<b>Management comment</b>	The force has already engaged with CIPFA to feed in learning from the Alliance dissolution for the benefit of all forces. An updated view will be considered following the end of the transition period.



The range of recommendations that external auditors can make is explained in Appendix C.

# COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Police services are delivered.

We have considered how arrangements have adapted to respond to the new risks you are facing.

## Overview of Covid 19 Arrangements

THE PCC and Force have been able to manage the challenges posed by the COVID-19 pandemic, in relation to financial sustainability and the ability to maintain effective governance. Our review has not identified any significant weaknesses in arrangements for responding to the Covid-19 pandemic.

## Financial sustainability

The Money Matters reports include general costs, but also include the regular COVID-19 returns made to Government for income losses and other general COVID-19 expenditure. This has enabled monitoring of COVID-19-related expenditure/income loss, and reimbursement where appropriate in line with the various Government schemes. The Force has continued to provide the COVID-19 returns to Government during this year, in line with requirements, and this evidences that costs and lost income are being appropriately captured. All spending, including COVID-19-related expenditure, has to be incurred in line with the Corporate Governance Framework. This is reported on to the PCC and Chief Constable, within the Money Matters reports, where costs are subject to scrutiny and consideration of their legitimacy. The Money Matters reports are also subject to a monthly return to the Home Office for further audit and scrutiny. There is no evidence to suggest that expenditure during the pandemic was uncontrolled or out of line with regulation.

## Governance

Whilst the Force generally maintained a 'business-as-usual' approach to its governance arrangements during the pandemic, some adjustments were required. As a result of the lockdown restrictions announced on the 16<sup>th</sup> March 2020, the Force adjusted some of its internal control processes to support effective governance throughout the pandemic. For example, 'mobile' working was immediately and successfully deployed, enabling many police officers and police staff to continue working seamlessly without going into the station or office. This was also implemented by the Office of the PCC. All office-based staff were provided with the necessary equipment to work from home, enabling a smooth transition to remote working where this was possible, including hundreds of telephones and laptops. Home-based working has continued throughout the pandemic, and the Force and Office of the PCC have not seen a significant impact on productivity as a result. Following the first national lockdown, committee meetings moved to video conferencing and subsequently took place online throughout the pandemic. Our reviews of the meeting minutes evidenced that appropriate levels of scrutiny and challenge continued to be applied, and we saw this first-hand from our attendance at Joint Audit and Standards Committee meetings. There was also consideration by the entities around the different risks and the strategic risk registers were updated to ensure Covid-19 related risks were recorded appropriately and mitigated where appropriate.

## Economy, Efficiency and Effectiveness

Because continuity of delivery was maintained in regard to financial management and governance, the PCC and Force were able to continue to deliver services and transformation in line with the Police and Crime Plan. This included the transitional arrangements with Warwickshire Police for the wind down of the strategic alliance and the ongoing residual shared arrangements such as ICT provision. In addition, collaboration with Fire and Rescue Services on the control room and other opportunities was also able to progress. As a result, COVID-19 has not significantly disrupted the PCC and Force's ability to deliver economy, efficiency and effectiveness.

# Opinion on the financial statements



## Audit opinion on the financial statements

We propose to give unqualified opinions on the Group & PCC and Chief Constables following completion of our audit work and the Joint Audit and Standards Committee scheduled on 22 November 2021.

## Joint Audit Findings Report

More detailed findings can be found in our Joint AFR, which was published and reported to the PCC's and CC's Joint Audit and Standards Committee on 22 November 2021.

## Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA returns prepared by the PCC and Chief Constable. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

These instructions have yet to be issued and as such we cannot complete this work or formally certify the closure of our audits.

## Preparation of the accounts

The PCC and CC provided draft accounts in line with the national deadline and provided a good set of working papers to support them.

## Grant Thornton provides an independent opinion ensuring the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation





# Appendices

# Appendix A - Responsibilities of the PCC and CC



## Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the PCC's and CC's ability to continue to operate as going concerns

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the PCC's and CC's ability to continue as going concerns and use the going concern basis of accounting unless there is an intention by government that the services provided by the PCC and CC will no longer be provided.

The PCC and CC are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



# Appendix B - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the PCC's and CC's arrangements for securing economy, efficiency and effectiveness in their use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

<b>Risk of significant weakness</b>	<b>Procedures undertaken</b>	<b>Findings</b>	<b>Outcome</b>
Financial sustainability was not identified as a potential significant weakness. See pages 5 to 11 for more details.	No additional procedures required	No significant weakness identified	Appropriate arrangements were in place. Two improvement recommendations raised.
Governance was not identified as a potential significant weakness. See pages 12 to 14 for more details.	No additional procedures required	No significant weakness identified	Appropriate arrangements in place, no further action taken.
Improving economy, efficiency and effectiveness was not identified as a potential significant weakness. See pages 15 to 18 for more details.	No additional procedures required	No significant weakness identified	Appropriate arrangements were in place. Two improvement recommendations raised.
COVID-19 was not identified as a potential significant weakness. See page 19 for more details.	No additional procedures required	No significant weakness identified	Appropriate arrangements were in place.

# Appendix C - An explanatory note on recommendations

A range of different recommendations can be raised by the PCC's and CC's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the PCC and CC under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the PCC and CC to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the PCC and CC. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the PCC and CC, but are not a result of identifying significant weaknesses in the PCC's and CC's arrangements.	Yes	10, 11, 17, 18



