

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

2021/22

December 2022



# Contents



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 their 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 those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. 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.

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# Executive summary






## Value for money arrangements and key recommendation(s)

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 (CC) have put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

Auditors are required to report their commentary on the PCC and CC's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the PCC and CC's arrangements for securing economy, efficiency and effectiveness in their use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	No risks of significant weakness identified	 No significant weaknesses in arrangements identified, but improvement recommendation made.	 No significant weaknesses in arrangements identified, but improvement recommendation made.	↔
Governance	No risks of significant weakness identified	 No significant weaknesses in arrangements identified.	 No significant weaknesses in arrangements identified.	↔
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	 No significant weaknesses in arrangements identified, but improvement recommendation made.	 No significant weaknesses in arrangements identified.	↑

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

# Executive summary



## 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 a planned contribution to 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 their financial resilience. Our work has not identified any significant weakness regarding financial sustainability although we have raised an improvement recommendation in relation to appropriate budget setting. There was also a prior year recommendation made around savings which has not been fully addressed.



## 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 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 with regards to estates and the joint control room. Our review has not identified any significant weaknesses in arrangements in this regard.



We propose to give an unqualified audit opinion on the Group & PCC and Chief Constable's financial statements following the Joint Audit and Standards Committee meeting on 17 November 2022. Our findings are set out in further detail on page 21.



# Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

## Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the PCC and CC's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

We propose to give unqualified opinions on the Group & PCC and Chief Constables accounts following completion of our audit work.

## Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

No statutory recommendations have been issued.

## Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

No Public Interest Report has been issued.

## Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

No application to the court has been required.

## Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

No advisory notice has been required.

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

## Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

No judicial review has been required.

# Securing economy, efficiency and effectiveness in the PCC and CC's use of resources

All PCCs and CCs 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 and CC's responsibilities are set out in Appendix A.

PCCs and CCs 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 CC 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 delivers their services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on the PCC and CC's arrangements in each of these three areas, is set out on pages 7 to 18. Further detail on how we approached our work is included in Appendix B.

# Financial sustainability



## We considered how the PCC and CC:

- identifies all the significant financial pressures that are relevant to their short and medium-term plans and builds them into their plans
- plans to bridge funding gaps and identify achievable savings
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures the financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- 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 CC have faced significant financial challenges in 2021/22 and these will continue through to 2022/23 against a backdrop of the current economic climate. Despite this, to date a sustainable financial position has been achieved, and subject to the achievement of planned savings and the successful mitigation of the financial risks identified, a sustainable financial position is forecast into the future. The Force have demonstrated a reasonable track record of delivering savings over the past five years and the PCC has established a sustainable level of reserves to help manage financial risks, though improvements can be made.

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 the longer-term view of priorities and demand for services. Council Tax assumptions are a key element of planning, and the Force are working closely with their Billing Authorities to understand assumptions around the Council Tax Base and the surplus/deficit on 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 at a time when expenditure assumptions are also increasingly challenging owing to the inflationary pressures currently being seen in the UK.

Our work has not identified any significant weakness regarding financial sustainability although we have raised an improvement recommendation in relation to savings plan delivery.

## Key Financial Assumptions - Funding

We have reviewed the financial assumptions in the Medium-Term Financial Plan (MTFP) to 2025/26 and found these to be reasonable. The precept was increased by 3.94% in 2022/23 and it is assumed that increases will be 1.99% thereafter. The Council Tax base is assumed to increase by 1.98% in 2022/23, with growth of 1.50% a year assumed thereafter.

It was estimated that there would be a surplus on the Collection Fund for 2021/22 of £0.7m leading to an estimated cumulative position of a £0.5m deficit. Central Government legislated that the brought forward deficit balance would be paid for by West Mercia over a three-year period 2021/22 – 2023/24 as part of the COVID-19 pandemic response. The surplus in 2021/22 will be distributed to West Mercia in 2022/23 which will offset against the deficit. The MTFP assumes that the annual surplus will increase through 2022/23 to approximately £1m, offsetting the remaining deficit, before taking the full surplus in 2023/24.

# Financial sustainability



## We considered how the PCC and CC:

- identifies all the significant financial pressures that are relevant to their short and medium-term plans and builds them into their plans
- plans to bridge funding gaps and identify achievable savings
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures the financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- 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 2022/23 to offset some of the costs of pay increases and other inflationary pressures, the cost 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.

The increases in Council Tax follow the majority of Police MTFPs and are within the current legislation and therefore overall these seem reasonable. Given the surplus position on the collection fund in 2021/22, the assumptions leading to the offsetting of the remaining deficit also appear reasonable.

### Key Financial Assumptions – Cost Pressures

We are satisfied that West Mercia have appropriately considered the key pressures that they will face, although some assumptions have subsequently been found to be optimistic. For example, pay is typically the largest area of expenditure for the Force, and hence a significant portion of the budget allocation from the PCC. There was an assumption that pay would increase in 2022/23 following the announcement in the Chancellor's Spending Review that the Public Sector Pay Freeze had ended. The assumption made by the body was a pay increase of 2% in 2022/23 and then 2.5% in following years. The assumptions made by the Force were on the lower side when compared to other forces, although not unreasonable at the time that they were made. The subsequent pay awards that have been accepted amount to an average increase of circa 4% in 2022/23, with these subsequent events meaning that the financial position for all police bodies moving forwards will be challenging, albeit somewhat more pronounced for West Mercia given their original assumption was lower than that of some other forces.

### Managing the funding gap and use of resources

For the financial year 2021/22 the PCC and CC achieved an overall underspend on budget of £7.7m against a revised revenue budget of £245m, after a planned contribution to reserves of £0.6m. It was recognised that, although this is welcome to address budget pressures and enhance the balance sheet, it demonstrates that the forecasting of revenue spend has not proved to be sufficiently robust. Capital expenditure for the year was underspent by £16.3m against a revised capital budget of £27m.

### Improvement recommendation

*The Force should investigate the reasons behind the large variances between budget and outturn across both Capital and Revenue to determine if future budget setting is appropriate.*

Within the MTFP the Treasurer's Statement on the Soundness of the Budget and the Adequacy of Reserves outlines and checks compliance with the seven key principles as set out by CIPFA guidance, which ensures that public sector entities discuss the adequacy of their financial reserves and reviews them. This is an important statement within the budget setting context.



# Financial Sustainability



## We considered how the PCC and CC:

- identifies all the significant financial pressures that are relevant to their short and medium-term plans and builds them into their plans
- plans to bridge funding gaps and identify achievable savings
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures the financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

The budget plan assumes that the level of general reserves should stay above the recommended minimum level through to 2025/26, 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 are undertaking an investigation into allegations of corporate manslaughter at an NHS Trust. The costs of this are significant and the Force has been able to claim a Special Grant from the Home Office for a tapered grant (85% - 70%) on a budget of £4m per year. The remaining expenditure needs to be met from the West Mercia budget. There are sufficient earmarked reserves currently set aside to cover the next two years of costs and this demonstrates appropriate and prudent financial planning.

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

The 2022/23 budget, the Medium-Term Capital Programme and the MTFP aim to address the financial challenges and include investment in key areas, whilst aiming to keep council tax increases as low as possible. In 2021/22 the Force developed a detailed savings plan to achieve savings of £4.2m and monitored this closely. As a result of this focus on monitoring and delivering savings plans, West Mercia Police now sets a balanced budget, and is not reliant on reserves to balance its books ensuring its sustainability into the future.

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. The Force originally budgeted to deliver savings of £4.6m in 2021/22 which was revised to £4.2m on revision of the budget. The full savings plan for 2021/22 outturn shows achievement of £3.2m, with all unachieved savings offset by other budget savings. The use of one-off measures and budget underspends allows a balanced in-year position to be achieved, however the underlying need for the recurring savings remains and so this is not a permanent budget solution. The current savings needed to be identified for 2022/23 are £2.1m to achieve a balanced budget.

*We made an improvement recommendation in 2020/21 that 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. This has been considered as part of the review of prior year recommendations at pages 18-19.*

Stakeholders, including residents, are consulted during the development of savings plans in order to identify where needs are, helping to determine the overall plan and ensure that this is properly focussed. The PCC approves savings schemes through the budget report annually.

A savings tracker (which is independent of the budget tracker) details progress against each initiative is updated and reported on a monthly basis. There is a RAG rating in place so any savings 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' line 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. The PCC has set out a detailed plan of where the required savings are to be made in 2022/23.

# Financial sustainability



## We considered how the PCC and CC:

- identifies all the significant financial pressures that are relevant to their short and medium-term plans and builds them into their plans
- plans to bridge funding gaps and identify achievable savings
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures the financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- 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. The PCC is planning significant capital investment of £99.5m 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. A revised Estates Strategy has been developed and implemented during 2021/22. This has resulted in the service provided around estates improving, as well as bringing financial benefits due to bringing the function in-house. This allows resources to be diverted towards other key priorities.

*We made an improvement recommendation in 2020/21 that the Force should ensure that sufficient capital programme management processes are in place to accommodate the increased level of investment and borrowing set out in the MTFP. This has been considered as part of the review of prior year recommendations at pages 18-19.*

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 the new capital projects also require revenue lifecycle costs to be considered and are reviewed by finance before submission to Chief Officers and the 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 Head 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 departments providing alignment at the operational level. The integration at these three levels ensures the plans are aligned and can inform each other. In addition, as part of the PBP (People Before Profit) 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



## We considered how the PCC and CC:

- identifies all the significant financial pressures that are relevant to their short and medium-term plans and builds them into their plans
- plans to bridge funding gaps and identify achievable savings
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures the financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- 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 risk registers in place for both the PCC and CC which detail and outline the identified financial risks. These registers are reviewed by the Joint Audit and Standards Committee routinely for appropriate challenge. The risks are discussed amongst Executive Managers on a quarterly basis, both internally and externally via Joint Audit and Standards Committee meetings. The risks are also reported to the Governance Board. It has been confirmed that the risks are considered when preparing budgets and are considered as individual specific risks on a qualitative basis. The risk analysis is also within the budget report.

As part of the PCC's ongoing commitment to seek feedback from communities and use this to shape his decision making, he sought views from the public to ensure that policing in West Mercia continues to meet the needs of residents, businesses and communities. The consultation on this year's budget took place ahead of the official budget setting, in order to understand where concerns lie. The first consultation period ran from 3rd December 2021 to 3rd January 2022. This was the largest single programme of engagement in the year, alongside the quarterly confidence survey. The PCC wanted to understand what the key areas of concerns were where people live, if people were willing to pay more in council tax, and if so where would they like the focus to be, as well as general views towards the council tax precept. In total, 1,412 responses were received from the consultation. The findings were implemented within the final plan.

Sensitivity analysis has been conducted as part of the budget preparation. Horizon scanning is also conducted which considers changes to government policy and what the potential arrangements might be. Scenario modelling is also conducted. All of these things allow the PCC, CC and wider stakeholders to understand the significant uncertainties affecting the budget and MTFP and allow for more informed decisions to be taken, as well as highlighting potential risk.

In addition to the PCC's reserves, the CC 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.

# Improvement recommendations



## Financial sustainability

### Recommendation

The Force should investigate the reasons behind the large variances between budget and outturn across both Capital and Revenue to determine if future budget setting is appropriate.

### Why/impact

Inaccurate budgeting could lead to unexpected under or overspends in future years. This could impact on the level of reserves and could lead to inflexibility in decision-making, or decisions being made based on inaccurate information.

### Auditor judgement

Ensuring budgeting is sufficiently robust will help to ensure the financial sustainability of the organisations and ensure well informed decision making.

### Summary findings

For the financial year 2021/22 the PCC and CC achieved an overall underspend on revenue budget of £7.7m, after a planned contribution to reserves of £0.6m. It was recognised that although this is welcome to address budget pressures and enhance the balance sheet, it demonstrates that the forecasting of revenue spend has not proved to be sufficiently robust. Capital expenditure for the year was underspent by £16.3m against budget.

### Management Comments

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 the PCC and CC :

- monitors and assesses risk and gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out the annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures they make properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

## Overview of Governance Arrangements

The PCC and CC have established effective governance arrangements around financial oversight, risk management and review. 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 risks, although we have made an improvement recommendation with regard to the documentation of decision making.

### Budget setting and monitoring

The PCC and CC have 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.

We noted that the budget setting for 2021/22 resulted in significant revenue and capital underspends. This has been raised as an improvement recommendation within the financial sustainability section of this report on page 13.

### Financial monitoring 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 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 and sets an appropriate "tone from the top".

### Monitoring and ensuring appropriate standards

There are various policies and procedures in place which monitor and ensure compliance with legislation and regulatory standards. The PCC and Chief Constable websites have sections with a list of policies, which includes all key policies that we would expect to see, including Anti-Fraud and Corruption Policy. These are available online to the public for the PCC.

### 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. The risk registers are up to date and reviewed on a regular basis. The risks are routinely discussed amongst OPCC managers, executive managers and the Chief Constable on a quarterly basis. They are also reported to the Joint Audit and Standards Committee. These arrangements are as we would expect, and the risks identified are in line with our expectations for the organisations and the sector.

# Governance



## We considered how the PCC and CC:

- monitors and assesses risk and gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out the annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures they make properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

## 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 Reverses 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 a strong understanding of the financial risks facing policing in West Mercia and reassesses the level of reserves required when appropriate.

### 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 2022/23 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 given the current economic climate and soundings coming from Government. Reserves have diminished over recent years which presents a risk 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 against 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. 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.

The 2021/22 Internal Audit Annual Report indicates that effective core financial controls are in place and functioning as expected and gave an overall assessment of moderate assurance.

Regular financial reporting to the PCC and CC is made via regular 'Money Matters' reports, which provide a comprehensive overview of performance to enable effective governance. Actions arising from discussions at the Governance Board are agreed between the PCC and the CC and recorded on the website.

# Governance



## We considered how the PCC and CC:

- monitors and assesses risk and gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out the annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures they make properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

## Financial Monitoring

Virement rules and responsibilities are set out in the Financial Regulations (last reviewed October 2019) 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 CC at the Governance Board meeting which ensures appropriate governance exists over budget changes.

## 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 detailed 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. This non-financial information allows decision makers to understand service impacts of decisions against the financial backdrop.

## Monitoring and ensuring appropriate standards, such as meeting legislative/regulatory requirements

The Chief Executive left their position on 4 March 2022 by mutual agreement. We understand that appropriate advice was taken in respect of the financial, legal and HR implications of this decision. A decision notice was placed on the PCC’s website. The organisation should ensure that procedures are in place so that future confidential decisions continue to be appropriate and documented.

# Improving economy, efficiency and effectiveness



## We considered how the PCC and CC:

- use financial and performance information to assess performance to identify areas for improvement
- evaluate the services they provide to assess performance and identify areas for improvement
- ensure they deliver their role within significant partnerships and engage with stakeholders they have identified, in order to assess whether objectives are being met
- where they commission or procure services assess whether they are realising the expected benefits.

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

The PCC and CC have put in place effective arrangements to improve economy, efficiency and effectiveness. This includes significant collaboration with local fire and rescue services regarding estates and the control room. Our review has not identified any significant weaknesses in arrangements in this regard.

## Performance monitoring

The CC has demonstrated that they have a robust performance monitoring and reporting regime in place. This is in place across both 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 the 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 2021-2025'. The PCC has developed a 'holding to account' programme that, framed by the '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 a target level, but there is evidence that reporting clearly sets out both the mitigating factors driving this performance and actions required to address performance, and we consider that the overall arrangements are therefore appropriate.

## Service improvement

The Force is subject to inspection by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) and an inspection was completed in 2021/22. This review concluded that there are areas of the Force that 'require improvement' and that the Force is good at preventing crime but improvements need to be made in how it investigates crime, responds to the public and makes good use of resources.

The inspection from HMICFRS identified a number of specific causes of concern, recommendations and areas for improvement. An extraordinary holding to account meeting took place in May 2022 and a subsequent review of the report and plan for the Force to address the areas raised was presented to the Police and Crime Panel in June 2022. The progress against this plan is monitored and reviewed through the holding to account programme, which provides challenge and scrutiny.



# Improving economy, efficiency and effectiveness



## We considered how the PCC and CC:

- use financial and performance information to assess performance to identify areas for improvement
- evaluate the services they provide to assess performance and identify areas for improvement
- ensure they deliver their role within significant partnerships and engage with stakeholders they have identified, in order to assess whether objectives are being met
- where they commission or procure services assess whether they are realising the expected benefits.

## Partnership working

The Force collaborates with policing partners in the West Midlands region in order to combat the national threats identified in the Strategic Policing Requirement. Regional oversight and governance mechanisms are established at a senior level, with strategic governance maintained via the Regional Governance Group (RGG). The RGG is attended by the CC and PCC and messages are fed back to the Joint Audit and Standards Committee by the CC and PCC.

In respect of Place Partnership Limited (PPL), following Worcestershire County Council's decision in March 2020 to withdraw from the partnership in March 2021, it was acknowledged by West Mercia and the remaining partners that PPL hadn't delivered the levels of efficiency and improvements that were expected when PPL was created. It was also acknowledged that without the County's involvement, PPL would not be viable. Therefore the PCC made the decision to move the Estates function in-house from 1 April 2021 and agreed with the remaining partners to undertake an "orderly winding up" of PPL. The winding-up has been completed and our work in this area has not identified any issues.

The alliance with Warwickshire Police formerly came to an end in April 2020. The previous (2019) HMICFRS report on West Mercia identified concerns around the ability of the force to offer a full, uninterrupted range of public services once the alliance ended. The review identified a lack of detailed preparation in advance of the termination announcement. The 2022 HMICFRS report did not identify any issues with the effects of the end of the strategic alliance and therefore this risk did not materialise, and we consider that the overall arrangements were appropriate.

## 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:

1. Performance culture
2. Responsibility
3. Collaboration, knowledge and innovation
4. Governance and compliance
5. 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 is a recognised approach to seeking continual service improvement and we consider the arrangements here are appropriate.

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

# Follow-up of previous recommendations

1	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	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.	Improvement	November 2021	The risk assessment developed in 2020/21 provided to be effective in identifying and managing risk and was repeated with minor modifications in 2021/22, again to good effect.	Yes	N/A
2	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.	Improvement	November 2021	There is an estates governance forum to provide clear link between the Force and Estates team to manage large projects and the implications for operational policing. This reports into the estates governance group which provides strategic oversight of the work of the estates team, including progress on key projects. The Estates team has a Head of Projects in place to oversee delivery by his team, however they are currently restricted due to vacancies in the team and trying to recruit in what is a competitive labour market. Capital monitoring is reported quarterly through Money Matters which provides an update to the West Mercia Governance Board on progress against budget, where there is slippage and the implications for the MTFP. The current budget setting for 2023/24 has a clear link to the financial implications of proposed capital spend and is being reviewed to ensure that it is affordable over the MTFP.	Yes	N/A
3	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.	Improvement	November 2021	The Strategic Alliance with Warwickshire Police was concluded in March 2020 with only the IT shared Service remain as a joint function. This was successfully terminated during 2020/21 with West Mercia continuing to support Warwickshire through the hosting of some ICT applications during 2021/22. These have now been transferred to Warwickshire and the Hosted Services Agreement concluded. The two forces continue to collaborate as region partners and share data in accordance with data sharing agreements. The lessons learnt regarding the deficiencies in the original Alliance agreement have been considered and a strategy for future collaborations produced. The force operates an Organisational Learning Board where the lessons are shared.	Yes	N/A

# Follow-up of previous recommendations

4	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?																				
	We recommend that the Force continue to actively continue to engage with HMICFRS and continue to work towards completing the outstanding actions yet to be addressed.	Improvement	November 2021	<p>The force continue to work with HMICFRS to evaluate and then work towards closure of recommendations and AFIs across all business areas.</p> <p>As a force, graded by both qualitative (HMIC assessment grading) and quantitative (number of open recommendations, AFIs and CoC's) we are very much "average" when compared both nationally and in our MSG (most similar group) categories. The figures below give an assessment of our position as of 10/11/22:</p> <p>The current West Mercia position in relation to open Causes of Concern, Recommendations and AFIs is as follows (correct 10/11/22) This can be compared to the national position and our most similar group (MSG) position. (MSGs are groups of police force areas that have been found to be the most similar to each other) and to other forces nationally. As can be seen the West Mercia figures are similar to the national and MSG averages.</p> <table border="1" data-bbox="992 986 1659 1126"> <thead> <tr> <th></th> <th>West Mercia</th> <th>MSG average</th> <th>National</th> </tr> </thead> <tbody> <tr> <td>Average</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Causes of Concern</td> <td>9</td> <td>7.4</td> <td>5.7</td> </tr> <tr> <td>Recommendations</td> <td>99</td> <td>101.3</td> <td>94.0</td> </tr> <tr> <td>AFIs</td> <td>39</td> <td>36.6</td> <td>30.9</td> </tr> </tbody> </table> <p>West Mercia plans to review all open recommendation with force FLL's from HMIC in November with a view to closure of all those that are duplicated or superseded by other reports, or have had sufficient evidence to warrant closure. This will allow clarity of focus on those outstanding recommendations and AFI's as per the auditor comments above.</p>		West Mercia	MSG average	National	Average				Causes of Concern	9	7.4	5.7	Recommendations	99	101.3	94.0	AFIs	39	36.6	30.9	Yes - ongoing	Review of all open recommendations with force FLL's from HMIC in November 2022.
	West Mercia	MSG average	National																							
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AFIs	39	36.6	30.9																							

# Opinion on the financial statements



## Audit opinion on the financial statements

We propose to give unqualified opinions on the Group & PCC and Chief Constables accounts following completion of our audit work.

## Joint Audit Findings Report

More detailed findings can be found in our Joint Audit Findings Report, which was published and reported to the Joint Audit and Standards Committee on 17 November 2022.

## 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 return prepared by the PCC and CC. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

These instructions have not yet been issued and as such we cannot complete this work or formally certify closure of our audits for 2021/22.

## 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 it.

## Grant Thornton provides an independent opinion on whether 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 Police and Crime Commissioner and Chief Constable

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 and CC's ability to continue as a going concern 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 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 identified as a potential significant weakness, see pages 7-11 for more details.	No additional procedures required.	No significant weakness identified.	Appropriate arrangements were in place. One improvement recommendation raised.
Governance was identified as a potential significant weakness, see pages 14-16 for more details.	No additional procedures required.	No significant weakness identified.	Appropriate arrangements were in place.
Improving economy, efficiency and effectiveness was identified as a significant weakness, a more detailed review was undertaken see pages 18-19 for further information	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.	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 and CC's arrangements.	Yes	12



