

## Joint Audit Committee

29 April 2021

Responsible Officer:	Impact on Business:		Risk Register Reference & RAG
Jon Lee Director of Finance & Resources	High		
	Medium		
	Low		
Lead Manager:	Report Type:		
Jon Lee Director of Finance & Resources	Governance		
	Strategic		
	Operational		
Previous papers to Committee:			
No.			

<b>Report summary</b>	<p>The report provides an overview of the Financial Management Capability Review (FMCR) undertaken by the Constabulary as part of the Achieving Financial Excellence in Policing (AFEP) Programme.</p> <p>The report sets out the next steps in implementing the actions in the improvement plan.</p>			
<b>Related Police and Crime Plan objective</b>				
<b>Action</b> (tick one box only)	Information <input checked="" type="checkbox"/>	Assurance <input type="checkbox"/>	Approval <input type="checkbox"/>	Decision <input type="checkbox"/>
<b>Recommendation</b>	For JAC to note and comment on the report.			

## 1. Purpose

- 1.1 This report provides an overview of the Financial Management Capability Review (FMCR) that Cambridgeshire Constabulary had undertaken as part of the CIPFA Achieving Finance Excellence in Policing (AFEP) Programme. The FMCR process results in a rating and an improvement plan with a view to move to the next grading.
- 1.2 The report also sets out the next steps in implementing the actions within the improvement plan which the Chief Officer Team endorse and will deliver.
- 1.3 The Joint Audit Committee is asked to note and comment on the report.

## 2. Background

- 2.1 CIPFA (the Chartered Institute of Public Finance and Accountancy) have in place a national programme called Achieving Finance Excellence in Policing (AFEP) which has been developed with forces through the NPCC Finance Coordination Committee. This programme provides online resources, statistics and benchmarking, policy guidance, access to some training, an asset management health check and the FMCR. This report focuses on the latter which can be undertaken by way of self-assessment or by a more formal and independent review by CIPFA. Cambridgeshire opted for the CIPFA review to provide the rigour and independence in assessing the financial arrangements within the Force.
- 2.2 As defined by CIPFA, the FMCR is an independent 'as-is' assessment of a force's capability to effectively manage its current finances, internal process and operations, as well as how it plans future financial management. Key outputs include identification of areas of best practice and areas for improvement. The process is repeated in 12 months' time to review progress made and provide an updated report on the full FMCR.
- 2.3 The FMCR focuses on two areas:
  - 1) **A financial resilience review** – an assessment of the financial sustainability of an organisation and its ability to withstand financial shock; and
  - 2) **A financial management review** – an assessment against best practice and other organisations who have also been reviewed using the FM model to identify issues and create an improvement plan that can be tracked.
- 2.4 The FMCR fieldwork for Cambridgeshire police was conducted in April and May 2020. CIPFA examined the following data:
  - Electronic survey – 74% overall response rate (31 out of 42).
  - One-to-one interviews – 27 interviewees from the Constabulary and other key stakeholders.
  - Document review – the documents covered: background information, such as the annual report; organisational structure and governance arrangements; the MTFs and other plans and strategies; the financial management framework and monitoring arrangements; inspection, audit and risk management; HR policies, staff surveys and other documents.

### 3. Outcome of the FMCR

3.1 The key headlines from the CIPFA review are set out in this section.

#### **Financial Resilience Review**

#### 3.2 **Medium Term Financial Strategy (MTFS)**

The longer term sustainability of Cambridgeshire Police's financial position is dependent on addressing the escalating budget gap (from £2.8 million in 2021-22 to £7.8 million in 2023-24) set out in its MTFS.

Most of the savings required have yet to be identified. Together with potential slippage in savings already built into the 2020-21 budget, there is little flexibility for any additional unforeseen financial challenges.

#### 3.3 **Reliance on Central Funding**

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

This makes Cambridgeshire less vulnerable to reductions in government funding than the majority of other forces, albeit only marginally.

The police precept was increased in line with the maximum allowable in 2019/20 and in 2020/21 thereby maximising the contribution from local funding.

#### 3.4 **Reserves**

Cambridgeshire maintains a healthy General Reserve and there is no plan to use reserves to close the budget gap over the period of the MTFS.

However, any slippage in the achievement of planned savings or failure to identify the savings yet to be identified that are required to close the budget gap would imply a depletion in reserves to mitigate any shortfall. The Director of Finance & Resources confirmed that he is aware of such a risk and is tightening the arrangements for tracking progress.

#### **Financial Management Review**

#### 3.5 **Overall Assessment**

Using CIPFA's five-star rating system, Cambridgeshire was rated overall as three-stars. This represents a relatively good performance in comparison to other forces assessed. CIPFA's definition of a three-star rating is:

#### ***CIPFA's Definition of a Three-Star Rating:***

*"The organisation has sound financial management capability and has arrangements in place that are adequate in supporting the organisation under stable conditions and enables it to incrementally develop but is not sufficient for challenging times or driving transformational change. There is a medium-term financial strategy and competent investment programme management that ensures that most programmes are implemented although invariably not all projects will come within budget and timescales. Commercial capabilities exist but are only partially developed."*

3.6

Current Snapshot	Management dimensions			
Financial management styles	Leadership	People	Process	Stakeholders
Delivering Accountability	****	**	****	*****
Supporting performance	**	*	**	**
Enabling transformation	**	**	*	**
<b>Overall Rating</b>	***			

- 3.7 Looking first at the vertical columns, Cambridgeshire scored highest in the management dimensions of 'Stakeholders' and 'Leadership' and less well in the 'People' dimension (in common with many other organisations). The reference to 'People' does not refer to the calibre of individuals – indeed we were impressed with those we interviewed – but rather to the tendency for business partnering to focus on routine operational issues, rather than strategic challenge or financial insight. The introduction of a financial competency framework would help to identify any skills gaps and thus the training or other support that budget holders and finance staff might require.
- 3.8 Turning to the rows on management styles, the Constabulary scores most strongly in the 'Delivering Accountability' style. This style is most closely related to the traditional role of finance and reflects the rigor of its existing centralised approach to the management of revenue and capital expenditure. The Constabulary's scores are weaker in the 'Supporting Performance' and 'Enabling Transformation' styles as there is limited delegation of budgets to operational staff and thus limited progress in 'bottom-up' initiatives to pursue value for money.
- 3.9 The FMCR report set out the issues and recommendations to be addressed in order for the Constabulary to modernise its approach to financial management and attain the improvement target set out below.

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

## Strengths

3.10 The review also identified many positive comments which should be noted with the CIPFA work highlighting the following key strengths:

- The finance team has demonstrated commitment and professionalism in how it has maintained financial control within the Constabulary despite staffing reductions to meet efficiency savings. There remains, for example, a firm handle on the overall financial position, with regular reports to the Chief Officer Team, that supports overall budgetary control.
- A clearly set out Medium-Term Financial Plan which reflects the identification of anticipated operational pressures through Strategic Threat and Risk Assessments (STRA) and the intention to establish financial stability.
- A demonstrable commitment by the Chief Constable, Acting Police and Crime Commissioner (PCC), Director of Finance & Resources, senior officers and independent non-executive members to raise financial awareness and to address the forecast spending gap from 2021-22 onwards through savings.
- Strong risk management and internal control arrangements including effective oversight by internal audit and the Audit and Risk Committee.
- A good, close working relationship between the Director of Finance & Resources, the Chief Constable and the PCC.
- Timely preparation of the financial statements with a clean audit opinion, providing external stakeholders with evidence of the integrity of its financial conduct and performance.

## 4. The Improvement Plan

4.1 The Improvement Plan from the FMCR is provided at Appendix 1 and sets out the need for a change management programme in relation to financial management that is organisation wide. If fully implemented, it would improve the star ratings achieved by Cambridgeshire.

4.2 The key components of such a change management programme include:

- Greater delegation of budgets currently held centrally.
- Implementing self-service for financial management reporting and forecasting.
- Establishing a more strategic approach in finance based on the finance business partner model.
- Redefining the financial management responsibilities and accountabilities of budget holders in line with the recommendations for greater budget delegation and self-service.
- Defining the finance offer to the organisation and the expectations placed on budget holders through an SLA.
- Producing a financial management competencies framework to identify the skills required organisation-wide supported by appropriate training programmes to fill skills gaps including amongst budget holders.
- Addressing the behavioural/cultural issues inherent in any change programme of this nature.

## 5. Project Management

- 5.1 In order to deliver the Improvement Plan project management arrangements have been put in place. The Senior Responsible Officer is the CFO and Director of Resources and a project team consisting of:
- Senior members of the Finance team;
  - BCH Financial Systems team representatives;
  - The Cambridgeshire Human Resources Business Partner;
  - A budget holder representative at Superintendent level to provide and inform the view from the business;
  - Project management support from the Organisational Improvement Centre; with
  - Other service representatives as and when required for specific elements of the plan.
- 5.2 Project Team meetings will be set up monthly to monitor progress, resolve issues and agree further action that may be required. The improvement plan will be tracked and regularly updated for the Project Team meetings and periodic updates will be reported through to the Force Executive Board.
- 5.3 Other key stakeholders being the OPCC and the Joint Audit Committee will also receive this report for consideration and comment.

## 6. Timelines

- 6.1 Work is ongoing to deliver the action plan. However, there are some aspects of the plan that will take longer to implement. Firstly, the introduction of e-procurement to introduce automated workflow to the procurement of goods and services. Secondly, collaborative planning which is an automated financial management reporting tool which interfaces directly with the general ledger making the monthly monitoring of budget forecasts by budget managers and the finance team more efficient.
- 6.2 There are some elements that may be more complex to deliver around the budgeting approach and the implementation of processes around e-procurement, the latter being dependent on resource available to implement the changed arrangements in Cambridgeshire.
- 6.3 Updates will be reported through to the Chief Constable's Force Executive Board as appropriate.

## 7. Financial Consideration

- 7.1 As the majority of the actions in the plan are with finance, a temporary 12 month Project Accountant will be recruited to provide the added capacity to deliver the e-procurement and collaborative planning change projects.
- 7.2 Beyond the temporary Accountant it is not expected that there will be the need for additional financial investment to achieve the improvement plan as the actions are related to process,

role definition and responsibility – so in effect a cultural change to financial management within the organization.

## **8. Desired Outcome**

- 8.1 The desired outcome from the project will be the implementation of the improvement plan, a modernised approach to financial management within the organization through delegated budget management and enhanced business partnering. In turn this should support the organisation to continually stay ahead of the financial challenge through organisation wide financial responsibility, proactively transforming to deliver a sustainable financial outlook.