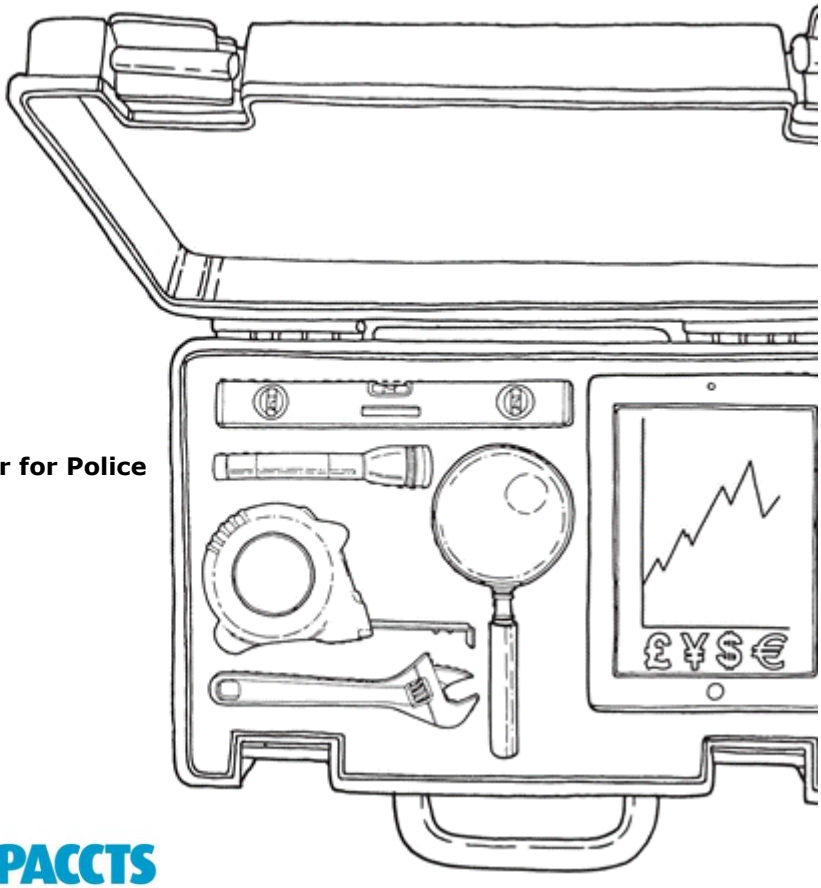
CIPFA performance in public services

# Financial Management Capability Review of Lincolnshire Police

December 2019

DRAFT




Contact

**Amie Hall**

**CIPFA National Programme Manager for Police & Business Development Manager**

amie.hall@cipfa.org


NPCC National Police Chiefs' Council

Association of Police and Crime Commissioners

PACCTS Police and Crime Commissioners Treasurers' Society

# Contents

Executive Summary ..... 3
Introduction ..... 6
Financial Capability Review Approach ..... 7
Financial Resilience Review ..... 8
Financial Management Review ..... 14
Improvement Plan..... 22
Appendices..... 24

DRAFT

# Executive Summary

From June 2019 to October 2019, CIFPA conducted a Financial Resilience and Financial Management Capability Review (FMCR) at Lincolnshire Police. Gathering data through an electronic survey, one-to-one interviews with staff and a review of key documentation, and using a benchmark of best practice in the public sector, CIPFA has reviewed the financial resilience and quality of financial management of the organisation.

## Financial Resilience Review

### Medium Term Financial Strategy (MTFS)

The current 2019/20 – 2022/23 MTFS is constructed on high level assumptions that predict forecasted deficits of £6.7 million in 2020/21, £7.2 million in 2021/22 and 6.9 million in 2022/23. The deficits are deemed to be fully met by a cost reduction programme. The cost reduction programme beyond 2019/20 is yet to be constructed and it is unclear whether the £3.2 million of reduction requirement will be delivered within the current year 2019/20. There is some level of uncertainty over the likelihood to close the gap on successive deficits.

The projected 2022/23 deficit of £6.9 million is approximately 5% of total budget and this level of projected deficit in the face of limited reserves points to weaker financial resilience in the face of uncertainties over funding and untested cost reduction capability.

### Reliance on Central Funding

Lincolnshire will be sensitive to changes in funding policy even though Lincolnshire's dependency on central government funding is just below the average of UK police forces with Council Tax related funding taking a larger proportionate share compared to the UK average. Any significant shift in policy on police funding is likely to affect the core funding assumptions in the MTFS and may also impact investment plans totaling some £20.372 million over the four-year period on Capital Programme. Council Tax precept increases have been set within the MTFS at 2% per annum from 2020/21 onwards although they may need to be varied upwards (subject to Ministerial guidance on potential ceilings for public consultation) should core funding and cost reduction assumptions fail to crystalize.

### Reserves

Lincolnshire has committed to maintaining its General Reserve to 4% of the Net Revenue Budget. Since 2015/2016 to 2018/19 Lincolnshire has depleted its General Reserves by 14.09% from £5.656 million to £3.232 million. The actual depletion rate on total reserves between 2015/16 and 2018/19 has been 14.26%. At the end of 2018/19, Lincolnshire's reserves as a proportion of spend was 8.38%. This is lower than average position across the UK. Outwith earmarked reserves for specific projects the projected level of risk based contingency reserve of £5.4 million (or 4.3% of the revenue budget) to 2022/23 highlights that the level of potential contingency available to meet any unplanned pressures deficits may be extremely limited. The risk that reserves may be inadequate rises significantly should the key assumptions on of cost reduction and Police Grant levels fail to meet MTFS expectations

DRAFT

In summary, Lincolnshire faces significant financial resilience challenges ahead but our review of Financial Management capability suggests that Lincolnshire has the appropriate high-level leadership and financial expertise necessary to meet these challenges.

## Financial Management Review

### Overall Assessment

Using CIPFA's five-star rating system, Lincolnshire was rated overall as THREE STARS. It scored well in the management dimensions of "Leadership" and "Stakeholders". From our experience the "People" Dimension is typically the weakest of the Management Dimensions across the range of organisations we have worked with and this is also the case at Lincolnshire. Whilst Lincolnshire's financial management style is strongest in "Delivering Accountability" (which is most closely related to the traditional role of finance), and consistent with most organisations it is weakest in "Enabling Transformation". A current snapshot of Lincolnshire's statement scores in a star rating format is expressed below.

| **CURRENT SNAPSHOT** | **Management Dimensions** | | | |
|---|---|---|---|---|
| **Financial Management Style** | **Leadership** | **People** | **Processes** | **Stakeholders** |
| **Delivering Accountability** | **** | * | **** | ***** |
| **Supporting Performance** | *** | * | *** | ** |
| **Enabling Transformation** | ** | * | * | **** |

Specific strengths identified were.

- Technical financial skills – there are strong technical finance capability at a strategic level including financial reporting
- Leadership – there is a full recognition of importance of sound financial management and the need for improvement
- Transactional finance delivers a consistent level of performance and key metrics are well reported and tracked
- Effective assurance and risk arrangements are in place at Lincolnshire. There is a sound approach to Internal Audit/Joint Independent Audit Committee work and a robust internal control framework including risk management
- Consultation – Lincolnshire is very receptive to views from stakeholders in the shaping of outcomes and related financial strategy. The Community Safety, Policing & Criminal Justice Plan and Distinctively Lincolnshire: Policing with Pride
- In-Year agility – there is robust in-year high level monitoring and effective re-calibration capability
- Good, close working relationship between the respective Chief Financial Officers of the Chief Constable and the Police and Crime Commissioner
- Timely preparation of the financial statements with a clean audit opinion

However, nine areas for improvement (some interlinked) were identified:

DRAFT

- Developing a more effective and dynamic financial Medium-Term Financial strategy (MTFP)
- Budget Setting – largely incremental, lacking precision and challenge
- Accountability for Financial Performance – not fully evidenced
- Financial Management Competency Framework and Performance Framework – does not exist
- Finance system – undue manual modelling required to produce in-year reporting
- Lack of diffused financial management and undue reliance on basic finance decision support
- Finance function efficiencies – no service planning and decision support service metrics
- Inability of the Finance function to deliver advanced decision support options and drive transformational change
- Delivering value for money/efficiencies – not embedded in day to day resource management and not within the 'DNA' of the organisation

On Financial Management capability Lincolnshire has important strengths including strong senior leadership and ability to recalibrate activity to meet financial targets at a high level. Such strengths are typically associated with the more traditional stewardship – delivering accountability aspects of financial management. Lincolnshire needs to put in place the conditions for delivering accountability for financial performance consistently across budget holders and improve diffused financial management capability including strengthening the effectiveness of Finance Decision Support and the current absence of an embedded value for money approach (VfM). The provision of financial support at Lincolnshire has clearly evolved to fit the prevailing culture of 'keeping the force safe' to try and ensure that the organisation works within its approved financial targets.

DRAFT

# Introduction

## About this Report

This report, in respect of Lincolnshire Police ("Lincolnshire"), is addressed to both the Police and Crime Commissioner and Chief Constable. It aims to highlight the key results from CIPFA's Financial Management Capability Review (FMCR). The FMCR encompasses a review of the organisation's Financial Resilience and Financial Management and the report sets out findings in respect of each element. It seeks to highlight key observations, issues and recommendations, along with a more detailed Improvement Plan that will be agreed with Lincolnshire.

## Background

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

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

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

## What is the FMCR?

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

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

The FMCR at Lincolnshire was conducted over a five-month period from June 2019 – October 2019. CIPFA obtained data from Lincolnshire as follows:

- Electronic survey – 86% overall response rate (24 out of 28)
- One-to-one interviews – 24 interviewees from Lincolnshire Police, PCC and other stakeholders
- Document reviews – e.g. Medium-Term Financial Strategy, Reserves Strategy

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

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

DRAFT

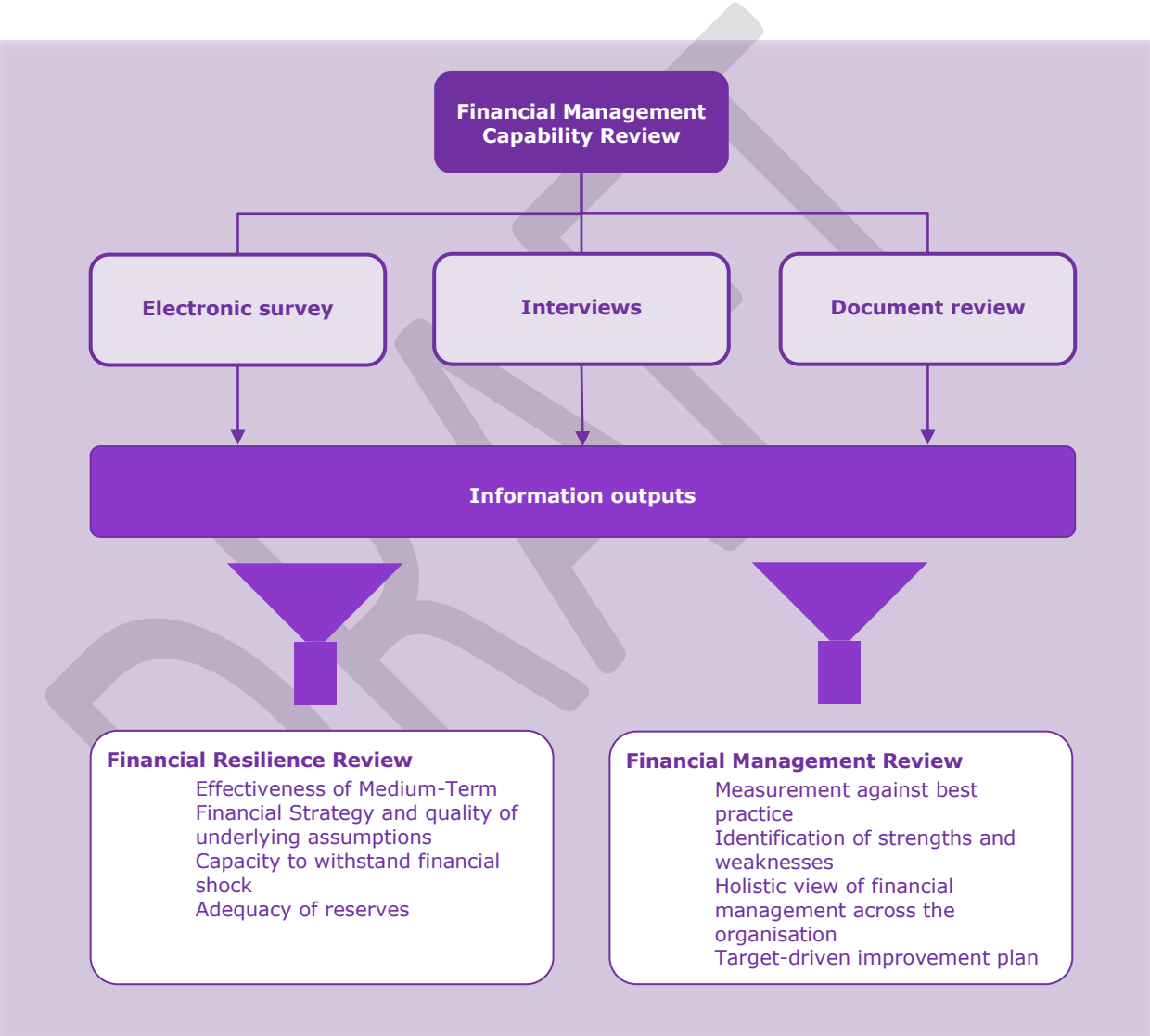
# Financial Capability Review Approach

## How is the FMCR conducted?

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

1) **A financial resilience review** – an assessment of the financial sustainability of an organisation and its ability to withstand financial shock.

2) **A financial management review** – an assessment against best practice and other organisations who have also been reviewed using the FM model to identify issues and create an improvement plan that can be tracked.



# Financial Resilience Review

## Key Findings

The review of Lincolnshire's Financial Resilience encompassed three key areas:

- Robustness of the Medium-Term Financial Strategy (MTFS)
- Reliance on Central Government Funding
- Status of Reserves

Lincolnshire faces significant financial resilience challenges ahead but our review of Financial Management capability suggests that Lincolnshire has high level leadership and financial expertise appropriate to the task ahead. Each of these areas is explored in more detail further on, however the key findings are summarised below:

| Summary | Key points |
|---|---|
| | ***Robustness of the MTFS*** |
| **Core assumptions, budget gaps and cost reduction** | • Core assumptions and related estimates appear to be formulated at a high level and lack sensitivity analysis, risk stress testing or scenario modelling. A key assumption is that forecast deficits of £6.7 million in 2020/21, £7.2 million in 2021/22 and 6.9 million in 2022/23 will be fully met by a cost reduction programme. The cost reduction programme beyond 2019/20 is yet to be constructed and it is unclear whether the £3.2 million of reduction requirement will be delivered within the current year 2019/20.<br>• Outwith earmarked reserves for specific projects the projected level of risked based contingency reserve of £5.4 million (or 4.3% of the revenue budget) to £2022/23 highlights that the level of potential contingency against potential deficits may be extremely limited. The risks that reserves may be inadequate rises significantly should the key variables of cost reduction and Police Grant assumptions are undelivered/under achieved. The projected 2022/23 deficit of £6.9 million is approximately 5% of total budget and this level of projected deficit in the face of limited reserves points to weaker financial resilience in the face of uncertainty over funding and unknown cost reduction capability. |
| | ***Reliance on Central Government Funding*** |
| **Below average dependency on central government funding but still at risk from policy change** | • Lincolnshire's dependency on central government funding is just below the average of UK police forces with Council Tax related funding taking a larger proportionate share compared to the UK average.<br>• However, any significant shift in policy on police funding is likely to affect the core funding assumptions in the MTFS and may also undermine investment plans. Council Tax precept increases have been set within the MTFS at 2% per annum from 2020/21 onwards although they may need to be varied upwards (subject to Ministerial guidance on potential ceilings for public consultation). |
| | ***Status of Reserves*** |

DRAFT

**Depleted reserves providing limited future resilience**

- Reserves have been falling significantly over recent years, which is a pattern consistent with other many other UK forces.
- At Lincolnshire since 2015/2016 to 2018/19 Lincolnshire has depleted its General Reserves by 14.09% from £5.656 million to £3.232 million. The actual depletion rate on total reserves between 2015/16 and 2018/19 has been 14.26%
- The current MTFS commits to maintaining the General Reserve as 4% of the Net Revenue Budget. At the end of 2018/19, Lincolnshire's reserves as a proportion of spend was 8.38%. This is lower than average position and reflects a level of vulnerability on the extent of headroom available to meet unforeseen/additional pressures. The forecasted levels of reserves may reduce further should funding be lower than anticipated, cost pressures being higher or cost reduction measures being undelivered or any combination of these.

## Robustness of the MTFS 2019/20 to 2022/23

### Deficits

The MTFS sets out a consistent pattern of deficits to 2022/23 as set out in the table below.

| Medium Term Financial Plan | 2018/19 £'000 | 2019/20 £'000 | 2020/21 £'000 | 2021/22 £'000 | 2022/23 £'000 |
|---|---|---|---|---|---|
| Police Grant | (57.907) | (59.123) | (59.123) | (59.123) | (59.123) |
| Council tax | (49.571) | (55.890) | (57.091) | (58.816) | (60.592 |
| Other income | (10.1921 | (11.3681 | (11.368) | (11.368) | (11.368) |
| Total income | (117.670) | (126.381) | (127.5821 | (129.307) | (131.083) |
| Expenditure | 122.738 | 130.108 | 134.291 | 136.524 | 137.963 |
| **Forecast deficit** | **5.068** | **3.727** | **6.709** | **7.217** | **6.880** |
| Use of Reserves | 5.068 | 0.500 | - | - | - |
| **Cost reduction programme** | **0** | **3.227** | **6.709** | **7.217** | **6.880** |

The financial position set out in the MTFS to March 2023 highlights significant budget gaps expanding from £3.727 million in 2019/20 to £6.880 million in 2022/23 (5% of total budget). There is a significant degree of uncertainty on grant and it is possible that the actual budget gap may be higher. Core staffing assumptions are based on 1,100 Police Officers and 118 PCSOs. The core assumptions and related estimates appear to be formulated at a high level yet we could not detect the application of sensitivity analysis, risk stress testing of key assumptions or scenario modelling. A key assumption is that forecasted deficits of £6.7 million in 2020/21, £7.2 million in 2021/22 and 6.9 million in 2022/23 will be fully met by a cost reduction programme. The cost reduction programme beyond 2019/20 is yet to be constructed and it is unclear whether the £3.2 million of reduction requirement will be delivered within the current year 2019/20.

It is expected that the forecasted 2019/20 deficit of £3.7 million will be partially addressed by a contribution of £0.5 million from Reserves in addition to the delivery of some £3.2 million from a cost reduction programme.

Flat funding assumptions on Police Grant is applied to 2022/2023 within the modelling with the base for the current year 2019/20 founded on the Council Tax Band D Precept

DRAFT

increase of £23.94 (11%). Going forward Council Tax derived income reverts to a base 2% increase thereafter.

Outwith earmarked reserves for specific projects the projected level of risked based contingency reserve of £5.4 million (or approximately 4% of projected revenue expenditure) to £2022/23 highlights a low level of potential contingency against potential deficits. The risks that reserves may be inadequate rises significantly should the key variables of cost reduction and Police Grant assumptions are undelivered/under achieved.

The forecasts in the current Capital Programme and MTFS allow for investment each year totaling £20.372 million to 2022/23 save 2018/19 carry forwards.

## Investment

| | Forecast investment 2019/20 – 2022/23 |
|---|---|
| **2019/20** | £11.722m |
| **2020/21** | £2.650m |
| **2021/22** | £2.500m |
| **2022/23** | £3.500m |
| **Total** | **£20.372m** |

We understand that a Capital Expenditure (CapEx) outturn of £16.4 million against a 2018/19 Programme of £21.3 million was achieved. Expenditure covers a range of schemes Blue Light Collaboration, Command and Control, Vehicle Replacement, Building Maintenance and ICT transformation. Approximately 64% of this 2018/19 expenditure was met from borrowing and that programme slippage was carried forward to 2019/20. Before carry forwards the Capital Programme over the MTFP period is highlighted in the table below and would equate to some £20.372 million (outwith 2018/19 slippage).

| Medium Term Financial Plan | 2019/20 £'000 | 2020/21 £'000 | 2021/22 £'000 | 2022/23 £'000 |
|---|---|---|---|---|
| Scheme expenditure | 11.722 | 2.650 | 2.500 | 3.500 |
| Funded by | | | - | - |
| Borrowing General | 8.798 | 2.206 | 2.056 | 3.056 |
| Borrowing Blue Light | 1.052 | | | |
| Blue Light Collaboration | 1.278 | | | |
| Capital Receipts | 0.060 | 0.060 | 0.060 | 0.060 |
| Grant – General | 0.384 | 0.384 | 0.384 | 0.384 |
| Capital Grants Unapplied | 0.150 | | | |

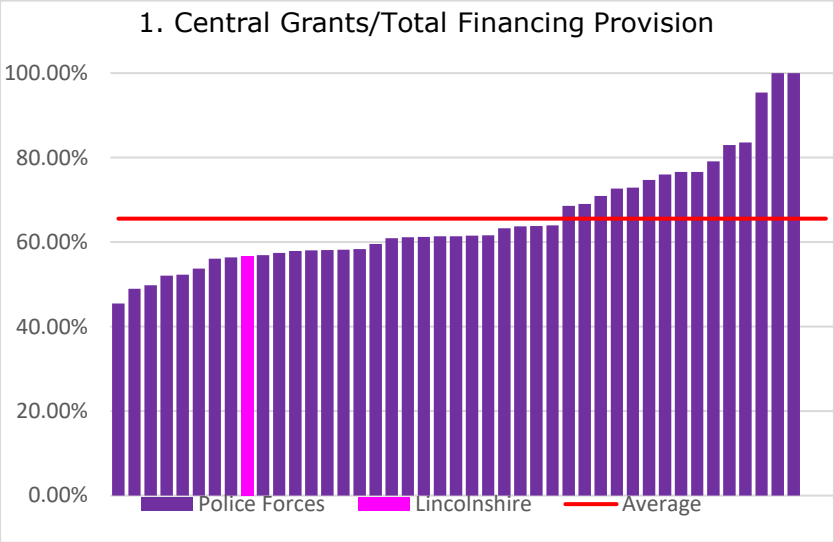
Vehicle replacement and Building maintenance are allocated both £1 million of CapEx per annum (approximately) from 2019/20 to 2022/23.Key 2019/20 scheme allocations include Command and Control - £2.922 million, ICT Transformation - £1.952 million, Blue Light initiatives – totaling £2.602 million and ESMCP - £1.700million. Borrowing of £17.168 million appears to be most significant funding source over the period of the programme accounting for some 84.3% of overall funding.

DRAFT

## Reliance on Central Government Funding

### Vulnerability to changes in government funding

Whilst Lincolnshire is below average in terms of its dependency on central government grants, such funding is still a significant proportion of its budget and any changes would affect the underlying assumptions in the MTFS. Lincolnshire is not regarded as a' well-funded' force and due to the 'gearing effect' a marginal change in core Police Grant could have a disproportionate impact on the matching of other funding streams should a break even position on overall income is maintained.




*"Lincolnshire experiences significant impact from funding reductions because it receives more in core policing grant in proportion to its council tax; with 56.6% being from grant and 43.3% being met from Council Tax during 2018/19".*

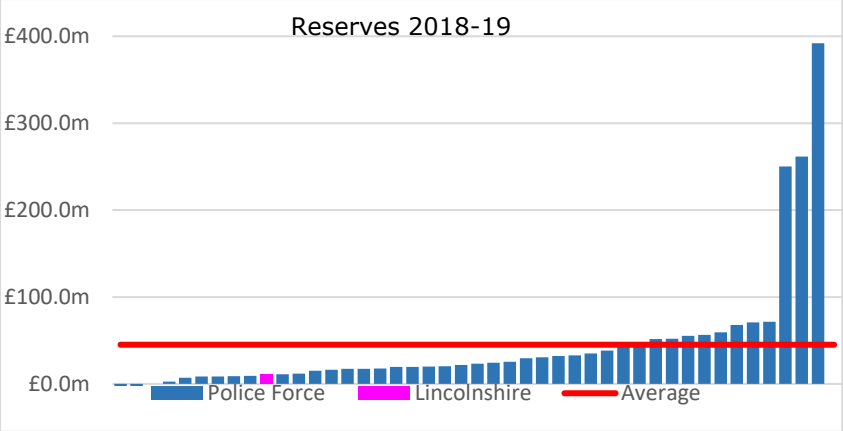
***MTFS 2019/20 to 2022/23***

Some forces are clearly more dependent, but all would be vulnerable to a change in policy that reduces the available funding. The Government has relaxed the limits placed on increases in the precept which will allow a greater proportion of funding to be raised locally. However, whilst the 2019/20 settlement is now built into the baseline, there is no guarantee regarding the existence or the extent of any future precept rises and we are at this point in time unsighted on 2020/21 funding for Lincolnshire.

## Status of Reserves

### Comparison with other Police Forces

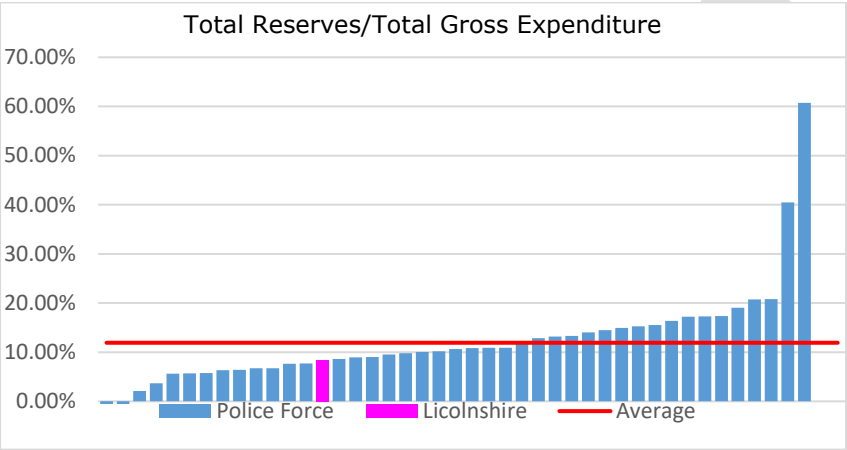
The level of Lincolnshire's reserves is low in both absolute comparative terms as well as a percentage of the Net Revenue Budget – again in comparative terms. This is illustrated within the charts below.




### Total Reserves

As at 31st March 2019, total reserves were £10.959m (8.38% of the Net Revenue Budget).

This was well below the average for Police Forces in the UK, as illustrated in the graph below.

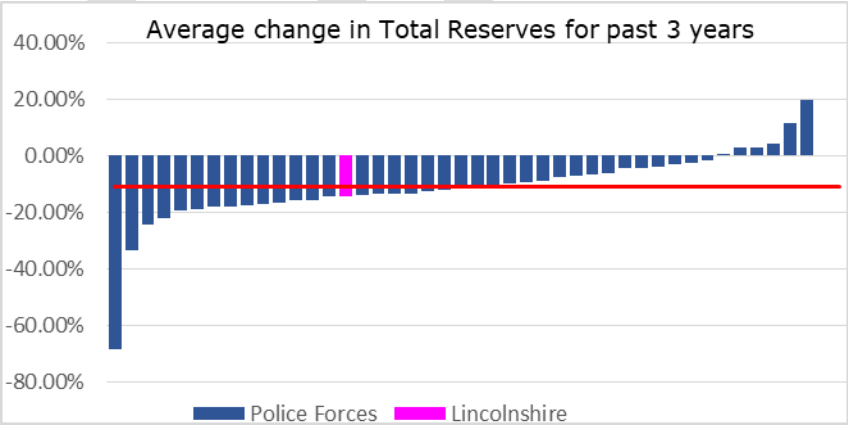



### Reserves vs. spend

At the end of 2018/19, Lincolnshire's reserves as a proportion of spend was 8.38%. This is lower than average position and reflects a level of vulnerability on the extent of headroom available to meet unforeseen/additional pressures.

## Depleting Reserves, Lower Resilience

The table below illustrates the significant reduction in reserves, both in absolute terms as well as a percentage of the Net Revenue Budget. Since 2015/2016 to 2018/19 Lincolnshire has depleted its General Reserves by 14.09% from £5.656 million to £3.232 million. The actual depletion rate on total reserves between 2015/16 and 2018/19 has been 14.26%




### Change in Reserves

The rate of depletion of Lincolnshire's reserves in the three years from 2015/16 to 2018/19 is significant and marginally greater than the average for UK forces at 14.26%.

The expected levels of General Reserves moving forward to 2022/23 at a level of approximately 4% of Gross Expenditure do not give significant headroom or flexibility for any retrenchment on funding, unforeseen additional expenditure or failure to deliver on the cost reduction programme. The table below illustrates the expected relationship

between Gross Expenditure and Reserve Balances over the Medium-Term Financial Plan (MTFP).

| General & Earmarked Reserves | Actual<br>31st March 2018<br>£'000 | Actual<br>31st March 2019<br>£'000 | Forecast<br>31st March 2020<br>£'000 | Forecast<br>31st March 2021<br>£'000 | Forecast<br>31st March 2022<br>£'000 | Forecast<br>31st March 2023<br>£'000 |
|---|---|---|---|---|---|---|
| **Earmarked Reserves** | **7,055** | **7,727** | **3,604** | **2,555** | **1,955** | **1,927** |
| **General Reserves** | **8,513** | **3,232** | **5,412** | **5,412** | **5,412** | **5,412** |
| **Grand Total** | **15,568** | **10,959** | **9,016** | **7,967** | **7,367** | **7,339** |
| **Gross Expenditure Actuals and Budget** | **125,407** | **130,810** | **130,108** | **134,291** | **136,524** | **137,963** |
| **Total Reserves % of Gross Exp Budget** | **12.41%** | **8.38%** | **6.93%** | **5.93%** | **5.40%** | **5.32%** |
| **General Reserves % of Gross Exp Budget** | **6.79%** | **2.47%** | **4.16%** | **4.03%** | **3.96%** | **3.92%** |

The level of General Reserve is being maintained at approximately 4% of the Net Revenue Budget in line with the key principles of the MTFS. The projected level of reserves and minimal headroom to 2022/23 indicate an extremely challenging position ahead. Indeed the forecasted position does not provide a high degree of resilience, especially in the current period of uncertainty around funding.

DRAFT

# Financial Management Review

## Overall Assessment

Using CIPFA's five-star rating system, Lincolnshire was rated overall as THREE STARS. It scored well in the management dimensions of "Leadership" and "Stakeholders". From our experience the "People" Dimension is typically the weakest of the Management Dimensions across the range of organisations we have worked with and this is also the case at Lincolnshire. Whilst Lincolnshire's financial management style is strongest in "Delivering Accountability" (which is most closely related to the traditional role of finance), and consistent with most organisations it is weakest with joint aggregate statement scoring in both "Supporting Performance" and "Enabling Transformation".

On overall Financial Management capability Lincolnshire has important strengths including strong senior leadership and ability to recalibrate activity to meet financial targets at a high level. Such strengths are typically associated with the more traditional stewardship – delivering accountability aspects of financial management. Given Lincolnshire's potential financial resilience challenges through to 2022/23, it needs to put in place the conditions for improving supporting performance consistently across budget holders and improve diffused financial management capability including strengthening the effectiveness of finance decision support and the current absence of an embedded value for money approach (VfM). The provision of financial decision support at Lincolnshire has clearly evolved to fit the prevailing culture of 'keeping the force safe' to try and ensure that the organisation works within its approved financial targets.

Lincolnshire's Financial Management was assessed against Best Practice and results are shown in the first table below "Current Snapshot". It is envisaged that, in 12-18 months, following a series of improvements (for which recommendations and an Improvement Plan have been provided further on in this report), Lincolnshire could attain the results in the second table below, denoted "Improvement Target" by star rating.

| CURRENT SNAPSHOT | Management Dimensions | | | |
|---|---|---|---|---|
| Financial Management Style | Leadership | People | Processes | Stakeholders |
| Delivering Accountability | **** | * | **** | ***** |
| Supporting Performance | *** | * | *** | ** |
| Enabling Transformation | ** | * | * | **** |

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

DRAFT

**Current Snapshot: Overall Star Rating**

CIPFA has independently assessed 86 organisations against best practice using its Financial Management Model.

Overall, Lincolnshire received a **three-star rating** when compared with these other organisations, although it was at the bottom of this range.

***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."*

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

## Current Snapshot: High Level Assessment

In terms of overall Financial Management capability Lincolnshire has some important strengths including strong senior leadership and ability to recalibrate activity to meet financial targets at a high level. Analysis of the information gathered showed that Lincolnshire is:

- Strongest in the "Delivering Accountability" style – unsurprising given that it is heavily regulated, influenced by global best practice and most closely related to the traditional role of finance
- Weakest equally across "Supporting Performance" and "Enabling Transformation" financial management styles. This is unusual in the typical pattern of scoring is progressive "Enabling Transformation" usually the weakest
- Scoring is stronger within the management dimensions of "Leadership" and "Stakeholders" with the latter scoring the highest. This is typical of organisations that have robust consultation arrangements in place that shape financial strategy. This is illustrated with strong directional leadership on financial strategy and effective stakeholder financial management capability including a strong relationship with the Police and Crime Commissioner
- Particularly weak in "People" related issues (in common with most other organisations), driven by a lack of finance competency framework and lack of accountability for financial performance, resulting in high levels of dependency on finance decision support

DRAFT

## Key Strengths

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

- Technical financial skills – there are strong technical finance capability at a strategic level including financial reporting
- Leadership – there is a full recognition of importance of sound financial management and the need for improvement
- Transactional finance delivers a consistent level of performance and key metrics are well reported and tracked
- Effective assurance and risk arrangements are in place at Lincolnshire. There is a sound approach to Internal Audit/Joint Independent Audit Committee work and a robust internal control framework including risk management
- Consultation – Lincolnshire is very receptive to views from stakeholders in the shaping of outcomes and related financial strategy. The Community Safety, Policing & Criminal Justice Plan and Distinctively Lincolnshire: Policing with Pride
- In-Year agility – there is robust in-year high level monitoring and effective re-calibration capability
- Good, close working relationship between the respective Chief Financial Officers of the Chief Constable and the Police and Crime Commissioner
- Timely preparation of the financial statements with a clean audit opinion

DRAFT

# Issues and Recommendations

Nine issues were identified as requiring development during our assessment. The issues outlined below are predominately linked and therefore the accompanying recommendations are interdependent. These recommendations have been translated into a more detailed Improvement Plan which will be agreed with Lincolnshire.

| Summary | Issues | Recommendation |
|---|---|---|
| | | ***Medium Term Financial Planning*** |
| **Developing a dynamic and robust Medium-Term Financial Plan** | The Medium-Term Financial Plan 2020/21-2022/23 (MTFP) attempts to provide financial stability over the medium and longer term. Our evidence suggests that the plan is evolving and has been actively developed within the last three years. The key components are well laid out but the plan itself is not the product of detailed modelling. Core assumptions are high level and do not appear to have been subject to sensitivity analysis, stress testing or scenario modelling. There appears to be an absence of any integration with key strategic plans such as Workforce, Estates Management, ICT and Procurement so the MTFP is modelled on primarily 'top down' budget availability assumptions. The MTFP itself points to a potential lack of high-level financial resilience and the gap funding strategies appear to be dependent on aspirational efficiency savings being fully delivered. | The MTFP would benefit from 'bottom-up' foundational links. Such linkages would include key strategic plans covering Workforce, Estates Management, ICT and Procurement Strategies. Scenario modelling including Best, Worst and Medium level options should be illuminated based on key core assumptions being flexed (sensitivity analysis) and stress tested. |
| | | ***Budget Setting*** |
| **Budgeting setting – improving precision and challenge** | Budget Setting at Lincolnshire is largely incremental. Participation of budget holders in the budget formulation process is not strong. The process is predominately high level top down approach and lacks a 'bottom up' construction. The budgeting processes is highly incremental which tends to perpetuate inefficiencies and budgeted savings tend to be small. Savings reductions are typically rounded budget reductions rather than direct management intervention measures that are driven by process efficiency or process engineering changes. There is no detailed evidence on cross cutting initiatives that can deliver | Use a bottom-up budgeting process incorporating elements of zero based and outcomes-based budgeting (at least intermittently) to encourage more precise modelling and larger-scale efficiency savings.<br><br>Deliver training on budgeting and forecasting to improve skill levels for both budget holders and staff. |

DRAFT

| | | |
|---|---|---|
| | efficiencies as budget efficiencies reductions are characterized by a silo-based approach. | |
| | | ***Financial Systems*** |
| **Finance System – Budget holder access and responsibilities** | The existing Finance System ERP configuration including the CapGemini based t-Police-as-a-Service (”tPaaS”) is not regarded as user friendly. The In-Year financial reporting outputs require excessive manual reworking within excel and access is not available to budget managers. The absence of budget manager interaction with the finance system has contributed in part to the prevailing undue reliance on the Finance Team and lack of ownership over financial performance and forecasting. Current system operational capability precludes cross cutting reporting. | Eliminate significant reworking of system data in in-year reporting<br>Facilitate “self—service” by budget holders and embed a Forecasting input requirement for Budget Holders.<br>Establish clear timescales for implementation, allowing for training requirements and revised processes.<br>Develop the improvement plan to effectively transition |
| | | ***Responsibilities and Accountabilities*** |
| **Accountability for Financial Performance - clarity and measurement of responsibilities required for both budget holders and finance function** | Accountability for performance is strong at a strategic level but much weaker at operational budget holder level and there are significant inconstancies in holding to account for financial performance at that level.<br><br>Many budget holders are not actively managing their budgets which means they are less aware of the financial consequences of their decisions. Instead, they rely on the Finance Function which ties up valuable resource.<br><br>There was also no evidence of defined finance service metrics which suggests that responsibilities and accountabilities are unclear and that it is not possible to measure performance against targets. | Ensure that performance appraisal systems for budget holders include financial management responsibilities so as to incentivise proactive behaviours. This should be linked to a competency framework – see below. |
| | | ***FM Competency Framework*** |

DRAFT

| | | |
|---|---|---|
| **Financial Management competency framework required to clarify responsibilities and capabilities** | There was no evidence of a Financial Management competency framework.<br>There is no cohesive framework in place. There is no clear evidence that financial objectives are routinely set and financial performance management is consistently applied in conjunction with operational performance. There is insufficient emphasis of the importance of financial management in senior operational roles. Our evidence suggests a lack of corporate understanding of the levels of financial management and system skills of managers. Accountability for financial performance is not well understood and the Finance Team challenge on variance analysis and budget holder forecasts requires greater depth.<br>This suggests insufficient emphasis on the importance of financial management responsibilities (vs. core/functional responsibilities) and lack of clarity around expectations and desired capabilities.<br>This makes it easier and more likely for budget holders to 'side-step' their budget management responsibilities, and rely on the finance function. | Create a Financial Management competency framework to articulate the various accountabilities and responsibilities for financial management across the organisation. This should clarify the budget management expectations of budget holders as well as the more strategic responsibilities of the finance function.<br><br>The competency framework should be used as a basis to assess current performance, desired performance and the skills gap. |
| | | ***Financial Management Literacy*** |
| **Lack of diffused financial management literacy – need to provide budget management & forecasting with training to budget holders build skills and confidence and help to improve attitudes to accountability and VfM** | Limited delegation of budgets has contributed in part to a lack of diffused financial management literacy. Operational budget holder exposure to resource management issues are primarily limited to overtime and travel expenditure. Our evidence suggests that there is an absence of understanding on detailed activity costs and undue reliance on finance support. In practice the finance team are managing budgets on behalf of budget holders and managing budgets not costs or income. Budget holders lack the skills required to effectively manage their budget. These skills include: financial management literacy, forecasting, VFM and contract management. | Review development needs across the organisation, ideally against the aforementioned competency framework) and provide necessary training programmes to improve financial literacy, budget management and forecasting skills, VFM and contract management, as well as the confidence to use those skills.<br><br>Training programmes can also contribute to the changing of attitudes through clear messaging about the importance of budget holders carrying out budget management responsibilities and the evolving strategic role of Finance Decision Support. |
| **Summary** | **Issues** | **Recommendation** |
| | | ***Decision support/Business Partnering*** |

DRAFT

| | | |
|---|---|---|
| **Inability of Finance to deliver advanced decision support options and drive transformational change – need to embed a Finance Business Partnering approach by continuing to upskill the Finance team and promoting the value of their strategic role to budget holders** | There is effectively no Business Partnering in place to deliver advanced levels of value-added decision support. The current level of provision resembles 'Group Accountant' support and the role is largely focused on traditional 'keeping score' activities of Treasurer function. Linked to comments of the Finance System there is significant concentration on data reconfiguration within excel rather than providing Business Partnering support. As a consequence the existing Finance Team are unable to drive performance improvement or transformational change due to undue level of focus on data construction and budget containment. Budget holders do not appreciate the potential value-add of a finance business partner; this, combined with their own lack of proactivity in budget management, results in the Finance Team performing lower-value tasks which conform to the traditional role of finance. This is time consuming and perpetuates dependence. | Communicate with budget holders to clarify the role and responsibilities of the Joint Finance Team (as Finance Business Partners) versus the rest of the organisation and how they can support the organisation. Change of mind set is required for budget holders. Continue to upskill the Finance Team with the necessary skills to effectively perform the Finance Business Partnering role.<br><br>The success of the Finance Business Partnering model depends on a shift of responsibilities towards the self-service budget holder model. |
| | | ***Finance function service standards and Service Planning*** |
| **Finance Function Standards and Efficiencies – developing decision support service standards** | The core finance function delivered by G4S would benefit from a development plan which includes standards and target levels of performance and efficiency. | Service performance standards would define the relationship between operational budget holders and wider users with the finance function. In this way the profile and influence of Finance can be raised through enhanced transparency on performance. There are benefits in actively communicating the performance of the Finance function, in terms of meeting targets and/or performance standards and setting expectations around the responsibilities of both budget holders and finance decision support. Create a Finance Service Plan to define responsibilities, ensure that performance of the finance function can be measured, and also resource can be planned and monitored. This will encourage the finance function to focus on strategic tasks. |
| | | ***Delivering Value for Money (VfM) and Efficiencies*** |
| **Delivering VfM and Efficiencies** | Lincolnshire has developed a Value for Money (VfM) and Efficiency Plan which is a high-level strategic document. This is a defined strategy and incorporates a wide range of efficiency initiatives which will deliver improvements in productivity and effectiveness. However, whilst specific initiatives are highlighted it | Budget Holders need to focus on managing their costs and reducing inputs to achieve their goals rather than on using up their budgets. For example are additional in year savings the result of efficiency gains rather than budget reductions (e.g. confiscation of unspent budgets)? Budget holders need to be incentivised to offer up in-year budgets that will not be required. Outturn forecasting and |

DRAFT

| | | |
|---|---|---|
| | is difficult to determine the extent to which that approaches to optimizing VfM are embedded within the daily work undertaken by Police Officers and Police staff. Whilst the need to control costs is evident a consistent value for money approach is not well understood or consistently applied. There is a lack of rigour and challenge on use of resources and this is linked to financial literacy, performance accountability and the role of the Finance Team. Whilst 'front end' Procurement capabilities are appropriate and consistent with the application of value for money principles however Lincolnshire finds it difficult to actively/rigorously manage contractor/supplier performance throughout the life of specific contracts. Budget monitoring is largely driven focus on forecasting probable outturns at the expense of in-depth variance analysis that would identify cost drivers/pressures. This has not helped promote positive budget behaviors. | re-forecasting should not have primacy over period variance analysis and the development of a detailed understanding of cost drivers. |

DRAFT

# Improvement Plan – this is still to be agreed

The table below details the steps required to implement the recommendations which have been made. These actions have been agreed with Lincolnshire, who have also provided information on the "current position" (as at November 2019), as well as the timescales and the appropriate persons to take responsibility.

| Actions required | Current position | Lead responsibility | Timescale |
|---|---|---|---|
| ***Developing a dynamic and robust Medium Term Financial Plan*** | | | |
| | | | |
| ***Budget Setting – Improving precision and challenge*** | | | |
| | | | |
| ***Finance system – Budget holder access and role responsibilities*** | | | |
| | | | |
| ***Accountability for Financial Performance - clarity and measurement of responsibilities required for both budget holders and finance function*** | | | |
| | | | |
| ***Financial Management competency framework required to clarify responsibilities and capabilities*** | | | |
| | | | |
| ***Lack of diffused financial management literacy – need to provide budget management & forecasting with training to budget holders build skills and confidence and help to improve attitudes to accountability and VfM*** | | | |
| | | | |
| ***Inability of Finance to deliver advanced decision support options and drive transformational change – need to embed a Finance Business Partnering approach by continuing to upskill the Finance team and promoting the value of*** | | | |

DRAFT

| |
|---|
| ***their strategic role to budget holders*** |
| |
| ***Finance Function Standards and Efficiencies – developing decision support service standards*** |
| |
| ***Delivering VfM and Efficiencies*** |
| |

DRAFT

# Appendices

## Appendix I: FMCR Information Sources

### Electronic Survey

24 out of 28 people surveyed submitted data/evidence; this represents an overall response rate of 85.7%.

The minimum level acceptable as evidence is normally 50% for each survey group and this was surpassed in total and for each survey group. The response rate was excellent. Response rates for each of the survey groups are set out in the table below:

| Group | Survey Groups | Invited | Completed |
|---|---|---|---|
| SG1 | Strategic/Corporate Finance | 2 | 2 |
| SG2 | Operational Finance | 5 | 5 |
| SG3 | Service Directors | 3 | 2 |
| SG4 | Operational Managers | 18 | 15 |
| | **Total** | **28** | **24** |

### List of Interviewees

| | | | |
|---|---|---|---|
| 1 | Bill | Skelly | Chief Constable |
| 2 | Jason | Darwin | Deputy Chief Constable |
| 3 | Kerrin | Wilson | Assistant Chief Constable |
| 4 | Malcolm | Burch | Chief Executive |
| 5 | Andrew | White | Assistant Chief Officer Resources |
| 6 | Shaun | West | Chief Supt. Public Protection |
| 7 | Chris | Davison | Chief Supt. |
| 8 | Nicola | Mayo | Chief Supt. |
| 9 | Paul | Timmins | Chief Supt. |
| 10 | Steve | Taylor | Chief Supt. |
| 11 | Lisa | Norton | Procurement Manager |
| 12 | Gail | Bradshaw | Commercial Partnership Manager |
| 13 | Nick | Ward | Head of Finance |
| 14 | Dave | Hull | Risk Manager |
| 15 | Fiona | Davies | G4S Service Delivery Director |
| 16 | Kelly | Rodgers | Head of Strategic Development |
| 17 | Scott | Dunn | Director of IT and Operations |
| 18 | Marc | Jones | Police and Crime Commissioner |
| 19 | Julie | Flint | Chief Finance Office - Lincolnshire PCC |
| 20 | Sharon | Clark | Force Chief Finance Officer |
| 21 | Aubrey | Williams | Research & Performance Officer (OPCC) |
| 22 | Andy | Cardoza | KPMG External Audit Partner |
| 23 | Brian | Welsh | Mazars Int Audit Manager |
| 24 | Neil | Harris | EY Ext Audit Partner |

DRAFT

## List of Documents Reviewed

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

- Distinctively Lincolnshire – Policing with Pride
- Community Safety, Policing and Criminal Justice Plan for Lincolnshire 2017 - 2021
- Lincolnshire Police and Crime Commissioner Financial Statements - Annual Report 2018/19 (unaudited) and 2017/18
- Lincolnshire Chief Constable Financial Statements - Annual Report 2018/19 (unaudited) and 2017/18
- Office of the Police & Crime Commissioner for Lincolnshire/Lincolnshire Police Internal Audit Annual Report 2018/19
- Lincolnshire PCC Financial Governance 2018-19
- Lincolnshire Chief Constable Annual Governance Statement 2018-19
- Lincolnshire PCC Financial Strategy incorporating Reserves Strategy 2018/19
- Medium Term Financial Strategy 2020/21 to 2022/23
- Capital Programme – 2019/20 – 2022/23
- Revenue Account Budget and Council Tax Precept 2019/20
- Capital Strategy 2019/20
- Lincolnshire PCC Decision Financial Strategy and Supporting Plans Final 2019/20
- Lincolnshire PCC Financial Strategy incorporating Reserves Strategy 2019/20
- Lincolnshire Police Financial Regulations
- Lincolnshire PCC Code of Corporate Governance Framework
- Lincolnshire Police Chief Constable's Code of Corporate Governance
- Lincolnshire Annual Audit Letter for the year ended 31 March 2018
- Police and Crime Commissioner (OPCC) – Risk Management Strategy
- Lincolnshire Police – Risk Management Strategy – 2016 – 2019
- Lincolnshire Police – Estates Management Plan - 2018-2022
- Shared Service Finance Team Structure Chart
- Organisation Chart – PCC and Chief Constable
- Draft Internal Audit Strategy 2019/20 to 2021/22 and 2019/20 Internal Audit Plan
- Lincolnshire PCC and Lincolnshire Police Internal Audit Progress Report 2018/19
- 2019/20 Revenue Monitoring Outturn Report – June 2019
- 2019/20 Capital Budget Monitoring Report – June 2019
- PCC and Chief Constable - Procurement Plan 2019/20
- PCC – Anti Fraud and Corruption Policy
- PCC – Professional Standards – Whistleblowing Policy
- PCC/CC – Information Assurance Strategy
- PCC – Business Cases – Decision Making Template

DRAFT

## Appendix II: FM Model Statement Definitions and Scoring

### Three Financial Management styles:

**Delivering Accountability**
Emphasis on control, probity, meeting regulatory requirements and accountability.

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

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

### Four Management dimensions

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

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

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

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

| Rating | Qualifying Scoring | |
|---|---|---|
| ***** | **4** | World Class |
| | **3.5** | Totally evidenced |
| | **3.25** | Strong |
| **** | **3.24** | Strong |
| | **2.75** | Highly evident |
| *** | **2.74** | Evident |
| | **2.25** | Mostly |
| ** | **2.24** | Competent |
| | **2** | Basic |
| * | **1.99** | Lower than basic |
| | **1.5** | Minimal |
| | **1.25** | Weak |
| | **1** | Weak |
| | **0.75** | Inadequate |
| | **0.5** | Inadequate |
| | **0** | Not at all |

DRAFT

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

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

DRAFT

| | Processes | | Lincs Police & PCC |
|---|---|---|---|
| Delivering Accountability | PR1 | Budgets are accrual-based and robustly calculated | *** |
| | PR2 | The organisation operates financial information systems that enable the consistent production of comprehensive, accrual based, accurate and up to date data that fully meets users' needs. | * |
| | PR3 | The organisation operates and maintains accurate, timely and efficient transactional financial services (eg creditor payments, income collection, payroll, and pensions' administration). | ***** |
| | PR4 | The organisation's treasury management is risk based. It manages its investments and cash flows, its banking, money market and capital market transactions, balancing risk and financial performance. | ***** |
| | PR5 | The organisation actively manages budgets, with effective budget monitoring arrangements that ensure 'no surprises' and trigger responsive action. | **** |
| | PR6 | The organisation maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action. | ** |
| | PR7 | Management understands and addresses its risk management and internal control governance responsibilities. | **** |
| | PR8 | Management is supported by effective assurance arrangements, including internal audit, and audit and risk committee(s). | ***** |
| | PR9 | The organisation's financial accounting and reporting are accrual based and comply with international standards and meet relevant professional and regulatory standards. | **** |

| | Processes (Continued) | | Lincs Police & PCC |
|---|---|---|---|
| Performance | PR10 | The organisation's medium-term financial planning process underpins fiscal discipline, is focussed upon the achievement of strategic priorities and delivers a dynamic and effective business plan. | ** |
| | PR11 | Forecasting processes and reporting are well developed and supported by accountable operational management. Forecasting is insightful and leads to optimal decision making. | ** |
| | PR12 | The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations. | * |
| | PR13 | The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement, commissioning and contract management. | ** |
| Transformation | PR14 | The organisation continually re-engineers its financial processes to ensure delivery of agreed outcomes is optimised. | * |
| | PR15 | The organisation's financial management processes support organisational change. | * |

DRAFT

| | Stakeholders | | Lincs Police & PCC |
|---|---|---|---|
| **Delivering Accountability** | **S1** | The organisation provides external stakeholders with evidence of the integrity of its financial conduct and performance, and demonstrates fiscal discipline including compliance with statutory/legal/regulatory obligations. | ***** |
| **Performance** | **S2** | The organisation demonstrates that it achieves value for money in the use of its resources. | ** |
| **Transformation** | **S3** | The organisation is responsive to its operating environment, seeking and responding to customer and stakeholder service and spending priorities that impact on its financial management. | **** |

DRAFT