

APPENDIX 1

Business Case for Investment in the Finance Function

The Requirement

1. As the largest local authority in the United Kingdom, in terms of the revenue budget for which it is directly responsible, the MPA/MPS requires a finance function to support it that is on a par with the best in local government. For the MPA/MPS to properly exercise their responsibilities and make decisions based on timely, accurate and sophisticated financial information appropriate financial management capacity is required in order to:
 - allow the Commissioner to fulfill his responsibilities relating to the efficient and effective use of resources, including those responsibilities delegated to the Commissioner by the Authority in relation to financial management;
 - provide assurance to the Treasurer in support of his statutory duties relating to financial administration and control and support the Treasurer in determining the medium-term financial strategy and annual budget; and
 - provide sound information to the Authority, the Treasurer, and budget holders within the MPS enabling them to monitor and control their budgets and make informed decisions on the allocation, efficient use and effectiveness of the resources employed against stated priorities and objectives.

Background

2. Members have previously considered reports relating to the Treasurer's 'Review of the Finance Function' (FPBV/00/19 on 21 September 2000) and the proposed restructuring to enhance competencies and skills in support of the action plan resulting from that review (FPBV/00/37 on 17 October 2000).
3. A key aspect of the modernisation of the finance function is the restructuring and re-skilling of the finance directorate under the Director of Resources. In considering the 2001/02 budget submission to the Mayor (MPA/00/60) on 14 December 2000 Members did not approve the bid for £900,000 to implement the modernisation. Equally, this growth bid was not accorded 'very high' priority status by the MPS.
4. Members have become increasingly aware that the existing capacity of the finance function is causing difficulties in the production of timely and accurate information and analysis to support them in their role. Without the investment required to increase the capacity of the finance function, it is difficult to deliver a genuine and significant improvement in this position.
5. Furthermore, the achievement of more sophisticated reporting, for example relating resources to the priorities and objectives of the MPA/MPS, will be severely hindered by the existing capacity of the function.
6. At the meeting of the Audit Panel on 8 March 2001, considered the Management Letter (AP/01/06) on the 1999/2000 audit of the accounts prepared by KPMG (acting on behalf of the National Audit Office, the external auditor). The Audit Panel, in response

to KPMG's comments on modernisation of the finance function and financial control specifically requested the development of this business case.

Baseline Position

The Internal Initiative

7. During the transition period that established the MPA it became apparent that the finance function was facing a series of severe challenges. These included:
 - the transition from a central government financial regime to a local government financial environment;
 - acknowledged deficiencies in internal financial control;
 - the need to provide consistent and professional financial expertise across the organisation;
 - the need to develop more sophisticated financial reporting in response to the needs of the Authority and in the context of the desire to devolve financial management;
 - advances in accounting practice, such as accounting for best value;
 - limited capacity to support special projects or programmes such as PFI and best value .
8. This led to the commissioning of the Review of the Finance Function by the Treasurer. This was reported on in detail to the Finance Planning and Best Value Committee on 21 September (FPBV/00/19).
9. The key recommendations from this review set out under five separate but interrelated projects forming the planned modernisation programme were reported to the Finance Planning and Best Value Committee on 17 October 2000 (FPBV/00/37) and relate to:
 - integration of the resource planning process;
 - devolution of financial management;
 - restructuring and reskilling;
 - improving the control environment;
 - establishing the role of head of profession.

Progress to Date

10. The restructuring and reskilling of the finance directorate is central to the achievement of the plans that have resulted from the review of the finance function. It is simplistic to argue that additional resources are all that is required to enable the finance function to meet the challenges it faces. However the numbers of qualified and part-qualified finance professionals available to the MPS demonstrates the current shortfall that needs to be made up.
11. The MPS currently has 22 permanent qualified staff, the substantial majority of whom have little or no local government finance experience. Of these qualified accountants,

about half have less than 5 years post-qualification experience. A further 10 members of staff are studying for a full accounting qualification. **Annex A** compares this position with that in other forces.

12. In addition, the MPS incurred significant expenditure in 2000/01, in the region of £375,000, on temporary qualified staff to deliver crucial, specific projects, such as the creation of the Authority's opening balance sheet, because of the lack of skills and appropriate experience within the organisation.
13. Plans for the restructuring of the finance directorate have been developed and reported in broad terms to Members (FPBV/00/37 on 17 October 2000). These plans are predicated on two key principles:
 - the brigading of all professional financial management support under a Head of Finance working to the Director of Resources;
 - the development of additional finance capacity in the value added areas of decision support and technical accounting.
14. A tranche of the expenditure on temporary qualified staff referred to above was in respect of the appointment of senior interim managers to head up the key divisions within the new directorate structure.
15. Even so, the MPS has been unable to deliver revised Financial Instructions, drawing on the Authority's Financial Regulations, or a scheme of devolved budget management to the timetable required by the Treasurer. These are of fundamental importance in setting the control environment within which financial transactions are entered into, controlled and monitored.
16. Equally, the integration of the financial planning process with corporate and annual plans is an area of great importance for the proper functioning of the Authority and of the MPS, will require significant skilled effort in the current financial year.
17. Experience during the first year of the Authority's life in respect of the budget for 2001/02, the policing plan for 2001/02 and the work undertaken to date on a Corporate Strategy demonstrates that there is significant improvement required in achieving a properly integrated and strategic approach to relating service and financial planning.
18. Added to this are the new demands being placed on the finance function, such as the input that will be required in implementing the series of projects under the 3 year rolling Efficiency and Effectiveness Review Programme and the developing approach to budget scrutiny being taken not only by the MPA but also by the GLA.
19. This is not a sustainable position, either in terms of the costs of employing temporary interim staff to fill senior positions or in achieving a stable, professional capacity to support the developing requirements of the MPA/MPS.

The External Viewpoint

20. The external auditor (KPMG on behalf of the NAO) highlighted in two successive Management Letters (1997/98 and 1998/99) the need to assess the adequacy of the skills available to the MPS *'in light of the more sophisticated financial reporting environment and accounting control skills that both internal management and the MPA demand'*.
21. In their Management Letter covering the 1999/2000 audit of the accounts, KPMG comment that *'senior management and Members need to ensure that the organisation has the capacity and the supporting machinery to robustly and credibly report, and engage in debate, on its financial standing, based on timely and accurate information in all cases'*.
22. KPMG conclude that it is not immediately clear whether the MPS has such a capacity and state that the evidence available from their audits would suggest that it does not have such a capacity. In this context, KPMG recommend implementation of the actions recommended as a result of the review of the finance function undertaken by the Treasurer.
23. Accenture, who have completed the initial mapping project to identify the Efficiency and Effectiveness Review Programme, support the view taken by KPMG. They state that *'....the MPS possesses low levels of qualified finance professionals'* and that *'this shortage is compounded by the lack of financial skills in the management structure as a whole.....'* Their conclusion is that this area requires short-term investment in order to gain in the longer-term.

Conclusions

24. There is a consensus shared by Members, the Treasurer, the Director of Resources, external advisers and senior management within the MPS finance directorate that the finance function as it is currently resourced and structured does not have the capacity to deliver the services required and expected of it.
25. In addition, the signaled restructuring and reskilling of the finance directorate created an expectation of change amongst staff. Delay in the implementation of the plans to restructure and reskill has created uncertainty and had a serious effect on staff morale. The finance directorate already has a problem recruiting to existing vacancies, it is now facing retention difficulties as well and as such, great demands are being placed on a few key individuals and this cannot continue indefinitely
26. This, naturally, is a further pressure on the capacity of the finance directorate in responding to challenging demands placed upon it and therefore the finance function is arguably in a worse position now than when the programme of review began last autumn.
27. The capacity increase required within the finance directorate is not possible to achieve without additional investment, the absence of which is having a significant and detrimental impact on the plans of the Treasurer and the Director of Resources for service improvement.

Options for the MPA/MPS

28. The objective of the MPA/MPS should be to have at its disposal a pool of skilled finance staff, achieved through a combination of recruitment, reskilling and training, within the central finance directorate and available locally to support devolved financial management. This would enable the following benefits to be achieved:
- an improved control environment, providing reassurance over the validity and accounting treatment of financial transactions;
 - better, more reliable financial information to support budget monitoring and control;
 - the capacity to provide better, more reliable interpretation of financial options to inform decision making by the MPA and at all levels within the MPS;
 - capacity to support specific projects and initiatives such as best value and PFI.
29. The emphasis has been on the delivery of frontline services, focusing mainly on inputs in terms of the number of police officers available to the MPS, during the initial lifetime of the Authority.
30. However, skilled and effective support services are vital to the efficient and effective operation of a large and complex organisation. In particular, performance measurement against agreed priorities and objectives (a focus on outcomes rather than inputs), which is central to the Government's modernising agenda for local government, must be related to the resources expended on achieving them.
31. There is no other way in which the efficiency and effectiveness of the achievement of these outcomes can be evaluated. This degree of sophistication is currently beyond the MPS.
32. Failure to modernise the finance function will continue to hamper the extent to which service and resource planning can be properly integrated so that the resources provided to support particular strategies and priorities can be identified, monitored and their effectiveness evaluated.
33. Members and the Commissioner must therefore make a decision:
- to accept the current shortfall in capacity, recognising that this may fail to provide the assurance required by the Treasurer in fulfillment of his statutory duties, thereby avoiding the need for investment in the finance function but raising the potential for withdrawal or significant reduction in financial delegation to the Commissioner; or
 - to accept, prioritise and direct investment to the finance function so that the improvements already identified can be implemented allowing the real benefits to the organisation to be achieved.

Investment Proposal

34. Members will be aware from the previously quoted reports put to the Finance Planning and Best Value Committee that work has been undertaken under the direction of the MPS Head of Finance, with external consultancy support, to determine a revised structure for the finance function.
35. This review has determined the need for both an increased staffing level within the function and an increase in the number of experienced finance managers required. It has also recognised that the ability of the MPS to attract and retain finance professionals, as well as retain existing staff with police finance experience who wish to pursue a career in public sector finance, is compromised by the salary levels attached to civil service grades relating to such appointments.
36. Consequently the restructuring proposal not only recognises more staff at higher grades to meet the market salary expectations of experienced professionals, but also acknowledges that Market Related Allowances (MRAs) and training resources need to be used to retain and develop existing staff.
37. **Annex B** sets out the investment required. The intention is to increase the finance directorate from 144 full-time equivalents (fte) currently budgeted to 167 fte, the majority of which will be growth in qualified professionals. Additionally the intention would be to increase finance training budgets and award appropriate MRAs to specific grades.
38. It is acknowledged that MRAs are being used in advance of the outcome of any further review of civil staff pay and grading and that it is likely such allowances will have to be consolidated into basic pay at a later date.

The investment required for 2001/02 is £900,000, with a full year effect of £1,562,000. This recognises that much of the finance function development will be through external recruitment that will inevitably take some months to implement. Annex B demonstrates that whilst this investment represents a significant increase in finance function budgets, the overall cost of the MPS finance directorate will remain less than 0.3% of the net revenue expenditure of the MPA/MPS.

Annex A: Comparison of strength of MPS central finance function with other police forces

Police Force	Central finance staff	Employees per central finance staff	Budget per central finance staff	Professionally qualified finance staff	Employees per professionally qualified finance staff	Budget per professionally qualified finance staff
Metropolitan	144	254	£12.7m	22	1,659	£94.5m
Kent	26	204	£8.9m	5	1,060	£46.4m
Greater Manchester	59	225	£7.5m	12	1,105	£36.8m
Strathclyde	45	204	£9.3m	7	1,314	£59.7m
Thames Valley	47	125	£5.7m	8	735	£33.25m

Annex B: Finance Directorate Budget and investment requirement

	Pre-modernisation	Post-modernisation	Full Year Effect
	£k	2001/02 £k	£k
Pay	3593	4231	4843
MRA	0	212	212
Non Pay	536	586	636
Total	4129	5029	5691
Budget Increase		900	1562
Total as a % of net revenue expenditure		0.25	0.28

Note: The increase in non-pay reflects an increase in the training budget to support professional accountancy and other financial management training.