Police forces increasingly devolve operational management responsibility and accountability to local sub-units, but financial management is usually highly centralised. This mismatch has damaging consequences which inhibit value for money. In part the problem is due to central government controls described in Police Paper No 6. But it also reflects over-detailed management by police authorities and force headquarters.

Those forces which have devolved some financial management to their local police commanders have found improved control of spending and effectiveness in use of resources. But most forces could make further progress, whilst some are reluctant to start.

The objective of local financial management (LFM) is to align managerial and financial responsibilities if a local commander controls the amount of overtime worked then he or she should be accountable for the overtime budget. This does not imply that management delegation necessarily needs to be extended, although in many forces this would be desirable, as previous Police Papers have argued. Furthermore, there are some expenditure decisions which should not be delegated to a low level in the organisation, such as on core manpower, overtime contingency, long-term training and major capital expenditure. Although this may exclude some major budget heads from LFM, the flexibility over the remaining budget heads permitted by delegation can unlock significant gains in effectiveness.

The costs of moving from an effective central management system to a well designed local financial management system should be minimal. But in traditional systems it is often difficult to disaggregate costs between sub-units and functions and the problem is compounded by the absence of clear local responsibilities for financial management.

All forces should have their own finance team advising the chief constable and acting as a bridge to the police authority treasurer. The team should be responsible for reviewing the financial management structure and designing a management information system to serve it. The emphasis should be on making local commanders more effective resource managers. Sub-unit commanders should be more involved in the process of setting annual budgets as well as managing them.

Forces may phase the implementa-
tion of LFM, beginning by delegating those budget heads for which sub-unit costs are already identifiable. In the forces reviewed, the timescale for implementation has been up to four years. The effort to introduce LFM is worthwhile, because alignment of operational and financial management together with adequate financial information is essential to improving effectiveness — particularly in an environment of rising demands and constrained expenditure.

INTRODUCTION

1 Even in those police forces which concentrate control at the centre, local commanders enjoy a high degree of delegated authority over the operational management of the expensive resources dedicated to their sub-divisions. But few sub-divisional managers are able to fulfil a complete management role, integrating financial and operational responsibilities. Local managers are rarely able to see the full costs of the resources they control and are given no real incentive to care about such costs. This mismatch of responsibility for financial and management control can mean that they are unable to respond effectively to changing needs and have limited incentives to achieve efficiency.

2 Police Paper No 9 discussed trends to shorten lines of command and widen spans of control in the organisation of provincial forces. Many are reducing or eliminating the operational role of territorial divisions and emphasising the service responsibilities and accountabilities of commanders of territorial sub-divisions (Exhibit 1). The trend towards fewer and larger sub-divisions which are more accountable for their performance places a premium on the role of sub-divisional commanders as resource managers.

3 But financial management within police forces still tends to be centralised. Reforms in other public services over the last decade have attempted to move financial responsibility and authority down to the points of service delivery. The issues in financial delegation in education are not quite the same as in the police service but, for example, local management of schools (LMS) has meant that local education authorities are transferring authority over the majority of annual expenditure to individual schools. Also, an increasing number of social services departments are making field managers responsible for budgets in their specialist areas. Amongst police forces implementation of this type of reform has not been as widespread.

4 Probably no more than about half the provincial police forces in England and Wales would identify themselves as practitioners of schemes of devolved or delegated budgeting which can be described as 'local financial management' (LFM). Amongst them, there are wide variations in practices and attitudes, and what is meant by 'devolution' or 'delegation' of budgets varies from one force to another.

5 The general aim of LFM is to bring about better financial management and improve cost effectiveness by ensuring that those officers who make operational decisions do so knowing their financial implications and accepting responsibility for them. Forces should have already established the level of operational responsibility which needs to be delegated to local commanders and

Exhibit 1

REORGANISATION OF OPERATIONAL COMMAND STRUCTURES
Reviews of operational structure are placing more emphasis on sub-divisional commanders managing local police services . . .

Source: Audit Commission observation of structural review carried out by a provincial force in 1990 for implementation in 1991.
LFM seeks to ensure that financial responsibility aligns with operational responsibility. This does not mean that all budgets should be delegated. Some of them should remain under central control: typically those which impact on the force as a whole e.g. core manpower, or which have significant costs and benefits beyond the time horizons of local commanders e.g. major capital expenditure and developmental training.

6 The general aims of LFM are discussed in the Audit Commission's Management Paper No 3 Better Financial Management. The specific aims of LFM are:
— greater responsibility amongst local commanders for financial management, and greater scope and incentives for practising it;
— improved financial information about where costs are incurred, and on what;
— improved compliance with centrally determined budgets; and
— improved value for money by reducing waste.

7 There are various degrees of LFM, ranging from the distribution of timely and relevant financial information to the devolution of authority to vary expenditure from the budgeted figure (Exhibit 2). There are disagreements amongst practitioners about how far LFM should be taken and what it should cover, although most would agree that there are some items such as core manpower costs which are best not delegated. Some forces are actively considering how LFM could help them, but others have been discouraged by their impressions of LFM in practice elsewhere, or by the perceived obstacles to its introduction in their own forces.

8 This paper discusses the arguments for and against LFM and then sets out the steps which police forces can take to improve their financial management.

THE FINANCIAL ENVIRONMENT

9 For the purposes of financial management, forces have traditionally been treated as service departments of the host local authority. The police authorities of single county forces are constituted as committees of the relevant county council. They, and their force, almost always draw on the county council for financial management services and usually adopt its financial regulations.

10 In the case of joint county forces, one of the county councils involved will be a lead authority for the purposes of financial management of the force. Usually, but not always, the financial regulations of the lead county council will be applied. In metropolitan areas one of the district councils takes the lead in providing financial services to the authority.

11 Police authorities are responsible for making finance available to secure an adequate and efficient police force. Chief constables have no sources of finance of their own (even the small proportion of police income raised by fees and charges is under the direct control of the police authority*). But they are statutorily independent in their operational decisions. Rigorous alignment of responsibility for financial and operational management would mean the

* See Police Paper No 7
police authority delegating much of its financial authority to the chief constable. But there are considerable constraints on the extent to which it can do so because central government exercises various direct controls over the resources which can be made available to police forces. For example, the Home Office prescribes an upper limit on the number of police officers in each rank which a police force may employ, and major capital spending, such as on a new police station, is subject to its detailed approval. Thus there is little room for local decision making on major capital spending. Minor capital expenditure is not centrally controlled but is subject to limits on grant allocation.

12 On the revenue side the dominant factor is Home Office control of police manpower. All this severely constrains the scope for resource management by police authorities, and the extent to which they could delegate responsibility to chief constables if they wished.

13 But these restrictions apply uniformly and cannot account for differences in police authority financial regulations. These regulations determine how a chief constable can spend his budget by type of spending and by amount — without further specific approval from the authority, either from its officers (i.e. in practice, from the finance department of the host local authority) or from its committee of members (Exhibit 3).

14 Some police authorities seem to use tight financial controls to compensate for their exclusion from operational policy. This, and failures to raise financial limits in line with inflation, are the main reasons for the wide variation in the financial discretion which they permit. In one force, all items of expenditure above £3,000 have to receive prior approval from committee. For some forces there are dozens of different budgets for the different types of spending into which the total budget is broken, with little scope for the transfer of provision from one budget to another (a process called 'virement') without prior approval. In these cases there is little that a chief constable can do by way of financial delegation within his force.

15 In other cases chief constables have greater freedom and are able to practise financial delegation of their own. The flexibility afforded by some financial regulations means that, in some forces, superintendents have greater delegated authority from their chief constables to make their own financial decisions than chief constables in other forces have from their police authorities (Exhibit 4).

**Exhibit 3**

**POLICE AUTHORITY FINANCIAL REGULATIONS**

There is a wide variation in the way financial control is exerted by police authorities ...
16 Financial expertise traditionally resides in the host council treasurer’s department and there is not always adequate contact between those charged with financial management and those charged with operational management inside the force. Therefore, although overall financial control may appear good, information takes time to pass to and from the treasurer’s department and it may be hard for geographically or organisationally remote managers to tackle budgetary problems.

17 The information technology available inside host councils to support financial management is often not adequate. Managers are often unable to obtain up-to-date information on spending commitments. They often cannot directly interrogate the financial database and do not have access to financial management software.

18 Typically, host council computers will generate reports in the form of lengthy printouts showing cash outturn under numerous ledger headings. This requires concentrated effort by staff familiar with the details of the system to extract relevant summaries of the information needed by line management to take resource decisions. Police forces have sought to come to terms with this by centralising within their headquarters the financial management functions which they do have, with the consequence that the commanders of operational sub-units are rarely troubled explicitly by the financial dimension of the decisions which they take. What financial information there is within the force is usually in a form which is indigestible to them and not relevant to their own particular operational commands.

THE PROBLEMS OF CENTRALISED CONTROL

19 The kind of centralised financial control which this environment promotes brings with it a number of problems:
— it introduces delays and uncertainties, making it difficult for local commanders to respond to changing needs;
— sub-optimal decisions are often made, because the centre does not have as good knowledge of the circumstances as the local commander;
— there is inadequate information on where and why costs are incurred;
— the system provides no incentives for local commanders to increase efficiency.

DELAIS AND UNCERTAINTIES

20 The problems of delays are illustrated by the experience of one force, whose vehicle procurement programme took over 18 months from the initial projection of the replacement programme to the final delivery of vehicles. The plan was initiated annually by the Assistant Chief Constable in the form of a submission to the Finance Branch for inclusion in the force budget. Following budget approval by the police authority, the detailed replacement programme was then submitted to the Finance and Policy Committee of the police authority and subsequently to the full authority for approval. After tenders had been sought the purchasing programme had to be approved by the Committee and the full authority. The consequent delays in placing orders led the force to incur three price rises after tenders had been sought, costing about £50,000 to £75,000 each year. Another authority requires all purchases of IT equipment over £300 to be approved by its committee, greatly lengthening the time taken to acquire relatively small items.

CONTRASTS IN DELEGATED FINANCIAL AUTHORITY

Superintendents in some forces have more delegated financial authority from their chief constables than chief constables in other forces have from their police authority ...

<table>
<thead>
<tr>
<th>Chief constable in Force A</th>
<th>Superintendent in Force B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limit on virement allowed without prior approval</td>
<td>£10,000</td>
</tr>
<tr>
<td>Virement limit as a % of budget controlled</td>
<td>0.02%</td>
</tr>
</tbody>
</table>

Source: Study forces.
have been given marginal flexibility over their budgets. For example, two forces found that obtaining photographic records of detained persons had occasioned heavy use of police vehicles and officers in rural areas to transport them to and from a station which had photographic facilities. Significant savings in vehicle mileage and increases in officer availability were realized simply by allowing rural stations to purchase instant cameras from the savings available. In another force, PCs and their sergeant in a rural station made a convincing case for the purchase of fax facilities. The HQ, distanced from day to day activities, had not previously recognized or acknowledged the value of these relatively small investments.

' . . . the centralist system is impelled by its own structure towards more intrusive central control . . . '

22 The centralist system is impelled by its own structure towards more intrusive central control: to set safeguards on the use of extra funds; to try to target efficiency drives; and generally to substitute for local cost consciousness. The central finance function takes over more and more local management issues to the increasing irritation of sub-unit commanders and to the growing detriment of local effectiveness.

23 Spending on mileage and overtime may be subject to violent swings in policy from spending sprees to moratoria as the central finance officer struggles to fine tune outturns against budgets. In one force where annual moratoria on overtime for the last quarter of the financial year were common, local commanders were generous in their authorisation of overtime early in the financial year because of the likelihood of greatly reduced overtime allowances between January and March. This just made end-year squeezes more likely, and established a sub-optimal pattern of resource usage.

LACK OF INFORMATION ON COSTS

24 Under a centralist regime local managers are rarely able to see the costs of the resources they use, and have even less incentive to care about them. The centre may budget in detail by making complex trade-offs but the process by which bids for resources, from manpower to office chairs, are assessed, ranked and met or rejected is mysterious to those on the receiving end.

25 Local managers may be keenly aware of the local values of specific resources, but they appear costless. The key to success is infighting and gamesmanship within elaborate rules of central control over volumes of resources. Where continuous central control is impossible, such as on heating and lighting, the resource may be used carelessly. Where there is tight central control it is used with a vengeance: firstly to subject local bids to rigorous, albeit (inevitably) poorly informed second guessing to compensate for what is perceived as local profligacy ("these people just don't understand the cost of what they are asking for") and secondly to absorb the shocks of over or under spending on items which are not so susceptible to central management.

26 The lack of cost consciousness and financial information where budgets are not delegated was highlighted by the Commission's study on police vehicle management (Police Paper No 3). In half the forces reviewed, the responsible managers could not produce on demand 50 per cent of the items of management information that should be regarded as essential: for example, on the costs of workshops. Without appropriate information, it was impossible for them to address basic issues such as:

— are all the workshops viable?
— when should vehicles be replaced?
— what are the costs of running different vehicle types?
— how much would be saved by using diesel vehicles?

LACK OF INCENTIVES

27 From the outside the organisation may appear to be coping well. But internally, it may be riven between those who see their job as 'policing' and those who see it as 'finance'. The former struggle to improve effectiveness by bidding for extra resources. The latter struggle to improve efficiency by reining back on cash. Both sides act rationally according to their roles but valuable initiatives may be stifled by narrow-minded and short-term financial outlooks, whilst resources may indeed be wasted locally, and bids framed without proper consideration of the financial trade-offs implied by the need to live within overall budgets. In the worst cases
the two lobbies may not even share a common language. One side speaks in prices and budget limits; the other in resource volumes and service demands. As the only sentiment they share is that life would be easier with more money to spend, this tends to be the only coherent message delivered to the outside world.

28 Under a centralist financial regime, local commanders have little incentive to achieve efficiency, because any efficiency gains will be retained by the centre in the current year, and reflected in lower budgets in subsequent years. Half of the potential savings in energy efficiency in buildings come from good housekeeping — switching lights off, closing doors etc. Opportunities like these are unlikely to be realised unless local commanders can make use of savings for new projects.

29 Furthermore, where property and its associated costs are managed centrally, local commanders see all their operational buildings as a free resource. If they were made aware of the full running costs (including some form of asset rent) they could be given a financial incentive to utilise space in existing buildings more effectively, and offer portions of buildings to be sublet or transfer functions between operational buildings.

BENEFITS OF LFM

30 The Home Office cannot know in detail how best to conduct policing operations in a village on the other side of the country, and exactly what type of resources it requires. Neither the police authority nor the chief constable may be experts either: even a small rural county will cover a wide range of different policing environments. If policing services are to be fine tuned to local needs and circumstances, this has to be done by a police commander close to the ground, and requires delegation of operational and financial control both to the force, and within it.

31 With delegation, the need for overall financial discipline remains but the emphasis is switched to exercising detailed control locally. Where, as is always the case in a service like policing, painful trade-offs have to be made between competing public demands for limited resources, local management is better positioned to get the most out of what there is. When local commanders are conscious of costs and have an incentive to control them, the concept of the free resource retreats (Exhibit 5). Exhibit 6 (overleaf) lists the benefits perceived both by local managers and by the force as a whole following the implementation of LFM by Northamptonshire*. Box 1 on page 9 gives extracts from leaflets issued to local commanders explaining the importance of controlling finance in a local context and the benefits of introducing LFM.

32 In the absence of effective performance monitoring (see Police Paper No 8), the damage caused by detailed central control often goes largely unnoticed at the centre and

* Where forces are named, it is only to give examples and these should not be taken as an exhaustive list of the forces currently developing LFM systems.

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**Exhibit 5**

**EXAMPLE OF THE INCENTIVES GIVEN BY LOCAL FINANCIAL MANAGEMENT**

If local commanders are informed about costs, they may make valuable observations about how money could be spent better on other resources . . .
by external observers precisely because of the lack of measures of effectiveness which would show it up. For the same reason, it can be difficult to quantify the benefits of financial delegation. Those forces visited by the study team which have practised financial delegation all claim to be satisfied with the benefits, which tend to show themselves in improved morale of managers and their subordinates, and increased interest in devising local efficiency programmes. Local commanders claim they are free to manage rather than merely administer; there is more emphasis on planning ahead to enable demand to be met within budgetary constraints and more explicit judgement of operational requirements and their associated costs. Interestingly, compliance with budget control totals is usually improved under LFM, contrary to the concern of some senior police officers.

33 Examples of specific benefits were discussed in paragraph 21. As a further example, the chief constable in one force was pleasantly surprised to find a PC assigned to traffic proposing a scheme to rationalise duties on escort of wide loads in order to contribute to LFM savings. In another force a sub-divisional commander was researching a proposal for the use of second-hand diesel vehicles for general patrol purposes to save on his transport budget.

34 It is not necessary to devolve authority over spending — in the sense of handing over a cheque book — in order to involve local management in financial decisions. Sub-divisional commanders may not be able to hire and fire police manpower (although it is feasible to devolve authority to engage and dispense with casual civilian labour) but if they are informed about the costs of it, and of other resources, they may make valuable observations about how money could be spent better on other resources.

35 It may be difficult initially to devolve budgets to local command- ers for specialist support functions such as fingerprinting and underwater search teams, but if commanders are informed of their share of the costs they are likely to take an interest in the level of support they are receiving. All resources need to be seen as potentially tradable for others, within a given budget, even if the trading cannot be authorised by line managers, or even by the chief constable.

36 Objections to LFM amongst forces which do not practise it, or which are not realising its full potential are both ones of principle and of practice. The objections of principle are that local police commanders should concentrate on operational matters and not be diverted into financial matters, and that local flexibility in resource allocation will lead to sub-optimal results for the force as a whole, and unacceptable implications for the coherence of the force as a single working unit.

37 The practical objections are that the necessary systems for generating and handling financial information are too expensive to install and run in relation to the benefits expected; that to devolve financial management functions to sub-units will miss economies of scale in provision of financial expertise and financial administration; and that within the financial environment created by Home Office and police authority regulations, only very marginal progress towards LFM can be made — to an extent which cannot justify the costs of setting up the necessary systems. These objections and the
counter arguments are discussed in the following sections.

THE ROLE OF LOCAL COMMANDERS

38 Some police officers believe that giving commanders financial responsibilities detracts from their role of managing operations. However, a key principle of good management inside police forces, as in all organisations, is the alignment of financial and managerial responsibilities. Subdivisional commanders are resource managers. Financial consequences flow from every decision which they take, and they are subject to financial constraints, whether they are visible to them or not. When a local commander sends a car out on patrol, petrol and oil and tyres are being consumed, as is the vehicle maintenance budget. Similarly, it is inefficient for every request for overtime to be authorised centrally, and when a local commander sets a duty roster and subsequently authorises overtime, money is being spent. If a force is to achieve value for money, sub-divisional commanders must be thinking about financial implications.

39 Within an overall budget constraint, aligning financial and operational responsibilities is not only a matter of improving financial management: it also improves the effectiveness of spending, and thus the force's operational effectiveness.

40 Delegating some budgets merely reflects the reality of where financial control lies. LFM can serve to reduce confusion about where control is exercised, because it requires the nomination of budget holders.

Box 1

EXTRACTS FROM LEAFLET ISSUED TO LOCAL COMMANDERS IN ONE FORCE INTRODUCING LFM

A police force can be effective without necessarily being efficient because it can pursue and achieve its goals without any consideration of cost if it has unlimited resources……

... But resources are not unlimited, so to be fully effective a police force must by definition be efficient.

In the future police managers will be asked to demonstrate not only the extent to which they are achieving their objectives but the cost of the operations, in other words, effectiveness and efficiency.

AT WHAT LEVELS ARE WE CONCERNED TO IMPROVE FINANCIAL AND MANAGEMENT INFORMATION?

To encourage officers and managers to become more cost-conscious, it is necessary to devolve responsibility for costs to the same level at which resources are actually used and committed. This means improving the identification of costs and the related use of resources at:

— Divisions/sub-divisions.
— Central operational departments.
— Support services (e.g. transport, catering).

WHAT INFORMATION SHOULD BE USED?

Pilot schemes are to be established to determine what information would be useful to police management, how it could be used, and what training would be required. Likely areas are:

• Gross costs, identified to division, department or support service.
• Costs relative to achievements, relating financial performance to operational performance.
• Costs relative to financial measures, e.g.
  — catering loss as % of sales income
  — budgetary performance
• Costs relative to resources (unit costs), e.g.
  — per police officer, per officer-hour
  — energy costs per premises floor area
  — hourly cost of vehicle maintenance

WHAT DO WE HOPE TO ACHIEVE BY THIS?

• Better awareness of costs should motivate both police managers and officers generally to become concerned with efficiency in order to promote greater effectiveness.
• Unit costs become a basis for assessing alternative courses of action.
• Comparisons can be made between divisions and with other authorities.
• Better allocation of resources:
  — management at all levels can easily identify what resources are being used and can reconsider priorities;
  — unit costs can be used by managers seeking additional resources to justify their case.
• Police managers can be further encouraged to make maximum use of these resources through targets and budgets.
• Adverse variations in unit costs can be a starting point for further management attention, and the existence of such indicators will facilitate these investigations.
• Accountability to the police authority in demonstrating the efficient use of resources.
A system of budgets, and a matrix of cost-coding and report generation, should exist under efficient central management.

41 Operational commanders should not, however, be expected to go into details of accounting policies or the ledger system. Integrating financial management into their roles should be an aid to operational management, not a distraction from it. A good LFM system will therefore give sub-divisional commanders the management information necessary to understand the financial implications of their decisions, and to inform their contributions to the framing of force policies and resource allocations. This can be done by way of a monthly financial summary which, once suitable training has been given on how to interpret the data, should take no more than an hour or so to absorb.

42 LFM does not of itself imply any dispersal of operational management functions. There are, however, implications for local administrative requirements if administrative functions which were formerly exercised centrally are devolved to sub-divisions. A reorganisation which moves more responsibility into sub-divisions to make them more self-contained is often accompanied by a clarification of budget responsibilities, which naturally leads to delegation of the relevant budgets to sub-divisions.

THE COHESION OF THE FORCE

43 Some chief constables are concerned that financial delegation, and delegation in general, will lead to a fragmented force, with local commanders becoming mini chief constables. Cohesion of the force under its accountable commander, the chief constable, is essential. But that does not mean that every sub-unit must have detailed plans set by the centre. As discussed in Police Paper No 8, if policing is to be relevant to local communities there must be leeway for local commanders to set their own priorities within overall guidance from the centre. Only as an exception should chief constables set detailed local objectives. The corollary to this decentralisation of operational management is that detailed resourcing decisions should also be decentralised, so that the resources used by local commanders are suited to their operational aims. This does not threaten the cohesion of the force if it is done in accordance with general policies and if the quality of local decisions is monitored.

44 There are some areas where coherence does require uniformity e.g. the standardisation of communications equipment. There are also areas in which central purchasing may offer economies of scale, which sub-units should exploit e.g. purchases of vehicles. And there are many more areas in which the centre should reserve control over the specification and deployment of resources with long-term costs and benefits, long lead times in procurement, lumpy costs and so on. But the chief constable’s position is not threatened if, say, one sub-division has more vehicles than another.

THE COSTS OF LFM

45 Some forces claim to have been deterred from LFM by the apparent cost of introducing it. In many forces, the costs may be considerable. But where this is so, it will largely reflect the inadequacy of existing central management systems. The costs of moving from an effective central management system to a well designed LFM system can be minimal. The administrative cost of nominating local commanders as responsible for compliance with budgets formerly held (if only by default) at the centre need not be prohibitive. Often, however, the ability to disaggregate costs between sub-units and functions on a reliable basis is lacking, and this lack is compounded by the absence of clear roles and responsibilities for financial management. The costs of remediating these weaknesses should not be confused with the costs of introducing LFM. Exhibit 7 contrasts two forces, one of which had to install a new computer system and software to run LFM and another which refined the cost centre structure and data capture on the existing system at minimal extra cost.

RESTRICTIVE HOST AUTHORITY CONTROLS

46 Some chief constables may feel unable to introduce LFM because of the restrictions placed upon them by their financial regulations, both in terms of the number of discrete heads under which their budget is agreed and their ability to vire (discussed in paragraphs 13 to 15). Exhibit 3 gave examples of the controls exerted by police authorities ranging from no authority for virement without prior approval of the police authority in one force to extensive powers for unlimited virement on many budget heads in...
EXAMPLES OF THE COSTS OF INTRODUCING LOCAL FINANCIAL MANAGEMENT

The cost of remedying weakness in the financial information system should not be confused with the cost of introducing LFM.

Another. Tight controls certainly do inhibit the chief constable's ability to delegate virement discretion, although not accountability for budgets. In these cases chief constables may wish to approach their police authorities to have the appropriateness of their financial regulations re-examined.

ECONOMIES OF SCALE

47 Economies of scale may arise in the provision of specialised resources — both in manpower skills and equipment. They will have an influence on decisions about where functions are located — whether they should be provided centrally or dispersed to sub-units (see Police Paper No 9). Strict cash economy should not be the sole determinant of decisions. However, forces should not devolve everything to sub-divisions for its own sake. Careful consideration will point to some functions, and the associated financial responsibility, being retained at the centre. An example is financial expertise. It would be extravagant for every sub-division to have its own accountant, just as it would be extravagant for every sub-division to have its own underwater search team. In the same way, administrative support units and communication rooms may best be provided as a common service to sub-divisions.

MARGINAL FLEXIBILITY

48 It is sometimes argued that the scope for sub-divisional financial management is necessarily limited. Many resources have to be organised outside of sub-divisions, and within sub-divisions the greater part of expenditure is on basic manpower costs, overtime and vehicle mileage which can be controlled effectively through direct quotas without explicit financial limits. When the need also to retain central control over long-term spending commitments (with costs and benefits exceeding the limited period of sub-divisional commanders' postings) and over spending which can best be undertaken centrally (to exploit economies in bulk purchase) are considered, it may seem that little remains over which control can be devolved. But even marginal local flexibility over decisions about resources can unlock significant gains in effectiveness as highlighted by earlier examples. And if central control mechanisms are adequate, the costs of implementing LFM in line with operational responsibilities will also be marginal.

* * *

49 The objections to LFM examined above are no more than observations about the dangers of implementing LFM badly. They point to the conclusions that LFM systems need to:

— be tailored to the particular circumstances of a force; there is no standard structure which can be applied universally;
— follow operational command structures: the first step in clarifying financial responsibilities should be to clarify operational responsibilities;
— be integrated into the overall resource management systems of the force, with particular attention to the annual processes of setting budgets, priorities and objectives; and agreeing personal
workplans for budget holders/managers; and
— provide operational commanders with the management information which they require to act as resource managers, and not with extra administrative duties beyond those implied by their operational responsibilities.

**IMPLEMENTING LOCAL FINANCIAL MANAGEMENT**

50 To delegate responsibility requires a system for setting standards and measuring performance which, as Police Paper No 8 discussed, is too often deficient. The considerable effort which goes into the collation of statistics often still does not provide a satisfactory basis for the centre to take its hands off detailed local decisions.

51 Designing an LFM system is a matter for common sense judgement. There is no single template for all circumstances. But the experiences of those forces which have made progress towards LFM point to some general recommendations (Box 2 and Exhibit 8).

**FINANCIAL EXPERTISE**

52 There must be commitment amongst chief officers to the changes needed in organisation and attitudes. The police authority must also be fully supportive. If financial management is to be exercised down the line in the force, there must first be the right relationship between it and the police authority. There is no substitute for a small headquarters finance team, dedicated to support the chief constable, but in close touch with and trusted by the treasurer of the police authority (and the host council).

53 It may not be essential for every council service department to have a similar team, although close working relationships between the central finance department of a council and service managers need to be developed one way or another (see Better Financial Management, Management Paper No 3). Police forces have special needs amongst service departments — and the location of a finance team inside the force is essential. Police line managers are too remote — physically, organisationally and culturally — from the host treasurer’s department for financial management to be introduced to them without a special bridge. And the demands of developing and running a financial information system for a police force justify the dedication of a small team to the task.

54 The post to which the team reports needs to be graded to attract an individual of high calibre, commensurate with the financial turnover of the force. He or she needs not only to have the confidence of the chief constable but also to have strong interpersonal skills to convey the principles of delegation and be able to command the trust and respect of colleagues in the police authority and host council.

55 The post should be accorded the status of ACPO rank, reporting directly to the chief constable and being routinely involved in chief

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**Box 2**

**IMPLEMENTING LOCAL FINANCIAL MANAGEMENT**

The following matters should be addressed by the force if it is committed to the introduction of LFM:

- the establishment of a financial specialism at the force headquarters to instigate change and support budget managers;
- a review of the force’s financial information system (which will typically be that of the host authority) to decide whether it can support the complex operational requirements of the force or whether the force needs to invest in its own system;
- the introduction of a cost centre structure which can accurately map the costs associated with territorial and other operational activities;
- a review of the force’s financial regulations to consider whether sufficient discretion is given by the police authority to the force;
- an agreement as to which budgets should be delegated and which should remain centrally controlled;
- the allocation of one accountable officer for each budget and a clear reporting line of responsibility for budgetary control;
- an agreement on the arrangements for virement and at what levels of the command structure this should be permitted;
- an agreement as to what happens to any savings achieved by good financial management;
- an assessment of the management information needs of all officers responsible for budgets and redesign of report formats to suit local needs.
Exhibit 8
IMPLEMENTING LOCAL FINANCIAL MANAGEMENT
End results of implementing LFM may vary, but a number of common steps need to be taken . . .

 officer policy meetings. To see financial support as a bolt-on which needs to be activated only when financial policy is on the agenda is a fatal error. The integration of financial and operational management needs to start at the top.

56 The size of the core finance team supporting delegation under this post will vary according to the size of the force and the degree to which HQ can rely on the lead authority and force sub-units for financial support. Exhibit 9 gives two examples of forces which have decentralised their financial support to sub-unit commanders, but each force will need to make its own judgement in its own circumstances.

57 With a team in place, the financial regulations of the police authority should be examined and proposals from the force for revising them should be discussed, on the basis that, with its own finance function, the force can enjoy greater devolved financial authority. There is nothing which can be done at local level to relax Home Office regulations, but police authorities and chief constables could do much to help themselves by studying and supporting the recommendations in Police Paper No 6. Arguments for greater local freedom may ring hollow in central government when most police authorities and chief constables do not make full use of the freedoms they already have to develop LFM roles for line managers.

INFORMATION SYSTEMS
58 The force finance team should then review the financial information system and assess its suitability

Exhibit 9
SUPPORT FOR FINANCIAL DELEGATION
The level of support for financial delegation will vary from force to force . . .

Source: Study forces. Figures quoted exclude on-cost and the post to which the team reports.
to the management needs of the force and the authority's treasurer. The technology employed will be a constraint, and prospects of its being replaced need to be assessed realistically. In no area is 'paralysis-by-analysis' more acutely a problem than in procurement of information technology (IT). It is possible to wait for the perfect comprehensive answer to user requirements whilst organisational changes come and go; and then to be further delayed by changes in producer capabilities and lack of finance.

59 Major capital programmes are too often the first casualties in economy drives because their deferral is less painful to those taking a short-term view. There is always a temptation to defer IT re-equipment, because user specifications and product availabilities can change so rapidly. In theory, decisions to re-equip police authorities ought to be easier to reach because of the availability of a 51 per cent grant from the Home Office to soften the blow to local chargepayers. But Home Office grant controls are a hindrance. If the government wants better management in the police service it must be prepared to support police authorities who share that ambition by giving an appropriate priority in capital allocations to procurement of IT systems to facilitate it, or by allowing greater local flexibility in use of its grants as recommended in Police Paper No 6.

60 In the absence of plans for prompt upgrading of an inadequate host system, there are a number of choices. One is for the force to continue to rely on the host author-

ity's system and to proceed at the pace which it dictates. This is what most forces have done. Another is to introduce a parallel IT system for the force whilst waiting for a host authority overhaul, as in Lincolnshire. A third is to use manual administration to process the output from the host authority into usable management intelligence, as in West Yorkshire.

61 The drawback of the first option is that the promised system overhaul may never come. Moving ahead with a parallel IT system may be difficult to justify if a host system overhaul is genuinely imminent, but in most cases it should be possible to write the costs down as a worthwhile investment over a matter of a few years. It is not essential as in Lincolnshire to have computers in each sub-division: the IT could be confined to headquarters as a short-term expedient.

62 Developing software to generate management reports from the raw financial data, and testing it, can be time-consuming and expensive. A system for evaluation of commercial packages, drawing on and pooling local experiences, should be able to add value in much the same way as the Central Computer and Telecommunications Agency does for central government. The Home Office should consider establishing such a circle of police users under its auspices.

63 Manual processing may seem cheaper in an environment where capital is scarce, but it is unlikely to be satisfactory unless the raw material from the host authority is already of high quality, or as a short term expedient during the early stages of phasing-in a system. West Yorkshire has very liberal financial regulations but the force has been able to make only limited progress in LFM because of its reliance on manual processing.

Exhibit 10
INTERIM I.T. SOLUTIONS
Forces should begin by considering interim solutions . . .
Financial management structure should follow the operational command structure. For each budget a single budget holder should be nominated, accountable for the relevant spending. Delegating a budget does not imply abnegating responsibility for it. Ultimately the chief constable is accountable. He may delegate budgets directly down to sub-divisions, or via his deputy or ACC. Supervision of subordinates’ budget management can be conducted as part of the overall monitoring and assessment of officers’ performance. The force’s internal inspectorate can play a part, and the central finance team will also be involved.

Not all budgets will be delegated to sub-divisions. Some may be reserved to the centre, such as major capital expenditure and overtime contingency margins, because they have costs and benefits going beyond the horizons of local commanders either in time, or in impact on the force as a whole or both (Box 3).

There are no rigid rules about what it is sensible to delegate as this will be governed by the way individual forces administer service provision and at what levels of the management structure. It is not necessary for a budget holder to be completely in control of expenditure delegated to him or her. Some spending is only partially controllable, for example heating and lighting. The test is where the trade-offs are best made between variances on this expenditure and the other expenditure heads which could be adjusted to balance them. The broader the basis of delegation to sub-divisions, the more scope there is for further delegation as the broader will be the basis for absorption.

Box 3

CENTRALLY CONTROLLED BUDGETS

Some budgets will traditionally be retained and controlled centrally. For example:

- **Core manpower.** The establishment of uniformed officers in each force is controlled in total and by rank by current Home Office regulations. Central control of local establishments is therefore required to ensure that these regulations are not breached. In the case of civilian manpower it is important that the force is not committed by local commanders to extra expenditure with on-going revenue consequences, but some forces permit virement from underspending on civilian manpower.

- **Training.** Local commanders may pay insufficient attention to officers’ long-term training requirements. Skills training relating to current postings within sub-units could be delegated to local commanders with the centre retaining control over long-term training and development, including probationer and promotion courses.

- **Overtime contingency.** Overtime budgets either in terms of their monetary value or in equivalent hours are frequently delegated. However, most forces retain a contingency of overtime controlled centrally to be allocated as and when major incidents occur e.g. terrorism, murder.

- **Capital expenditure.** Under the new financing arrangements for capital expenditure from 1990/91 onwards, the Home Office gives each police authority a capital expenditure allocation for approved schemes and two block allocations for vehicles, plant and equipment and minor works, on which a capital grant of 51% is available. Expenditure above the allocation will not attract grant. Making the best use of Home Office grant implies some degree of central control over expenditure which would qualify for capital grant. Furthermore, the incidence of major capital expenditure is quite lumpy, and thus local commanders may be deterred from incurring it because of its impact on their budgets, even though it is in the long-term interests of the sub-unit and the force.
possible resources in this category should be organised into recharged cost centres, so that the expenditure budgets can still reside with territorial commanders.

68 Police Paper No 3 discussed how vehicle management may be managed centrally, but local commanders be given delegated budgets so that they may exercise discretion over the number of vehicles they have and how heavily they are utilised. The force will continue to benefit from centralised procurement and maintenance. Ultimately most specialist support functions such as fingerprinting and underwater search teams should be treated this way, once the ‘steady-state’ level of demand has been established. If budgets for such functions are delegated before the likely demand has been settled, then the use made of them may be highly erratic. In the interim, they should be treated as a costed overhead and budget holders encouraged to comment on the appropriateness of the overhead charge.

FINANCIAL REGULATIONS

69 The financial regulations appropriate to an individual police authority need to be decided by the authority itself, because they must take account of matters such as the culture of the police force and its ability to monitor expenditure accurately. However, the matters which an authority should consider in devising its regulations are set out in Box 4.

70 The principle is that there are certain budget heads on which no virement by the chief constable should be permitted, but the authority may wish to put no restriction on virement on the other heads — although planned and actual virements should be reported to the police authority for monitoring purposes. Such an approach is similar to that in the Government’s Local Management of Schools initiative. In practice, there will be separate controls on individual external transactions above a set limit for probity reasons, but this should not constrain the chief constable’s virement discretion.

VIREMENT

71 Where budgets are delegated, the rules on virement amongst them must be clearly set out. Virement is one form of budget flexibility, but by its nature it is limited. Greater flexibility comes from the aggregation of budgets into bigger budgets covering more spending heads. It should be possible, for instance, to create budgets for transport — covering tyres and maintenance, private vehicle mileage, and public transport costs — rather than separate budgets for each and limited scope for virement between them. Rules on virement should not be prejudiced by a central view of where virement is likely to be possible. Trade-offs which may seem simple and obvious to officers on the ground may be unlikely to occur to central planners.

72 In the early stages of a scheme, central review of major virements may be employed as a backstop, with local commanders requiring approval to implement virement proposals. Over time, both local commanders and central supervisors will grow in confidence in working the scheme and these restrictions can be relaxed. Where there is vetting, the presumption should be in favour of accepting proposals unless there are strong reasons to refuse, in which case the refusal should be clearly explained. Experience shows that if a system is explained to local commanders correctly in terms of increasing their management authority, they rarely abuse their new freedoms with frivolous schemes. Depending on the quality of the management intelligence available, some restraint may be needed against redeploying apparent savings early in the year which are likely to be reversed by the year end, although this is a judgement which local commanders will quickly learn to make for themselves better than central supervisors can make it for them.

SETTING BUDGETS

73 A positive incentive for line managers to identify and realise savings is required. In-year, this may come from setting broad budgets within which there is flexibility for budget holders to shift spending provision, and from scope for virement between budget heads.

74 But how long these processes will continue to offer local incentives depends critically on what happens to the savings generated beyond the year in question. Within the year, the savings are available for spending to match local priorities. When the budget is drawn up for the following year, there would appear to be no need to allow for this spending to be repeated, and there is no point repeating provisions for running costs where they have been shown
to be excessive. But if the savings are visibly clawed back in the process of setting the next year’s budget, then there is only a short-term incentive for local managers and they will soon come to see the exercise as one which ‘penalises’ their command for the benefit of the rest of the organisation (Box 5 overleaf).

Most forces practising LFM avoid confronting these issues by keeping the process of budget setting outside their LFM mechanisms, and remote from local managers. Whilst cash growth is sustained, adjustments to inflation assumptions and relative growth factors liberate reserves for the centre to deploy without consequences for local budgets which are too visible. But the upshot is the isolation of local managers and local expertise from the business of the annual financial

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**Box 4**

**DEVISING APPROPRIATE FINANCIAL REGULATIONS**

The following is a summary of matters which an authority should consider in devising its regulations on virement, together with an illustration of regulations which would give the force reasonable discretion while giving the authority a reassurance on budgetary control. There are, in addition to virement limits, other ways in which financial control can be exerted by the police authority, for example the prior approval of expenditure on individual items above a predetermined value and constraints over where purchases can or can’t be made. These controls need to be set having regard to the virement limits.

**CONSIDERATION**

For which budget heads will virement not be permitted without prior approval (i.e. the budgets to be ring-fenced)?

What should happen to underspends on ringfenced budgets?

Should there be any budget heads on which unlimited virements can be allowed without prior approval?

What limit for virement without prior approval can be set where the police authority does not wish to give unlimited powers?

**ILLUSTRATIVE APPROACH**

— Budget heads where decisions to spend now will incur ongoing revenue commitments (e.g. manpower except overtime, and leasing charges).

— Expenditure covered by Home Office controls (e.g. uniformed manpower and major capital schemes).

— Other spending eligible for Home Office capital grant which, if it exceeded the allocation, would not attract any grant.

— Expenditure which it is obligatory to incur (e.g. rates).

— Underspending on salaries and wages resulting from choosing to delay filling posts can be vired out.

— Allowable on any budget head not previously ring-fenced except where it would involve a major departure from previous policy or incur a future liability (for example, deferring expenditure on the structural maintenance of buildings may incur additional expenditure in the long-term and therefore the police authority may not wish to give unlimited powers to the force to vire out of the structural maintenance budget).

— The virement limit will depend on the flexibility the authority wishes to give the force and the structure of its budget heads. Virements are most likely to be made between heads of a similar nature (e.g. vehicle maintenance labour, spares, fuel). If there are a small number of heads within a broad category of expenditure then the virement limit can be lower than if there are a large number of heads to achieve the same flexibility.
One force implementing LFM experimented in the development of its scheme with explicit clawback of savings. Savings on budget heads up to a specified amount were to be available in full to finance proposals for virement, but above that level only a proportion of savings identified could be prayed in aid of virement proposals, the balance being effectively surrendered to the centre as an overall saving.

The response was unsatisfactory. Savings continued to be identified up to the level at which 100 per cent of them was available to finance extra spending on other projects, but no proposals were forthcoming involving the larger amounts of savings of which only a proportion would be allowed to finance other spending in the cost centre.

The experiment was aborted.

The team may need to be augmented by external contractors for this intensive phase of design. Contracting out the whole process may be appealing, but forces will need their own central finance team anyway. Contracting out wholly the design and development is inadvisable without an in-house team to monitor closely the work. External contractors relieve the client of temporary demands for specialist skills. They do not relieve the client of the need for its own skilled management: they merely change the nature and magnitude of the in-house management activity required.

The end result may be a requirement for more management information at each location for each officer. Avoiding a blueprint for information overload is part of the design team’s job. Managers will need to remember that, if financial information is to enhance their operational role rather than distract from it, their opportunities to devote attention to it will be limited. The ideal is one monthly financial report of two pages — one with financial information (Exhibit 11) and another with the relevant commentary. These should then be read in conjunction with a monthly report on performance. If managers ask for more as a matter of course, most of it will end up unread on the bookcase. They should have access to more information if they require it, but they should not receive it all gratuitously.

The report needs to be concise and tailored to the recipient’s needs (Box 6 on page 20). The convenience of the computer should be secon-
Exhibit 11

BUDGET REPORTS

Many reports contain too much detail . . .

... but managers need summarised information . . .
Central to the system, therefore, is the processing of raw financial information into usable management intelligence in the form of monthly reports, tailored to each recipient. Some forces are committed to devolving a high degree of financial administration functions to sub-divisions, and are looking forward to integration of their systems with enhanced host mainframes allowing a reduction in duplicated financial management effort. Other forces may find it easier to justify less ambitious approaches leaning more heavily on central administration and central processing of financial information. This approach depends on the provision of close support from the centre to local commanders to talk through the implications of financial reports when asked. It also turns upon the establishment of a satisfactory client/contractor relationship between sub-divisions and the greater range of central common services which this approach implies.

**PHASED IMPLEMENTATION**

83 Phased implementation of a scheme may be dictated by a range of factors. The length and order of phasing will influence decisions on the configuration of any interim system. In the forces reviewed, the timescale for implementing LFM has been up to four years. Manual processing may even be an option if a new host system is expected before the processing requirement builds up significantly due to more expenditure heads being brought into the scheme.

84 Phasing usually begins by delegating those budget heads for which sub-unit costs are already identifiable because of the way cost data is captured (Exhibit 12). Amongst the factors in favour of phasing are:

— data validation. Before data is used as a basis for accountabilities, it has to be accurate and available on a timely basis. Too often systems offer a choice between the two. Sometimes systems are run for a ‘dummy’ year, distributing information but not...
which budgets were delegated and
the average value of budgets dele-
gated per sub-unit by West Mid-
lands Police.

86 Each force must make its own
judgement about the length, order
and final destination of phasing.
Where an initial review by the
finance team identifies opportunities
to delegate some budgets and de-
volve some spending authorities on
the strength of existing information,
there is no reason not to take those
opportunities promptly. It is not
necessary to await the outcome of a
thorough review across all types of
spending and all areas of manage-
ment. But before committing to any
enhancement of information proc-
essing capabilities, a comprehensive
review of requirements will be neces-
sary.

* * *

Exhibit 13
PILOT STUDIES FOR LOCAL FINANCIAL MANAGEMENT
The following are examples of budget heads which have been delegated by forces as
pilot studies . . .

<table>
<thead>
<tr>
<th>Expenditure head</th>
<th>Level of data capture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Police overtime</td>
<td>traditionally monitored by sub-units.</td>
</tr>
<tr>
<td>Energy</td>
<td>bills usually received for individual buildings.</td>
</tr>
<tr>
<td>Telephones</td>
<td>bills usually received for individual buildings.</td>
</tr>
<tr>
<td>Car allowances, travel and subsistence</td>
<td>identifiable per officer and approved by local commander.</td>
</tr>
<tr>
<td>Transport fuel</td>
<td>issues logged per car, cars attached to sub-units.</td>
</tr>
</tbody>
</table>

authority treasurer will need time
to gain confidence in their abili-
ties as well.

85 The system may evolve from a
limited form of LFM to an extensive
form. Lincolnshire introduced their
scheme in one go and have made
only minor changes since. Other
forces have phased in LFM over a
number of years. Exhibit 14 on page
22 indicates the timescale of phased
implementation, the sequence in
delegating accountability, to allow
the system to settle down whilst
disputes about where resources
are in the organisation are settled;
— software. Problems with procur-
ing software were mentioned
above. Developing in-house soft-
ware or becoming familiar with
implementing commercial pack-
eges may take time and thus
impose constraints on the rate of
progress;
— cultural receptivity. At the outset,
commanders may resist sugges-
tions that they are able to exert
influence over some types of
spending. Phasing, beginning with
less contentious and more obvi-
ously controllable items is condu-
cive to success in implementation.
For this reason, some forces in-
cluding the Metropolitan Police
have undertaken pilot studies be-
fore embarking on more ambi-
tious schemes of delegation. Ex-
hibit 13 gives examples of budgets
which forces have delegated in
pilot studies;
— confidence. Even if the culture is
highly receptive, local command-
ers will need time to gain confi-
dence in their use of the system,
and central supervisors and the
The effort is worthwhile, and making it is a matter of urgency, because only with adequate financial information and alignment of financial and operational management can forces rise to the challenges of increasing effectiveness in an environment of rising demands and constricted cash.

Financial management needs to be integrated with operational management at all levels in the police service. To achieve this with a scheme of local financial management should not impose significant running costs above those required for effective central management, but forces have generally found it necessary to overhaul their financial information and processing systems in order to make progress. Those forces that have yet to start may face significant obstacles requiring an

### Exhibit 14:

**PHASED IMPLEMENTATION OF LFM IN ONE FORCE**

Forces may wish to follow the example of one force which phased the implementation of LFM...

<table>
<thead>
<tr>
<th>YEAR</th>
<th>COST CENTRES</th>
<th>BUDGET HEADS DELEGATED</th>
<th>AVERAGE BUDGET DELEGATED PER SUB-UNIT</th>
<th>VIREMENT PERMITTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>28 cost centres territorial divisions and HQ departments</td>
<td>20 budget heads overtime (3), travel and subsistence (6), car hire and allowances (3), fuel, furniture, telephones, copying, postage, newspapers &amp; periodicals (2), hospitality.</td>
<td>£1 million</td>
<td>With HQ approval up to £20k as follows: £ 4k at 3 months £ 6k at 6 months £10k at 9 months</td>
</tr>
<tr>
<td>2</td>
<td>Divisions encouraged to delegate to sub-divisions. Overtime contingency retained centrally for major incidents.</td>
<td>+5 budget heads stationery and office equipment, police vehicle mileage, temp. civilian staff, short police training courses, furniture repairs.</td>
<td>Additional £95k</td>
<td>With HQ approval up to £35k as follows: £ 5k at 4 months £10k at 8 months 50% of total savings up to £20k up to 12 months.</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>+4 budget heads civilian pay, miscellaneous equipment, mobile telephones, training travel &amp; subsistence.</td>
<td>Additional £315k</td>
<td>With HQ approval up to £50k</td>
</tr>
<tr>
<td></td>
<td>FUTURE</td>
<td>Building repairs and maintenance, vehicle fleet.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: West Midlands Police.

CONCLUSION

Financial management needs to be integrated with operational management at all levels in the police service. To achieve this with a scheme of local financial management should not impose significant running costs above those required for effective central management, but forces have generally found it necessary to overhaul their financial information and processing systems in order to make progress. Those forces that have yet to start may face significant obstacles requiring an investment of effort and finance. The effort is worthwhile, and making it is a matter of urgency, because only with adequate financial information and alignment of financial and operational management can forces rise to the challenges of increasing effectiveness in an environment of rising demands and constricted cash.