

Amalgamation of Cumbria and Lancashire Police Authorities Update Report from the Treasurer

1. Introduction

- 1.1 This report updates members on a number of issues surrounding the financial implications of the proposals for a voluntary amalgamation of Cumbria and Lancashire Police Authorities and their Constabularies.
- 1.2 In summary, the report
- advises on the further application of national moderation criteria by the Home Office to the Business Case submitted by Cumbria Constabulary and confirms that a minimum of £14m of grant is available to support the merger of Cumbria and Lancashire Police Authorities and their Constabularies. The report also advises that an opportunity has been provided over the next five weeks to enter into detailed 'clarification' discussions with the Home Office and which Officers anticipate will provide potential for achieving a modest improvement to at least £14.61m and hopefully more. (see Home Office letters at Appendices 2 and 3)

 - advises on a decision by the Chancellor announced as part of the Budget Statement on 22 March which has maintained (but not increased) the Spending Review funding available to the Home Office for the three year period 2008-09 to 2010-11 at the same level as for 2007-08. (see Home Office letter at Appendix 4)

 - advises on the latest thinking by the Home Office on the harmonisation of precepts.

 - advises on the funding criteria being adopted by the Home Office to the amalgamation costs of Police Authorities who are to be subject to Amalgamation Orders decided by the Home Secretary, rather than agreed to on a voluntary basis. (see Home Office correspondence Appendix 5)

 - advises on the decision recommended by the Joint Programme Board to lease premises in Lancaster for a two year period in order to accommodate the Cumbria and Lancashire Constabularies joint programme team on a single site convenient to both parties, and which could also facilitate Committee meetings of the new Strategic Authority in that period. The premises are to be taken by and in the name of Lancashire Police Authority, in advance of the new Authority being established on or around 01 June.

2 Recommendations

2.1 Members are asked to note the level of assurance, the minimum guarantee on grant funding and other information set out in this report and to take that information into consideration in deciding whether it is sufficient to meet the qualifications made in its earlier decision to ask the Home Secretary to make an Order to amalgamate the Cumbria and Lancashire Police Authorities and their Constabularies with effect from 01 April 2007.

2.2 Members are also asked to endorse the recommendation of the Joint Programme Board to ask Lancashire Police Authority to take a lease of accommodation at Lancaster for a minimum period of two years to facilitate single site accommodation for the amalgamation programme team and which could also be used for committee meetings of the new Strategic Authority should the Authority so decide.

Douglas Thomas
Treasurer
23 April 2006

Appendix 1 – an analysis by the Treasurer showing the updated moderation of the Business Case by the Home Office and the implied minimum grant entitlement of £14.61m compared to the last formal offer of £14m

Appendix 2 Home Office letter 23 March setting out latest revisions to Cumbria Business Case.

Appendix 3 Home Office draft response received on 20 April to queries raised by Treasurers in relation to HO letter of 23 March

Appendix 4 HO letter received 03 April setting out basis of provision for HO Spending in period 2008-09 to 2010-11

Appendix 5 HO letter dated 06 April setting out revised approach to funding of amalgamation costs for all Police Authorities

3. Moderation of Cumbria Business case

3.1 Since the last meeting on 24 February there have been a number changes in the Home Office approach to set-up costs, ongoing costs and savings and financial support for the amalgamation process which are addressed in this section of the report.

3.2 The latest position compared to that reported to the Authority meeting on 24 February, is as follows:

3.2.1 Cumbria Business Case (along with all other business cases) has previously been reviewed by consultants acting for the Home Office. On the basis of that scrutiny the Home Office had adopted a number of changes which reflected their view that a merger could be achieved for a set-up cost of £19.6m compared to the figure of £21.4m advanced in Cumbria's business case submission and £19m in Lancashire Police Authority's submission made earlier in the development cycle. The Home Office also estimated a higher level of ongoing annual savings at £7.3m per annum (Cumbria had estimated £4.8m and Lancashire £5.2m).

3.2.2 The Business case has now been further modified by the Home Office applying a national model as to the costs of pay harmonisation (£2.3m) and compensation terms for ACPO Officers not appointed to the new Strategic Authority.

3.2.3 Also, the cost of providing for an increased level of protective services made in the Lancashire submission has been increased by the Home Office from £4.1m to £5.1m pa – the increase of £1m pa reflecting the costs of the employers' contribution towards the new pension arrangements introduced for the police service from April 2006.

3.2.4 The main changes to the original and revised Business Case are summarised as follows:

Set-up costs:

Original Business Case	£21.4m
Increase in Project Management	+£1.5m
Removal of retention bonuses and reduction in redundancies	-£1.3m
Removal of contingency	-£2.0m
Revised set-up costs reported 24 February	£19.6m
Assumption on pay harmonisation and ACPO compensations	+2.5m
Security for premises less savings on rebadging	+0.1m
Other minor changes and roundings	-0.1m
Revised set up costs now reported 26 April	£22.1m

Ongoing annual savings	
<i>Original business case</i>	£4.8m
Salary reductions to reflect 5% savings in headcount	+£2.3m
Increase in savings on Supplies and Services (to equate to savings of 2.5% of total expenditure)	+£0.1m
Roundings	<u>+£0.1m</u>
Gross ongoing annual savings	£7.3m
Less provision for protective services	<u>£4.1m</u>
<i>Revised ongoing annual savings</i>	
<i>(net of Protective Services) reported 24 February</i>	£3.2m pa
New pensions arrangements from April 2006 re protective services	<u>-£1.0m</u>
<i>Revised ongoing annual savings at 26 April</i>	££2.2m pa

3.3 It is important to stress that these figures remain open for discussion with the Home Office Finance team to the end of May. Unfortunately a ‘clarification’ meeting arranged for 11 April had to be cancelled as all parties were not able to be represented. It is also important to understand that the application of national criteria, whilst providing a macro perspective on financial outcomes for the Home Office, does not automatically translate into such an outcome at the micro level in Cumbria and Lancashire.

3.4 For example, pay harmonisation was examined by the Finance Workgroup in preparing the Business case and a quite modest figure was provided for. On the other hand there is concern on the assumption of a national 5% saving criteria on non-police headcount, which might be viewed as a harsh achievement. There is also concern about the removal of a 10% contingency – particularly as Cumbria and Lancashire are taking the lead as a ‘pathfinder’ in the amalgamation process, which could help reduce the risk for other Authorities, particularly in Wave 2.

3.4 There is some comfort to be taken from the earlier Home Office decision to add back an additional £1.5m in project management costs to provide resources for greater direct and expert management of the amalgamation and ICT projects in addition to the sums included within the original submission. This should help lessen the risks. The Chief Constable of the new Strategic Constabulary will need to be satisfied that the 5% saving in non-police headcount can be achieved without impacting on the necessary level service in the amalgamated Authorities, on the other hand discipline will need to be maintained in order to deliver the additional protective services which are entirely dependent upon the savings yielded by the amalgamation process, since no new money is provided.

4 Financial Support towards Set-up Costs

4.1 I have emphasised in previous reports that any amalgamation would be critically dependent upon government financial support to address the set-up costs. I also advised that the Home Office had set aside national funding of £50m in 2006/07 and £75m in 2007/08 from the annual capital grants programmes. Formal offers of revenue and capital grant support totalling £14m towards start-up costs of £19.6m were reported on 24 February.

4.2 The latest and more detailed financial analysis and moderation applied by the Home Office in the letter from the Director of Policing Policy dated 23 March (Appendix 2) shows a revised Business Case set-up cost of £22.1m. At that time this continued to support the grant offer made of £14m but the latest improvements described below lift the implied grant entitlement from £14m to a minimum of £14.61m if the revised Business case is accepted over the coming weeks of clarification and negotiation.

4.3 The letter from the Home Office dated 06 April (Appendix 4) announces an important and welcome change in principle - the Home Office will now provide 100% capital grant to match the 'reasonable' set-up costs for capital expenditure and 100% revenue grant towards 'reasonable' revenue set-up costs *net of ongoing savings in that year of account*. Once the ongoing value of the revenue savings exceed any residual and ongoing set-up costs there will be no revenue 'set-up' grant for that year, and the Authority will then be free to use the net savings in support of improvements in protective or other services. These principles are to be applied in all amalgamations whether undertaken on a voluntary basis as in the case of Cumbria and Lancashire, or imposed by the decision of the Home Secretary.

4.4 Although the cost of improving protective savings is included in the business case cash-flow analysis, it is made clear in the (draft) response (Appendix 3) to our request for clarification, that the costs are not part of the grant support package. In consequence there is unlikely to be any new capacity for investment in protective services until the start-up costs are covered by revenue savings net of grant. However, the amalgamation process itself should lead to synergies and improvements in this area which do not require immediate investment to achieve. On the other hand the Authority will be free if it so chooses and in the light of financial and other circumstances applying at the time of setting the budget, to apply its own revenue resources towards improving protective services providing at that time it remains confident that the ongoing revenue savings from amalgamation will be released in accordance with the business case timetable. A safer option would be to wait until the second year before considering applying increased funding from its own resources.

4.4 Since the grant is to be determined in advance, rather than by reference to

actual costs incurred but not identified until after the end of any particular financial year, the importance of agreeing both the quantum and timing of associated capital and revenue expenditure is critical, not least because all of the financial risks remain with the Authority, as was previously the case. However, this change in principle would make it easier should circumstances arise which neither party could reasonably have foreseen, to return to the Home Office, although their capacity to give unexpected support may itself be severely limited.

4.5 The APA whilst welcoming this change of approach is also seeking clarification as to how the Home Office intend to meet the grant costs, particularly the revenue grant, with a concern that it should not result in future 'top-slicing' from the annual grant settlement for the policing service, in what will be a tighter financial climate than has been the case under the past three spending reviews.

4.6 On balance your Officers welcome the changes in principle now adopted by the Home Office and look forward to engaging in the 'clarification' process with the expectation of achieving an improvement on the minimum grant offer of £14m to at least the £14.61m minimum implied entitlement under the new criteria but hopefully a figure in excess of this to reflect the degree of risk being taken on a voluntary basis as a pathfinder in the amalgamation process. Whilst recognising that the new Strategic Authority will likely want to deliver improvements in protective services as early as possible, the lessening of the requirement to do so until start-up costs are overtaken by ongoing savings should ease the pressure for immediate expenditure in this area. In addition Officers have already recommended to the Joint Programme Board that ongoing savings arising from the process of amalgamation should be separately accounted for and 'ring-fenced' for the future improvement in protective and other services and not be absorbed in meeting other financial and budgetary pressures. These traditional financial pressures should continue to be addressed on a separately planned requirement for ongoing efficiency and other savings to a level identified by the annual and medium term financial planning processes.

5 Financial Settlements and Spending Review Period 2008-09 to 2010-11

5.1 Concern was expressed by Cumbria Police Authority, as by many others, on the newly introduced spending assessment and grant distribution formulae for Police Authorities in advance of amalgamation arrangements for strategic authorities. The Home Office has confirmed that it will continue to abide by the two-year settlement which incorporates 2006-07 and 2007-08, but that it expects to start work later in the year on a review of the impact of the funding and distribution formulae and the establishment of Strategic Police Authorities with an expectation of new arrangements in time for the first of the three-year settlements in 2008-09.

5.2 To this end, the Chancellor's budget announcement providing advance notice on the outcome of the 2007 Spending Review for the Home Office element of public expenditure will be a helpful planning aid, although the modest increase

of just 2.7% pa over the three year spending period to 2010-11 will represent a serious challenge in determining spending priorities. Special provision was also announced for an accelerated roll-out of the CSO programme. (see Appendix 4)

6 Harmonisation of Precepts

5.1 In my February report I advised that ODPM have a strong interest, and possibly primacy in this matter and it is disappointing not to be able to report more definitive progress with less than three weeks before the Order is laid.

5.3 However, both the Chief Executive and Treasurer of Lancashire and I had a very helpful discussion with the Home Office Director of Policing Policy during her attendance at the Joint Programme Board meeting last week. We established that the latest thinking is to provide for the Home Secretary to set out the basis and period for harmonisation on an individual basis for each group of amalgamating authorities. This is currently intended to be provided for in the Order, and possibly over periods of up to five years although that will vary according to the scale of difference in band 'D' council tax of the amalgamating Authorities within each grouping.

5.4 We believe that the delay is caused by a proper concern by government to maintain control over the level of acceptable council tax increases which will continue to be enforced. However, we were able to demonstrate to the Director that this control can be achieved over each new strategic authority at a 'notional' level until harmonisation is achieved, whilst at the same time allowing the gap between the individual levels of precursor authority council taxes to converge over the period decided upon by the Home Secretary. I have offered to make myself available for discussion with Officers of the Home Office or ODPM to help demonstrate how this would work in practice.

5.5 It is of course not possible to enforce a single national limit on acceptable council tax increases at the precursor authority level, because that would almost certainly have the effect of preventing harmonisation taking place, or in the absence of additional government grant for this purpose, requiring the new Authority to make compensating savings which would be self defeating in terms of providing enhanced levels of protective services.

6 Accommodation for the Joint Programme Team

6.1 Members will be aware that a Joint Programme Team has been established to project manage the amalgamation of the two Authorities and Constabularies, overseen by a Joint Programme Board on which both Authorities are represented by the Chairman and Vice Chairman, and supported by appropriate Officers.

6.2 Regular meetings of the Board have commenced on a fortnightly basis and up to 40 staff, drawn from both Constabularies are expected to be engaged for a minimum of two years in managing the successful amalgamation of the two Authorities and Constabularies.

6.3 Rather than site the staff at either Penrith or Preston, involving substantial increased travelling for one group of staff, it has been agreed by the Board that a facility should be established at Lancaster, on a new commercial park adjacent to the M6 exit and immediately opposite the Holiday Inn where meetings are presently being held. Because the accommodation is in Lancashire and the new strategic Police Authority will not become established before 01 June, Lancashire Police Authority has been requested to take the lease and meet the initial cost to 31 March 2007.

6.4 However, it is felt that the decision should carry the endorsement of both precursor Authorities. The Treasurer will be able to give information as to the terms but as these are still subject to negotiation, he would wish to do so in part 2 of the agenda if this information is requested.

Douglas Thomas
Treasurer
23 April 2006

Summary of Financial Considerations in Amalgamation of Cumbria and Lancashire Police Authorities

Business Case for Merger				Home Office Projected Annual Cash Flows					
Cumbria Submission	Home Office Changes		Current		Year 0	1	2	3	4 onwards
£m	Feb	March	Approval	£m	06-07	07-08	08-09	09-10	10-11
	£m	£m	£m		£m	£m	£m	£m	£m
				Capital Set-up Costs					
7.50			7.50	ICT projects					
1.78			1.78	ICT Project Management					
<u>-2.00</u>			<u>-2.00</u>	Less Committed Funding					
<u>7.28</u>	<u>0.00</u>	<u>0.00</u>	<u>7.28</u>	Total Capital Set-up Costs		3.60	3.68		
			<u>-7.28</u>	Capital Grant based on expenditure profile		<u>-3.60</u>	<u>-3.68</u>		
			<u>0.00</u>	Net Capital Cost to Merged Authority		<u>0.00</u>	<u>0.00</u>		
				Revenue Set-up Costs					
9.03	-1.41	2.28	9.90	Employees					
2.00	1.50		3.50	Project Management					
0.43		0.50	0.93	Premise, Transport					
0.77		-0.38	0.39	Supplies and Services					
1.95	-1.95		0.00	Contingency					
<u>0.00</u>		<u>0.07</u>	<u>0.07</u>	Starting point adjustments					
<u>14.18</u>	<u>-1.86</u>	<u>2.47</u>	<u>14.79</u>	Total Revenue Set-up Costs	0.42	10.56	2.78	1.03	
			<u>-7.33</u>	Revenue Grant based on expenditure profile	<u>-0.42</u>	<u>-6.91</u>	<u>0.00</u>	<u>0.00</u>	
			<u>7.46</u>	Net Revenue Cost to Merged Authority	<u>0.00</u>	<u>3.65</u>	<u>2.78</u>	<u>1.03</u>	0.00
21.46	-1.86	2.47	<u>22.07</u>	Total Revenue and capital Set-up Costs	0.42	14.16	6.46	1.03	
			<u>-14.61</u>	Total implied minimum grant entitlement	<u>-0.42</u>	<u>-10.51</u>	<u>-3.68</u>	<u>0.00</u>	
			<u>7.46</u>	Net Cost to Merged Authority	<u>0.00</u>	<u>3.65</u>	<u>2.78</u>	<u>1.03</u>	<u>0.00</u>
				Annual Ongoing Costs and Savings (-)					
-3.92	-2.30		-6.22	Employees (net)					
-0.85	-0.10		-0.95	Supplies and services					
<u>-0.03</u>	<u>-0.06</u>		<u>-0.09</u>	Roundings					
<u>-4.80</u>	<u>-2.46</u>		<u>-7.26</u>	Gross ongoing annual savings		<u>-3.65</u>	<u>-6.92</u>	<u>-7.26</u>	<u>-7.26</u>
0.00	4.10	1.00	5.10	Level 2 Policing Capacity from net ongoing savings		0.00	4.14	5.10	5.10
				Annual Cashflow Cost or Savings (-) before grant	0.42	10.51	3.68	-1.13	-2.16
				Annual Cashflow Cost or Savings (-) after grant	0.00	0.00	0.00	-1.13	-2.16
				Proposed Funding of Expenditure (excluding Level 2)					
			7.28	Capital Grant applied to set-up costs in year		3.6	3.68	0.00	
			7.33	Revenue Grant applied to set-up costs in year	0.42	6.91	0.00	0.00	
			7.46	Revenue released from Ongoing Revenue Savngs	0.00	3.65	2.78	1.03	
			<u>22.07</u>	Total Funding Applied (excluding L2 Policing)	<u>0.42</u>	<u>14.16</u>	<u>6.46</u>	<u>1.03</u>	



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Our Ref
 Your Ref
 Date 23rd March 2006

By E-mail

To the chief officers of Cumbria and Lancashire and the chairs and clerks to Cumbria and Lancashire Police Authorities

Dear Colleague,

CUMBRIA/LANCASHIRE AMALGAMATION

I wanted to write to you again to cover various points on the financial aspects of the amalgamation of your two forces.

First, please find enclosed the financial summary from the consultants and a note on the process for clarification of this summary. You will see that their moderation suggests slightly higher costs than your own case did - £22m compared to £19m – as well as potentially greater savings, and, as a result, we will look again at the financial support you will need to make the amalgamation a success.

We have already committed to meeting 100% of capital in the first year and 50% of capital in the second year and 50% of revenue in each of the first two years. Since then we have considered the finance cases more fully and in order to minimise the impact of restructuring on precept, are prepared to meet all reasonable capital and revenue costs of restructuring, net of savings. When savings exceed costs, the new police authority may retain the balance. If the terms are better than those already accepted, you will of course wish to transfer. We are quite clear that you should get the best support possible and will work with you over the next few weeks to identify how we can do so. I would be very happy to join you at one of your joint meetings in early April to discuss this, and other aspects of your planning. Please liaise with Lorraine Clarke (☎ 020 7035 4851 or ✉ lorraine.clarke25@homeoffice.gsi.gov.uk) and Julia Clayton (☎ 07813 888610 or ✉ julia.clayton8@homeoffice.gsi.gov.uk) to make the necessary arrangements.

In Brian Aldred's letter of 17 March, the issue of allocation of formula grant is raised. Brian notes that the combined Lancashire and Cumbria authority would qualify for a larger share of available grant than the two authorities separately and that there is a case for changing the allocation mechanism for 2007/08. I agree that the relative needs of a smaller number of strategic authorities can be expected to



differ from the present assessment. At the same time you will appreciate that in 2007/08 a number of authorities will not be amalgamated

I am not currently persuaded that we should reopen the distribution of grant for 2007-08, where the grant settlement has, as you know, been set out in the Provisional Settlement announced last December. This was done to give authorities some confidence about medium term funding and we would not wish to vary that. In practice, the damping to be applied in 2007/08 is almost absolute, with virtually a flat rate grant increase for all. So any formula variation would not yield a significant variation in grant entitlement.

We will be able to reengineer the funding formula for 2008/09, when the new landscape is settled, but I could not predict at this stage how a new fair distribution will affect Cumbria and Lancashire. We will also continue to take into account the need to maintain a degree of stability in year-on-year grant so substantial losses and gains are likely to be damped.

On a separate issue, I would like to apologise for you not being consulted in advance on the timeline for the recruitment for the command team in the new force in advance of our briefing note on FAQs being issued. Clearly, we were a little presumptuous in our desire to be helpful to police authorities and forces. We are conscious that the predicted senior appointments timetable for the Cumbria and Lancashire strategic force (and for other tier 1 forces) set out in the FAQs is ambitious but we need to do everything we can to ensure that the combined forces are in the best position possible to take-over from the pre-cursor forces on the date of amalgamation. The earlier the strategic ACPO team can be in place the more time you will have to prepare for this substantial change.

We have taken a number of steps in order to achieve this. We have made provision in the draft amalgamation order to reduce the statutory period required for advertising from three working weeks to one; this should not disadvantage potential applicants as the fact that these posts are coming up will be well known. The amalgamation order also provides for the Chief Constable of the combined force to be able to assist with the process of selecting the remainder of the ACPO team as soon as s/he is selected, rather than having to wait until s/he is in post, thereby speeding up the usual process.

We will also be issuing supplementary guidance on senior appointments which will address the period of transition and will encourage police authorities to set their appointments' timetables in line with this provisional timeline. We are also liaising with the SAP secretariat and HMIC to ensure that the appropriate resources will be available to support this process.

Best wishes.

Lorraine Rogerson
Director, Policing Policy

Ref	Question/Comment	Response
C&L 1.	What is the basis for the inclusion of further costs of £0.4m for ACPO redundancy, and is it consistent with current PNB/CPOSA negotiations?	No provision for ACPO early retirement/redundancy had been made in either of the original submissions although savings had been included for a reduction in ACPO posts. In line with national moderation an adjustment was made to include provision for 3 posts @ £120k per post. This adjustment was made to provide a prudent view although there is no national agreement framework as yet. The provision will be reviewed in line with any national agreement. As the adjustment was made before PNB/CPOSA negotiations commenced there is no link between the two.
C&L 2.	What is the basis for the additional £2.3m for pay harmonisation : do HO know something about our local situation that we don't, or is this some national rule-of-thumb applied to our local pay budget? Why is it only treated as a set-up cost and not shown as a continuing cost of £0.8m pa after three years?	Pay harmonisation will occur in a number of categories and any calculation of the cost needs to take account of the material defences against equal pay claims. Pay management techniques are available to the newly combined forces to manage change over a 3 year period. As a result of national moderation an allowance was built into the financial summary based on 1.4% of police staff pay bill spread over a three year period (£0.7m p.a.).
C&L 3.	What is the evidence for the achievability of a 5% saving on police staff headcount?	National moderation suggests that savings equivalent to 5% of the <u>police staff</u> pay budgets should be achievable by year 2. This reflects the estimates put forward by a number of individual forces: In some regions detailed calculations were provided on the potential reduction in HQ "back office" staff. These showed reductions in central support functions of up to 30% in some instances (e.g. Finance, HR, ICT, etc). These had been calculated on the basis of merging existing departments in 3 to 4 Forces.
C&L 4.	Why does the detailed ICT cost breakdown show costs in year 0 with the possibility of slip into year 1, but the summary show them starting all in year 1 anyway: are the definitions of years consistent?	This is an error and will be corrected to reflect a starting point for the new Force of 1 April 2007. The summary in section 2.4 will be amended to show capital costs in years 0 and 1.
C&L 5.	In netting off a protective service requirement of £5.1m, are HO assuming this is our total need for investment: if so, what is the basis for this?	No costs were included in the Cumbria submission for enhancing level 2 services, whilst the Lancashire submission provided for £4.1 million. The assumption is that the Lancashire submission identified the total investment required. This figure was taken as the requirement to enhance Protective Services for the merged Cumbria & Lancashire. It was increased by 24% (£1 million) to account for employer pension contributions costs under the new funded arrangements for police officers introduced from April 2006.

C&L 6.	How can the assumption that ACPO savings are realised in year one be squared with the draft amalgamation order indication that DCC's at least will be protected for the duration of their fixed term contract?	We are considering this point further.
C&L 7.	How is the new offer of meeting "all reasonable capital and revenue costs of restructuring net of savings" to be interpreted in the context of the adjusted summary cash flow i.e. what actual grant do HO think this will generate in total for Cumbria/Lancashire?	We envisage the outcome of the present examination of costs and savings to lead to net projected costs in early years. These will be met by grant. Final decisions have still to be taken based on our joint discussions in the coming weeks – but as an example; <u>based</u> on the adjusted estimates contained within the financial summary the offer would translate into total revenue grant of £7.3m . (this relates to £0.4 m in 06/07 and £6.9m in 07/08) and capital grant of £7.2m (£3.6m in 07/08, £3.6m in 08/09) As noted above, the actual offer will depend on the final assessment of reasonable net costs which we hope to take forward with you in discussions during the coming weeks.
C&L 8.	In particular in terms of the offer, will investment in protective services be allowed before restructuring costs are paid back in any given year?	Grant is related to restructuring set-up and ongoing costs, less restructuring savings. Protective services costs are not included. Net savings in years beyond those for which grant is given will be at the disposal of the Authority, and will be available for protective services enhancement.
C&L 9.	Also in the same context, will authorities be permitted to charge capital costs of restructuring in full in the year in which they are incurred, or will they be assumed to borrow for them?	Capital grant will be payable on reasonable net capital costs. It is a matter for the Authority to decide on financing arrangements.
C&L 10.	Alternatively, would HO be prepared to uplift our current offer of £14m grant by £1.2m being 50% of the £2.3m pay harmonisation costs they have added in?	Grant will be calculated at the conclusion of the current round of discussions (see C&L 7), but will be subject to a minimum of the offer already made. As noted above the clarification discussions on costs and savings are key to reconciling the level of grant in the coming weeks.



Home Office

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6 April 2006

To: Lancashire and Cumbria Police Chief and Chair

Lorraine Rogerson has asked me to write to you to provide an update on the issues around force amalgamations. I have recently joined the team and will be leading the work on implementation.

As you know, during the past three weeks the Home Office has been intensively engaged with forces and authorities to work through some of the detailed issues around force amalgamations. There are some issues where we have been able to provide answers to your questions; and others where we are working hard to produce the detailed information you have requested.

During this process, information has been fed back to forces individually through their Business Change Manager or through Home Office contacts. We want to ensure, however, that all forces and authorities engaged in this process have access to the same information, and I therefore enclose an update providing this additional information and summarising the areas where we are still working to provide you with more detail.

This information is the latest available and supersedes previous updates and FAQs.

If there is anything in the attached which you would like to discuss further, please do not hesitate to contact Julia Clayton, who is your point of contact for all queries relating to force amalgamations.

Yours sincerely,

JANE ANDERSON
Director of Police Restructuring Implementation Programme

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1. Funding of restructuring

- **We will pay 100% of set up costs ie the reasonable resource/revenue and capital costs of restructuring, net of reasonable savings.**
- The basis of payment will be, broadly, the net costs of restructuring as currently assessed **and now being examined by authorities and the Home Office.** We will further refine these during April/May.
- We will, of course, also require efficiency targets to be met.
- Once merger costs have been recouped through savings or grant, the new strategic authorities will retain savings from restructuring to develop improved services, including additional expenditure on protective service capability.
- We will review the police funding formula for 2008/9, when the new strategic forces will be in place
- We will work with the police community, as we have in the past, to develop a new formula for introduction in 2008/09. All authorities, amalgamated or unchanged, will be treated equally. It is not yet known what the outcome will be.
- Funding is set now until 07/08 and formula will not be reviewed ahead of this
- We envisage allocating capital and revenue grant depending on the nature of the costs. Revenue grant may be used for capital purposes, but capital grant may not be used for revenue purposes. This simply follows existing practice.

Amalgamations in tier 1

- This replaces our initial proposals on funding.
- Lancs/Cumbria agreed to voluntary merger on terms that were previously better than offered to other authorities, but not as good as the latest proposals. We are in contact with them to discuss improved terms.

Standalone forces

- The recent budget settlement made it clear that police funding will be sustained and uplifts determined, within those for the Department as a whole in future planning rounds. We expect to see standalone forces demonstrating efficiencies and freeing up resources to focus on key priorities and emerging challenges, in particular the further development of protective services.

Funding clarification meetings with consultants

- We have asked forces and authorities to submit their queries and requests for meetings in writing to police.structuresteam@homeoffice.gsi.gov.uk.
- We have offered meetings with the Home Office finance team and consultants from mid-late April.

2. Precept

- We do not intend that police restructuring should, of itself, result in any net increase to council tax: to avoid this, we intend to phase in precept convergence over a transitional period.
- We are committed to implementing precept convergence without placing unreasonable pressure for increases in any existing police authority area. The process of convergence will take several years.
- Precept equalisation will be sensitive to local circumstances and will proceed at a different rate in different areas.

3. Voluntary amalgamations

- Authorities can volunteer with caveats. A request to voluntarily merge subject to reaching agreement on a number of points **will only bind the relevant authorities if that agreement is actually reached.**
- Although a request to merge will have been received for the purposes of making an order under section 32(3)(a), that request is conditional and should be treated as such.
- If negotiations break down and agreement on those points is not reached, the authorities would not be bound to merge under the voluntary procedure.
- To take the amalgamation forward, the Home Office would instead need to instigate a mandatory merger and provide the statutory 4 month objections period
- The specific form of words for authorities to use is:

In accordance with section 32(3)(a) of the Police Act 1996, the [xx] Police Authority requests the Home Secretary, the Rt. Honourable Charles Clarke M.P., to exercise his power to make an order altering police areas under section 32(1) of the Police Act 1996 so as to amalgamate the [xxx and xxx] police areas.

- We would aim to make an amalgamation order for a Tier 2 voluntary merger in mid-June so the Home Office would have until that time to satisfy any caveats attached to a request for a voluntary merger submitted on 7/4.

4. Timetable

Tiers 2 and 3

For an April 2008 merger:

Action	Date
Announce intention to lay orders (beginning statutory 4-month objection period)	Early April 2006
Lay the orders	By end Oct 2006
Shadow Police Authority in place	Early December 2006
Shadow Chief Constable in place	Mid-Feb 2007
DCCs and ACCs in place	Early April 2007
Strategic Authority and Force formally take over and precursor authorities and forces disestablished	1 April 2008

- The aim is that the new Chief and shadow authority focus will be solely on merger. The existing Chiefs will remain responsible for the precursor forces.
- During the transitional period if there are Chief Officer vacancies these will be filled through temporary promotion.

5. Protective services

- Where forces and authorities do not accept HMIC's findings as to the level of protective services investment required for them to reach an acceptable standard, we will facilitate engagement with HMIC to discuss the findings
- HMIC are developing national standards on protective services

6. Governance and accountability

- **Key message: we will be flexible as far as we can – if authorities need extra members for a transitional period after amalgamation, or if they have other difficulties, they should let us know and we will accommodate if possible**
- We will consider cases for police authorities larger than 23 members during a transitional amalgamation period of two years. After this, we expect that most police authorities will have no more than 23 members (exceptions to this would be in areas where more are needed to ensure that all higher level local authorities are represented).
- Relating to appointments of Police Authority Members which are due to expire after an amalgamation Order is made, but before the precursor authority is abolished: Our current intention is to extend precursor members' appointments to the date of abolition of the precursor authority through the terms of the amalgamation order.

7. HR

Forthcoming

- April PNB meeting: aim to reach agreements on Chief Officer appointments, rank structure, transfer arrangements and severance
- Home Office HR group working on a list of those HR issues to be dealt with at a national level and those to be dealt with locally with a time line showing the target resolution date for those issues to be handled nationally
- HO Restructuring Human Resources Working Group are developing a Human Resources framework for police staff. This will include severance issues. The aim is to have the framework ready by the end of April.

Severance

- HO is discussing severance issues with both CPOSA in respect of senior officers in PNB and with the trade union side in the Police Staff Council in respect of police staff. Our discussions in PSC are informed by the principles that:
 - We must seek to retain valued talent in this process. Wherever possible, HR policies should aim to minimise compulsory redundancies. If there are redundancies, help should be given to staff to find suitable alternative employment.
 - Those who cannot find a suitable place in the new structures, should be supported in a way which enables them to leave with dignity, and helped to find suitable employment elsewhere if they wish.
- As far as senior police staff are concerned we will repeal the 1965 Police (Compensation) Regulations and replace them with a flexible and modern system of compensation. The severance arrangement will ensure that those who wish to leave will be able to do so with financial security and dignity. We will do everything possible to minimise the need for redundancy. We are working with CPOSA to ensure the arrangements are fair and reasonable and to tailor them to the requirements of the current cadre of Chief Officers.

Outplacement

- HO is looking further at management of outplacement and likely costs of this scheme

8. Transitional arrangements – who is in charge?

- The precursor chief constables will remain responsible for the direction and control of the precursor forces up to the point on which they are abolished (1 April 2007 or 2008) – and the precursor PAs will retain their responsibilities in relation to the precursor forces.
- The chief constable of the strategic force will (in the period between his/her appointment and the go live date) be responsible for planning the new force (preparing long term direction, policing plan & budget for 1st year of operation, bringing together those practices and procedures which must be standardised from day 1) with the 'shadow' strategic PA.

- To give the strategic chief constable direction and control of the precursor forces as soon as he/she is appointed would effectively bring forward the amalgamation date and distract the new CC from preparing for merger.

9. Managing the objections period

- The affected Police Authorities, local authorities and chief constables have until the close of the 4-month objections period to submit any objections to the proposal.
- It is entirely a matter for these bodies to determine how they compile their objections. In order to do this they may choose to engage and consult with local stakeholders including local communities.
- Any such consultation by the Police Authority is entirely extra-statutory; the 1996 Act places no requirement on the Authority to undertake any wider consultation before deciding whether to submit objections, and, if it so decides, the nature of those objections.
- Accordingly, it is not a matter for the Home Secretary to issue guidance to Police Authorities on the nature of any consultation process they choose to embark upon; such issues are sensibly a matter for local determination.
- All objections received by the Home Secretary by the 2 July deadline from the Chief Constables, Police Authorities or Local Authorities, will be fully considered before any decision to lay a draft amalgamation order is taken.
- Can police authorities and chief constables commence the planning for restructuring during the statutory 4 month period for submitting objections to the Home Secretary's proposals?

While the Home Secretary will want to consider carefully any objections received before taking a final decision on a particular merger, it is open to the affected police authorities and chief constables to commence the planning for the proposed merger in advance of that final decision. Indeed, the Home Office would positively encourage police authorities and chief constables to engage in such planning in order that rapid progress can be made towards establishing the strategic police authority and force should an amalgamation order be made. Any discussions between police authorities, chief constables and the Home Office during the currency of the 4 month period for submitting objections is without prejudice to any decision by the authorities and chief constables concerned to submit objections to the Home Secretary's proposals and will not detract from the consideration accorded to any such objections by the Home Office.

10. Programme management support for forces/authorities

- We have a dedicated team of 4 regional liaison officers in the Home Office to help with the initial stages of implementation. This is the main help available in 06/07.
- We will, however, pay reasonable restructuring costs, net of savings, for 06/07 to forces amalgamating in 07/08 who have bid for these in their business case. This can include start up costs
- We are willing to discuss with forces amalgamating in 08/09 the possibility of rephasing from 07/08 the restructuring costs for which they have bid in their business case

- We are considering what kind of workshops it would be helpful to provide centrally for forces and authorities. One possibility would be a workshop on setting up and scoping your restructuring implementation programme in the most cost-effective way.
- Please let us know if you are interested and what would be helpful to you
- The Home Office will produce a strategic-level benefits realisation plan as part of planning for implementation. Forces and authorities will be responsible for benefits realisation at strategic force level and will be able to draw on this to inform their own implementation planning.

11. Vision for police reform

- We are developing a short publication setting out the vision for police reform, to draw together the strands of police reform including restructuring and set priorities for way forward

12. Impact on neighbourhood policing and rural areas

- The Neighbourhood Policing manifesto commitment will guarantee a level of coverage in every area, urban and rural.
- An announcement in the Budget 2006 provides additional funding to bring PCSO recruitment to 16,000 by April 2007, and to ensure that Neighbourhood Policing will have been introduced to every area by that date.
- By April 2007, local communities will:
 - see increased numbers of PCSOs patrolling their streets, addressing anti-social behaviour issues and building relationships with local people;
 - have a clear understanding of how their local force will be policing the local community, and know how to contact their neighbourhood team
 - have had the opportunity to tell their local force about the issues which are causing them most concern and help shape the local response to those issues
- The Government is committed to ensuring that, when Neighbourhood Policing is fully rolled out, every community in England and Wales will benefit from dedicated, accessible and visible neighbourhood policing teams led by police officers but involving special constables, community support officers, volunteers, wardens and others too.
- A quality of service commitment (for national delivery by Nov 2006) will set national standards for every contact with the public

We are still working on the following questions (this list is not exhaustive):

- Detailed mechanics of precept equalisation in each area – this is being taken forward through the tripartite Finance Working Group, which is chaired by the Head of Police Finance here at the HO, and has on it representatives from ACPO, APA, HM Treasury, ODPM, Welsh Assembly Govt, LGA, MPS and MPA and they will discuss the parameters within which this should be worked out nationally and locally.
- Whether the new strategic forces and authorities can be created mid-year or only on 1st April 2007/8

Appendix 5

- Detailed severance arrangements
- List of HR issues to be resolved at national, and at local level, and timeframes for this to be achieved
- How we can reduce the burden of inspections
- How we can best facilitate the sharing of good practice between forces and authorities preparing for amalgamation
- Sequencing and prioritisation of Home Office police reform projects
- What are the issues (if any) around OJEC procurements in the new forces?