

Agenda Item No. 24

**Cumbria and Lancashire Police Authorities
Proposals for Amalgamation – Update on Financial Issues
A Report by the Treasurer**

1. Introduction

1.1 An announcement was made by the Home Secretary to parliament on 19 June which had the effect of extending the consultation period in respect of the proposed wave 1 Police Authority amalgamations into the autumn. The announcement also renewed the government's commitment to supporting Cumbria and Lancashire in its wish to amalgamate on a voluntary basis from 01 April 2007.

1.2 On 22 June, the Chairmen and the Acting Chief Constables of both Authorities, together with the Clerk and Chief Executive and the Treasurer of Cumbria (Mr Aldred of Lancashire being on leave) met with and at the invitation of the Police Minister Tony McNulty together with Officers of the Home Office, to receive an update on the outstanding financial issues and the timetable for completing the proposed Amalgamation Order.

1.3 This report is a brief report back on the financial issues.

2. Start up costs and revised grant offer.

2.1 On 27 April, the Treasurers of both Authorities, supported by the Director of Finance of Cumbria and Head of Finance from Lancashire, and the Joint Programme Manager, met with senior managers at the Home Office to make representations in relation to the latest grant offer of £14m and the revisions made by the Home Office to the Authorities' Business Case which had the effect of increasing it from £19.6m to £22.07m.

2.2 The basis of the representations made in April covered:

- **the phasing of expenditure** and in particular the additional grant which should be made to Cumbria and Lancashire to reflect the bringing forward of the project team which commenced work in April 2006 rather than in 2007 as proposed in our original Business Case.
- **indexation of expenditure** to reflect that the Business Case submission was made in accordance with Home Office criteria at 2005-06 prices, whereas expenditure would be incurred over the period 2006-07 to 2008-09 and should therefore attract grant at a higher level to reflect inflation.
- **Police Authority savings**, the target for which had been increased by the Home Office should be revised downwards by approximately £2.4m back to the original Business Case submission. This was to reflect that in a smaller two force amalgamation such as in the case of Cumbria and Lancashire, the economies of scale and savings could not match those which could be achieved in amalgamations involving three or four forces and much larger staffing numbers.

- **Contingency** – we argued strongly that as a pathfinder some contingency should be reinstated in the revised Business Case and be reflected in the grant offer. The original provisions were £1.7m (Lancashire) and £1.9m (Cumbria).
- **Representations** were also made in relation to a small number of less significant issues and which were to remain open for discussion to allow more substantive evidence of the likely cost base to be put forward.

2.3 At the meeting on 22 June, the Minister issued a revised formal grant offer to the Chairs and Chiefs of the two Authorities – the effect being to increase the grant offer from £14m to £17.8m (Appendix 1 attached). He also made clear that a number of issues remained open for further discussion until the grant was finalised in the Autumn but that the grant offer to Cumbria and Lancashire would not fall below the figure of £17.8m in this revised offer.

2.4 The Treasurer expressed the view to the Minister that the offer appeared to make a substantial step in reflecting the representations made in April whilst the offer of further discussions in particular areas would be appreciated by both Authorities. However, he also made the caveat that both Authorities would wish to have sight of the revised assumptions made by the Home Office to our Business Case so that we could better understand and analyse the revised grant offer.

2.5 We are hopeful that this supporting data may be with us before the meeting of the Authority on 28 June, in which case the Treasurer will try and prepare a further analysis for circulation at that meeting.

3 **Precept Harmonisation**

3.1 The Minister advised that the Department was working with lawyers from DC&LG to try and resolve the issues of Precept Harmonisation to meet the needs expressed by both Authorities. Officers later advised that they hoped to be able to exchange revised wordings to be proposed for the Draft Amalgamation Order shortly.

4 **Project Management Team Accommodation**

4.1 The Minister agreed to his Department underwriting the costs to be incurred over the first two years in leasing premises to accommodate the Joint Programme Team at Lancaster. A letter of comfort is expected to be issued immediately. The need to call on the underwriting will only arise if the amalgamation were not to proceed, otherwise the cost will be met from the revised grant offer.

5. **Recommendation**

5.1 Members are asked to note the progress on the financial issues addressed in this report and that the Treasurer will attempt to update members further at the meeting.

Douglas Thomas
Treasurer
 22 June 2006



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22 June 2006

AMALGAMATION OF CUMBRIA AND LANCASHIRE POLICE AUTHORITIES: REVISED GRANT OFFER

My officials met with representatives of Cumbria and Lancashire on the 29th April 2006 to discuss financial matters associated with your proposal to amalgamate. As a result of these discussions the Home Office is prepared to increase its offer of restructuring grant from £14.0m (as set out in Andy Ford's earlier letter) to £17.8m. A breakdown of this offer is set out below.

	2006/07	2007/08	2008/09	TOTAL
Revenue	£2.3m	£7.8m	-	£10.1 m
Capital	-	£3.8m	£3.9m	£7.8m
TOTAL	£2.3m	£11.6m	£3.9m	£17.8m

Note: figures may not sum due to rounding

This revised grant offers recognises the following issues raised by your officials:

- Revision of the estimates of costs and savings for the impact of inflation;
- Phasing of changes to the ACPO team within the new strategic authority which put off savings for one year; and

- Bringing forward project management costs

Your officials also raised a number of other issues which would lead to a further increase in grant. They agreed at the meeting to provide further supporting evidence relating to Police Authority costs, staff savings and relocation costs. We will also take into account any developments on the standard conditions of service that are agreed more widely (e.g. on retention of deputy and assistant chief constables).

We expect to come to a final agreement about the grant this Autumn. However you can be assured that the present offer will not be reduced.

The final grant offer will be made on the basis of estimated reasonable net costs for the years in question. The Home Office will not look to recover restructuring grant if you and your successor bodies are able to improve on these estimated costs or savings. Nor on the other hand do we expect further claims to be made by the successor bodies after the final offer is finalised during the Autumn.

I hope that this offer will address any remaining financial concerns and provide you with the necessary confidence to proceed with amalgamation.

TONY MCNULTY