

Home Office Police Restructuring, Assumptions and Benchmarks

1 Introduction

This document summarises the assumptions and benchmarks used during the evaluation and moderation of the police restructuring financial submissions made to the Home Office by police forces and police authorities in England and Wales.

These were used to guide the financial review and were not applied rigidly if inappropriate to local circumstances, for example due to legal, policy or economic factors.

2 Breakdown and Assumptions:

2.1 General Assumptions

- All estimates are included at 2005-06 prices, although some of the national benchmark data is based on 2004/05 prices as the most recent available.
- The Net Present Value (NPV) calculations are based on a 10 year timescale discounted at the standard HM Treasury rate of 3.5%. Ongoing costs / savings are expected to continue at the rate shown above. The NPV would therefore change if a different timescale was used.
- All interest transactions were excluded.
- Expenditure on the following was classified as capital
 - ICT set-up costs (some revenue costs e.g. ICT staff were capitalised)
 - Premises
 - Vehicles
- The majority of Protective Services set-up costs are capital; similarly Protective Services running costs tend to be revenue.
- All other expenditure was classified as revenue expenditure.
- Costs / savings related to Protective Services are shown in those sections; all other costs / savings are assumed to be specifically merger related.
- All employee-related force costs / savings and benchmarks should be inclusive of National Insurance Contributions and Superannuation.

2.2 Employee-Related Set-Up Costs

- When calculating numbers of staff to be made redundant, natural wastage should be taken into account. Natural wastage will be higher for clerical staff than management.
- Voluntary Early Retirement with Redundancy
 - Assume 25 years of service.
 - 6 years of added pension contributions.
 - Average age of 55.
 - Average pensionable pay of £40k.
 - Resulting VER cost per head of approx. £125k.
 - The cost of Departmental Head redundancy, either on top of VER or on its own where VER did not apply, has been included at approx. £20k per head.
 - Additional staff welfare and support may be required during Years 1 and 2.

- ACPO Redundancy Parachute
 - Standard figure for ACPO staff calculated at £150k per person
 - Reasonable figures between £100k and £160k per person.
 - Redundancy of senior staff will be incurred across Years 1 and 2.
- Voluntary Redundancy
 - 6 months of base pay using an average salary of £40k (i.e. £20k).
- Statutory Redundancy
 - 15 years service.
 - Average pay £40k.
 - Average package £13k (17/52 weeks x £40k).
- Redeployment
 - No specific assumptions of the mix between redeployment and headcount reductions.
- Relocation/Excess Travel
 - Essex Police formulaic approach recommends using 1% of police staff pay budgets published in 04/05 CIPFA stats.
 - Relocation costs will be spread across Years 1-3.
 - Police officers are not eligible for relocation in light of their terms and conditions.
- Pay Harmonisation
 - Equalising to the highest denominator is not the most practical, or the expected, method of pay harmonisation.
 - A number of methods can be used to mitigate the cost of harmonisation
 - National benchmark for costs of harmonisation set at 1.4% of Police Staff Pay (including overtime, national insurance and pensions).
 - This cost reflects the need to 'red circle' those employees who are paid above the harmonised rates for a period of 3 years as well as bring other staff to the required level.
 - Pay Harmonisation will not take place fully until Year 3.
 - Pay harmonisation has therefore been restricted to a set-up cost payable over years 1-3.
 - Pay harmonisation applies to police staff and not to Police Officers.
- Retention Bonus
 - Rationale to be reviewed to identify if bonus is targeted and in response to an active employment market.
 - Unless the business case is convincing and represents a response to specific local market conditions the bonus payment should be wholly excluded.
- Training costs
 - Training costs only applicable if related to the merger and over and above ongoing training plans.
- New job evaluation scheme costs
 - If they have been included in the cost benefit analysis they are to be excluded from the evaluation.

2.3 Premises Set-Up Costs

The input from three forces was used to help develop some benchmark comparisons for any business case plans for major new-build premises. Two are for force HQ buildings and one for a new large BCU HQ, with associated operational equipment/facilities.

These were only used as a general guide, but any costs in business cases which seemed on the face of it to fall well adrift of the benchmarks were challenged and tested. This was over and above the general challenge applied to the operational principles underpinning the plans.

Consideration should also be taken of potential receipts from property disposal that would help to fund new premises. Where the premises strategy is unclear within a region it is safe to assume that it would be cost neutral (sale of existing premises funding the construction of new premises), with a reduction in the size of the total estate for the new strategic force.

| | Force A HQ | Force B HQ | Force C BCU HQ (projected) |
|--|--|---|--|
| <u>Sizing</u> | | | |
| Sq. metres building | 25,000 | 8,500 | 11,000 (incl 4,000 vehicles/parking) |
| Land used (acres) | 20 | ? | 3-4 (est) |
| Staff accommodated | 1,100 | 500 | 480 officers, 170 support staff |
| Key additional facilities onsite | Vehicle mtce. workshop 1,500 sq.m.), training suite (c. 80 students), command/ call centre (200 staff) | Training suite, command centre, extensive protective services suites and emergency overlay facilities | All BCU vehicle and operational facilities. Custody Centre (26 cells). |
| <u>Capital Project Values</u> | | | |
| Build cost | 32,000,000 | 16,700,000 | 16,000,000 (est) |
| Land cost | 2,000,000 | n/a (pre-owned) | 3,000,000 (est) |
| <u>PFI Values</u> | | | |
| Approximate PFI charge p.a. | 2,600,000 | 1,200,000 | n/a |
| <u>Uplift applied for timing of project and market effects</u> | 25% (2002-3) | 10% (2004-5) | n/a |
| Capital cost per capita | £39,000 | £37,000 (excl land) | £29,000 |
| Operating cost per | £2,400 p.a. | £2,600 p.a. (excl land) | n/a |

| | | | |
|--------------|--|--|--|
| capita (PFI) | | | |
|--------------|--|--|--|

- Police Finance Directors Group guidance states the cost of changing signage @ £1k per station – this has been applied as a reasonable cost.
- Security Access Systems based upon a nationally agreed cost of £0.2m per merging force.
- Premises costs will largely be incurred in Year 1.
- The relocation of staff will begin in Year 1, and continue until the end of Year 3.

2.4 Transport Set-Up Costs

- Force badges can be changed for £50 per vehicle without the need for the full markings to be changed. The full markings can be included within the normal vehicle replacement programme.
- All costs are included in year 1

2.5 Supplies and Services Set-Up Costs

- National benchmark, £100 per uniformed member of staff has been applied (source: Durham bottom-up calculation).
- All costs are included in year 1
- Existing unbadged items (for example high visibility jackets, body armour and batons) will not require badging and will be replaced as part of a normal replacement programme.

2.6 ICT Set-Up Costs

- One of three ICT Strategies adopted
 - Day 1 operational capability.
 - Best of Breed.
 - ICT Transformation.
- Day 1 Capability
 - Focus on communications and data sharing
 - Airwave reconfiguration.
 - Creation of a single technical identity.
 - Minimal investment in system alignment/replacement
 - Any investment targeted at Command and Control
 - Investment over 2 years only.
 - Beyond year 2 indicates best of breed or transformation strategy
 - Investment range £8m - £15m dependent on scale and should include
 - Airwave (£1m - £3m).
 - Single technical identity (£1m - £3m).
 - IT staff (£1m - £2m).
- Best of Breed
 - Focus on standardising systems.
 - Adopting/spreading one Forces systems across the region.
 - Assumed to be inclusive of Day 1 Operational Capability.
 - Investment spread over 3-5 years.

- Likely investment of £15m - £30m depending on scale and should include.
 - Allocations for Day 1 Operational Capability.
 - Command and Control (£5m+).
 - Crime and Intelligence (£2m+).
 - IT staff (£2m+).
- ICT Transformation
 - Focus on new ICT platform and applications for the regional strategic force.
 - Assumed to be inclusive of Day 1 Operational Capability.
 - Investment spread over 3-7 years.
 - Likely investment in excess of £40m and should include.
 - Allocations for Day 1 Operational Capability.
 - Command and Control (£10m+).
 - Crime and Intelligence (£5m+).
 - IT staff (£5m+).
 - Contingency (£2m+ or 5%).
- Planned ICT investment
 - Net-off existing/planned investment.
 - Benchmark % for year 1 – 30% (netted off) and year 2 onwards 50% + (netted off).
 - Forces adopting Day 1 Operational Capability to have note stating additional investment will be required to ensure the solution is sustainable, figures not adjusted.
 - Forces adopting best of breed to have note stating that figures assumed to include Day 1 Operational Capability, figures not adjusted.

2.7 Project / Programme Management Set-Up Costs

- National benchmark for a merger of 3-4 forces of about £5m:
 - 40 to 50 people for two years @£40k salary (up to £4m);
 - Consultancy support of up to £1m;
 - Programme Directorate of up to £0.4m for an ACC and support staff.
- The majority of project/programme effort should be completed within 2 years.

2.8 Other Set-Up Costs

- The cost of a shadow strategic police authority would be approximately £0.75m per annum. This is the marginal cost of running a shadow strategic authority alongside the existing police authorities.
- Shadow Authority required from half way through year 0 and all of year 1, at which point the precursor authorities would cease and all responsibilities would transfer to the new Strategic PA.
- Generally, no costs for a shadow senior management team should be included.

2.9 Risk and Contingency on Set-Up Costs

- Guidance received from the Home Office that “no adjustment to merger costs [should be made] in cases where there is a strong indication of institutional acceptance of merger. We

can cite here the academic evidence relating to the local government experience”.¹ While it is understood that some Police Authorities have some reservations about the merger, these alone are not believed to warrant a risk/contingency adjustment.

- Standalone strategic forces, where the only changes proposed are investments in protective services, offset to a greater or lesser degree by savings elsewhere carry a relatively low risk in associated change programmes/projects.
- Several which can be characterised as akin to a “takeover” by a relatively dominant party (with systems and processes capable of being extended to a wider user base) of one or two smaller ones could be medium-risk insofar as the degree of major change in systems, processes and facilities should be relatively modest.
- Finally, where several small (sometimes historically underinvested) forces merge and identify the need for significant programme/project change to deliver new common facilities and systems, this proportionately brings a high risk; the element of major change to manage will be greater; the start point less clear; the lines of influence and control less well-defined; and the overall risk to planned change significantly greater.
- Anecdotal evidence from experience of private sector mergers indicates that a contingency allowance in the range of 20% to 30% of estimated one-off merger costs is not uncommon for proposals at a similar stage of development. However, each case should be considered on its merits – if for example costs are already included on a highly prudent basis the contingency allowance would be lower than 20% to 30%.

2.10 Protective Services Running Costs

- Figures quoted are inclusive of salary, national insurance, any on costs and pension contributions.
- Adjustments to the number of staff required within Protective Services have only been made where recommended by HMIC.

2.11 Employee-Related Running Costs

- Each employee given early retirement or redundancy must be reflected in the savings identified.
- National Insurance and Employers Superannuation contributions should be added to the savings (£40k will become £48, 320).
- ACPO savings should also be recognised.
- National moderation suggests that 5% of the police staff pay budgets should be saved 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.
 - When taken as a percentage of the total Police Staff workforce the result was between 5% to 6% of all Police Staff including operational departments.
 - The lower figure of 5% was applied to submissions where no reduction had been included or where only senior police staff reductions (e.g. Heads of Departments) had been identified.

¹ Email from Andrew Healey, Home Office, 23 Feb 2006. Reference to Local Government research is to that in paper by Ian Shepherd of HM Treasury *Police Force Restructuring: Lessons from Other Institutional Mergers*, Jan 2006.

- Numbers of headcount reductions in regions where detailed calculations had been made ranged from 337 to 402.
- The savings for operational departments, where expected, are benchmarked against salary plus on-costs and pensions of approx: Chief Superintendent £95,000; Superintendent £90,000; Chief Inspector £65,000; Inspector £62,000; Sergeant £50,000; PC £40,000. Police staff were benchmarked at approx. £25,000 (salary plus on-cost including pensions).
- All savings, even where staff are to be redeployed into Protective Services, should be shown. This shows the full saving from removing duplication and the full cost of additional Protective Services staff.

2.12 Premises Running Costs

- No specific benchmarks have been applied.
- Savings are based upon the submitted case and the expected estates strategy (if there is reasonable clarity within the region). It should also be consistent with changes in headcount.
- Savings are expected to be realised in Years 2 and 3

2.13 Supplies and Services Running Costs

- Assumed that 2-5% of the Supplies and Services budget can be saved per year on a recurrent basis.
- Level of savings should reflect the degree of collaborative procurement already underway and the amount spent on supplies and services compared to other forces.
- Savings are realised over a period of three years as integration is completed and departments merged.

2.14 ICT Running Costs

- Savings are expected to be realised over a period of two years as ICT integration is completed and departments merged.
- These costs are non-staff costs only – savings in ICT staff are included under employee-related costs.
- If no ICT savings are expected by the forces, savings should not be introduced by the financial review team.

2.15 Other Running Costs

Benchmarks Applied

- A 50% reduction in the cost of police authorities is generally appropriate for all mergers of 3 or more forces.
- A 25% reduction in the cost of police authorities is generally appropriate within all mergers of 2 forces.
- Savings are realised from Year 2 onwards, after the new Strategic Police Authority is in place and the existing authorities have ceased to operate.