

**Report of the Treasurer
to the Chair and Members of the Policy and Resources Panel,
15th December 2011**

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Status: For Noting**

HMIC Value for Money Profiles

1. Purpose

- 1.1 To update Members on the HMIC Value for Money Profiles and to highlight those areas, from a financial perspective, where Cleveland Police are significantly different to both its Most Similar Group of Forces and all Forces in England and Wales.

2. Recommendations

That Members:-

- 2.1 Note the contents of the report.

3. Reasons

- 3.1 Members received a report on the 27th January 2010 that established the importance of the HMIC Value for Money Profiles and how they link with the Police Report Card and the "balanced scorecard" approach that is under taken as part of this assessment. From this, HMIC will draw conclusions about the performance of individual Forces and Authorities. This report is to provide an overview of the financial profiles within the reports which are based on the budgets set for 2011/12.
- 3.2 The source data used by HMIC to construct these profiles is the Police Objective Analysis Estimates for 2011/12 (Financial Information), the Annual Data Return to the Home Office (FTE and resource information), and Home Office Crime Statistics. The comparisons are with national

averages as well as the most similar group of forces. The topics for comparison include income, spending, staffing levels, staffing by function, and performance outputs.

- 3.3 The profiles are intended to be used as **diagnostic tools**. They will allow forces and authorities to self-assess their relative performance and to plan for improvements in value for money over time. Where a force appears to be an outlier, spending considerably more than others, or having relatively high staffing ratios the profiles are intended to prompt questions and analysis.
- 3.4 These are indicators and not targets. They can be useful in testing assumptions and challenging previous expectations but this should be done with the knowledge that the financial comparisons are built on the premise that all costs are proportional to the number of people that live within the area that is being policed. Therefore a force that is policing a population that is twice as big as Cleveland will therefore need twice the resources and people to produce the same results and vice-versa. There are some obvious flaws to this type of assumption and therefore the comparisons should be viewed with that in mind.
- 3.5 The nature of policing means that different areas of the country have different policing priorities and as such differences should not necessarily be viewed as being bad, it is sometimes just useful to understand them to ensure that they are in line with the aims and priorities of the Authority.

Comparison against our Most Similar Group (MSG) of Forces

- 3.6 As Members will recall the MSG for Cleveland Police includes the following forces:
 - Gwent
 - Merseyside
 - Northumbria
 - South Wales
 - South Yorkshire
 - West Midlands
- 3.7 At the highest level of financial comparison, which is based on what policing costs per head of the population, it costs £243 (2010/11 - £258) per person in Cleveland for policing. This compares to the average within our MSG of £229 (2010/11 - £243). This £14 (2010/11 - £15) difference per person equates to it being £7.8m (2010/11 - £8.3m) more expensive to police Cleveland than if we had average costs in line with our MSG.

- 3.8 The table below shows a high level summary of how this £7.8m can be broken down and also how this compares to the previous 2 years:

	2009-10 CPA v MSG Average (Difference)	2010-11 CPA v MSG Average (Difference)	2011/12 CPA v MSG Average (Difference)
	£m	£m	£m
Police Officers	2.1	2.7	2.4
Police Staff (incl PCSOs)	(3.0)	(3.1)	(15.3)
Sub Total	(0.9)	(0.4)	(12.9)
Non-staff Costs/Income	8.1	8.7	20.7
Grand Total	7.2	8.3	7.8

- 3.9 As the table above shows the overall picture over the last 3 years has remained relatively stable in terms of overall cost comparison. All of the savings made to set the 2011/12 budget has effectively given the Authority a cost per head of population that was in line with our MSG for 2010/11. However as all of our MSG have needed to make savings in response to the cuts in Government grants the Authority continues to be a high cost Authority when viewed on the cost per head of population.
- 3.10 The data now provided within the Value for Money Profiles does not allow as much analysis against our MSG as was previously the case. However it is possible to note the following:
- 3.11 **Police Officers**
Further analysis of this area would suggest that the Force employs 46 (1,571 vs 1,525) FTE police officers more than you would expect on average based on the population of Cleveland, in comparison to the MSG.
- 3.12 **Police Staff and PCSOs**
Further analysis of this area would suggest that the Force employs 481 FTE police staff and PCSOs less than you would expect on average based on the population of Cleveland.
- 3.13 The above however does not take into account those areas of the Force that have either been outsourced or where the services are provided as part of a contract price instead of employing staff directly. For instance we have 84 FTEs who work within Custody but are employed by Reliance for which we have a contract price of £3m. In addition the Core Contract with Steria outsourced 472 FTEs, the staff salaries contained within the contract are around £12m per annum. This inevitably leads to difficulties in making comparisons and will in part account for some of the reasons that our non-staff costs are significantly higher than our MSG. It is important to mention that while we can rationalise movements between the various sections this will not reduce the overall £7.8m total.

Comparison against All Forces

- 3.14 At the highest level of financial comparison, which is based on what policing costs per head of the population, then it costs £243 (2010-11 - £258) per person in Cleveland for policing. This is the **second highest** in the country and compares to the average of all Forces of £194 (2010-11 - £205). This £49 (2010-11 - £53) difference per person equates to it being £27.6m (2010-11 - £29.4m) more expensive to police Cleveland than if we had average costs in line with all other Forces.
- 3.15 The table below shows a high level summary of how this £27.6m can be broken down and also how this compares to the previous 2 years:

	2009-10 CPA v All Forces Average (Difference)	2010-11 CPA v All Forces Average (Difference)	2011-12 CPA v All Forces Average (Difference)
	£m	£m	£m
Police Officers	19.0	21.0	17.8
Police Staff	(2.7)	(3.5)	(15.3)
PCSOs	1.7	1.9	1.3
Sub Total	18.0	19.4	3.8
Non-staff Costs/National Work	9.7	9.2	22.1
Income	0.6	0.8	1.7
Grand Total	28.3	29.4	27.6

- 3.16 As the table above shows, and as with the comparison against our MSG, the overall picture over the last 3 years has remained relatively stable in terms of overall cost comparison.

3.17 Police Officers

Further analysis of this area would suggest the principle factor for the difference is that the Force employs 371 FTE (ie 1,571 us 1,200) police officers more than you would expect on average based on the population of Cleveland, in comparison to averages within all Forces. Members will be aware of that through the efficiency and workforce modernisation plans and in conjunction with the financial plans of the Authority that the number of Police Officers will reduce over the next 3 years with the September update of the LTFP indicating that retirements the number of Police Officers employed are expected to reduce to 1,395 FTEs by 2015-16.

3.18 One of the reasons for the overall reduction in the difference in this area since 2010-11 (from £21.0m to £17.8m) is that the spend on Police Overtime is now in line with the national average based on the population of Cleveland (this has reduced from spending £0.7m more on Police Overtime than the average force based on the size of the population of Cleveland.)

3.19 One of the areas for consideration is, given the 'additional' Police Officers that both comparison against our MSG and all Forces would suggest that we have based on population size, whether the spend on Overtime could be lowered further than the £460k reduction currently factored into the 2012/13 budget while utilising the higher Police Officer numbers to compensate for this so as to not impact on performance.

3.20 **Police Staff**

Further analysis of this area would suggest that the Force employs 519 FTE police staff less than you would expect on average based on the population of Cleveland.

3.21 The above however does not take into account those areas of the Force that we have either outsourced or where the services are provided as part of a contract price instead of employing staff directly. For instance we have 84 FTEs who work within Custody but are employed by Reliance for which we have a contract price of circa £3m. In addition the Core Contract with Steria outsourced 472 FTEs, the staff salaries contained with the contract price are around £12m per annum. This inevitably leads to difficulties in making comparisons and will in part account for some of the reasons that our non-staff costs are significantly higher than our other Forces. It is important to mention that while we can rationalise movements between the various sections this will not reduce the overall £27.6m total.

3.22 One further area of note, in relation to staff, is that on average we pay them £3,900 (2010-11 - £500) each more than those in other Forces. Given the significant movement since 2010-11 this is in part explained as being as a result of the outsourcing and 3rd party contracts that we have in place. These have removed the lower paid staff from our structures which is having a significant impact on the average salary indicators.

3.23 **PCSOs**

Further analysis of this area would suggest that the Force employs 41 FTE PCSOs (ie 180 vs 139) more than you would expect on average based on the population of Cleveland. The additional PCSOs are partly as a result of those that we have funded with Partners and provides evidence of our commitment to Neighbourhood Policing and visibility.

3.24 The 2012/13 budget proposes to reduce this number to 166 FTEs which will still be significantly higher than averages would suggest. Members will be aware however that if the Authority goes below 166 FTE PCSOs then there is a risk that the Specific Government Grant that the Authority receives to part fund the employment of PCSOs could be reclaimed. The conditions and specific nature of this Grant will be removed in 2013/14.

3.25 One area for consideration in relation to PCSOs is what the ideal balance is in terms of FTEs between Police Officers and PCSOs. The number of PCSOs employed previously has predominantly been determined by funding levels. With the removal of the specific nature of the grant for PCSOs in 2013/14 it is important to understand what the longer term aim is in terms of PCSOs numbers for future years in much the same way as is being undertaken for Police Officers.

3.26 One further area of note, in relation to PCSOs, is that on average we pay them £400 (2010-11 - £2,100) each more than those in all other Forces. The significant reduction from 2010-11 is as a result of the review of allowances that our PCSOs receive for shift and weekend working. This was highlighted in this report last year and a review by the Force and the implementation of changes to the allowances has resulted in the reduction noted above. The full year effect of the changes should lower the £400 variance further for 2012/13.

3.27 **Non-staff Costs**

The HMIC Value for Money indicators break non-staff costs down further however this is not analysed based on the expenditure compared against the population of the area being policed. This area is instead compared against the amount spent on staffing costs. The rationale is that non-staff costs are mainly dependent on the number of staff working for an organisation. The Authority has the highest percentage spend on non-staff costs (in comparison to staff costs) in the country. This is calculated to be 46.7% for Cleveland versus a National Average of 25.7%.

3.28 This 21% difference to the national average is further analysed into the areas below:

Area of Expenditure	£m	%age Staff	National Average (%age)	Difference £m
Premises	4.0	4.2	4.5	-0.3
Transport	2.8	2.9	2.8	0.1
Supplies and Services	24.1	25.3	11.4	13.3
Third Party Payments	1.5	1.6	1.9	-0.3
Other Employee Expenses	5.7	6.0	2.4	3.4
Capital Financing	6.4	6.7	2.7	3.8
Totals	44.5	46.7	25.7	20.0

- 3.29 The £3m contract for the Outsourcing of Custody to Reliance is contained within the Other Employee Expenses line. These costs are predominantly for the employment of the 84 FTEs that work on that contract.
- 3.30 The contract for outsourcing of back office functions to Steria is contained within the Supplies and Service line. Of the overall contract price around £12m is included within Supplies and Services that would have previously been included within Staff Pay.
- 3.31 Allowing for these 2 contracts would negate the variance on Staff highlighted in the table in 3.15 and also would leave the majority of the above areas in line with National averages apart from Capital Financing.
- 3.32 The variance on Capital Financing is a product of the significant investment that the Authority has made in its asset base over the last 7 years or so. This investment includes the PFI buildings in terms of both Action Stations and Urray Nook, the refurbishment of Hartlepool BCU, the new Roads Policing Building at Wynyard, the new Helicopter and also the CUPID devices.
- 3.33 These costs are offset to a certain extent by the receipt of more than average specific grant to support the PFI buildings. The grant received that would support offsetting the revenue costs of the PFI buildings totals around £2.1m. The remaining variance results from the significant investment that has been made. It is likely that the variance in this area will grow larger over the next few years as the significant investment in IT, as part of delivering the significant savings from the outsourcing contract, is reflected in the numbers going forward.
- 3.34 Given the significant investment that has taken place and the planned investment in both IT and then a potential new HQ any future capital expenditure should be closely scrutinised before any further borrowing is undertaken to fund Capital expenditure. If invest to save schemes are brought forward then those savings should be used to fund the initial Capital expenditure and not borrowing.
- 3.35 **Income**
The income referred to in this analysis relates to Partnership and Other Income, it does not include Specific Grants, Formula Funding or Precept. At this level we generate about £1.7m (2010-11 - £0.8m) less income (see para 3.15) than the average Police Force would based on the number of people within Cleveland.
- 3.36 The year on year movement results from the loss of Partnership Funding for both PCSOs and the Safety Camera Partnership.

3.37 This is one of the areas that should be looked at further in terms of the receipt and use of income into the organisation that is not contained within the original budget. The 2010-11 budget was set based on the receipt of £3.7m of Partnership and Other Income, the Police Actuals return for 2010-11 would indicate that £5.4m was actually received.

3.38 There are 2 areas for further work, one is in relation to understanding whether these figures are on a comparable basis and then capturing areas of funding from Partners and Other Income that are not contained with the budget set. The other area for review is whether this 'additional' income needs to be spent on additional expenditure or whether the organisation can meet the requirements of receiving this additional funding but through the use of resources that is already within the budget.

3.39 For instance, if a Partner provides funding to undertake a particular operation this will generally be done on an overtime basis. Given the financial pressures that the organisation has, could the work be done through normal contracted hours so as to not incur the overtime costs but still meet the requirements to gain the funding?

3.40 **How do the Authority improve its standings in terms of Value for Money?**

As can be seen from the analysis within the report, despite the significant savings that were made to balance the budget for 2011/12, which has significantly reduced the cost of policing per head of population within Cleveland, this has made no real difference to our overall standings either within our MSG or against all Forces. This trend is likely to continue over the coming years as all Forces continue to make savings that are in line with the cuts in Government Grant.

3.41 It is improbable that the Authority will ever have a cost per head of population that is in line with the average of all of the other Police Forces in the country. The reason for this is perhaps best illustrated through looking at the way the Authority is currently funded:

Funding	£m	£/Head	National Average £/Head	Difference £/Head
Central Funding				
Formula Funding	98	174	127	47
Specific Grants	8	14	11	3
Local Funding				0
Council Tax	32	58	58	0
Reserves	0	0	1	-1
Totals	138	246	198	48

- 3.42 As can be seen from the above the Authority receives on average £47 more per head of the population it polices than the average police force in terms of Formula Funding.
- 3.43 This funding is broken down into 3 main areas:
- Police Grant – This is determined at a national level based on a funding formula. The main determinant for this formula is the resident population with adjustments built in for the socio-economic and other characteristics of police force areas and for the differences in the costs of provision between areas.
 - National Non-domestic rate (business rates) – these are the means by which businesses contribute to the cost of providing local authority services. Business rates are paid into a central pool and then divided between all authorities.
 - Revenue Support Grant – this grant is again determined nationally based on the calculation of a Relative Needs formula.
- 3.44 The £98m of Formula funding that the Authority therefore receives is calculated based on need and the characteristics of the area it polices including the socio-economic factors of the area.
- 3.45 The £98m is slightly higher than it should be based purely on the formula as the Authority will receive a damping grant totalling £1.6m in 2011/12 which is included in the £98m. This damping grant is to protect Authority's from movements in their funding levels as a result of underlying changes to the drivers within the formulae and so that in previous years all Authority's received consistent and predictable movements in Formula Funding between financial years.
- 3.46 In addition to receiving £1.6m more than the formulae calculate that the Authority should receive it is also worth pointing out that another reason that the Authority receives significantly more than the average police force in terms of formula funding is that in looking at the Relative Needs of an area the formula takes into account the socio-economic factors within that area and the Authority's ability to raise funding locally via its taxbase and the number of Band D equivalent properties that it has.
- 3.47 Given the above you would therefore expect the Authority to have a lower than average level of Precept, however this is not the case. The Authority generates £58 of precept per head of population which is in line with the average in the country.
- 3.48 Through the enforced budget cuts, that the Authority will face over the next few years the Authority as a result of reduced Government funding, the Authority will reduce the costs of policing per head of population in Cleveland however so will every other Police Force. The only way the Authority can improve its financial Value for Money indicators, in comparison to both its MSG and all Forces, is to make more savings than required under the CSR cuts to enable precept levels to be frozen.

3.49 To have a cost base that is in line with the average within our MSG would require a Precept freeze for the next 5 to 6 years.

4. Implications

4.1 Financial

The public benchmarking of value for money indicators can have a direct impact on the perceptions of stakeholders and the public as to the standard of financial management of an organisation, and can also have the potential to influence future funding decisions.

4.2 Sustainability

There are no direct sustainability issues from this report. However, it may be the case that significant variances in cost (relatively high) and performance (relatively low) will be targeted by HMIC as areas that must be improved over the medium to long term.

4.3 Diversity and Equal Opportunities

There are no direct diversity and equal opportunities implications from this report.

4.4 Human Rights Act

There are no Human Rights Act implications in this report.

4.5 Risk Assessment

The opportunity to review the relative cost and performance of Cleveland Police presents an opportunity to improve the value for money in service delivery, but also a significant risk if variances in costs (relatively high) and performance (relatively low) are not realistically justified and managed.

5 Conclusion

5.1 The HMIC Value for Money Profiles present Cleveland Police Authority and Force with both an opportunity to inform, and the drive and financial imperative to improve, the value for money of service delivery. It is proposed that we utilise the indicators, while acknowledging their limitations, in the work required in the options appraisal required to respond to the financial challenges facing us in 2012/13 and beyond.

Michael Porter
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