

**To: Joint Audit Committee**

**Date: 31<sup>st</sup> March 2015**

**By: Paul Bundy, Head of Finance**

**Title: Surrey/Sussex Collaboration Cost Sharing**

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**Purpose of Report/Issue:**

Surrey Police and Sussex Police have been collaborating since 2011 in order to meet funding challenges and improve service delivery. The Joint Audit Committee has sought to understand the costs and benefits of collaboration and the arrangements in place for the sharing of costs and benefits.

The report provides an update on all current and future planned collaboration between Surrey and Sussex, sets out the costs and benefits of this for both forces and explains the arrangements in place for sharing of costs and benefits. The report is being provided to both Surrey and Sussex Joint Audit Committees in March.

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**Recommendation(s) - None – for noting**

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**Equalities / Human Rights Implications – None arising.**

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**Risk- As discussed in the report.**

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**Background papers -**

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# Surrey and Sussex Collaboration Briefing

## Update for JAC March 2015

### 1. Background

- 1.1. Both Surrey and Sussex Police have undertaken significant change programmes (jointly and individually) over the last five years in order to meet funding challenges and improve service delivery. The Joint Audit Committee has sought to understand the costs and benefits of collaboration and the arrangements in place for the sharing of costs and benefits.
- 1.2. The purpose of this report is to provide an update on all current and future planned collaboration, set out the costs and benefits of this for both Surrey and Sussex Police and explain the arrangements in place for sharing of costs and benefits. The report is being provided to both Surrey and Sussex Joint Audit Committees in March.

### 2. Context

- 2.1. The first significant phase of collaboration across police forces in the south east region commenced in 2010 with joint services for technical support, witness protection, air support, and covert and organised crime between a combination of Thames Valley, Hampshire, Kent, Surrey and Sussex Police. This was followed by Surrey and Sussex Police collaboration on major crime, forensics and firearms from 2011.
- 2.2. In October 2013 the Chief Constables and Police and Crime Commissioners for Surrey and Sussex set out a vision and ambition for significant collaboration between the two forces to be delivered through the Policing Together programme. Following a review, in 2014, of the scope of services to be included within the Policing Together programme a revised vision was agreed in September 2014 by Chief Constables including agreement on the areas of activity to be prioritised for collaboration.
- 2.3. The table below provides a summary of current services being collaborated between Surrey and Sussex in line with the legal agreement (section 22a), i.e. those functions under joint management subject to cost sharing.

	Surrey Budget £'m	Sussex Budget £'m	Joint Budget £'m
Specialist Crime	8.1	9.5	17.6
Support Services (Insurance, Transport & Procurement)	0.7	0.9	1.6
Operations	16.0	19.4	34.9
<b>Total</b>	<b>24.7</b>	<b>29.3</b>	<b>54.0</b>

- 2.4. The total value of the activity current being collaborated equates to about 11% of each Force's total budget.

2.5. Further activities agreed within the scope of Policing Together include:

- further Support Services (HR, ICT and Finance) - to be implemented in stages over 2015 and 2016;
- further Specialist Crime (elements of intelligence, crime support, special branch and public protection) currently being considered for Surrey/Sussex collaboration or with regional forces– some of which to be implemented in 2015 and 2016 but no firm timescales for all of these;
- Contact (call centre and handling and front office services) being considered as a Surrey/Sussex joint service or a wider collaboration with fire and ambulance services - no firm timescales;
- Corporate Services (elements of performance, professional standards, health and safety; legal) currently being considered - some of which to be implemented in 2015 and 2016 but no firm timescales for all of these;

2.6. The total value of all of the above services currently collaborated or within the agreed scope of Policing Together is estimated at £165m. This represents the maximum amount of funding for services likely to be collaborated between Surrey and Sussex over the next four years and would equate to just over a third of the total budget for each force.

### **3. Cost and Benefits of Collaboration**

#### **Costs**

- 3.1. It has not been possible for either force to clearly describe the full cost (both additional and opportunity cost) incurred in delivering the totality of these changes dating back to 2010. There is no opportunity cost data available for previous years as neither force routinely captured this information.
- 3.2. A clear understanding of these costs allow the forces to prioritise change activity and focus effort on activities which generate the greatest return (operational performance or financial benefits) and enable better decision making.
- 3.3. The costs of change for the Policing Together programme are being collected and used to inform decision making. In September 2014, work was undertaken to identify the total level of existing resource that the forces were committing to delivering Policing Together in both support and operational functions, thereby demonstrating the level of opportunity cost being committed by each force. This is being used and considered along with proposals for additional expenditure to assess the approval and prioritisation of business cases.
- 3.4. The costs of change are updated and reporting to the Joint Surrey/Sussex Change Board on a regular basis alongside approvals and decisions for committed resources to change activity.
- 3.5. The table below shows the opportunity and additional costs for each force for the 2014/15 financial year, grouped by category.

Project	Surrey Opportunity cost	Sussex Opportunity cost	Total Opportunity cost	Surrey share of 14/15 Additional cost	Sussex share of 14/15 of Additional cost	Total Additional cost
	£m	£m	£m	£m	£m	£m
Corporate Collaboration and Change Resources	0.9	1.1	2.0	0.0	0.0	0.0
<i>Target Operating Model</i>	0.2	0.3	0.5	0.1	0.1	0.2
Specialist Crime and Operations Collaboration	0.4	0.3	0.7	0.0	0.0	0.1
Support Services Collaboration	0.2	0.0	0.2	0.3	0.3	0.6
Support Services and Corporate Services support to collaboration	0.5	0.4	0.9	0.2	0.2	0.4
<b>TOTAL</b>	<b>2.1</b>	<b>2.2</b>	<b>4.3</b>	<b>0.6</b>	<b>0.7</b>	<b>1.4</b>

3.6. In total the two forces have incurred £1.4m of additional cost to support the Policing Together programme and have committed £4.3m of opportunity cost. Please note that the opportunity costs include dedicated collaboration/change support resources for each force (within Change Delivery, Support Services and Corporate Communications departments), which represent approximately £3m of that cost.

### Financial Benefits

3.7. The financial benefits of collaboration arise from reduced management overhead, running and infrastructure costs when the two forces combine functions. The costs of each joint service are shared according to arrangements set out in the legal agreement (section 22a); these are explained in more detail in section 4 of this report. The financial benefits attributable to each force are the difference between the cost of the service before collaboration and their share of the cost of the new joint service. As such, it is not usually possible to accurately articulate the savings delivered to each force by each business area until the full business cases are being finalised.

3.8. The tables below show the annual savings that have been delivered in Surrey and Sussex to date along with those which we anticipate will be delivered through joint working over the next financial year.

#### Surrey annual savings from collaboration: incremental savings per annum

	2011/12	2012/13	2013/14	2014/15	2015/16	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Regional Air Support	607					<b>607</b>
Regional (TSU, Covert, Witness Protection)		116				<b>116</b>
Joint Command		981	588			<b>1,569</b>
Joint Procurement (function)			47	21	1	<b>69</b>
Joint Procurement (contracts)			19	485	250	<b>504</b>
Central Project Team				45		<b>45</b>
Joint Transport Service			-40	149	45	<b>154</b>

Joint Insurance			16	14		<b>30</b>
Support Services (HR, Finance, ICT)					1,238	<b>1,238</b>
Specialist Crime Command					1,151	<b>1,151</b>
Operations Command					702	<b>702</b>
Corporate Services					149	<b>149</b>
<b>Total</b>	<b>607</b>	<b>1,097</b>	<b>630</b>	<b>714</b>	<b>3,286</b>	<b>7,803</b>

3.9. This shows that by the end of 2014/15, Surrey will have reduced costs by £2.3m per annum through collaboration with Sussex, and a further £0.7m per annum through regional collaboration since 2010. Savings of a further £3.2m per annum are expected in 2015-16.

**Sussex annual savings from collaboration: incremental savings per annum**

	2011/12	2012/13	2013/14	2014/15	2015/16	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Regional Air Support	182	69				<b>251</b>
Regional (TSU, Covert, Witness Protection)	69	69				<b>138</b>
Joint Command		1,134	1,224			<b>2,358</b>
Joint Procurement (function)				39		<b>39</b>
Joint Procurement (contract)					250	<b>250</b>
Joint Transport Service			12	101	177	<b>290</b>
Joint Insurance			20			<b>20</b>
Support Services (HR, Finance, ICT)					1,664	<b>1,664</b>
Specialist Crime Command				128	976	<b>1,104</b>
Operations Command					2,002	<b>2,002</b>
<b>Total</b>	<b>69</b>	<b>1,303</b>	<b>1,452</b>	<b>268</b>	<b>5,069</b>	<b>7,865</b>

3.10. This shows that by the end of 2014/15, Sussex will have reduced costs by £2.7m per annum through collaboration with Surrey, and a further £0.4m per annum through regional collaboration since 2010. Savings of a further £5m per annum are expected in 2015-16.

3.11. The ambition for future savings from the Policing Together programme are 20% annual cost reductions by 2019 against the 2014-15 baseline for all services within the scope of Policing Together. If all services within the current scope of the programme are collaborated and in total deliver a 20% savings then this will amount to a combined £33m of annual savings by 2019 of which the estimated share is Surrey (£15m) and Sussex (£18m). These are modelling assumptions only at this stage and subject to variation depending on the actual level of collaboration and savings on each of the areas within the scope of Policing Together programme.

## 4. Funding Model for Surrey/Sussex Collaboration

### Current Approach

- 4.1. The current approach being applied for sharing of costs for Surrey/Sussex collaborations is set out in the section 22a agreement. In summary cost for all joint services are shared as follows.
- 4.2. Unless direct/variable costs are agreed to be easily and transparently attributable to an individual force then all investment, operational and management costs of a new collaborative service are shared according to the agreed formula split: Surrey 45%; Sussex 55%. The financial benefits or savings that accrue to each force are calculated as the difference between their budget/costs pre and post collaboration.
- 4.3. The formula split was agreed post 2010 as part of arrangements to determine a formula for sharing costs of collaboration across the south east region and derives from an assessment of expenditure and resources to deliver policing across force areas, at the time using 'net cost of services' set out in the Statement of Accounts.
- 4.4. This approach has been used for other south east regional collaborations and is being applied in other police force collaborations such as Warwickshire and West Mercia Strategic Alliance.
- 4.5. The Section 22a agreement makes reference to the Finance Protocol which sets out in more details which type of costs are included/excluded from cost sharing arrangements.
- 4.6. The cost sharing model is applied to all management and operational costs of collaborative functions. These will be defined by the scope of activity included within each collaboration supported by the finance protocol which sets out what type of costs are treated as pooled costs (to be included) and other costs (to be excluded) from collaboration activity, e.g. premises costs.
- 4.7. All business cases for investment in new collaborative functions are assessed using this cost sharing model. The sharing of investment (one off) costs are determined on a case by case basis, with the expectation that these will only be varied from the normal cost sharing formula in exceptional circumstances. This provides the opportunity for investment (one off) costs for a particular collaboration to be shared on a different basis where appropriate. For example if financial benefits are assessed to be mainly attributable to one force and there are no other significant non-financial benefits then investment costs can be shared in such a way as to equalise the net benefit and investment payback period for both forces.
- 4.8. The following examples show where the default cost share mechanism is employed and where under current arrangements it is applied to reflect activity directly attributable and within the control of each force.
- 4.9. Major Crime Team function investigates the more serious crimes and is cost shared on the 45:55 ratio and has been in operation for a few years. Both forces have benefited from savings in joining their teams and continue to receive the level of service to meet the demands placed on Forces. Any exceptional costs for a specific investigation are charged directly to the relevant force.
- 4.10. For the Joint Transport Service all direct costs that are attributable to each vehicle are charged directly to the vehicle and force owning/using the vehicle with the administration and management and vehicles which are part of a joint service charged on a 45:55 ratio basis.
- 4.11. The proposed model for the Joint ICT service will be based on all direct and variable costs of licences and applications and change projects being charged against the force owning/using the application or initiating the change with administration and

management and applications or change projects which are part of a joint service charged on a 45:55 ratio basis.

## 5. Conclusion

- 5.1. Surrey and Sussex have committed considerable additional cost (£1.3m) and internal resource/opportunity cost (£4.3m) to support the first phase of the Policing Together programme during this financial year. This resource has enabled delivery of savings of over £8m on-going per annum from 2015-16 and up to £33m on-going per annum by 2019.
- 5.2. Both forces have achieved savings from collaboration and have financial plans that are built on further savings being delivered through this activity.
- 5.3. The Chief Constables and Police and Crime Commissioners considered and reviewed arrangements for the sharing of costs and benefits in November 2013. Wherever it is practical to do the Forces will employ a cost share arrangement that reflects their direct cost of service but will use the simple cost sharing ratio for all administration and management costs or whenever there is no suitable or practical basis to charge costs for a joint service.

## APPENDIX A

### Funding Model Illustrations

	Summary	Advantages	Disadvantages
Activity Based Model	This model apportions costs according to an agreed activity metric for a particular service (could be anything from flying hours; caseloads, vehicles, transactions etc). It works well when the activity is directly linked to cost, can be easily measured and it is clear why costs vary due to changes in demand or operational decisions. Is used for a limited number of collaborations at present.	<ul style="list-style-type: none"> <li>• Clear link of costs to activity</li> <li>• Enables costs to change over time as influenced by demand or operational decision making</li> <li>• Only uses current costs not linked to previous spend</li> </ul>	<ul style="list-style-type: none"> <li>• Doesn't work in all areas of business</li> <li>• If cost drivers aren't clear then significant time and effort to establish agreement on activity base and measure it</li> <li>• Likely to lead to greater uncertainty on cost shares</li> </ul>
Sharing of Costs Model	This model apportions all costs based on an agreed formula (budget, population, demand or combination of these), which most closely reflects levels of resources or demand for most activities.	<ul style="list-style-type: none"> <li>• Simple, easily understood</li> <li>• Provides certainty on cost shares</li> </ul>	<ul style="list-style-type: none"> <li>• May not be perceived as fair in all cases</li> <li>• Can be seen to reward the</li> </ul>

	<p>Is used for the majority of collaborations at present.</p>	<ul style="list-style-type: none"> <li>• Can be used as a basis for all collaborations</li> <li>• Only uses current costs not linked to previous spend</li> </ul>	<p>most inefficient force prior to collaboration</p> <ul style="list-style-type: none"> <li>• Could lead to significant investment by one forces for a small financial benefit</li> </ul>
<p>Sharing of Benefits Model</p>	<p>This model seeks to equalise the sharing of financial benefits by estimating and calculating financial benefits and applying a formula basis to apportioning them. This model has not been used for collaborations to date.</p>	<ul style="list-style-type: none"> <li>• Ensures each force benefits from collaboration irrespective of their baseline costs/efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• More complex to understand and implement in practice</li> <li>• Relies on previous budget/expenditure</li> <li>• Requires agreement of baseline in order to calculate benefits (as such encourages gaming)</li> <li>• Will lead to different basis for each collaboration</li> <li>• Is based on a fixed point in time at start of collaboration</li> </ul>