

NATIONAL ACTIVITY BASED COSTING MODEL**Joint Report of the Chief Constable, Clerk and Treasurer**

1 PURPOSE OF THE REPORT

- 1.1 The purpose of this report is to advise members of the National Activity Based Costing Model and Northumbria Police implementation action plan for 2003/04.

2 BACKGROUND

- 2.1 Traditional costing methodologies allocate expenditure to budget headings based upon type of expenditure such as employees, supplies and services, premises etc. However, this approach can only provide limited management information when attempting to attribute costs to outputs.
- 2.2 Activity Based Costing (ABC) is “a technique for calculating the cost of a product or service by measuring the direct labour and other costs of each activity associated with the product or service, as well as allocating an appropriate share of the overheads.”
- 2.3 As a minimum standard, the Model requires that all police officers in operational roles up to and including the rank of superintendent, and all members of support staff in operational roles, be surveyed. It recommends the survey takes place over a two week period. Each officer and member of support staff will be required to complete a timesheet every fifteen minutes on a daily basis during the length of sample.
- 2.4 The National Policing Plan requires that all Police Authorities and Forces implement ABC in 2003/04. ABC is seen as a vital tool, both nationally and locally in establishing links between resources and policing outcomes. It is also a crucial part of the Policing Performance Assessment Framework (PPAF) being developed by the Home Office.
- 2.5 Although all forces agreed to adopt the National Police ABC model, developed by the Association of Chief Police Officers (ACPO), in June 2001, the pace of implementation has varied across the country. The National Police ABC model has also been reviewed as part of the PPAF Programme, and the revised Police ABC Model, jointly owned by ACPO, Association of Police Authorities (APA) and the Home Office, has now been developed.
- 2.6 As a result of these changes, and because for a number of forces ABC will be a new requirement, the risk of insufficient and inappropriate process being adopted is considered high. Consequently, all forces are required to produce a plan of how they will produce ABC in 2003/04. The Home Office has commissioned the Audit Commission to review the key elements of the plan to ensure its compliance with the National Police ABC model as part of their core work on financial aspects of corporate governance. The audit will cover an assessment of the following areas:
- arrangements for implementation and management of ABC data collection;
 - sufficiency and appropriateness of activity data sources; and
 - sampling timetable, where activity sampling is required.

- 2.7 Following the assessment a report in the form of a letter to the Police Authority / Force will be submitted and will include a traffic light assessment. The Audit Commission must complete the assessment by 30 June 2003 to avoid any delays in the 2003/04 ABC sampling and costing. Several meetings have taken place between the Audit Commission, the Force and the Authority, and a report from the Audit Commission is anticipated shortly.
- 2.8 The Force has established project board arrangements in place to monitor the implementation of ABC and to oversee its strategic fit. Two surveys have been completed to date, in April 2002 and January 2003. The data from the April 2002 survey was used to prepare the 2001/02 final accounts in line with the requirements of the Best Value Accounting Code of Practice (BVACOP), a new requirement to present annual accounts in a service-based format, rather than on a subjective basis. These accounts were signed off by District Audit in December 2002.

3 BENEFITS OF ABC

- 3.1 The output from the implementation of ABC will provide a number of benefits at a national and local level.

National

- It will allow the police service to demonstrate how police officers spend their time and therefore increase the level of accountability and transparency.
- ABC data will be used in determining future funding.
- ABC data will form part of the Police Performance Assessment Framework (PPAF) developed by the Police Standards Unit.
- ABC data will assist in providing suitable measures of front-line policing. These measures are intended to inform the development of PPAF, to provide a measure for Public Service Agreement 2 (PSA 2) within the National Policing Plan - *'to improve the performance of all police forces, and significantly reduce the performance gap between the best and worst performing forces: and significantly increase the proportion of time spent on front-line duties.'*

Local

ABC data:

- Will inform resource allocation.
 - Will provide area command and department managers with management information on how staff spend their time on key activities and incidents.
 - Will be used in the production of the final accounts.
 - Will inform the local planning process and assist in the efficiency planning process.
 - Has been used to inform Best Value Reviews and the internal inspection process.
- 3.2 The Home Office has stated it is crucial that all authorities have a good understanding of ABC, both to exercise oversight of forces' implementation and to make effective use of ABC data locally. It is therefore proposed that ABC be the subject of a future members' seminar in order that members are fully involved and informed. Members will also receive further reports when appropriate.

4 EQUAL OPPORTUNITIES IMPLICATIONS

4.1 Nil.

5 HUMAN RIGHTS IMPLICATIONS

5.1 Nil.

6 FINANCIAL IMPLICATIONS

6.1 Use of the National Activity Based Costing Model will enable the Authority to produce its Statement of Accounts in the correct format and in accordance with national guidance.

7 RECOMMENDATIONS

Members are asked to:

- i) note the contents of this report;
- ii) agree that further discussion of the implications of ABC should be subject of a future members' seminar;
- iii) that members should receive reports as appropriate.