



STRATEGIC POLICING AND CRIME BOARD

14th May 2013

FAIR FUNDING

PURPOSE OF REPORT

1. Last year the Police and Crime Commissioner launched the Fair Deal for Policing campaign. Ahead of the 2013 Spending Review on 26th June, this paper updates on the current position in relation to police formula funding.

BACKGROUND

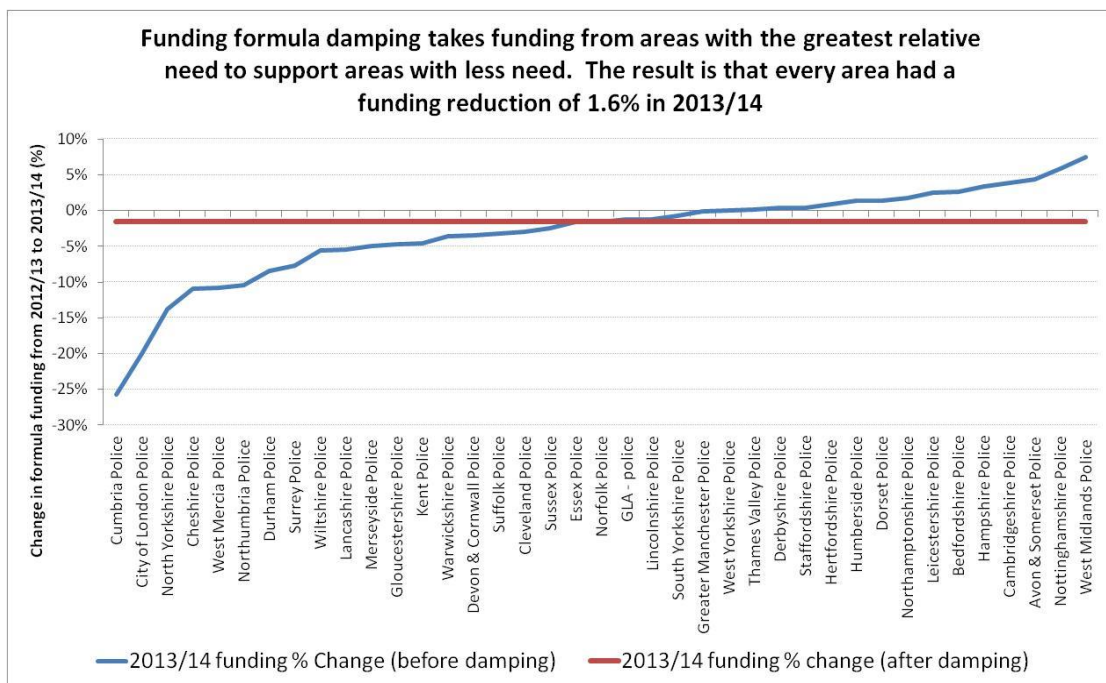
2. As a result of funding reductions announced in the 2010 Spending Review, West Midlands Police has achieved savings of £105m over the three financial years between 2011/12 and 2013/14. This is part of the £126m overall target set for the four year period to 2014/15, and represents a reduction in budgets of 14% compared to the 2010/11 baseline (£126m will be a reduction of 17%).
3. In the light of more recent announcements made in the Autumn Statement and March Budget, financial modelling has been undertaken to assess the likely funding impact over the next two financial years and beyond. Whilst there is still a great deal of uncertainty around specific information and funding allocations, the importance of understanding at a high level the likely extent of the future challenge cannot be underestimated.
4. The modelling suggests that savings of a further £100m could be required between 2014/15 and 2017/18. If this were the case, it would mean that budgets had been reduced by 28% compared to the 2010/11 baseline.

POLICE FUNDING

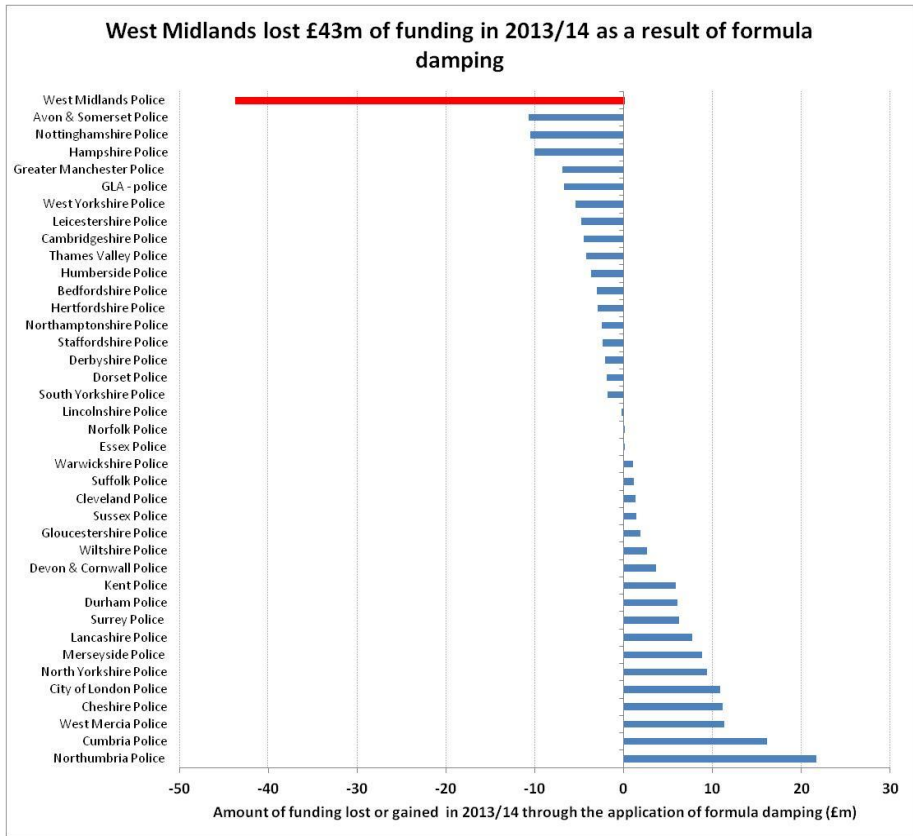
5. Police and Crime Commissioners receive funding from two main sources, namely from the Government through a national police funding formula and from local taxpayers through the council tax precept. Other sources of income are available, such as charging for services, and whilst opportunities are taken they are limited and as such play a minor part in the overall budget.
6. The police funding formula is designed to reflect the relative needs of each area and so give different levels of funding depending upon these relative needs. The current formula is based on a two-stage approach. The first stage is to divide funds between six key areas of policing. These are call management, crime management, traffic

management, public order and reassurance, community relations and patrol. There are a further three components in the current formula: sparsity, provision for dedicated security posts and police pensions. The second stage is to divide formula spending between policing bodies using a "workload indicator" established for each service. These are calculated using various measures of population.

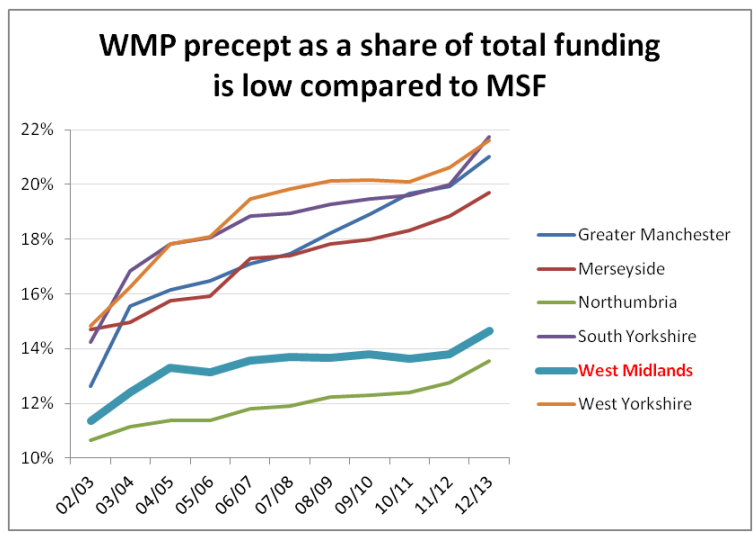
- The formula also includes a mechanism known as damping, which is designed to smooth large variations in funding allocations. The damping mechanism works by setting an overall minimum amount of funding for all areas, and restricting the amount of funding that goes to areas above this level to re-allocate to areas below this level. This means that in 2013/14, for every £1,000 of formula allocation above the floor level we received only 46 pence in funding. In practice, the areas with the highest funding allocations (determined by higher relative need) receive less funding than the formula calculates they require. The damping mechanism and formula allocations for 2013/14 are shown in the chart below.



- The chart shows that the police funding formula generated a range of funding changes between 2012/13 and 2013/14 of -26% (Cumbria) up to +8% (West Midlands) before damping is applied. When damping is applied, all areas receive a reduction of -1.6%.
- The damping mechanism significantly reduces the funding that is allocated to policing in the West Midlands. In 2013/14 the damping mechanism reduced the funding for West Midlands by £43m, as shown below.



10. In the last 3 years the formula damping reductions have reduced funding allocations to the West Midlands by £94m – almost the same amount that has been required to be found as savings over the same period.
11. The impact of damping is magnified because it does not take into account council tax and the relative impact on different areas resulting from reductions in grant funding. This has a disproportionate impact on the West Midlands than on other parts of the country as the West Midlands has historically kept council tax precept increases low and therefore has a lower overall proportion of funding from council tax. In 2012/13, council tax accounted for 15% of total funding in the West Midlands, compared to an average of 19% across most similar forces (and 33% across all English force areas), as shown below.



12. The damping mechanism is used in other areas of local government, albeit with slightly different mechanisms. For example, the scheme for fire authorities recognises the importance of other funding and has three bands of damping dependent upon the relative share of formula grant in the total funding available to each fire authority. This approach to damping means that where authorities are more reliant on central grant the floor level is set higher. Furthermore, in the Fire Service model the level of damping above the relevant floor level is less damaging, with fire authorities receiving £677 of funding for every £1,000 of formula allocation above the floor level.
13. The Home Office has announced that it intends to undertake a review of the police funding formula, with any changes not likely to take effect before 2015/16 or later. The application of the damping mechanism is a separate process determined annually by the Home Office as part of the funding settlement.

NATIONAL PICTURE

14. The 2013 Spending Review is planned to be announced on 26th June 2013. It is hoped that this will give clearer indications as to the overall level of funding for the Home Office for 2014/15 and 2015/16. It is unlikely that detailed allocations to force areas will be known until late Autumn 2013 when the local government funding settlement is announced, however it is reasonable to assume that savings in the region of £25m per year will be required in 2014/15 and 2015/16.
15. Representations have been made to the Home Office through PCC and Chief Constables' Finance Officers. These briefings have highlighted the risks to policing delivery of new demand pressures, such as mental health, missing persons and the welfare reform programme as well as the financial risks outlined below:
 - Funding of Police Pensions: current 2013 discussions on accrual arrangements may add further liabilities to the total national Policing provision;
 - There is also a possibility that the planned increase in employee contributions may be siphoned away and not benefit the Service directly;
 - Continuing uncertainty about the level of deliverable savings from Winsor; the provision for faster acceleration through the pay sector will add costs which will not be offset by lower starting salaries when recruitment levels are low;
 - Carbon Commitment costs;
 - Non pay inflation, particularly energy costs;
 - Implications of continuing international economic uncertainty on the cost of UK imported goods such as vehicles and technical equipment;
 - Uncertainties around future national public sector pay strategy;
 - Costs and losses due to the localisation of Council Tax Benefits;
 - Pay policies: at some point the public sector pay freeze will come to an end; pay packages must be kept competitive if the Police service is to attract staff of the required calibre and skills.
16. In addition to the above, attached as an appendix is a further representation made by PCCs following a meeting with the Home Secretary in April 2013.

CONCLUSION

17. Whilst the review of the funding formula will almost certainly result in increased allocations for the West Midlands compared to current (damped) allocations, and we need to ensure our inputs are made to the review process at the appropriate time, the

continued application of formula damping is, of course, far more significant and it is important that representations continue to be made about the inequity and unfairness of the current damping arrangements.

FINANCIAL IMPLICATIONS

18. There are no financial implications in this report.

LEGAL IMPLICATIONS

19. There are no legal implications in this report.

RECOMMENDATION

20. The Board is recommended to note the report and support the Fair Funding Campaign.

Mike Williams
PCC Chief Finance Officer

David Wilkin
WMP Director of Resources

"FUNDING OF POLICE AND COMMUNITY SAFETY SERVICES" *A Submission from Police and Crime Commissioners*

Police and Crime Commissioners are seven months into their new role, having taken responsibility for local Policing at a critical time. It would perhaps have been preferable if the review of national spending plans had taken place later in the year, but Commissioners are already in a position to take stock of the challenges facing the Service over the next few years.

Local communities, partners and businesses consistently emphasise how highly they value an effective Police service. People are reassured by the preservation of the basic rules of law, order and safe communities. These needs are felt most acutely in times of economic and social stress. They value the 24/7 presence, and have come to rely on the Police as a public service which will always come to their assistance in an emergency. It has been described as the first and last line of defence. There is extensive evidence from Forces that Police officers are increasingly covering gaps in other public services such as mental health, social services, fire and rescue, and probation.

The Service has responded positively to the national austerity programme. It is not easy to form a view across the Service as a whole because local circumstances vary so much, and the impact of flat rate % grant cuts has been unevenly spread. Overall, however, there is strong evidence from most areas of a continuing downward trend in crime levels, and that resources allocated to local Policing and protective services have been maintained. The first priority for Commissioners and Chief Constables is to preserve those gains. It is a constantly changing environment - for example Forces are warning that continuing unemployment alongside future welfare reforms could combine to create circumstances that are known to increase the incidence of certain types of crime. Forces have also offered evidence of the measures introduced over the last 3 years to cut overheads, increase capacity, and pursue collaboration. Some of these initiatives will help achieve the reductions already planned.

The demands of fiscal austerity have presented an unprecedented challenge, but CSR10 is not a temporary phase, and the targets could get even harder over the next few years. It is clear that most of the easy options for cost cutting have been addressed. In 2010 there was a buffer of spare capacity which could be taken up; Forces are now advising that this no longer exists. The Service is entering uncharted territory. A concerted attack on costs may have been the only viable option in 2010, but the scope to cut budgets while maintaining current services is not infinite. Some Forces are warning of cuts which are not sustainable, and there are already examples of enforced 'reverse civilisation'. The Service has proposed that it works with Home Office to develop criteria for assessing when a Force is about to move from stability to unsustainability.

Commissioners believe that the really big risks are yet to come. Their initial aspirations for local community safety have in many cases already had to be modified, and a potential conflict for the next few years will be the preservation of reassurance and visibility while at the same time maintaining the focus on measures to tackle crime. It is a fact of life in public services that no-one expects the level of service to reduce even though the funds have been cut. The public and partner

organisations all have high expectations of Commissioners, and if funding is further reduced they will be faced with a very delicate balancing act in 2014/15 and the years ahead. The principal concern at local level is that a point will be reached when current expectations are no longer deliverable. It is critical for the future of the Service, and the stability of local communities, that a debate takes place now on the long term level of affordable services. Otherwise, there is the risk of a slow downward spiral of confidence and performance.

Over the last 3 years there has been a rapid but fundamental reconfiguration of the Service in terms of what it costs. The concentration on cost cutting has encouraged a relatively short term perspective, and Commissioners believe that it is now time to extend the horizon well beyond 2016, and to give consideration to measures other than cost cutting. There is a risk that strategies on crime reduction, rehabilitation, and victim support will be the unavoidable casualties of the need to protect core crime responsive activities. This could have a negative impact on future Policing, because a comprehensive national strategy for managing future demands on local Policing could play a major part in helping Commissioners achieve the required new balance between needs and resources.

This brief submission has attempted to summarise the risks and the challenges facing the Service from the Commissioners' perspective. The main concern is that between now and 2016, there will be a number of serious failures, or a gradual decline in performance. Neither is an acceptable prospect for a public service such as Policing. Arriving at a realistic balance between the various objectives will take time, and Commissioners have expressed their willingness to work with the Home Office to take this forward.

While this process is taking place, it is important for Commissioners that the level of risk should be contained, and one purpose of this submission is to urge the Government to give early consideration to the justification for providing a degree of grant protection within the Settlements for the next 2 years. An assessment of current CSR prospects has recently been submitted by the Service to your staff, and this includes a detailed case in favour of protection. To paraphrase, however, it is an opportunity to drop anchor for a short period of time while Home Office and the Service navigate a route forward which reduces future risks, sustains community safety strategies which will help deliver the new long term balance between demands and resources, and makes resources available for initiatives which will drive change and deliver longer term savings.

Information to support this submission has been collated from a sample of around 25% of Commissioners. Statements extracted from individual PCC responses are set out over the next 3 pages. This submission has been copied to Stephen Rimmer, along with a further copy of the detailed current assessment prepared jointly by Police Treasurers and ACPO Finance Directors.

ANNEX - EXTRACTS FROM COMMISSIONERS' RESPONSES MAY 2013

Local impact of CSR10

Policing is at a crossroad where the service has driven out substantial financial savings whilst maintaining an effective service to the public.....however the scope for further savings whilst maintaining an effective service is extremely limited

...maintaining confidence in local Policing, law and order is vital at the best of times but even more so at a time of severe economic stress.

I am mindful that more time is needed to make real inroads into the improvements and financial reforms that I have started

Partners have also been affected by these cuts, resulting in some organisations looking inwardly, making collaboration a challenge

.. for the service to move in a cohesive and efficient manner..... will require finance as an enabler

The momentum can be maintained to 2014/15, after that the task becomes much harder

Communities are feeling the impact, and this is affecting crime patterns

Shoplifting in some areas is becoming a crime of necessity.... destabilisation of the rental market is creating areas with high volumes of homes in multiple occupancy. This in turn affects crime levels and increases the vulnerability of victims

... there is still a significant amount of crime ongoing that isn't being reported..... Either communities do not have confidence in the Police to report crime, or there is a growing acceptance of becoming the victim of crime

Expectations remain high, but are not always capable of being met

In effect, our threshold for intervention has necessarily risen to parallel our level of resources.... In my travels around the area, I have been approached by members of the public who have been disappointed and frustrated at a perceived lack of response when reporting crimes and incidents

The reductions in funding may necessitate a move towards providing only the core Police services; whereas our consultations show that the public require the public to be involved in a number of other services..... We risk the public losing faith in the Police to provide the services expected of it

.. reduction in partnership funding is impacting on the ability of Police to do their job, although public and partner expectations remain high.... It is a concern as to how this role can be effective...

Unsurprisingly communities want to increase the visibility of police.... We need to be explicit about what we can do and what we can't in order to manage expectations effectively

Cuts in other public services are putting further pressure on the Police service

There are a whole host of minor areas where we constantly receive calls due to the unavailability of out of hours services...particularly in the evenings we are the port of call for many individuals who are unable to access the local authority based services

We are having increasing issues with paramedics where the local service has adopted a single crewing policy....it has resulted in an increased call for police to be in attendance

Due to limited mental health facilities.....custody suites are being inappropriately used

The point is approaching where quality will decline

Personally I would question whether the current extent of local policing/visibility/reassurance can be maintained at the expense of needing to tackle crime in future

The perception of a slow police response can seep into the public consciousness.....

...talking to our community shows some concern around the accessibility of policing services due to the closure of front desks

....the Force has not suffered any catastrophic failures....however we are concerned that the difficult financial context is weakening the Force's infrastructure and potentially compromising the organisation's resilience

....confidence is starting to reduce, and satisfaction appears to be approaching a plateau, both of which could be an indication of impending decline

..the ability in the first two years to identify funding that will drive change is essential to enable me to achieve more medium term savings, aims and ambitions

The issue of defining sustainability is a complex one....The great difficulty here is that the police service, unlike other areas of the public sector, has no absolute definition of what it is required to provide....as well as taking primacy over crime investigations, it is also expected to provide a holistic service in the general areas of public safety and confidence. The tipping point...would come when the service has been scaled down to such an extent that not only has it lost any capability to provide neighbourhood and community based policing, but it starts to impact on the ability to provide the response and investigative capability

Risks are escalating

My Treasurer is satisfied that the level of reserves which we hold is sufficient to cover the identified budget risks up to 2015/16, however these reserves would be insufficient to cover the estimated budget shortfall in 2015/16 plus the normal risk assessment

Prevention and victim experiences are key challenges....alongside community policing. The danger is that further cuts undermine the new enthusiasm amongst PCCs and Government.....

My own assessment is that the current reductions in funding have already begun a shift towards a concentration on core police services

There is definite merit in reviewing traditional boundaries between public services, and particularly the funding streams available to crime and community safety. The landscape is confusing and cluttered and requires streamlining

Without a fundamental review of the risks faced by Police services up and down the country we risk a major or catastrophic failure at an individual Force level. The resultant cost...would be significantly more than maintaining grant levels...

I believe that....the service should be protected from further reductions especially with the transfer of functions to Commissioners to enable them to undertake a wider police and crime reduction remit

We have seen an exponential rise in Child Sexual Exploitation cases, and need extra resources to tackle the issue effectively... There is a need to bring sex offender monitoring ratios back to nationally acceptable levels, which we are currently failing to achieve by some way.

The Force has assessed that the reduction in funding to youth services...will have a negative impact on antisocial behaviour levels in 6-9 months' time....Similarly, the priority of protecting vulnerable people is made more complex by cuts in social services budgets... It is also anticipated that cuts to the Probation Service will create further impact...

Already some Districts are finding they are unable to resource the specialist squads that might previously have been a tactical option in responding to crime in certain areas

The impact of the cuts on the welfare society and the wider damage to community cohesion will not materialise immediately and it may be a few years before these can be fully analysed. It would be a reasonable assumption that increased deprivation and weaker social cohesion may result in greater criminality and anti-social behaviour.