



STRATEGIC POLICING AND CRIME BOARD 1 September 2015

Police Funding Formula Consultation

PURPOSE OF REPORT

1. This report updates the board in relation to a Home Office consultation exercise concerning the arrangements for police funding.

BACKGROUND

2. On 21st July 2015 the Home Office launched a consultation on reform of police funding arrangements in England and Wales. The consultation runs for 8 weeks until 15th September 2015.
3. The consultation document covers in detail the current funding model, which is referred to as the Police Allocation Formula (PAF), and is the mechanism used to allocate £7.8bn of public money to police forces. It states that it is “*highly complex, and opaque*” and “*the models rely on data that is no longer collected and are not fit for purpose*”. As such, it proposes a number of key changes, which are summarised below.
4. A suite of ‘guiding principles’ for the new arrangements are proposed that cover: robustness, stability, transparency, incentives and future proofing.
5. Two options are considered in the document but not favoured because they do not accord with the principles set out above. The dismissed options are:
 - Maintain the existing arrangements in which all forces have their funding reduced by the same percentage amount each year; and
 - Upgrade the PAF using new data to feed into the statistical models.
6. Having dismissed two options, a third approach is proposed. This is based on introducing a new simplified and transparent model built on three broad elements that “*capture the drivers of crime and demand on a police force*:
 - *population levels;*
 - *the underlying characteristics of a local population; and*
 - *the environmental characteristics of police force areas.”*

7. The document then sets out a series of indicators and weights that would be used in the new model, although there is a suggestion that further work will be completed to refine the weights before the model is introduced. These are:
 - **Population (24%)** – on the grounds that *“the number of people within a force area is clearly a critical factor in determining the resources required to provide effective policing in that area”*.
 - **Band D equivalent properties (16%)** – as a mechanism for recognising forces’ ability to raise precept.
 - **Households with no adults employed and dependent children (25%)** – on the grounds that it is *“closely correlated with the patterns of crime seen between different force areas”*.
 - **Hard pressed population (25%)** – also on the grounds that it is *“closely correlated with the patterns of crime seen between different force areas”*.
 - **Bars per hectare (10%)** – because *“a strong relationship between the density of bars within a force area and the drivers of crime and demands on the police has been identified”*.

8. The paper justifies the use of the two socio-economic factors having applied a statistical technique, known as reliability analysis, to a number of factors including daytime net inflow, population density, single parent households, student housing, length of roads, recorded crime survey, mental health hospital admissions, looked after children, households in receipt of social care support and concluded the two proposed socio-economic factors are closely correlated with the patterns of crime seen between different areas over time, although it does not provide the detailed evidence.

9. Whilst the environment also plays an important role in determining how an area is policed, the Government believes these are more relevant to local decisions made by PCCs and Chief Constables (except in London!) but does suggest there is a strong relationship between the density of bars and the drivers of crime and demand on the police.

10. The proposed new model would then distribute the total funding available between the five indicators based on their respective weights. Individual force allocations for each indicator would then be calculated based on each force’s share of the total volume in each indicator. The total allocated to each force would then be calculated by summing the individual force shares within each indicator.

11. The Government is seeking to introduce the new funding arrangements for 2016/17. It proposes three possible transition routes:
 - **Gradual** – set a maximum and minimum annual percentage change to smooth the impact, but reaching the target allocation could take many years;
 - **Required** – set a deadline date for full implementation and work backwards to determine the required annual change for each force;
 - **Enabled** – set variable change rates based on consideration of a range of factors, potentially including distance from target, level of precept income, level of reserves and use of HMIC Value for Money profiles.

12. The Government’s preferred option is “Enabled” on the grounds that *“it takes the individual financial circumstances of forces into consideration”* and *“it is likely to incentivise value for money and drive efficiency”*.

13. The specific questions asked in the consultation are shown in appendix 2.

INITIAL RESPONSE TO THE CONSULTATION

14. The Commissioner has campaigned for some time for fairer funding arrangements for police forces, and so in many ways this consultation is welcomed. However, early analysis of the document suggests that there may be a number of serious concerns with the approach being proposed by the Home Office.
15. Of most concern is that no detailed exemplifications of the outcome of the model have been released, which means it is impossible to judge whether the new formula would impact positively or negatively on the funding the PCC receives, or by how much. This is compounded by the statement in the document that *“the introduction of any new funding model will result in some significant changes to force level allocations compared to the current year”*.
16. As a result the Commissioner has written to the Policing Minister requesting release of further information. A copy of the letter is shown in appendix 1, and at the time of writing this report no response has been received.
17. Some high level modelling work has been undertaken based on the limited information that is available. This is not a complete model because we do not have access to all the data sets, but the early indications are that the proposed formula could benefit smaller, more rural forces and impact severely on the funding of metropolitan forces. West Midlands currently receives 5.8% of the national core government funding, which would increase to 6.8% if damping was removed. West Midlands population is now 4.9% of the total and Band D equivalent properties just 3.2%. The impact of the socio-economic and environmental factors will therefore be very significant.
18. The existing formula is extremely complex and successive years of grant damping and across the board cuts have rendered it not fit for purpose. A simpler, robust and transparent formula should be welcomed but not at the expense of factors which do impact more on policing need and demand in areas like the West Midlands, and these could include: Daytime net inflow; business crime; cyber crime; public protection issues; drug use; traffic movements on motorways and urban roads.
19. If, as the consultation paper suggests, the introduction of the new funding model will result in significant changes to force level allocations compared to the current year, the transition arrangements could be as significant as the formula changes themselves. The so-called “Enabled” route gives far too much influence and flexibility to the Home Office and there is no justification provided that it would incentivise value for money or drive efficiency. The ability to mitigate the effect of formula changes and reductions in overall grant levels by precept increases continues to be affected by the current levels of precept and on-going referendum rules. Latest modelling suggests that Surrey, for example, would in percentage terms suffer half the reductions of the West Midlands in the next three to five years. There is also no information on the results of any equality impact assessments which may have been undertaken. This will need careful consideration when the impact of the new formula is clearer.
20. Whilst not strictly covered by the funding formula consultation, the impact of Home Office top slicing grant funding continues to be a concern. This process effectively removes funds from the pot that is allocated through the formula and allows it to be

allocated through separate, opaque mechanisms such as direct award (in the case of HMIC/IPCC) or a bureaucratic bid process (in the case of the Police Innovation Fund). In 2015/16, top sliced allocations amounted to £738m, an increase of £94m compared to the previous year.

21. Discussions with other metropolitan forces have reached similar conclusions, and as a result it was felt necessary to seek independent advice on the robustness, fairness and content of the proposed new model. PricewaterhouseCoopers, who have the necessary expertise and access to relevant data, have been commissioned to provide advice and support to inform the Commissioner and Force's response to the consultation. This will not, however, be available until 8th September 2015, and it is proposed that finalising the Commissioner's response should be delegated to the Chief Executive and Chief Finance Officer when the PwC report is available.

FINANCIAL IMPLICATIONS

22. There are no direct financial implications at this stage arising from the consultation, however there could be significant changes to funding allocations in the future that impact negatively on the force. The cost of the additional support from PricewaterhouseCoopers will be shared between a number of forces and can be met from existing devolved budgets.

LEGAL IMPLICATIONS

23. There are no direct legal implications.

RECOMMENDATION

24. The Board is asked to note the contents of this report and the arrangements for responding to the consultation.

Mike Williams
CFO to the PCC

David Wilkin
Director of Resources

Appendix 1 – Commissioner’s letter to the Police Minister

Please ask for : Jonathan Jardine
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Rt Hon Mike Penning MP
Home Office
2 Marsham Street
London
SW1P 4DF

31 July 2015

Dear Mike,

Consultation on reform of police funding arrangements in England and Wales

I am pleased that the Home Office is consulting on funding arrangements and very much want to contribute to this important consultation in an open and constructive manner. However, I am very concerned that at present the consultation document does not contain sufficient information to allow an understanding of the full facts of the proposals.

Whilst setting out a number of principles within the document, there is very limited detailed explanation or analysis to support the proposed indicators, or justification of why they have been selected. For example, on page 23 the document states that “*a strong relationship between the density of bars within a force area and the drivers of crime and demands on the police has been identified*”, however this conclusion is not referenced to the source data so it is difficult to understand and assess its robustness and reliability.

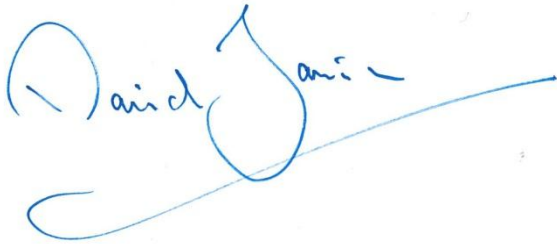
Furthermore, page 33 states “*The introduction of any new funding model will result in some significant changes to force level allocations compared to the current year.*” There are no examples of the potential outcomes of the new arrangements, and whilst I understand that actual allocations of funding will be determined in the usual way through the Police Grant Report, it makes it very difficult to provide a meaningful response if the impact of the principles within the model cannot be fully understood.

As a result, and in the spirit of the principle of transparency, I request that all PCCs are provided with the detailed analysis that supports the conclusions and recommendations in the consultation document, and an indicative analysis of the impact of the proposals at force level. To align with the consultation timescales and so we have adequate information for the

regional consultation events taking place in August, I would ask for a response to this request by Friday 7th August 2015 at the latest.

I hope you will agree that this is a reasonable request in the context of the importance of this issue and the standards for how consultation exercises are undertaken in other areas of public policy.

Yours sincerely

A handwritten signature in blue ink that reads "David Jamieson". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

David Jamieson
Police and Crime Commissioner

Appendix 2 – Consultation questions

Chapter 2

1. To what extent do you agree or disagree that current funding arrangements for the police in England and Wales need to be reformed?
2. To what extent do you agree or disagree that as part of the simplification of funding arrangements, legacy council tax grants should be consolidated with Police Main Grant?

Chapter 3

3. To what extent do you agree or disagree with the principles of a good funding model that the Government has identified?
4. What other principles for a good funding model, if any, should be considered?

Chapter 4

5. To what extent do you agree or disagree that the existing funding method should not be used to allocate police funding in the future?
6. If you disagree, please state why. If applicable, please provide evidence and/or details of sources of data which may help support this.
7. To what extent do you agree or disagree with the Government's conclusion that an upgraded PAF should not be used to allocate police funding?
8. If you disagree, please state why you think an upgraded PAF should be used. Please provide evidence and/or details of sources of data which may help support this.

Chapter 6

9. To what extent do you agree or disagree with the methodology behind a simplified model?
10. To what extent do you agree or disagree with the indicators that the Government is proposing be included in the simplified model?
11. Are there any other indicators that you think should be included within the model?
12. To what extent do you agree or disagree that specific non-crime demand should be included in the simplified model?
13. If specific non-crime demand were to be included in the simplified model, what indicators do you think should be considered?
14. To what extent do you agree or disagree that a new funding model should be introduced in time to determine 2016/17 police force-level funding allocations?
15. If you disagree, when do you think a new model should be introduced?

Chapter 7

16. To what extent do you agree or disagree that the proposed new funding model adequately captures the differences in the ability to generate precept income?
17. To what extent do you agree or disagree that it is not appropriate for the proposed new funding model to take into account differences in actual precept levels which have resulted from local decision making?

Chapter 8

18. To what extent do you agree or disagree that the Government should enhance the current NICC process?

Chapter 9

19. To what extent do you agree or disagree that transitional funding arrangements are necessary to move police forces to their new funding allocations? If you disagree, please state why.

20. How long should the transitional period last? Please explain your answer.

21. Which of the transitional options should be applied?

- (i) Option 1 - Gradual
- (ii) Option 2 - Required
- (iii) Option 3 – Enabled
- (iv) Other – please specify

22. Which of the below factors should be taken into account when designing a process under Option 3?

- (i) Total reserve levels (earmarked and unallocated)
- (ii) Percentage of total funding from precept
- (iii) Total funding per head of population in force area
- (iv) HMIC Peel efficiency assessments
- (v) All of the above
- (vi) None of the above

23. Are there any other factors that should be taken into consideration under Option 3?