

Ziggy MacDonald
Director of Finance Strategy
Police Resources Policy Team
Crime and Policing Group
6th Floor, Fry Building
2 Marsham Street
London
SW1P 4DF

policefundingconsultation@homeoffice.gsi.gov.uk

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Consultation on reform of police funding arrangements in England and Wales

Dear Ziggy

This submission from the Police and Crime Commissioners Treasurers' Society (PACCTS) is in two parts – this first section contains more general observations and remarks whilst the second part answers the individual questions posed by the consultation. This is a society-approved submission from PACCTS which by definition reflects a view across England and Wales. I would also refer the Home Office to the individual submissions of our members reflecting the perspective from their individual local areas.

Section 1: General Remarks and Observations

Overall, we welcome the principle of a major review of police funding arrangements; the modern police service needs funding which is fit for purpose. However, whilst simplifying the current complex formula is an important aim it cannot be an end in itself. As well as the change process needing to be perceived as transparent, the outcome of such a review has to be both sustainable and capable of commanding a broad measure of support across the sector and the local communities it serves. In short: perceived as broadly fair. This short consultation, mainly over the summer, with a preferred implementation in 2016/17, is happening with little substantive prior engagement, no exemplification of impacts and no clarity on major variables; such as the treatment of the London forces.

In addition and more broadly, there is no obvious recognition of the major compounding impact of the major Spending Review grant cuts to come. The consultation also contains no evident link to the current national debate about devolution generally, nor does it address the nature of national, regional and local policing going forward and what Police Main Grant is intended to fund in terms of total policing activity.

With all this in mind, it is most regrettable that we have to express PACCTS' disappointment about the process and lack of transparency and conclude that it is simply not possible to judge if the proposals meet the two important tests of being perceived as broadly fair and fit for purpose for the modern policing service. However, PACCTS remains keen to work positively and strategically with Government, to ensure any new system can satisfy these key tests.

The rest of this response expands on these key points as well as dealing specifically with the consultation questions.

PACCTS has, over a number of years and importantly remains, keen, to work positively with the Home Office on a new fit for purpose grant formula for the modern policing service. Since the autumn of 2012 PACCTS have made numerous contributions to the review, including suggested principles, with the hope of early engagement in sector-wide working groups on any new formula development. Regrettably that has not happened. The lack of exemplifications in particular makes it extremely difficult for us as PACCTS to contribute in the meaningful way we had hoped. This is very disappointing but the offer to work with the Home Office on a new formula remains our position, but this offer must be reciprocated. Where we can we seek to address the specific questions but the absence of data and detail means those answers have to become heavily qualified.

The PACCTS' position remains that the current grant allocation arrangements are unsatisfactory and not fit for purpose. By its nature any formula review will create winners and losers but, as PACCTS, our interests are in arguing for sensible overall design principles and transparency. The absence of meaningful exemplifications makes it difficult to address the fundamental question "Does the overall end result feel and look defensible in the context of the stated principles and new formula elements being proposed?" The lack of transparency about the exemplifications is inevitably generating a great deal of unnecessary local work to derive exemplifications and fuelling a wide variation of potential loss and gain calculations with the consequent claim, in some quarters, about possible impacts. The formal PACCTS' view is that it is not possible to model the new formula impacts accurately and that is as much because of what is not declared in the consultation (e.g. London assumptions) as what is.

Standing back even from the proposals in front of us, our hoped for starting point, was an agenda for not just a new transparent and generally accepted formula but also one that was crafted in the context of the medium to longer term agenda for the modern police service. Even in the medium term, fundamental questions arise about the shape and structure of the policing offer; put simply, the national, regional and local shape for the future. This area is simply not addressed in the proposals. Equally, the interplay with Spending Review (SR) is not explored to any depth. Whilst formula is a matter of distributing the 'cake' and SR is about its size, consideration of a new formula cannot be considered in complete isolation from SR. In addition, we would have expected variables and factors that were more forward looking and incentivising for effective modern policing.

Indeed PACCTS were expecting a fundamental and wide-ranging review of police funding. It was expected that the consultation might examine areas including locally raised income; not just council tax but also using fees and charges to fund the police service; devolution and regional police forces; the case for top-slicing and a definition of what the police service is there to do. Instead the consultation makes no mention of looser restrictions on council tax and there is nothing on using business taxation (for example) to fund the police. Aside from the assertion that the third option is "future proof" there is no further explanations provided, even the NICC changes include no detail on future plans.

For clarity, the consultation document was published on 21 July 2015 (not 15 July as indicated by the Home Office website). It primarily contained three options for the future funding arrangements; two of which represented a significant deviation from recent years where the service had been receiving uniform, flat rate decreases.

The two "new" options were an upgrade to the Police Allocation Formula (PAF) and a "Simplified Model". As already highlighted, neither option was accompanied by any exemplifications or statistical detail on the selection/rejection of indicators, nor on how well the resulting formulae model police demand. The Simplified Model chapter included an explicit statement of the proposed formula, but at the same time acknowledged that this formula only dealt with crime (estimated to be less than one third of the demand on policing). This statement implied that the final formula could change significantly as a result of responses to the consultation. In contrast, the upgraded PAF option included no details at all – no exemplifications, no formula and no statistical information. This is in stark contrast with the level of detail provided on the old PAF – for which the reader is offered the results of regression analysis, a very detailed breakdown of the weightings applied to variables and the amount of variation the model accounts for (the R-squared value).

As the name suggests the third option does, on the surface, appear to offer a much 'simplified' formula. But with scarce detail on what the formula is intended to fund coupled with the formula only appearing to include variables for 3 out of the 6 highlighted "drivers of crime", PACCTS still have many questions that remain unanswered before we can judge how "good" the formula is. One of PACCTS' principal concerns is whether the simplified model is just too simple to adequately reflect a service which ranges from mental health to child sexual exploitation, from fraud to human trafficking and drugs offences to community liaison; all across the hugely diverse geography and demography that make up England and Wales. Related to this is a significant, unresolved concern that the key statistical device being used, namely Principal Component Analysis, may not be an appropriate technique in the case of grant allocations.

By the consultation paper's own admission there is nothing in the published version of the simplified model to specifically reflect the demand from wider non-crime policing activities (missing persons, reassurance and prevention, mental health, etc.). The key message within the PACCTS' early submissions to the Home Office, aside from how important engagement is, is that the lack of quantifiable understanding of demand makes any kind of new formula development very difficult.

In addition to the difficulty of commenting on individual design principles, in the absence of a shared appreciation of the overall result, as PACCTS we struggle to be able to suggest additional new variables where they are requested because without better understanding of the underlying statistics and choice of methodology it is not clear what impact they would have on the overall results. For example, if one argued for the inclusion of some indicator around mental health drivers of policing activity it is not clear how that would be weighted within the formula nor its inter-play with the other proposed elements.

The consultation paper goes on to ask for submissions on options for transitional arrangements. Again, the reader is offered no detail about the magnitude of variation that might otherwise be expected. Clearly in isolation of general grant cuts that becomes a challenging question in its own right but the 'possible' range of formula variation coupled with the 25% to 40% SR scenarios have to raise fundamental questions about viable transition timeframes. Fundamentally, the PACCTS view on transition is that Government has to recognise and find an appropriate balance between current and future formula outcomes. In the absence of meaningful exemplifications, a sensible PACCTS view on transition timeframes is inevitably reduced to the observation that small variations can be implemented relatively quickly and large ones less so!

PACCTS represents Treasurers in England and Wales and as such we do not take positions on funding gains or losses per se between both countries. Rather, as stated our comments look to principles and process. In that vein, we need clarity on the intended position for Wales in the proposals and in particular the interplay with possible shifts of general grant into (or out) of the Principality and the retention of local top up grant arrangements in Wales. Another area which PACCTS feels warrants further exploration is the impact of the Welsh tax base and the English tax base being treated in the same way by the formula despite being set at dates over 10 years apart. As it stands there is no evidence that these differences have been properly considered in the proposals and indeed, results.

Notwithstanding our concerns, we remain committed to engaging as positively as possible.

Section 2: Answers to Individual Questions

1. To what extent do you agree or disagree that current funding arrangements for the police in England and Wales need to be reformed?

Agree. PACCTS have long argued against the use of the Four Block Model. Its opaqueness and complexity result in allocations that are almost impossible to explain to those both outside and within

the police service. The unfair treatment of resources and effects of ministerial decisions on block sizes result in allocations from the underlying need formulae (the PAF) being overridden.

With regard to the PAF, which the Society agrees is overdue for a review; there are concerns about the continued use of regressions. The old ABC data has become increasingly out-of-date. Crime and spend data is too intrinsically linked to past decisions on funding. Hence PACCTS members don't feel there is currently adequate data on demand to enable the continued use of regression.

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?

Disagree. Legacy Council Tax Grants are made up of two grant streams; Council Tax Support Grant and Council Tax Freeze Grant. It is not clear exactly how these grants might be treated. The consultation states that these grants will then be distributed "using the new model" but colleagues attending the regional events report that in fact they will be treated separately in order to maintain the current distribution of legacy council tax grants. Again, this level of uncertainty is unacceptable.

As the consultation paper correctly states, Council Tax Legacy Grants are only paid to English forces. Hence, the Government needs to ensure that this funding doesn't "leak" into Welsh settlements, something which may be possible in the initial year but less simple in later settlements.

There is also the fact that the Council Tax Support Grant distribution pattern bears little resemblance to a formula which relates to crime. How would the formula be amended to reflect this dual purpose of a combined grant?

It is therefore PACCTS conclusion that the legacy council tax grants continue to be separate elements paid as additional un-ring fenced grants with the impact of SR on these grant being transparent

3. To what extent do you agree or disagree with the principles of a good funding model that the Government has identified?

On the face of it the identified principles do not raise objections, however many of them are subjective and hence open to interpretation. For example; option three defines a formula based on a questionable methodology where a quarter of the information comes from the Census and hence is only updated every ten years. Is that robust? Also, none of the options presented contain any detail on impact or development, yet the service is expected to respond without such triangulation. Is that robust?

4. What other principles for a good funding model, if any, should be considered?

As alluded to in section 1 of this response, PACCTS have already shared the 22 principles which they feel are needed to underpin a good distribution. The most obvious omissions from the perspective of PACCTS are around "fairness" and "transparency". PACCTS would have hoped to have seen a formula where opportunities for ministerial control are diminished and decisions (for example, selection of data) made more transparent.

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?

Agree but subject to an alternative and generally perceived as fair being in place. The current flat rate reductions in funding not only pay no heed to up-to-date demand measures; they are also based on a widely flawed and discredited system (the Four Block Model) which further manipulates these allocations to create a highly opaque and complex machine.

6. If you disagree, please state why. If applicable, please provide evidence and/or details of sources of data which may help support this.

Not applicable

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?

The upgraded PAF option is accompanied by a complete lack of information on method, data, exemplifications and statistical robustness. It is for this reason that PACCTS do not feel they are able to answer this question as our members are not able to make an informed decision.

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.

Please see answer to question 7.

9. To what extent do you agree or disagree with the methodology behind a simplified model?

As highlighted in Section 1 of this response PACCTS have serious concerns about the appropriateness of Principal Component Analysis as a suitable method for obtaining grant distribution formulae. Our members also have concerns over this model's possible over-simplicity. For example, no measures have been included to reflect demand from non-crime (e.g. prevention, reassurance etc.) and the chosen indicators, aside from population, could imply perverse incentives.

The accompanying explanation of the Principal Component Analysis does not allay these fears nor does it explain how variables have been selected or excluded or the degree of variation explained by the published model. It is for this reason that PACCTS do not feel able to give an informed answer to this question.

As mentioned in section 1, PACCTS represents Treasurers in England and Wales. We are concerned that the issues of funding transfer between countries and the consequences of two different tax bases have not been fully considered. PACCTS also seek clarity on the treatment of the Welsh Government's funding of the Welsh forces; assuming that it is not being recentralised to the Home Office, how can members be assured that the Welsh forces will not be overfunded as a result of these formula changes?

10. To what extent do you agree or disagree with the indicators that the Government is proposing be included in the simplified model?

Without explanations, exemplifications and statistical details for the Simplified Model PACCTS do not feel able to give an informed opinion on the indicators being proposed, nor do they feel able to suggest alternatives.

11. Are there any other indicators that you think should be included within the model?

Please see answer to question 10.

12. To what extent do you agree or disagree that specific non-crime demand should be included in the simplified model?

Agree. It is unacceptable to only model part of the demand on the policing service. At the very least, the consultation should have allowed confidence to be gained in the, albeit, informal assertion from Officials that the prosed crime elements are also actually a satisfactory proxy for relative or expected non-crime activity.

13. If specific non-crime demand were to be included in the simplified model, what indicators do you think should be considered?

Please see answer to question 10.

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?

Given that the consultation paper contains no statistical information or exemplifications, and hence no information on the robustness or magnitude of the proposed changes, PACCTS do not feel able to answer this question as put but they would observe that implementation at any time in the face of such non transparency raises fundamental questions about the meaningfulness of the consultation process.

15. If you disagree, when do you think a new model should be introduced?

Please see answer to question 14.

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?

Without exemplifications and statistical information it is not clear what the measure of "population per band D equivalent property" is attempting to measure. PACCTS agree that precept should not be included but question the Home Office's logic in incorporating population as it is well known that this amplifies the variation compared to actual relative units. If that is deliberate government policy, that should be stated and defended transparently and not presented as somehow pertinent to relative council tax raising capacity as it simply is not, under the current council tax regime.

In addition, PACCTS are concerned once again that the consultation has not taken adequate consideration of the position in Wales. The references in Chapter 7 are all to the DCLG Four Block Model. The 4 Welsh forces will continue to receive a significant proportion of their funding through the Welsh Government. The current Welsh Government distribution formula includes "Council Tax at Standard Spending". It is not clear that the consultation has considered the impact of two grant distribution mechanisms with different proxy indicators for the ability to raise tax.

Furthermore, Welsh dwellings were re-valued in 2003 whereas there has been no English revaluation since 1991. Therefore the formula is proposing using two sets of tax base data each from two very different periods of house price growth and distribution. Again, the consultation provides no evidence that the current difference in funding between Wales and England has been properly considered in the proposals.

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?

PACCTS agrees that it would not be appropriate to reflect actual variation in precept levels.

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

The consultation paper contains almost no details on the current arrangements and none whatsoever on the proposed new and enhanced process. Given this lack of information, PACCTS are again unable to give an informed answer to this question.

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.

Ordinarily PACCTS would support the use of transitional arrangements; however, given the lack of detail with regard to the magnitude of the proposed changes PACCTS are again unable to express an informed preference.

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

Please see answer to question 19.

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**

Please see answer to question 19. In addition to this, PACCTS feels that where changes are significant the Home Office should seek to negotiate additional funding from the Treasury.

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**

This question implies a support of the enabled option, which as highlighted in PACCTS' answer to question 19 they are not able to endorse in the absence of key data.

However, PACCTS have surveyed their members on their planned use of reserves; the findings (which have been shared with the Home Office) are that over the next 4 years reserves will be diminished by 66%. In other words, PACCTS members already have in place financial plans for the majority of their reserves. In addition, crucially, reserves are not a substitute for savings. Their use is one off and simply rephrases, or more bluntly, shifts the underlying challenge back a year or two, making the actual base budget challenge even greater when actually addressed with underlying base savings.

The PEEL assessments are already being criticised for being too subjective. If funding is to be moved or allocated based on this measure of resilience it must be an objective measure.

Overall, PACCTS would be concerned about subjective non transparent decision making resulting in potentially 43 different transition plans under this option.

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

Again, this question implies a support of the enabled option, which as highlighted in PACCTS' answer to question 19 they are not able to endorse in absence of key data.

However, if the Home Office wish to take a measure of resilience in each force area PACCTS would like to suggest that an opinion can only be reached after careful examination of the whole balance

sheet, the medium term financial plans, the capital plans, the risk register and contingent liabilities. It also goes without saying that this judgement on resilience must be free of subjectivity.

Conclusion

PACCTS have attempted to engage positively with this review on numerous occasions and would like to continue to do so. However, on this occasion, given the extreme lack of information accompanying the proposals, do not feel able to offer informed and considered answers to many of the questions posed. We do agree that a new fit for purpose formula for the modern police service is needed but regret the lack of prior engagement, the very tight deadline and the absence of exemplification which severely limit an overall assessment and informed judgements on most of the specifics.

The Society looks forward to the Government's response and to working with the Department to improve fairness in allocations of police funding

Yours sincerely

A handwritten signature in black ink, appearing to read 'S Nolan', with a small dot at the end.

Sean Nolan
PACCTS President