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From: Jolly Eleanor <Eleanor.Jolly@homeoffice.gsi.gov.uk>
Sent: 22 October 2015 16:07
To: Police and Crime Commissioner
Subject: RE: Questions re formula funding review for Policing Minister - Mike Penning.docx

Thank you – I can confirm receipt of this letter.

Kind regards

Eleanor

Eleanor Jolly
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From: Police and Crime Commissioner [mailto:commissioner@lancashire-pcc.gov.uk]
Sent: 22 October 2015 15:03
To: Jolly Eleanor
Subject: Questions re formula funding review for Policing Minister - Mike Penning.docx

Dear Minister,

Please see attached document comments and questions relating to the latest stage of the Police Funding Formula review.

The answers your department provides will enable the Chief Constable of Lancashire and me to provide a comprehensive response to the most recent consultation which closes next week. Therefore your prompt response would be appreciated.

Kind regards

Clive Grunshaw
Lancashire Police and Crime Commissioner

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Consultation on reform of police funding arrangements in England and Wales

Attached is a detailed analysis of the key issues facing Lancashire Police in relation to the consultation on the proposed changes to police funding in England and Wales from 2016/17 in short we believe that when combined with the impending reductions proposed within the CSR, the changes represent the “wrong model at the wrong time”. We are grateful that as Lancashire MPs you are prepared to raise these concerns with the Policing Minister and to assist with your discussions, we feel that the following key points must be raised:

1. Lancashire Police faces a £24.5m (13.5%) loss of funding as a result of these proposals
2. This is in addition to potential reductions in the CSR of 25%-40%
3. The impact of the above two factors together provide significant risks to the delivery of policing in Lancashire
4. The proposals are deficient in meeting the Government’s 5 objectives, which are highlighted below:
 - It is impossible to determine the **robustness** of the model as there is a distinct lack of adequate detail to determine this and no evidence of effective stress testing;
 - The **stability** of the model is already questionable given that during the consultation there has been a change from the original data set of commercial indices due to the commercial company replacing its datasets.
 - There is a significant lack of transparency around the proposals as evidenced by the lack of availability of the commercial indices owned by CACI Ltd to the police sector; and the lack of detailed analysis of the Area Cost Adjustment factor included in the latest revision to the proposals;
 - It is impossible to assess how the proposals will **incentivise Government objectives**
 - The lack of robustness in the model risks the ability for the model to be **future proof**. This places risks around reflecting in future iterations of the model changes in demand facing the police service.

As you will see from the above and the following analysis we have significant concerns around the implementation of the proposals in 2016/17 and we would seek that the Minister reviews the position on implementation with a view to commissioning further detailed research to ensure that the changes to the funding of the police service is fair, transparent and robust.



1. Background and Purpose

- 1.1 The Home Office is proposing an alternative model for the calculation of the Police Funding Formula that allocates Police Grant to forces in England and Wales.
- 1.2 It is their stated aim to implement the new formula to funding provided to forces in 2016/17.
- 1.3 This will coincide with the implementation of CSR2015 (the Comprehensive Spending Review) which is expected to further reduce funding for non-protected departments such as the Home Office by 25 % to 40% over the life of the current parliament.
- 1.4 This briefing paper raises a number of questions that MPs are asked to pose to the Minister on the current Funding Formula proposals. The questions and issues are set out below and it is essential that we receive answers with supporting evidence, so we can understand more fully the approach taken by government and its rationale. Once furnished with this information we can respond in a comprehensive and meaningful way to the current consultation. There is an opportunity at this time to have a full and frank disclosure so we can engage in the fullest sense.

2. Introduction

- 2.1 On the 21st July 2015 the Home Office published a consultation on proposed changes to the police funding formula. This consultation closed on 15th September 2015. Following its closure, a letter was sent out by the Policing Minister on 8th October 2015 that provided a 'refined' set of proposals and an exemplification of the level of funding that each Police force would have received in 2015/16 if the refined model were to be have been applied.
- 2.2 This exemplification identified that Lancashire Constabulary would have received £24.5m less in Police Grant, if the proposed model (as set out in the letter of the 8th of October 2015) had been used. This potential loss is clearly in addition to any loss of funding through reductions resulting from CSR2015.

3. Principles and Variables

- 3.1 In both the original and revised consultations, the Home Office identified 5 key principles for the design of the new police funding formula, against which we have assessed the proposals.
 - **Robust**
"The model should be analytically sound and use objective indicators based on robust data to allocate funding on the basis of relative need"
 - **Stable**
"The model should not cause force level funding allocations to change significantly year on year. This is crucial for a smooth transition process"



➤ **Transparent**

"The model should be clear and easy to understand and supported by key partners. The process of allocating funding should be supported by appropriate governance and accountability."

➤ **Incentivising Government objectives**

"The model should be able to incentivise delivery of Government objectives while also minimising perverse incentives."

➤ **Future proof**

"The model should enable delivery of policing structures and drive efficiency and respond to current and future demands and challenges."

3.2 The original consultation had identified the following variables (and the respective weightings allocated to each one) to be used in the model:

- Population volume (24%)
- Households with no adults employed and dependent children (25%)
- Hard pressed/Acorn 5 (25%)
- Band D equivalent (16%)
- Bar Density (10%)

3.3 Following feedback provided on the original consultation, the Minister issued (on the 8th of October 2015) a revised set of variables which are to be considered as part of the current consultation, they are:

- Population volume (30%)
- Households with no adults employed and dependent children (31%)
- Urban Adversity/ Acorn 5 (31%)
- Volume and density of bars (8%)

3.4 It is noted that one of the original variables has been removed that being "**Band D equivalent properties**" and two have changed: "**Hard pressed/Acorn 5**" and "**Bar density**".

3.5 In addition to these the Home Office has brought in a further variable – the "**Area Cost Adjustment**" with the justification that this enables the formula to "reflect differences in regional costs".



4. Analysis of the proposed variables

- 4.1 As indicated above the Minister changed the variables to be used in the determination of the new funding formula.

"Population" and "households with no working adults and dependent children"

- 4.2 In the original consultation, the Minister requested that additional potential variables that could be used to represent the impact that non-crime demand places on forces be suggested by respondents to the consultation.
- 4.3 In the letter of the 8th October he states that a number of such responses were received and examined by the Home Office.
- 4.4 It was also stated that the Home Office considered that each one of the proposed alternative or additional variables has a **"strong correlation"** to the existing "population and socio-economic measures" included in the Home Office proposal – i.e. the population variable and the 'Households with no adults employed and dependent children' variable.
- 4.5 The Home Office have therefore concluded that *"this demonstrates that these population and socio-economic indicators capture the breadth of police demand, both crime and non-crime and that there is no analytical justification for including additional, specific non-crime indicators"*.
- 4.6 He also stated that *"there were limitations in some of the indicators we had considered as non-crime demand proxies including insufficient coverage or geographical breakdown across England and Wales and lack of statistical robustness"*.
- 4.7 The result is that all of the potential additional or alternative variables provided by consultation respondents in respect of non-crime demand have been excluded from the refined model.
- 4.8 These statements raise a number of concerns that we believe need further consideration:
- Given that alternative possible variables for non-crime demand have been proposed (by respondents to the original consultation it would be extremely useful to understand the correlation between them and the population and socio-economic measures that justifies their subsequent exclusion from the model. This would in turn enable forces to utilise these variables in improving their own understanding of the demand they face.
 - Further it is vital that we see the evidence that clearly proves that the correlation that the variables 'population' and 'households with no adults employed and dependent children' have to the demand placed on forces correlates as strongly (or even more strongly) to this demand than the alternative proposals put forward by respondents to the original consultation. Just because these factors correlate to each other does not prove they correlate to demand for police services in the same way.



- Given that the National Audit Office report "Financial sustainability of police forces in England and Wales (June 2014)" identified that a number of forces (and therefore the Home Office) don't fully understand the demand they face it would be helpful to see how this has been resolved in order to allow the statements in the letter to be made and the subsequent assertions about the variables being used being the "best measure" of demand placed upon police services.
- It appears that a part of the issue with the proposed alternative measures for non-crime demand is a lack of available data across a wide geographical base. It may be the case that if more data were collated across a wider geographical base then the decision on appropriateness of the measure could change.

4.9 These concerns raise a number of questions that, the answers to which, would help our understanding and enable us to provide a fully informed response to the consultation:

- **When will the Home Office provide evidence demonstrating the strong correlation they have identified between the 'population' and the 'households with no adults employed and dependent children' variables in the proposals with the alternative variables provided by respondents to the original consultation that have been excluded from the refined model?**
- **When will the Home Office provide the analysis that demonstrates that the variables they have used in the refined model correlate to the demand placed on policing services in the same (or in a stronger) way that the alternative measures put forward by respondents that have been rejected (as opposed to simply correlating strongly to each other)?**
- **When will the Minister provide the evidence that the Home Office now fully understands the demand placed upon policing services to allow it to determine that the measures in the model do indeed provide the strongest correlation to this demand?**
- **Can the Minister confirm that he is confident that the alternative measures proposed would not provide a better correlation to policing demand if more time were allowed to collect the relevant data?**
- **And therefore in turn, can the Minister confirm that the population and socio-economic variables being used in the model have not been selected simply to save time and ensure that an arbitrary deadline can be met rather than allow further time to collect additional data that might identify variables that have a better correlation to police demand?**



Urban adversity – measure of deprivation

4.10 The Minister's letter has also identified that the variable 'hard pressed/Acorn 5' that formed part of the original consultation's proposals has been replaced by the variable 'urban adversity/Acorn 5'. The reason given for this is that the company that provides this information has taken the decision to change this indicator. The letter states that the indicator is "not a direct match" but is "the best measure for the highest levels of deprivation across all force areas".

This raises a number of issues:

- The Acorn 5 suite of indicators is provided by a private company (CACI limited) and is only available to PCCs and forces if they purchase it which would appear to be at odds with the principle of transparency.
- The decision to change the indicator suite was taken by CACI limited, the government clearly cannot influence the company in such decisions therefore this could occur regularly in the future which would conflict with the principle of stability.
- No evidence has been provided that either of these variables is the best measure for deprivation across forces to justify the decision for its inclusion.
- No evidence has been provided to prove the correlation of these measures of deprivation and the demand placed upon policing services.

We have therefore identified the following questions:

- **Why is the use of indicators provided by a private company (at a cost to forces if they require them) considered more appropriate than the use of freely available national statistics?**
- **How will Government ensure that CACI limited do not change the indicator set on a regular basis and thereby destabilise the funding formula in future years?**
- **When will the Home Office provide evidence that the 'Urban adversity' indicator is the "best measure" available for deprivation levels?**
- **When will the Home Office provide evidence that this measure of deprivation provides the strongest correlation to the demand placed upon policing services?**



Bar volume/density

4.11 The Minister states in his letter that the original measure of bar density will be adjusted to account for the overall volume of bars in a force area as well as the impact of a large cluster of bars. The Minister also states his belief that a bars focussed measure remains the best approach "given the strong relationship identified with the drivers of crime".

The selection of this measure does however raise some concerns:

- It is asserted that the number of bars is the "best" approach given the strong relationship with the drivers of crime, it would be most helpful to review the evidence for this assertion so that the force can utilise it in making its response but also in the recognition of future demand on its services
- There is an assumed correlation between alcohol consumption and demand for policing services, this needs to be demonstrated with data and then having done so there needs to be clear evidence that the number of bars in an area provides the best correlation to the drivers of demand rather than other measures related to alcohol consumption. There is data available that identifies a rapid increase in the consumption of alcohol at home rather than in bars and data is needed to see if this is being properly represented by the measure being used in the formula.

We would therefore ask the following:

- **When will the Home Office provide the data and analysis that demonstrated the bar density/volume variable provides the "best" measure for use in the formula because of its correlation to the drivers of crime?**
- **Does the use of this measure encourage an increase in the number of bars in order to increase funding?**
- **Can the Home Office demonstrate that it has considered other measures related to alcohol consumption, and if so provide the data that demonstrates that they correlate to the drivers of demand for police services in the same way (or less) than the measure they are proposing?**

Ability to raise precept income

4.12 In his letter of the 8th October the Minister states that the Home Office have "reconsidered their proposed approach for capturing the ability of areas to raise additional income through precept" and have removed the Band D equivalent measure from the formula as this measure was "flat" across forces and did not meet its intended purpose.



- 4.13 **It would be helpful to understand why this measure has been removed and we would therefore ask when the Home office will provide the analysis that demonstrates this measure does not support the allocation process.**
- 4.14 **Clearly the ability to raise income locally is a significant factor for forces and the Minister states in his letter that alternative approaches have been analysed and none of them could provide an effective way of capturing the ability of forces to raise precept by way of a specific indicator. It would be helpful to understand this so we would ask when the Home Office will make this analysis available so that we can understand the conclusion they have drawn and be in a position to make further proposals that may assist.**

Area Cost Adjustment

- 4.15 **The Minister has also stated that following feedback from the original consultation the Home Office have decided to reflect differences in regional costs through the application of an "Area Cost Adjustment" index, as per the existing Police Allocation Formula.**
- 4.16 **Unfortunately, there is no specific information provided on the calculation of this index and it is not identified how this impacts upon each of the forces. Its impact can be estimated however from the figures provided in the letter of the 8th October 2015 and it appears that almost £187m is manipulated through this adjustment with the majority going in to MOPAC with most forces suffering a reduction in their respective allocations as a result.**

It would therefore be helpful to understand the following:

- **How is the Area Cost Adjustment calculated and when will the Home office provide details of this calculation?**

NICC (National and International Capital City) funding

- 4.17 **The Minister's letter also indicates that the special funding arrangements relating to the national and international status of London need to be considered as part of the forthcoming police funding allocations and that decisions on this will impact on the funding shares made available to Forces. The lack of detail on this is another aspect of the lack of transparency around the proposed model.**



5. Summary

5.1 We have reviewed the Minister's letter of the 8th October and would make the following comments in respect of the five principles of a fair funding model as set out by the Home office in their consultation documentation:

➤ That the model should be **Robust**

It is difficult to determine if the proposals are robust without access to the analysis and data that the Home office have used to make their determinations about the variables being used in the model. To make such an informed decision also requires a reasonable amount of time to make the examination which at this point has not been provided.

➤ That the model should be **Stable**

Given that one of the variables has been changed since the original consultation was issued and is a variable that is not under the control of the government there are real concerns this could happen regularly in the future and create instability in the allocations for forces in future years. This would directly impact upon the ability to forces to plan effectively.

➤ That the model should be **Transparent**

Whilst the small number of variables does make the model simple, access to data for one of the variables (urban adversity) is not freely available and must be purchased which does not promote transparency. In addition no information whatsoever is provided in respect of the calculation of the Area Cost Adjustment that has been brought in to the model, which makes this element of the model utterly non transparent.

➤ The model should **Incentivise Government objectives**

It is difficult to say how the model will incentivise government objectives but it is not unreasonable to state that it should encourage improved efficiency in some way. Of greater concern is that in respect of the bar volume/density variable, forces that have a greater number of bars will receive more funding which seems to encourage their proliferation and given the assertion that this would drive crime up seems somewhat at odds with the aim of the model.

➤ The model should be **Future proof**

We have stated in our report above that we believe further consideration should be given to the alternative variables that relate to non-crime demand that have been rejected by the Home office. Their justification for rejecting them is given as a lack of available data however if further time were allowed to collect this data they could well provide a much better measure of the demand placed on policing services which in turn would provide greater certainty in the validity of the allocations being made through the formula in future years.

Simply using population numbers may cause significant swings in funding as the population migrates and changes over time whilst the demands placed on individual forces may not move in the same way.



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5.2 We remain committed to making a full contribution to the consultation process and we are seeking to build upon the considerable input we have already provided but we need the further information we have identified in this report to allow us to make a fully informed contribution to the process.

It is hoped that by posing the questions we have identified the Minister will be able to provide the additional information we need to allow us this opportunity.

20th October 2015



List of Questions

Population and Socio-economic measures

- **When will the Home Office provide evidence demonstrating the strong correlation they have identified between the 'population' and the 'households with no adults employed and dependent children' variables in the proposals with the alternative variables provided by respondents to the original consultation that have been excluded from the refined model?**
- **When will the Home Office provide the analysis that demonstrates that the variables they have used in the refined model correlate to the demand placed on policing services in the same (or in a stronger) way that the alternative measures put forward by respondents that have been rejected (as opposed to simply correlating strongly to each other)?**
- **When will the Minister provide the evidence that the Home Office now fully understands the demand placed upon policing services to allow it to determine that the measures in the model do indeed provide the strongest correlation to this demand?**
- **Can the Minister confirm that he is confident that the alternative measures proposed would not provide a better correlation to policing demand if more time were allowed to collect the relevant data?**
- **And therefore in turn, can the Minister confirm that the population and socio-economic variables being used in the model have not been selected simply to save time and ensure that an arbitrary deadline can be met rather than allow further time to collect additional data that might identify variables that have a better correlation to police demand?**

Deprivation

- **Why is the use of indicators provided by a private company (at a cost to forces if they require them) considered more appropriate than the use of freely available national statistics?**
- **How will Government ensure that CACI limited do not change the indicator set on a regular basis and thereby destabilise the funding formula in future years?**
- **When will the Home Office provide evidence that the 'Urban adversity' indicator is the "best measure" available for deprivation levels?**
- **When will the Home Office provide evidence that this measure of deprivation provides the strongest correlation to the demand placed upon policing services?**



Bar volume/density

- **When will the Home Office provide the data and analysis that demonstrated the bar density/volume variable provides the "best" measure for use in the formula because of its correlation to the drivers of crime?**
- **Does the use of this measure encourage an increase in the number of bars in order to increase funding?**
- **Can the Home Office demonstrate that it has considered other measures related to alcohol consumption, and if so provide the data that demonstrates that they correlate to the drivers of demand for police services in the same way (or less) than the measure they are proposing?**

Ability to raise precept income

- **Can the Home Office please provide the analysis that determined that the Band D Equivalent variable should be removed from the model?**
- **Can the Home Office please provide the analysis that determined that none of the alternative proposals for the measurement of ability to generate council tax income should be included in the model?**

Area Cost Adjustment

- **How is the Area Cost Adjustment calculated and when will the Home office provide details of this calculation?**