

# police circular

Police Authority Circular 75/2002

11 September 2002

To Clerks and Treasurers to Police Authorities  
Copies sent direct to Chairmen

## Government Consultation on Possible Changes to the Police Funding Formula - APA Policy Framework and Corporate Response

Provides a copy of the APA corporate response and policy framework on changes to the police funding formula.

Contact: Robin Wilkinson (☎ 020 7664 3169 or e-mail [robin.wilkinson@lga.gov.uk](mailto:robin.wilkinson@lga.gov.uk))

Dear Colleague

1. Police authority circular 62/2002 provided a draft corporate response and APA policy framework on the Government's consultation paper on possible changes to the police funding formula, for consideration by police authorities. I am very grateful to police authorities for the responses we have received.
2. As agreed at the last APA plenary meeting, the APA Executive has now considered the APA's response in the light of comments received from police authorities, and has agreed the **attached** policy framework and corporate response.

### Next Steps

3. I would encourage all police authorities to respond directly to the Government setting out their views on the options contained in the Government's consultation paper within their local context. However, I hope the attached documents provide a broad framework within which police authorities can develop their individual responses. In doing so, I believe that the overall strength of the views of police authorities to this consultation process would be enhanced.
4. The Home Office has scheduled a further meeting of the Allocations Formula Working Group for Thursday 19 September. As you will see from my letter to the Home Office, we have suggested that that meeting provides an ideal opportunity for the Home Office to provide further information and police-specific explanation for a number of the options contained in the consultation paper. We will, of course, circulate any further papers or information we receive to all police authorities to inform their consideration of these issues locally.
5. In the meantime, if you have any further queries on this issue, please do not hesitate to contact Robin Wilkinson here at the APA Secretariat.

**Melanie Leech**  
Executive Director

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12 September 2002

**GOVERNMENT CONSULTATION PAPER ON POSSIBLE CHANGES TO THE POLICE  
FUNDING FORMULA: RESPONSE FROM THE ASSOCIATION OF POLICE  
AUTHORITIES**

I attach a corporate response from the APA to the Government consultation paper on options for changing the police and other local authority SSA formula from 2003/04. This response has been prepared following consultation with all police authorities. It includes a response to the various options set out in the consultation paper, which should be read alongside the APA's policy framework governing the principles which the APA considers should be applied to any proposed changes to the funding formula.

Individual police authorities will respond to the Government direct in relation to the specific impact of the proposed changes in their area. The attached corporate response sets out where there is corporate agreement relating to the options for change, or where we consider that further evidence or rationale is required from Government to inform full and proper consideration of the options. In submitting this document at this time we hope that there will be sufficient time for the Government to issue further information, explanation and evidence to all police authorities in relation to a number of the police and non-police specific options set out in the consultation paper, to inform full consideration of these important and significant proposals locally by individual police authorities. We believe that the next meeting of the Allocations Formula Working Party on 19 September would provide an opportunity to consider and comment on such further information.

I have copied this letter and the APA's response to the Office of the Deputy Prime Minister.

MELANIE LEECH  
**Executive Director**

# Police Funding Formula – Government Consultation on Changes for 2003/04

## Response from the APA

### Introduction

This paper sets out the corporate response of the Association of Police Authorities to the Government's consultation paper on Local Government Finance Formula Grant Distribution, issued in July 2002. This response has been prepared following consultation with all police authorities. It should be read alongside the APA's policy framework governing the key principles which the APA considers should be applied to any proposed changes to the funding formula, which has been agreed with all police authorities.

Individual police authorities will respond to the Government direct in relation to the specific impact of the proposed changes in their area. This paper sets out where there is corporate agreement relating to options for change, or where police authorities consider that further evidence or rationale is required to inform full and proper consideration of the options.

### Background

Although this response touches specifically on the distribution of Government funding, two wider points should be acknowledged:

- The APA acknowledges that the Government has channelled additional investment into the police service in recent years which has resulted in a range of new initiatives and policies, including investment in new IT, the Crime Fighting Fund and the rural policing fund established in recognition of additional costs faced in sparsely populated areas;
- Nevertheless, for the gains that have been made to be sustained, funding for all police authorities must keep pace with inflation and need. Although this consultation relates to the distribution of funding, the more strategic and pressing issue for the service as a whole concerns the overall levels of funding available for policing, and the impact (particularly given the 'gearing effect') on council tax levels of government funding not keeping pace with unavoidable cost pressures. In this regard, the APA considers that any Government policy decision to seek to respond to specific or additional policing demands (for example, a government policy decision to invest further in areas of high deprivation) should properly be achieved through new and additional investment, above that which is needed for all authorities to stand still.

It is also important to stress that whilst most attention (partly through the way in which the consultation paper has been framed) has been given to the police specific options, the impact of a number of the proposals that apply across local government are equally if not more significant in terms of the distributional impact on police authorities. These proposals have not been discussed in any detail by the Home Office-led Allocations Formula Working Group (AFWG), and the relative merits of proposals in a police context have not therefore been fully explored.

The APA considers that the Government, and the Home Office in particular, should pay particular attention to the non police-specific proposals in deciding how to proceed following this consultation.

**A. Police Authority Specific Options**

**1. Updating the activity analysis data using force returns based on 2001/02 activity analysed through the agreed activity based costing methodology**

**APA response**

This proposal to amend the activity profiles within the formula to reflect the analysis undertaken on 2001/02 figures using the agreed ABC methodology has been developed with the full involvement of the Allocations Formula Working Group (AFWG).

The proposed change falls within the APA's policy framework. The changes are based on evidence gathered through agreed activity-based costing methodology and scrutinised by an audit panel involving police force and authority representatives. The change would bring key components of the formula more up to date.

**The APA therefore supports this change** and considers that it should be applied to the police funding formula with effect from 2003/04.

The APA also considers that there must be a commitment to keep this area of the formula up to date and under review to ensure that even more robust figures can be applied to the formula in future years.

**2. Amalgamating the rural policing fund into the mainstream formula, by increasing the sparsity component from 0.5% to 1%**

**APA response**

The AFWG has considered this issue in detail. The APA has supported the continuation of the allocation of funding to police authorities along the lines of the rural policing grant. The AFWG considered a number of options to amalgamate this distribution through the mainstream formula. All options, however, resulted in additional distributional movement – to or away from rural authorities.

The closest fit was to increase the sparsity component in the formula to 1.4%. This resulted in no rural authority receiving less funding than they would have received via the rural policing fund, but resulted in a shift away from the largest metropolitan authorities, a movement which impacts most strongly on the Metropolitan Police in cash terms. As a result, the AFWG recommended that the rural policing fund should remain outside of the mainstream formula.

The option in the government consultation paper would result in the amalgamation of the £30m rural policing fund within the mainstream formula, but by increasing the sparsity component to 1% rather than the 1.4% identified by the AFWG as the level needed to avoid a redistributive effect away from rural authorities. As a result, some rural authorities that had gained funding through the Rural Policing Fund (developed by the Government in response to the outcome of research commissioned by the Government) would see a reduction in funding levels through this change. The APA does not consider that a clear rationale has been provided to support this swing of funding between authorities.

The APA does not support the integration of the rural policing fund into the police funding formula in a manner which would result in a redistribution of funding between authorities.

### 3. Removing the remaining 10% establishment damping factor

#### APA response

Existing APA policy has pressed for the removal of this outdated damping mechanism for a number of years. **It therefore supports this proposal.**

### 4. Making the formula more proactive by amending the activity profiles to reflect government priorities – increasing the personal crime and public order components by 5% each

#### APA response

This proposal had not been discussed by the AFWG.

Currently, the formula uses activity profiles based on an assessment of actual activity determined by professional judgements and local priorities. This proposal would establish the principle that Ministers could refine and adjust those profiles so they more closely reflect Ministerial priorities – on this occasion, relating to street crime.

Although individual authorities will, based on their particular local circumstances, have views on the strength of argument concerning this option, no details have been provided from the Government to support the rationale for this major shift in the principles underpinning the formula, or evidence to back up the proposed change. Moreover, this proposal would undermine the principle of the allocation of a general grant to police authorities to support professionally informed spending decisions locally within the performance framework set by central government and local police authorities. The APA does not consider that the allocation of general police grant / SSA should be targeted in this way to meet current government targets and, over time, could result in additional volatility in the allocation of grant given changes over time in government priorities.

**Without an evidence base on which to underpin these changes, the APA does not support this major shift in policy and principle, and the additional subjectivity it would bring to the formula.**

### 5. Including a new deprivation component into the formula, set at 2%.

#### APA response

This proposal had not been considered by the AFWG. No specific details or evidence has been provided in the consultation paper to underpin the proposal. Alternative exemplifications have also been sought from the Government, but not yet received.

Individual police authorities will, depending on their particular local circumstances and experience, have views on the merits of this proposal and the extent to which – in their local case – there is a clear evidence base with which to support this proposal. Equally, the existing formula already includes a number of indicators relating to deprivation – for example, unemployment levels. No evidence has yet been provided by the Government on whether the existing factors have been taken into account in developing this proposal and the relative weight given to each. This makes it extremely difficult for all police authorities and the APA to form a view on the strength of argument to support this option relative to other spending factors.

The APA considers that the Government should provide additional explanation and evidence to underpin and support this proposal before any consideration on its merit (or otherwise) can properly be formed by all police authorities. In order to retain the integrity and objectivity of the formula, the APA considers that further details must be provided on the evidence and rationale for the specific proposal.

## **B. Non police authority specific proposals**

### **1. Five options have been put forward to reflect different wage rates through the area cost adjustment**

#### **APA response**

**The AFWG has kept a watching brief on proposals being developed for other local authority service blocks for changing the area cost adjustment arrangements but did not consider in detail the merits of the five options in a police environment. The approach favoured by the majority of the constituent bodies represented on the AFWG – the development of a specific cost approach for police authorities – has not been included in the consultation paper. The APA considers that there should be further discussions on whether it would be appropriate to initiate a research programme in order to assess the merits and feasibility of a specific cost approach before the next moratorium on changes to the funding formula is lifted.**

In the meantime, the APA would welcome further assessment from government on the relative fit and merit of the proposed options (and any other exemplifications requested as part of the consultation process to date) in the circumstances faced by police authorities, to inform decisions on how these options may impact on police authorities.

**It should also be noted that the movements in funding between police authorities as a result of a number of these options (exemplified only on the basis of SSA rather than SSA plus police grant) would be significant. This adds further weight to the need for a Government assessment of the merits of each option in a police authority context.**

## 2. Merging RSG and NNDR allocations

### APA response

**The APA does not support this proposal.** Although simplification of the funding arrangements would, on the surface, be welcome, the move to amalgamate NNDR revenue with central government support would be a retrograde step and further remove the link between local business and local provision of services.

## 3. Fixed Costs – options for providing a £300,000 additional sum to each authority in recognition of the even costs across authorities (regardless of size) of “the costs of being in business” – eg, annual plans etc

### APA response

This proposal has not been considered by the AFWG. However, if a decision is taken to apply this approach to local authorities **the APA considers that the same rationale should read across to police authorities.**

## 4. ‘Sluggish’ costs – relating to population growth and decline

### APA response

These proposals have not been considered by the AFWG. They would add additional complexity to the formula.

There is no information to suggest that the government has considered whether, in a policing context, a rising or falling population level results in higher or lower costs to police the areas affected. In the absence of this analysis it is difficult to form an objective response to this proposal. **The APA does, however, support any work to ensure that the data used within the formula is as accurate and as up to date as possible.** In this regard, the APA would welcome further information from the Government on how and when it is planned to apply the latest census data within the police funding formula.

## 5. Resource equalisation

### APA response

These options have not been discussed by the AFWG. Two of the three options proposed in the consultation paper would result in a movement of funds away from the police block purely as a result of this technical change. **On principle, the APA is opposed to formula changes which redistribute cash sums away from the police block.**

However, it is important to note that police authorities are currently spending at significantly higher levels than SSA, which in the longer term is not sustainable within the formula arrangements.

**The APA would therefore support the proposed change RE2 to uprate separately the total for each spending block to bring it into line with the actual spending for that block.**

**APA Secretariat  
September 2002**



# Distribution of Government Funding to Police Authorities

## APA POLICY FRAMEWORK September 2002

### Introduction

1. This policy framework sets out the key principles which the APA considers should apply to the distribution of central government funding to police authorities. It has been developed primarily in response to the Government consultation paper on Local Government Finance Formula Grant Distribution (July 2002). However, it stands alone in its own right in providing a framework of principles which, if adopted by Government, would maintain a fair and equitable distribution of government funding for policing based on the best assessment of relative need, and do so in a manner which would maintain the confidence and support of police authorities.
2. This policy framework has been developed following consultation with all police authorities.

### Background

3. The current formula for the allocation of SSA and police specific grant was introduced in 1995. It was developed by the Home Office working very closely with police stakeholder groups. It has been amended and updated in a number of ways since its introduction, again with the active involvement and support of the police community.
4. As with any formula for distributing a limited sum of funding between authorities with diverse needs, pressures and expectations, there will always be tensions and questions about the indicators and formulae used within the formula. However, as a result of the inclusive manner in which the present formula has been devised and maintained, **the police funding formula currently retains a high level of broad support and confidence amongst police authorities.**
5. In order to retain this level of confidence and support amongst police authorities, it is necessary to **examine regularly aspects of the formula to ensure that it remains up to date** and can most effectively achieve the objective of providing a fair mechanism of allocating government funding according to an assessment of relative need.

## Police Funding Formula: A framework for development

### Objective of the police funding formula

6. The APA considers that the overriding principle underpinning the formula for distributing general police grant should be that it seeks to...

“allocate central government funding for policing on the basis of the **best objective assessment of relative spending need** between police authorities in order to enable each authority to provide a broadly equivalent policing service across England and Wales”.

### Changes to the Police Funding Formula: Key Principles

7. The APA considers that the following key principles provide a robust framework within which to consider future changes to police funding (and related SSA formula for local authority services which may impact on police funding):
  - **Overriding principle:** Changes to the formula should fall within the overriding principle, as summarised in paragraph 6 above;
  - **Evidence-based:** Any changes should be based on clear and transparent evidence from an accredited data source, that demonstrates the validity of the proposed change when set against the main objective of the formula;
  - **Current:** Ensuring that the data and indicators used within the formula are accurate and current, that they are implemented fully as soon as is practicable with regard to overall funding levels available, and provide the best possible means of allocating funding according to an assessment of relative need;
  - **Holistic approach:** The formula is, by its nature, complex, with a variety of indicators in place as proxies for the drivers of police spending need. Any proposed changes to the formula must therefore be viewed holistically to ensure that either double counting is not in play or, conversely, that key indicators of police spending need are not inadvertently removed;
  - **Objective:** Allocation should, as far as is reasonably possible, be based on objective criteria, not subjective assessment of need. Any change to the existing and broadly agreed pattern of distribution should result from a rational decision to alter the current distribution. Changes must not arise merely as the result of a decision to alter the mechanics of the process;
  - **Supporting the principle of a general grant:** Police authorities and forces are best placed to decide on the allocation of budgets in order to meet the policing objectives and targets set by government and local police authorities. The funding formula for general police grant / SSA should not be used as a tool to direct funding towards short-term priorities;

- **Contained within the service block:** Changes to the police funding formula, or other local government SSA formula, should not result in any significant redistribution of funding between the service blocks. For example, changes in the education SSA formula should not result in an overall shift of funds away from policing simply due to the way in which the SSA system operates;
- **Avoiding perverse incentives:** Care should be taken to ensure that changes do not generate perverse incentives that might enable an individual authority to influence allocation levels through its own actions and activities;
- **Inclusive and transparent process:** Proposed changes should be considered and debated in an open and transparent manner with key police stakeholder groups to ensure that ownership of the formula and its on-going development remains with those stakeholder groups.

### **Predictability and Stability**

8. As noted above, the APA considers that it is important to ensure that the police funding formula remains up to date and based on accurate data and the best available indicators. However, changes should be considered within a framework of authorities needing:
  - **predictability** in funding streams to enable authorities to develop realistic and robust medium term financial plans; and
  - relative **stability** in funding streams, to avoid wide fluctuations in funding levels from central government which would undermine effective planning.
9. The application of floors and ceilings to grant distribution, together with greater transparency and earlier notification of local funding streams arising from the spending review cycle, are essential requirements in meeting these needs, albeit that the application of ceilings can (if applied inappropriate) have the effect over time of denying money to authorities whose relative need is assessed as growing proportionate to other authorities. Consideration should also be given to smoothing volatile data over two or three years in order to avoid unnecessary and unhelpful fluctuations in grant allocations. However, it is essential that up to date and robust data is incorporated within the formula as soon as is practicable and that, over a reasonable timeframe, damping mechanisms do not impede a fair and transparent allocation of central funds according to agreed methodology. The APA also assumes that the current government review of the financing of police pensions will lead quickly to different arrangements applying for these significant and, sometime, volatile costs.
10. It is also essential to view changes to the police funding formula in the round. The impact of changes to individual authorities – and the level of policing they can sustain as a result of the changes - can be significant. An open and transparent process for considering changes with stakeholder groups can help to forewarn authorities of possible changes to enable them to plan accordingly

– whether that is to plan for an increase or decrease in spending power. Floors and ceiling can also provide a damping mechanism. However, particularly where a range of changes to the formula are being proposed, it is important to look at their impact in totality to ensure that at a more strategic policy level the impact remains justified and fair.

11. The APA also considers that the direction of resources either away from or to authorities outside of the same class or type, by the implementation of floors and ceilings, should be avoided. This would involve ring fencing the effects within the overall block control totals. In particular, the APA considers that there is no logic in coupling police and fire authorities in the context of floors and ceilings.

### **Conclusions**

12. This paper sets out a framework of principles within which proposals for changing the police funding formula can be assessed. The impact on the distribution of government funding through changes to the police funding formula will clearly impact in different ways on individual authorities. As a result, each police authority will have individual views on the detail of any change to the funding formula. However, this corporate policy framework provides an agreed structure within which local consideration of specific changes can take place. It also provides a clear framework for Government to apply in the consideration of changes to the funding formula to enable the current level of support and confidence in the police funding formula by police authorities to be retained

### **Information**

13. For further information on this paper, please contact Melanie Leech or Robin Wilkinson at the APA Secretariat:

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