

Introduction

In recent months there has been a renewed interest in revisiting the police funding formula, also known as the police allocation formula (PAF). The government previously [consulted](#) on changes to the PAF in 2015 with Theresa May, the then Home Secretary, stating that *"it is essential that the way the police forces in England and Wales are centrally funded is fair across all 43 forces, transparent to Police and Crime Commissioners and forces, and stable in the long term"*.

However, work on reforming the police funding formula was [stopped in 2015](#) due to a number of errors being made in the information shared with the Police and Crime Commissioners and Forces on the indicative impacts of the Government's proposed formula model. These errors were shown by the [The Home Affairs Committee's](#) report in late 2015.

This briefing gives an overview of the series of events that have led to the funding formula work being delayed as well as some of the technical information included in the consultation and Home Affairs Committee report to give a summary of the technical errors that delayed the process.

The 2015 Consultation

On 21 July 2015 a [Written Ministerial Statement](#) from the then Minister for Policing, Criminal Justice and Victims, Mike Penning, was published giving details of the funding formula consultation. The ['Reforming police funding arrangements in England and Wales'](#) consultation, published the same day, outlined proposals for a "simplified model" which was intended to distribute core police funding from 2016-17. The full PACCTS briefing can be found on the [PACCTS website](#), but a summary has been included below.

Need and Scope

The Government intended to make the arrangements for distributing police funding both less complex and opaque. The models that are currently used rely on data that is no longer collected and not fit for purpose.

Additionally, the consultation also sought agreement for the simplified model to be applied to Legacy Council Tax Grants, as well as current Formula Funding i.e. Police Main Grant, National and International Capital City grant (NICC), Welsh Top-up, Welsh Government Grant, Ex-DLCCG Formula Grant.

Home Office Review of the Police Allocation Formula (PAF)

The current Police Allocation Formula was first introduced in 1995-96 to distribute Formula Grant and Police Grant.

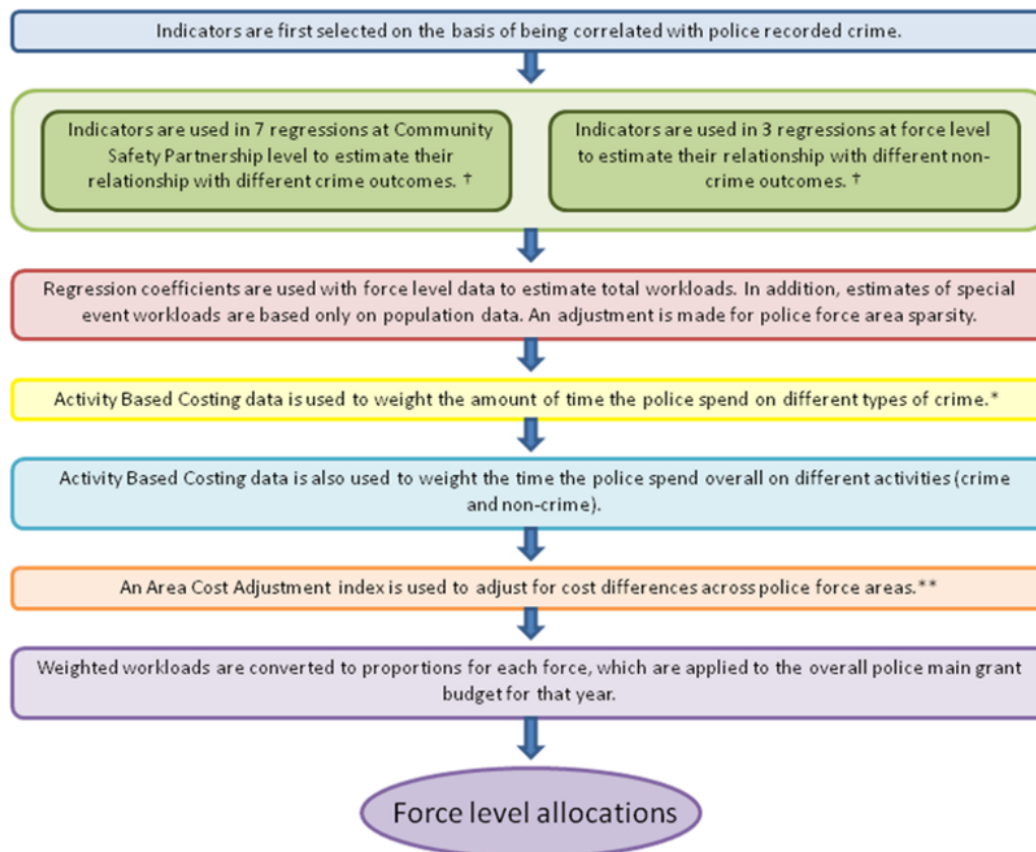
The Police Allocation Formula distributed police funding between forces based on their relative needs compared to each other. It allocated a basic amount plus 11 top-ups for various aspects of policing workload. Indicators of workload were calculated using socio-economic and demographic indicators that were well correlated to the workload category. This correlation was found using regression analysis.

Below is a flow chart showing the process of allocating Police Main Grant using the PAF.

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In November 2012 the Government committed to reviewing the distribution of police funding. Since 2011-12, the distribution of police funding has been frozen, and forces simply received a flat annual change in funding. As a result, actual allocations have not moved towards funding determined by the PAF. Additionally, changes in need between forces has not been addressed.

The government of the day believed that the existing funding method did not sufficiently accord with the principles of a good funding model in the long term as it could not adapt to changes to relative need over time.

As part of the review carried out by the Home Office (HO), they found that the PAF was “complex, opaque and out of date”. The HO had considered updating the PAF, however its heavy reliance on [Activity Based Costing](#) (ABC) data to divide resources between crime and non-crime activities (integral parts of the model) had not been updated since 2007-8. There was also no suitable alternative data available at the time of the consultation’s release.

Other issues found in the HO review included:

- Workload estimates created by complex models such as the PAF are highly sensitive and small changes in data can lead to big changes in funding allocations.
- Estimating crime workloads relies on the use of recorded crime data in the statistical models which is not necessarily an independent measure of the demands on policing.
- More generally, the PAF is complex and difficult to understand. It is also resource intensive to maintain due to the volume of data it draws on.

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- Estimating non-crime workloads remains unreliable due to a lack of suitable data.

These issues brought the Government to the conclusion that upgrading the PAF model was not a suitable approach.

Simplified Model

During their research, the HO identified six key drivers of crime: alcohol, drugs, character, opportunity, effectiveness of the Criminal Justice System and profit. Several growing non-crime demands on forces were also identified, including vulnerability, public protection and safeguarding. At the time, the Government believed that it was not appropriate to directly base force level allocations on crime statistics as these can be influenced by police activity both in terms of the effectiveness of crime reduction strategies as well as recording practices.

The Government's preferred option was to replace existing funding arrangements with a significantly simplified model using the following:

- population levels

The Government believed that the model should reflect forces' ability to raise the precept and proposes factoring the taxbase into the model (see separate heading below)

- the underlying characteristics of that population

The Government found that households with no working adult and dependent children; and the 'hard pressed' population indicator were closely correlated with the patterns of crime between different areas over time. The latter factor is a composite of a broader range of demographic and socio-economic characteristics and used within the current PAF. The Government felt that these two factors are sufficiently representative of the differences between forces.

- environmental characteristics to determine force level allocations

In general, the Government believed environmental factors are more relevant to local decisions. However, 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. The Government therefore proposed including only this environmental factor.

The indicators proposed for use in the simplified model, as well as the full set of indicators originally considered, can be found in Annex B of the [consultation document](#).

The sources and frequency of data that was planned on being used are as follows:

Data Required	Source
Population estimates	ONS and StatsWales (Annually)
Band D equivalent properties	from DCLG (now DLUHC) and StatsWales (Annually)
Households with no adults employed and dependent children	ONS Census (every 10 years)
'Hard Pressed' population	CACI Ltd Acorn classifications

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	(Annually)
Bars per Hectare	Bars - from ONS Inter-Departmental Business Register (Annually)
Bars per Hectare	Area – ONS Census (every 10 years)

The weightings given to each element of the simplified models were as follows:

Indicator	%
Population	24%
Band D equivalent properties	16%
Households with no adults employed and dependent children	25%
'Hard pressed' population	25%
Bars per Hectare	10%

Once total funding is divided and each of the five indicators is assigned a monetary value, an allocation for each force is distributed, based on their share of the total volume of each indicator.

Treatment of Council Tax and Legacy Freeze Grants

Council Tax

As previously mentioned, the Government believed that the model should reflect a force's ability to raise precept income and proposed including a 'taxbase' indicator in the model with a weighting of 16%. It was proposed that the ability of an authority to raise income would be measured by the number of Band D equivalent properties per head of population. The measure would then be inverted to ensure proportionately more funding would be directed to areas with a relatively lower ability to generate precept income.

Legacy Council Tax Grants

Forces in England currently receive a separate grant for 'legacy council tax'. This includes funding for council tax freezes in 11-12, 13-14 and 14-15. Subject to agreement of the 2015 Spending Review the Government proposed including legacy council tax grant funding within the Police Main Grant to "create a more straightforward and transparent funding process". It would have been added to the starting baseline for PCCs in the same way as previous grants i.e. Neighbourhood Policing Fund and Community Safety Fund were previously consolidated and distributed according to the new formula. Interestingly, something similar happened within Local Government Funding. TST analysis of yearly settlements and spending reviews showed that this money eventually got eroded.

Transitional Arrangements

The Government intended to have some form of transitional arrangements to gradually move police force areas to their new funding allocations. The transitional arrangements were always intended to be temporary. There were three suggested options given within the consultation document. These included:

Gradual

Set a maximum and minimum annual percentage change in funding.

Required

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Set 2019-20 as the deadline for full implementation and work backwards to determine required annual funding changes for each force.

Enabled

Set variable change rates based on consideration of a range of factors potentially including: distance from target allocation, level of precept income, level of reserves and use of the then HMIC VfM profiles.

The consultation document went into further detail for each suggestion, giving advantages and disadvantages as well as worked examples for each proposal. The Government's preferred approach was the enabled option which would have taken the individual financial circumstances of each force into consideration (with the disadvantage of being complex). Further information can be found in chapter 2 of the [consultation document](#).

Other

The consultation also sought views on Mental Health, Child Protection and Arrangements for London Forces.

A set of slides from the HO given in October 2015 has some additional information and can be found the on [PACCTS website](#).

The PACCTS Response

On 15 September 2015 PACCTS sent a [response](#) to the Consultation, at the time the society was under the presidency of Sean Nolan . The response was split into two sections: general remarks and observations, and answers to the specific consultation questions. The general remarks and observations have been summarised below.

PACCTS welcomed the principle of a major review into police funding arrangements and stated that the modern police service needs funding that is fit for purpose. Whilst agreeing that the simplifying the current complex formula is important, it shouldn't be an end in itself. Any changes that are made needed to be perceived as transparent and the outcome of such a review should be both sustainable and capable of commanding a broad measure of support across the sector and those local communities that it serves. One criticism put forward was the short consultation and the lack of substantive prior engagement.

In addition, there was no obvious recognition of the major compounding impact of the impending major Spending Review grant cuts. There was also little mention of the devolution debates that were taking place at the time or the nature of national, regional and local policing and what the Police Main Grant is intended to fund in terms of total policing activity.

Because of this, the PACCTS response expressed disappointment about the process and lack of transparency and concluded that it was simply not possible to judge if the proposals met the two important tests of being perceived as broadly fair and fit for purpose in the modern policing service. This was best summed up in the conclusion where it is stated that due to *"the extreme lack of information accompanying the proposals, [PACCTS] do not feel able to offer informed and considered answers to many of the questions posed"*. Despite this, the response was enthusiastic about working positively with Government to ensure that any system implemented would satisfy these key tests.

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The Delay

On the 9 November 2015, Mike Penning, The then Minister for Policing, Crime and Criminal Justice [addressed](#) the House of Commons (HoC) informing of a delay to the funding formula work. Devon & Cornwall Police had spotted an error in the date. He stated that:

"I am sad to say that during this process a statistical error was made in the data used. The data do not change the principles consulted on and the allocation provided to the forces was never indicative, but we recognise that this has caused great concern to police forces around the country. I and the Government regret the mistake, and I apologise to the House and to the 43 authorities I wrote to during the extended consultation period as part of the funding formula review... for that and other reasons, the Government are minded to delay the funding formula changes for 2016-17 that we had previously intended to make, and we will seek the views of the police and crime commissioners and the National Police Chiefs Council before going any further. It is essential that we come to a funding formula that is not only fair, transparent and matched by demand, but supported by the police."

Keith Vaz, the then Labour MP for Leicester East and Chair of the Home Affairs Committee, in response in the commons, condemned the consultation as a farce in the following statement:

"Last week, the Home Affairs Select Committee took evidence on the funding formula. The testimony we received about the process was damning. Last Wednesday, 34 Members took part in a debate on this subject based on the old criteria, and last Friday in a letter to the Devon and Cornwall police and crime commissioner, the Home Office admitted that its proposed funding formula was based on the wrong data. According to the previous formula, two thirds of police forces would have gained from the proposals and a third would have lost funding. Now, 31 forces will lose out. For example, Northumbria in July was first a loser, then a gainer, and now it will lose out again. The Metropolitan police was expecting to lose £184 million, but it appears that it is now set to gain—or possibly lose—a different amount. Leicestershire constabulary was set to lose £700,000 before last week; it is now set to lose £2.4 million.

This entire process has been described by police and crime commissioners and others as unfair, unjust and fundamentally flawed. What started off with good intentions is rapidly descending into farce. To call it a shambles would be charitable. There is now a very real prospect of a number of forces planning to take the Government to court."

A month later, on 9 December, the HoC Home Affairs Committee [published](#) their report "Reform of the Police Funding Formula". A summary can be found below.

A letter was written by Mike Penning, to PCCs and CFOs, informing of the delay. PACCTS responded reaffirming support for the review and stating that *"PACCTS never called for a delay - rather we were looking for greater engagement, transparency and detail - but recent events have been unfortunate and in all the circumstances your decision to pause was perhaps unavoidable. However, looking forward, we greatly welcome your intention to continue the review"*.

The full letter can be found on the [PACCTS website](#).

Home Affairs Committee Report

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Released 9 December 2015, the Home Affairs Committee methodically went through every aspect of the process up until that point, with some particularly scathing criticisms of the process. Some of the key points are summarised below.

A Proposed New Model

As mentioned earlier in this paper, the new model would have been based on three broad elements that, while not themselves drivers of individual criminal activity, correlated highly and strongly with long term patterns of crime and overall police demand. These were population levels, the underlying characteristics of a local population and the environmental characteristics of police force areas.

There were a number of criticisms of the new model included in the report. These included:

- *"Katy Bourne, PCC for Sussex, said that the council tax based indicator did not take into account the current differences in funding for individual forces from precept".* As well as further criticism about the licensed bars per hectare indicator.
- *"Vera Baird, then PCC for Northumbria, argued that, in a mixed rural/urban area such as hers, the measure under-represented the comparatively high bar density in city centres".* She also thought that the methodology was too simplistic and arbitrary.
- *"Hampshire Constabulary requested further clarity on the methodology used to calculate the bar density ratio. They added that basing the calculation on bars per hectare alone might disadvantage forces with the same number of bars as other forces, but with a larger area of land to police."*

This led to the Mike Penning, the then Policing Minister, to state that further refinements would be made to the model following the 1,700 consultation responses with [changes](#) being sent out to PCCs and Chief Constables for comment as well as impact assessments for each force on 8 October. The key refinements to the model were

- the licensed bar density measure needed to account better for the overall volume of bars in a force area as well as the impact of large clusters of bars;
- the council tax base indicator did not meet the intended purpose, and that there was likely to be no effective way of capturing the ability to raise precept through the inclusion of a specific indicator, so the indicator was removed;
- a new indicator would be used to measure the highest levels of deprivation across all force areas; and
- the model would reflect differences in regional costs through the application of an Area Cost Adjustment index.

Weighting Changes

The population weighting increased from 25 to 30%, and households with no working adults and dependent children also increased from 25% to 31%. The "hard pressed" population was replaced by an "urban adversity" measure with the weighting also increasing from 25% to 31%. The bars weighting reduced from 10% to 8% with the taxbase measure being removed altogether

More information for each variable can be found on the bottom of [page 6](#) and the top of [page 8](#).

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According to the report, the new changes were welcome by some. However, PACCTS said the update was “still not clear enough”, Greater Manchester Police believed that many critical deficiencies still needed to be rectified and the National Police Chiefs’ Council (NPCC) questioned what evidence there was for deciding that these were the correct variables. There was also further criticism of the choice to remove the tax base measure and the formulation of the Area Cost Adjustment.

The Consultation Process

The report claims that the strongest criticisms about the formula review were found in the consultation process. This chapter includes some damning quotes from multiple PCCs suggesting that the process was “fundamentally flawed” as well as “ill thought out and discriminatory”. The quotes can be found in full on [page 10](#). However, the main points of contention revolve around the rushed timescale, transparency and calculation errors.

Rushed Timescale

The public consultation was launched on 21 July 2015, and closed on 15 September, a period of 8 weeks. The Policing Minister wrote to PCCs and Chief Constables on 8 October, three weeks after the consultation closed, providing details of the refinements. It was suggested in the report that an 8-week consultation period, “at the height of the holiday period” for implementation the following year was not a sufficient timescale to be able to understand the full implication of the proposals.

Transparency

In the written evidence, the Home Office stated that *“we have always been clear that we will only be successful in achieving our aim of building a fit-for-purpose and sustainable model with considerable input from policing partners”*. However, the report suggests that many police forces and PCCs were unable to contribute as much to the process as they had wished because the HO did not make all of the necessary information available.

It is worth mentioning that when the refinements were released by the HO on 8 October, there was a greater level of transparency than previously available, although it still lacked the detailed exemplifications that forces required to make a professional judgement.

Calculation Errors

Because of the lack of exemplifications in the consultation, many forces and PCCs attempted to calculate how the new formula would affect their finances. The clarification by the Policing Minister on 8 October, showing that 11 forces would lose from the changes with 32 winning, left many Chief Constables “puzzled”. This led Andrew White, then Chief Executive of the Office of the Police and Crime Commissioner for Devon and Cornwall to write to the Director General of the Crime and Policing Group with a series of questions. Andrew White’s team were unable to reconcile the Urban Adversity allocations using the most recent data set from ACORN. It was confirmed in a response that *“the data used in calculating the indicative shares with the Minister’s letter was, in fact, the older ‘Hard Pressed’ classification of CACI Limited’s ACORN 5 measure.”*

The Devon and Cornwall OPCC estimated the impact of the miscalculation for each force, set out on [page 17](#) of the report. Those with the biggest overall quantum differences are shown below to illustrate the point.

Force	Home Office Exemplification (based on ‘Hard Pressed’)	“Corrected” Exemplification (based on Urban Adversity’)	Difference in allocation (£m)
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South Yorkshire	2.95	£209.5	2.54	£181.1	-£28.4
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The report states that *"as a result of the Home Office's error, confidence in the process has been lost; time, effort, resources and energy have been wasted; and the reputation of the Home Office has been damaged with its principal stakeholders"*.

Principles of a Good Funding Model

Broadly, the evidence submitted to the committee agreed that the system should promote transparency and simplicity. However, it was also suggested that policing is a complex service and minimising the number of indicators in the grant distribution for the sake of simplicity shouldn't be the primary focus. Two separate stakeholders suggested that equity/fairness should have been included as a principle. There was also concern that there was a "degree of conflict" between some of the principles and that a robust formula would require considerable amounts of data to reflect the whole range of crime and other public demands.

Some of the recommendations put forward by the committee, after considering the evidence were:

- *"Any future funding formula must ensure that those 'low-cost' per capita forces which anticipated potential reductions to their budgets and made the necessary efficiencies before others, are not unfairly penalised in future reductions."*
- *"The funding formula model must also re-examine the provisions for raising funding through the local taxing precept. The proposed model did not fully take into account that current precept levels vary considerably and any annual increases above 2% have to be agreed through a referendum"*.
- *"Any new formula should try to reset precepts at a common level, or to propose some means of mitigating the difference by, for example, reducing grants given to forces with lower precept levels while strengthening their powers to raise income from council tax"*.

The Drivers of Crime and Police Demand

As summarised at the start of this briefing paper, the HO consultation identified six key drivers of crime: alcohol; drugs; character; opportunity; the effectiveness of the Criminal Justice System (CJS); and profit. According to the HO, the range of drivers meant there was no single factor behind the fall in crime nationally, or behind crime trends locally. In addition, these drivers of crime best explained how crime trends changed over time.

In response, Thames Valley Police and PCC gave evidence suggesting that whilst the six elements identified were *"probably an accurate assessment of the key drivers behind volume crime"*, the key drivers behind new and emerging crime types (such as cybercrime and child sexual exploitation) and non-crime activity (such as fear for personal welfare) could be very different. Other stakeholders suggested that new types of crime would require new approaches and skill sets and questioned how these emerging crime types would be accounted for. The Committee was also informed that the majority of police demand was for non-crime issues and may also be increasing due to the cuts to other public services.

Some of the recommendations put forward by the committee, after considering the evidence were:

- *"The Home Office [should] explain how new and emerging crime types, such as cyber-crime, child sexual exploitation, and radicalisation, are accounted for in the funding formula"*.

- *"The Home Office must demonstrate that it understands these wider demands on the police, and that they are not only crime fighters".*
- *"We recommend that in the next iteration of the funding formula, there is an element that specifically accounts for diversity".*

And on localised demand, the Committee recommended:

- *"The demands on the police are many and various, and differ in each force area. It is right that PCCs and Chief Constables should make their case for particular local demands to be included in the funding formula. The Home Office may then choose to disregard these arguments, but it needs to be open and transparent about the reason for those decisions."*
- *"We recommend that the demands of counter-terrorism policing be included in the funding formula".*

The report goes on to discuss collaboration with the private sector and the impact of the 2015 spending review. For a full list of the conclusions and recommendations, please turn to page 35 of the [report](#).

The Response

The Government [responded](#) to the Home Affairs Committee report on 14 March 2017, apologising for the delay and citing the decision to pause the funding formula reform process as the reason for said delay.

The response focussed on 3 broad sets of criticisms given in the original report. These were, "consultation, construction of formula and assessment of relative risk and demands". These have been summarised below, although the response was not particularly long, should you want to read it in its entirety.

2015 Consultation

The Government admitted to the error that was made in the information shared with PCCs and forces on the indicative impacts of the proposed model and stated that it was a "serious and regrettable matter". However, there was no intention to compensate PCCs for the costs of wasted time and effort. Whilst the work was "commendable" the decision to look into the errors was "*a matter for individual PCCs, with the benefit of advice from their staff*". The government will look to use publicly available data in any future formula where possible.

Further Consultation

In response to the various suggestions about how any future consultation should run, the Government created a review that would consist of three strands to enable detailed engagement with the sector.

The review would consist of three strands:

- *"The Senior Sector Group (SSG), chaired by Paul Lincoln, Director-General of the Home Office's Crime, Policing and Fire Group. This Group sets direction, provides strategic oversight and considers policy issues on the new funding formula.*

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- *The Technical Reference Group (TRG), chaired by Professor Tim Holt, former President of the Royal Statistical Society and ex-Director of the Office for National Statistics, advises on technical elements of a new funding formula, including the most appropriate data sources, the suitability of indicators and weighting techniques.*
- *The Minister of State for Policing and the Fire Service is operating an open door policy with all PCCs and forces who would like to discuss the formula."*

Both the SSG and TRG were made up of police representatives with issues being discussed and considered by the groups as the review progressed.

Construction of a Formula

The response stated that any future formula should distribute Police Core Grant funding to where it is needed the most on the basis of relative risk and demands. The relative financial position of forces and precept would be taken into consideration in any decisions. There would also be transitional arrangements put in place for any changes in funding.

The response also stated that it would be complicated to distribute counter-terrorism funding as it is allocated separately by Ministers through a ring-fenced Counter Terrorism Policing Grant, and for security reasons, these allocations are not made public.

Assessment of Relative Risk and Demand

In response to the suggestion that the "*Home Office [should] explain how new and emerging crime types, such as cyber-crime, child sexual exploitation, and radicalisation, are accounted for in the funding formula*", the Government said that as part of their process of engagement with the policing sector, the HO would work closely with the NPCC and the College of Policing who are jointly undertaking work on understanding police demand.

However, according to the response, determining the relative resource required in each force area by understanding more about population and characteristics is the most appropriate way of reflective relative risk and demands.

Where we are

The Technical Reference Group work concluded in 2017. It was intended that Theresa May would implement the newly worked on Funding Formula after the 2017 snap general election. After losing her majority, the plans were shelved. The Government is restarting work on the funding formula through various working groups. More information will be disseminated to the PACCTS network once it becomes available.