

Police finance: Central government funding

Briefing outline

This briefing provides an overview of the national arrangements for funding of police services. It is the first of three briefings about police finance.

Why is finance important to policing and to the role of the PCC?

Responsibilities for local financial planning and management are amongst the most significant and powerful roles of the Police and Crime Commissioner (PCC). Finance is the link between plans, targets and delivery. It is also a measure of activity and performance. Locally it will be one of the principal ways by which the Police and Crime Commissioner (PCC) holds the Chief Constable (CC) to account, and is held to account personally by the public and the media.

How much is allocated to policing and how is it apportioned locally?

Around £12 billion a year is currently spent on Policing in England and Wales. While it is a local service, the majority of the funding is provided by central government, which also spends money directly through other national programmes. The local balance between grants and Council Tax varies between different PCC areas. Some PCCs receive nearly 90% of their funding from grant, whereas a few receive less than 50%. This is very significant in terms of the cash impact of the government's austerity plans, which apply the reductions as a constant % of the local grant receipts. Just over 50% of policing budgets is spent on Police Officer and PCSO salaries, and typically a further 20% on support staff. In terms of programmes, typically nearly 40% of costs relate to local policing and dealing with the public, and 20% is spent on support costs.

How does the government 'manage' public sector spending?

Since 1998, public sector spending has been managed through the Comprehensive Spending Review (CSR) process, overseen by the Treasury. Technically this only covers central government's grant to local bodies, although the separate but the parallel regimes for Council Tax referendum controls have meant that the government exerts a high degree of control over total local spending. PCCs have asked the government for greater flexibility on setting local Council Tax levels. As a result of historical decisions on central and local funding actual Band D charges vary from under £90 to over £230.

The CSR was originally envisaged as a 3 year process, with the facility for the government to review the allocation of resources across sectors. Since the financial crisis and the introduction of the austerity programme in 2010, a more short term horizon has often applied.

The current CSR

CSR10 resulted in a 26% real terms cut in total government funding for the police service between 2010/11 and 2015/16. Some sectors such as health and education have been protected throughout CSR10, but until the November 2015 announcements this was not extended to the police. The reduction in local police spending has been lower because the government provided for annual council tax increases normally averaging just under 2%, and there has also been a gradual increase in the local Council Tax base, typically between 0.5% and 1.5% per annum. After allowing for this total police spending has fallen by around 19% in real terms.

What do we know about grant funding for 2016/17?

CSR 15 was announced on 25 November 2015. The service had been asked by the Treasury to consider the implications of cuts in grant funding of between 25% and 40% by 2019/20. The APCC made a detailed submission to the government in July 2015, outlining local pressures on policing, the achievements that have been made since 2012, and the implications of further cuts in funding, and in particular Police Officer and PCSO numbers.

The CSR and the subsequent Grant Settlement was better than expected. The Chancellor announced that total spending on Police from national and local budgets will be maintained in real terms until 2019/20. At local level, no PCC will face a cash reduction in total financial resources as long as they increase Council Tax by the maximum allowed under the referendum rules.

For 2016/17, these assumptions mean that total spending on Police from national funding sources and local precepts will be £12.2 billion. At local level, available cash resources will be £10.98 billion, a cash increase of 0.5% (but a real decrease of 1.2%)

PCCs have pointed out that while the Government's settlement provides protection against the worst of the expected cuts, there will still be a need to reduce local plans as they have to absorb inflation, new costs such as National Insurance increases in 2016/17, changes in demands, and the impact of austerity cuts on other local services which often means that communities look to the Police to fill the gaps.

Within the national total spending provision, Home Office have set aside special provisions for programmes such as the new emergency services communications system, transformation and innovation, and national technological developments.

Allocations to individual PCCs are also determined by the grant allocation formula, which at present takes into account a wide range of socio economic indicators. Changes in the indicators from year to year would normally result in grant redistribution between areas, but during the austerity programme, Home Office preferred to apply flat rate % reductions. The grant formula is currently under review, but the government have not announced when any changes will be finalised.

Need more information?

APCC briefing: Police finance - The local corporate financial process

APCC briefing: Police finance - Grants and other sources of policing income

Date produced: December 2015 (Updated 12/02/16) (Further updated 17/03/16)

Police finance: Grants and other sources of police income

Briefing Outline

This briefing provides an explanation of how and why government police funding is allocated, the significance of Council Tax/Precept and other sources of police income. This is the second of three briefings about police finance.

How does the government allocate police funding?

Home Office grants to local policing bodies are based initially on a formula which seeks to identify factors which 'explain' the variations between areas in terms of what they need to spend, and recognizing that every area has different socio-economic characteristics. In practice, population is by far the most significant driver of spending, but there are nearly 20 other main indicators reflected in the current formula. Data is updated regularly, particularly as new census results emerge. Your Treasurer will be able to provide specific details around how funding is calculated to your force area.

The government has been reviewing the formula. The original plan was to introduce a new system for 2016/17 but this has now been deferred.

How are Local Policing Bodies (LPBs) protected from short-term grant fluctuations? - Floors and ceilings/ Damping

The grant process is an annual arrangement and substantial change can make forward planning difficult. The government has regularly adjusted the grant mechanisms to limit the annual reductions or gains to individual bodies. This reduces volatility and minimises the short term impact on services. The grant system is a 'zero sum game'; protecting some bodies from grant reductions can only be achieved by limiting the potential gains for others. In recent years, the Home Office has applied flat rate % changes to formula grant allocations. In 2016/17 direct government funding has been reduced by 0.6% in cash terms – representing 2.3% in real terms.

Council Tax/Precept –What is the government's role?

The proportion of local budgets financed from Council Tax in different areas varies from just under 50% down to 12%. This is due to the interaction between the needs assessment formula, Council Tax Controls and the strength of the local Council Tax base. It reflects past decisions on Council Tax and the government's priorities within the formula grant process.

The government has controlled Council Tax increases for over 20 years using a variety of different mechanisms, including statutory limits. The government has made special grants available to PCCs who agreed to freeze Council Tax. A total of 19 PCCs froze Council Tax in 2012/13, but by 2015/16 this number had fallen to 6. One of the considerations is that PCCs are not allowed to apply a freeze in one year and then recover the gap in a subsequent year.

The government has also required PCCs to carry out a referendum if their proposed Council Tax increase exceeds a specified threshold. Following this route is a high risk strategy, with substantial cost implications for running the referendum and for any rebilling which might result from it. The rules for conducting the referendum are also very rigid; PCCs are only allowed to set out the proposed increase, without any supporting information on the reasons for the increase or the services for which the funding will be used. On behalf of PCCs the APCC is pressing the government to allow more local flexibility.

The PCC issues a precept on the local tax raising bodies. The precept is a cash sum requested by the PCC; it is expressed as a Council Tax using the standard bandings. At Band D, Council Tax levels for PCCs in 2015/16 outside London ranged from around £86 to £235.

What are other sources of income for PCCs and forces?

Apart from grant and council tax, PCCs and forces will receive income from six other main sources:

- ▶ Reimbursements from the government for officers seconded onto national programmes
- ▶ Payments from other Forces for mutual aid
- ▶ Grants received from the Ministry of Justice (including for victims services)
- ▶ Payments received from local partnerships towards community safety and other joint projects
- ▶ Special Policing Services such as the policing of major or local sporting and entertainment events
- ▶ Fees, charges and other miscellaneous income

In conjunction with the Chief Constable, the PCC draws up a local policy on charges for Special Police Services.

Why do PCCs hold reserves and how they might be used?

PCCs will hold reserves and contingency sums of various types. Some will be earmarked against specific commitments or events; the rest will be held as general reserves, to provide for:

- ▶ Unpredictable events (such as a major incident)
- ▶ Short term variations in inflation
- ▶ Phasing the impact of year on year changes in demand and resources
- ▶ To support the capital programme
- ▶ Funding one-off spending initiatives.

Reserves can only be spent once. Therefore it is a golden rule that reserves should never be used to support the annual revenue budget unless it is a short term solution, with a robust plan for addressing the potential future shortfall.

There is no standard guideline for the level of reserves which should be held. The target for each area is agreed by the PCC based on advice from the Treasurer, who holds a statutory duty to report on, amongst other things, their adequacy. The Treasurer prepares an annual budgetary risk assessment and a figure for the safe minimum level. Individual PCCs take a view on the level of risks they are prepared to bear. All local Policing funds are under the overall control of the PCC. However, by agreement the PCC may place some reserves under the management of the Chief Constable (CC). These will often include budget carry forwards up to a level agreed in advance with the PCC.

The budget and precept timetable for 2016/17?

Preparatory work on the 2016/17 budget started during autumn 2015. The main grant allocations were not announced provisionally until December 2015 and confirmed in February 2016. The PCC was required to inform the Police and Crime Panel (PCP) of the proposed precept by 1st February, and over the following 3 weeks there was a defined timetable for consultation and liaison. The PCP's initial response effectively set the parameters within which the final precept level was fixed by 1st March.

Need more information?

APCC briefing: Police finance - Central government funding

APCC briefing: Police finance - The local corporate and financial process

Date produced: December 2015 (Updated 17/03/16)

Police finance – the local corporate and financial process

Briefing Outline

This briefing provides an explanation of the local corporate financial process and is the third of three briefings about police finance. It outlines a typical timetable for the strategic planning process; it also describes statutory roles, responsibilities and relationships; financial management; good governance and the role of the Audit Panel.

Much of the information provided in this section has a very detailed background and therefore a number of source documents are referenced. Additionally, the PCC Treasurer will be able to provide a more detailed explanation of key areas as required.

The local corporate and financial process – what is the annual timetable?

(The dates may vary according to the arrangements adopted in each local area. The timetable set out below is a typical sequence).

Month	Activity
Apr	Consultation with community and partners on current year programmes.
May	Provisional financial and performance outturns for previous year.
Jun	Position statements - Benchmarking of financial, operational, and strategic performance based on previous and current year data.
Jul	Review of future objectives (where do we want be?) and options (how do we get there?).
Jun/Jul	Statements of Accounts for the previous financial year. Results of annual governance review.
Aug	Discuss initial budget options for the following financial year, with the Chief Constable and partners; balancing of aspirations and likely resources.
Oct	Initial liaison with the Police and Crime Panel (PCP) on next year's Budget and the Police and Crime Plan; draft strategy for commissioned services.
Nov/Dec	Provisional Government Grant Settlement; guidance on Council Tax levels and referendum rules.
Dec	Formal draft budget; firmed up commissioning plans.
Jan	Development of budget options; Council Tax and reserves strategy. Final Grant Settlement.
Feb	Submission of precept to the PCP. A three week process of liaison follows. Finalise detailed budget and commissioning plans. Publish Budget.
Mar	Agree financial and performance targets with chief constable and partners; public and media announcements about budget and future plans.

What statement of accounts does the PCC have to prepare?

Under the Police Reform and Social Responsibility Act 2011 (the Act), both the PCC and the chief Constable are required to prepare separate statements of accounts. In addition, the PCC is required

to prepare a set of group accounts covering both the PCC and the Force. The statutory accounting requirements may be put on a more simplified basis in future years.

Who supports the PCC to fulfil their financial responsibilities?

In terms of a PCC's financial responsibilities their primary financial relationship will be with the PCC Chief Finance Officer (CFO - commonly known as 'the Treasurer'). Preparation of budgets and day to day management of the PCC's financial affairs will normally be in the hands of this officer. This officer holds statutory responsibilities for advising the PCC on the robustness of the budget and the adequacy of reserves, and also for issuing formal notices in the event of potentially illegal spending or unfinanced budgetary shortfalls.

Who else does the PCC need to engage with around financial planning?

The PCC will engage with a range of other bodies and individuals in relation to different aspects of the financial and corporate process. These include:

- ▶ The Chief Constable's CFO - who also holds statutory responsibilities, but in relation to Force finance
- ▶ The PCP - which must be consulted on the precept and holds the potential power of veto
- ▶ The external auditor - who reports on the PCC's statutory Statement of Accounts and Governance arrangements
- ▶ The Audit Committee – which holds joint responsibilities in relation to the PCC and Chief Constable for ensuring confidence in how public money is spent and provides safeguards about the financial probity and standards of good governance for the PCC and the force
- ▶ The Chief Constable
- ▶ Her Majesty's Inspectorate of Constabulary, which undertakes force inspections, but has no remit to review or inspect PCCs
- ▶ The public and partners

How are the finances of the PCC managed?

PCCs operate within the overall framework of the Act, the national Protocol, and the Strategic Policing Requirement. Financial management will in turn operate within a framework established initially by national guidance, and then customised for local circumstances. More information can be found from the following sources:

- ▶ The Home Office Financial Management Code of Practice (setting out the roles and relationships between the PCC, Chief Constable and the 2 CFOs)
- ▶ Financial Regulations (governing day to day financial management and controls, including authorization to spend money, enter into contracts, and to transfer funds within the budgets (virement))
- ▶ Local schemes of consent (providing for specific decisions and responsibilities to be undertaken on behalf of the PCC)
- ▶ Police and Crime Panel Regulations, outlining the process and timetable for setting the precept
- ▶ Chartered Institute of Public Finance & Accountancy (CIPFA) guidance on the roles of the 2 CFOs. Note: CIPFA have a quasi-regulatory role in relation to financial governance and audit standards

- ▶ The CIPFA/SOLACE (Society of Local Authority Chief Executives) Framework and Guidance on corporate governance (the PCC is required to carry out an annual review of governance, and prepare an Improvement Plan). A separate framework and guidance has been drawn up for police.
- ▶ Treasury Management Strategy (management of cash balances and borrowings; guidance issued by CIPFA)
- ▶ Risk Management Strategies (guidance produced by Audit Commission /CIPFA-SOLACE)

What are the main sources of financial information?

The main sources of detailed financial information available to the PCC include:

- ▶ CIPFA Police Statistics (twice yearly publication covering Estimates (May) and previous year outturn (October))
- ▶ Police objective expenditure analysis (prepared by CIPFA)
- ▶ APCC Circulars
- ▶ Police and Crime Commissioners Treasurers Society (PaCCTS) publications (Annual surveys on budget and precept options; one off consultations)
- ▶ Somerset County Council (PCC Treasurers have a contract with the Council to supply regular technical updates and analysis on grants and other Police financial matters)
- ▶ HMIC/ CIPFA VFM Indicators (detailed analysis of costs and spending ; benchmarking against other Forces)
- ▶ Taxation Panel (PCCs and Forces have increasingly complex obligations on PAYE, VAT, and Corporation Tax. A Police forum had been established jointly by CIPFA, ACPO (now NPCC) and HMRC

What is Good Governance?

Good governance is about how bodies ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. Guidance on implementing robust governance principles for all local bodies is issued by CIPFA / SOLACE. A separate Statement of Principles issued jointly by APCC/ Association of Police and Crime Commissioner Chief Executives (APACE) / National Police Chiefs Council (NPCC) / PaCCTS /CIPFA and Home Office describe the approach to governance within policing.

What is the requirement for audit and what additional responsibilities might an Audit Panel assume?

An Audit Panel must be in place to deal with audit and related matters for both the PCC and the Chief Constable. The Financial Management Code of Practice recommends that a joint arrangement should be established.

Good governance requires independent, effective assurance about the adequacy of financial management and reporting. These functions are best delivered by an independent Audit Panel. In addition to the basic responsibilities for internal and external audit, the Panel may take on oversight of risk management, VFM, whistleblowing, local protocols and local codes of governance.

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