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Dear Member

KENT AND MEDWAY POLICE AND CRIME PANEL - TUESDAY, 22 SEPTEMBER 2015

I am now able to enclose, for consideration at next Tuesday, 22 September 2015 meeting of the Kent and Medway Police and Crime Panel, the following report(s) that were unavailable when the agenda was printed.

Agenda No	Item
B2	<u>Accounts 2014/15</u> (Pages 3 - 10) – Appendix B - Response to Police Funding Consultation

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Sass', is written over a light blue horizontal line.

Peter Sass
Head of Democratic Services

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

15 September 2015
Ref: OPCC/OG/084/15
Please quote reference on all replies

Dear Ziggy,

Consultation on Police Funding

As Police and Crime Commissioner for Kent, my response is in two parts; general observations in this covering letter and an appendix setting out responses, where it is possible to do so, to the more specific and technical consultation questions.

General Observations

I am clear that the current formula arrangements are not fit for purpose. They have been in need of a proper review for some considerable time. We need a new formula, commanding broad support, which is fit for purpose for the modern police service. I fear the Home Office may have missed a great opportunity to achieve that aim.

I am sure all my colleagues would have welcomed the chance to work with the Home Office in a positive way to produce such a new formula. That has not been possible. Instead, we have seen the launch of a consultation exercise on such a major topic with an 8-week deadline, mainly over the summer, without meaningful prior engagement and most crucially without meaningful exemplifications for a possible implementation in 2016/17. The absence of transparency and exemplification risks undermining the credibility of the whole consultation exercise. As a result it is impossible to form an overall view as to whether the results generally feel fair in the round.

For the record, I unashamedly represent the interests of the people of Kent and its Police Force. However, the absence of data transparency means it can only be an informed guess as to how the new formula could affect us. Furthermore, it becomes very difficult in many cases, to be able to suggest new or different variables as we simply do not know what impact that may have on the other proposed variables. It means I am "betting blind" so to speak. This is not the way to conduct a meaningful consultation with anyone about anything; especially when dealing with a fundamentally different formula, for allocating nationally £billions of grant, which will be in place for years to come.

Kent is a large provincial Force. It has a mixture of both urban and rural policing needs as well as complex policing geography as regards both the proximity to London and its gateway to Europe.

I have long been concerned that the current arrangements have a disproportionate bias to Metropolitan areas and lack of recognition of the needs of rural as well as urban policing. The Government needs to transparently show that a fair balance has been found in any new proposals. From the crude calculations we have been able to look at; it does appear that there is a general shift of grant from Metropolitan to shire areas but not in all cases. Indeed, Kent could be a loser even in that scenario. If that is the case, it would be an illogical and perverse outcome as over 70% of Kent is classed as rural.

Regrettably, due to the lack of transparency, it is not possible to test the extent to which your five chosen variables make sense individually or in combination or in respect of the weights attached to them. Simplicity cannot be an end in itself. The absence of proposed specific non-crime indicators is very surprising and difficult to justify.

To the extent that it is possible to comment on the five specific elements, I am most concerned by the use of two of them, namely, relative "bars per hectare" and the treatment of relative Council Tax base. Dealing with each in turn, in isolation, it will be obvious to anyone that a "bars per hectare" factor is introducing a deliberate urban bias. All of us recognise that alcohol is a major cause of crime. However, it is far too narrow to explain this as a function of "bars per hectare"; rather it is as much to do with access to alcohol generally in shops and supermarkets across a force area. Indeed, I would argue this factor weight should be replaced by general population. However, if the Government is insistent on retaining "bars per hectare", the calculation should be at least on the basis of "bars per Community Safety Partnership". This would remove the blatantly urban bias in the current proposals which as it stands unfairly dilutes the reality of the policing impact caused by alcohol in shire Forces.

In respect of Council Tax Base, I can see that any Government would want to have some way of recognising the different relative capacity of each area to raise Council Tax. In principle this would mean relatively less grant for so called richer areas compared to relatively poorer ones. While the principle is recognised, how that is calculated has to be fair and proportionate. The method proposed in the consultation is simply neither fair nor logical. You propose a relative weighting of ability to raise local income by comparing band D units of all force areas but divided by force area population. Not only is this illogical (as we do not bill Council Tax per head of population in each property) but it is unfair, as converting to a 'per head' comparison exaggerates the relative capacity for areas like Kent compared to areas with relatively lower band D units. Arguably this would perpetuate an unfair geographical and/or metropolitan bias evident in the current formula.

Even comparing just Band D units raises wider questions as to whether this is a fair method of measuring relative capacity. A fundamental question becomes "How is Kent able to exercise properly this apparent relative ability to raise more precept over time if it is effectively capped at the same precept increase as so called poorer areas?" In that scenario clearly it cannot. This is another reason to call for greater flexibility in local Council Tax decisions especially for those areas like Kent who already have a well below average precept and are assumed to have a relatively larger tax base.

Even more fundamentally, just using Band D units as a measure of relative capacity, at the launch of a new distribution formula which will be in place for years to come, ignores the fact that areas like Kent currently have one of the lowest current council tax precepts, by definition well below average, compared to all force areas. The concern is that even if just comparing Band D units would significantly overstate in the proposed formula the presumed local income that Kent actually collects from local council tax, and this would reduce our grant accordingly, compared to the average force. A real example will help illustrate this point. At the current time Kent has some 21% more band D units than one of its neighbouring force areas. Accordingly, under the new formula, Kent would be deemed to have greater council tax capacity than this neighbour and thus be less deserving of grant in respect of that element of the formula. However, that same neighbouring area actually collects some 21% more council tax income than Kent in practice, as it has a much higher precept, but would still be deemed more deserving of grant than Kent in respect of comparative council tax capacity. Again that is not logical or fair. Overall I would argue that this whole question of a fair method of calculating relative capacity

needs more work and transparency but at the very least the illogical population element in the proposed calculation needs to be removed.

Quite rightly the consultation recognises that there needs to be a transition from current to new grant arrangements and sets out options as to how that could be achieved. However, I am forced to repeat again, that the absence of proper exemplifications of possible gain or loss from the new arrangements on top of the possible up to 25% and 40% real grant cuts from next Spending Review, makes it very difficult to give a specific informed response. Instead we are left with having to give a generalised response along the following lines: If the total loss or gain in grant is small, there is every merit in having a relatively quick transition but if the total loss of grant is relatively large, the period of transition will have to be longer and take into account the total loss including from the CSR.

Fundamentally, I disagree with any notion that the reserves that Kent has sensibly built up, partly from local taxpayers' monies, to fund investment, innovation and risks, should be diverted by Government to support transition arrangements. This would be a direct cost to Kent taxpayers and unfair to a county force that is recognised as efficient and has saved wisely and prudently over the years. Reserves cannot be spent twice and if diverted, we would still need to find the monies from additional savings to meet the original purposes they were intended for in both the short and medium term.

My concluding general observations relate to two broader points of concern.

- Firstly, I had most sincerely hoped for a fundamental and wide ranging review of police funding. This consultation does not examine other areas including local income flexibility (not just Council Tax) in fees and charges or use of business taxation to fund police, instead concentrating solely your proposed 5 variables.
- Secondly, while the avowed aim is to produce a stable new formula, the proposals do not appear to be crafted in the context of the medium to longer term agenda for the modern police service. In particular, it is simply impossible to understand how changes in the national, regional and local policing offer are allowed for in the proposed arrangement over the medium term.

Best wishes,

Ann

Ann Barnes

Appendix a – Responses to the Specific Consultation Questions.

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

Totally agree. Its opaqueness and complexity result in allocations that are almost impossible to explain to those both outside and within the police service. There is a concern the current arrangement unfairly favour metropolitan areas.

2. To what extent do you agree or disagree that as part of the simplification of funding arrangements, legacy council tax grants should be consolidated with Police Main Grant?

Do not agree. Legacy Council Tax Grants are only paid to forces in England, but the consultation proposal covers Wales also. It is not clear how legacy council tax funding will not "leak" into Welsh funding allocations under the current proposals.

The current distribution of legacy council tax grants are not related at all to a new formula related to crime. Transferring these funding streams into Police Main Grant will result in this funding also being exposed to the swings in allocations decided upon by the new formula.

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

It is not possible to answer this question fully. The identified principles are subjective and hence subject to interpretation. For example; option three defines a formula where a quarter of the information comes from the census and hence is only updated every ten years. Is that robust? Also, none of the options presented contain any detail on impact or development, yet the service is expected to respond without such triangulation. Is that robust?

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

There are other principles which are surprising by their absence. To underpin a new and sustainable distribution formula, the most obvious omissions centre on "fairness" and "transparency". In addition, I would have hoped to have seen a formula where opportunities for ministerial control are diminished and decisions (for example, selection of data) are made more transparent.

5. To what extent do you agree or disagree that the existing funding method should not be used to allocate police funding in the future?

Agree (but subject to a new model deemed to be broadly fair). The current flat rate reductions in funding not only pay no heed to up-to-date demand measures; they are also based on a widely flawed and discredited system (the four block model) which further manipulates these allocations to create a highly opaque and complex machine.

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

Not applicable

7. To what extent do you agree or disagree with the Government's conclusion that an upgraded PAF should not be used to allocate police funding?

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

8. If you disagree, please state why you think an upgraded PAF should be used. Please provide evidence and/or details of sources of data which may help support this.

Please see answer to question 7.

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

It is impossible to answer in respect of either as the accompanying explanation of the Principal Component Analysis does not explain how variables have been selected or excluded or the degree of variation explained by the published model.

As highlighted in Section 1 of this response I also have concerns over the model's possible over-simplicity. For example, no measures have been included to reflect demand from non-crime (e.g. prevention, reassurance etc.) and the chosen indicators outside population could imply perverse incentives.

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

It is impossible to give a full answer. As per my general observations, "Bars per Hectare" is neither fair nor logical. Preferably it should be replaced by population or at the least "Bar per CSP area". (In respect of relative tax base see question 16). More locally, ordinarily, I would expect consideration of differential cost pressures facing south east forces but also particularly significant operational factors which only affect a few force areas like Kent, eg, gateway/major port factors. However, as per my general observations, the absence of underlying data assumptions and exemplifications, makes it impossible to categorically argue for the inclusion of a particular new indicator in the absence of knowing how that would interact with the variables being proposed.

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

Please see answer to question 10.

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

I agree that specific non crime date should be included. It is unacceptable to only model part of the demand on the policing service in the consultation.

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

Please see answer to question 10.

14. To what extent do you agree or disagree that a new funding model should be introduced in time to determine 2016/17 police force-level funding allocations?

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

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

Please see answer to question 14.

16. To what extent do you agree or disagree that the proposed new funding model adequately captures the differences in the ability to generate precept income?

Disagree. To repeat the comments made in the general observations section, I can see that any Government would want to have some way of recognising the different relative capacity of each area to raise Council Tax and this would mean less grant for so called richer areas compared to relatively poorer ones. While the principle is recognised, how that is calculated has to be fair and proportionate. The method in the formula consultation proposal is simply not fair or logical. The population element should be removed from any calculation as it illogical and unfairly exaggerates the relative capacity for areas like Kent compared to areas with lower band D units.

17. To what extent do you agree or disagree that it is not appropriate for the proposed new funding model to take into account differences in actual precept levels which have resulted from local decision making?

Disagree. Again as covered in the general observation section, even if just comparing relative Band D units between force areas, it raises wider questions as to whether this is a fair method of relative capacity. This is both in respect of the fact it implies that so called richer areas have more capacity to raise their precept but also that it would overstate the relative capacity for Force areas with well below average precepts like Kent. This whole area of relative capacity needs to be looked at in more depth. Overall, it calls for more Council Tax flexibility particularly for below average precepting areas.

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

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

19. To what extent do you agree or disagree that transitional funding arrangements are necessary to move police forces to their new funding allocations? If you disagree, please state why.

It is impossible to answer. Ordinarily I support the use of transitional arrangements; however, given the lack of detail with regard to the magnitude of the proposed changes I am again unable to give an informed preference.

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

Please see answer to question 19.

21. Which of the transitional options should be applied?

- (i) Option 1 - Gradual
- (ii) Option 2 - Required

- (iii) Option 3 – Enabled
- (iv) Other – please specify

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

22. Which of the below factors should be taken into account when designing a process under Option 3?

- (i) Total reserve levels (earmarked and unallocated)
- (ii) Percentage of total funding from precept
- (iii) Total funding per head of population in force area
- (iv) HMIC Peel efficiency assessments
- (v) All of the above
- (vi) None of the above

This question implies Home Office support of the 'enabled option' prior to the end of the consultation process and analysis of the responses. As highlighted in the answer to question 19, I am not able to endorse in the absence of key data.

However, in respect of reserves, I have set out my concerns in the general observations and in summary, there are already plans for our reserves over the short to medium term including to help manage new anticipated cuts in grant. Crucially, reserves are not a substitute for savings. Their use is one off and if used to cushion savings that simply rephrases, or more bluntly, shifts the underlying challenge back a year or two, making the actual base budget challenge even greater when actually addressed with underlying base savings. Any diverting of reserves by Government penalises prudent areas such as Kent and represents an additional cost to our local tax payers, as further savings would be needed to replenish the reserves for their original purpose.

Kent has a relatively positive PEEL assessment but I am aware the methodology is attracting criticism as being too subjective in some quarters. If funding is to be moved or allocated based on this measure of resilience it must be an objective measure.

Overall, I would be concerned about subjective, non-transparent decision making resulting in potentially 43 different transition plans across the country.

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

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

However, I do support the PACCTS view that if the Home Office wishes to take a measure of financial resilience in each force area that such an opinion can only be reached after careful examination of the whole balance sheet, the medium term financial plans, the capital plans, the risk register and contingent liabilities. It also goes without saying that this judgement on resilience must be free of subjectivity.

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