



National Audit Office

Report

by the Comptroller
and Auditor General

Home Office

Financial sustainability
of police forces in
England and Wales

Summary

1 There are 43 territorial police forces in England and Wales. Since 2010, the previous government reduced funding for forces as part of its plan to reduce the fiscal deficit. The government also changed how forces are governed by introducing elected police and crime commissioners ('commissioners') in 41 of the 43 forces.¹ Our *Police accountability: Landscape review* examined these arrangements.²

2 Commissioners, in consultation with their chief constables:

- set out in an annual police and crime plan the objectives that their police force must achieve;
- allocate the funds needed to achieve them; and
- hold police forces to account on behalf of the local electorate.

This system encourages local variation and reduces intervention from central government.

3 The Home Office (the Department) has overall responsibility in central government for police forces. Its main responsibilities are to:

- allocate grants to police and crime commissioners (who decide how much goes to police forces and how much to other crime reduction initiatives);
- establish an accountability framework to assure Parliament on the regularity, propriety and value for money of police spending, and that there are appropriate checks and balances; and
- intervene if chief constables or commissioners fail to carry out their functions effectively.

4 Within the accountability framework, the Department relies on HM Inspectorate of Constabulary (HMIC) to assess the efficiency and effectiveness of police forces in England and Wales. The Department also relies on the College of Policing (the College) to set standards and to identify and share good practice, which help to improve value for money locally.

¹ Metropolitan Police Service and City of London Police have different arrangements.

² Comptroller and Auditor General, *Police accountability: Landscape review*, HC 963, Session 2013-14, National Audit Office, January 2014.

Our report

5 Our report examines whether the Department, with other policing stakeholders, has effectively managed the risks of reduced police funding. It is not a contradiction to the government's policy of localism to assess whether a Department has enough information to make good decisions about the level of central funding provided.

6 The report has three parts:

- Part One describes the reductions in police force funding.
- Part Two examines the impact of funding reductions and the changing nature of policing.
- Part Three assesses the current oversight and accountability regime.

Key findings

Impact of funding reductions

7 Central government funding to police and crime commissioners reduced by £2.3 billion (25%) in real-terms between 2010-11 and 2015-16. This is an 18% real-terms reduction in total police and crime commissioner funding when the local council tax receipts that forces receive are included. In 2015-16, the percentage of central government funding to forces varies from 46% to 85%. The forces most affected by funding reductions are those with a higher percentage of total funding coming from central government. Taking into account changes in central and local government funding, total funding to individual forces has reduced by between 12% and 23% since 2010-11 (paragraphs 1.8 to 1.10, 1.15 and 1.19).

8 The Department's current funding approach does not consider the circumstances of individual forces. Since 2011-12, the Department has applied the same percentage funding reduction to all forces. The current funding approach does not consider the full range of demands on police time, relative efficiency or the split between central and local funding in individual forces. The Department is currently reviewing the formula (paragraphs 1.11 to 1.12).

9 Police forces reported that they had to make savings of £2.5 billion between 2011-12 and 2014-15. By 2015-16, individual forces will have had to make savings ranging from 11% to 29% of their 2010-11 spending. Forces reported plans for 96% of their required savings with the remainder met by using £107 million of reserves. In 2015-16, forces estimate they need to make an extra £656 million of savings (paragraphs 1.19 to 1.20).

10 While financial reserves across all forces with comparable data have increased by 35% in real terms between 2010-11 and 2013-14, this is not necessarily a sign of financial health. As forces cannot run deficits, reserves enable them to manage financial uncertainty, fund investment and, on occasion, offset funding reductions. Reserves are finite so forces cannot rely on using reserves to offset funding reductions indefinitely. In 2015-16, forces estimated they would need to offset 15% of their savings requirement using reserves. Of the 9 forces we spoke to, 8 intend to use reserves to balance budgets up to 2020. The Police and Crime Commissioners Treasurers' Society's recent review of forces' reserve position found that commissioners are planning to reduce their reserves by 41% between April 2014 and April 2017 (paragraphs 1.20 and 3.19 to 3.22).

The changing nature of policing

11 Police forces have insufficient understanding of the demand for services. Crime statistics indicate that crime has fallen since 2010-11. However, crime levels are a limited measure of demand because: they do not include all types of crime; forces face increases in more complex risks and threats such as cyber crime and child sexual exploitation, which have historically been under-reported; and because not all demand is crime-related. Forces estimate that crime accounts for only 22% of the number of emergency and priority incidents. However, HMIC estimates that only 10 of 43 forces have a sophisticated understanding of demand. In our view, the College's recent report on demand provides a limited picture across the service. There are no standards for measuring demand and no comprehensive national picture of demand across policing, including demand potentially caused by funding reductions in other sectors (paragraphs 2.18 to 2.30).

12 Forces will need to transform the service they deliver if they are to meet the financial challenge and address the changing nature of crime. The Department did not have its budget protected during the last Parliament, and forces will face further significant funding reductions. Although we have seen examples of innovation and good financial management in some of our visits, overall many of the savings so far could be characterised as tactical or efficiency savings, rather than service transformation. The Department and HMIC consider that forces can achieve higher levels of savings by increasing collaboration across forces and with other public sector partners. There is information on the total costs and savings of collaboration but limited analysis of the variation in savings achieved to date (paragraphs 2.2 to 2.5, 2.8, and 2.13 to 2.17).

The Department's assurance on financial and service sustainability

13 The Department has insufficient information to determine how much further it can reduce funding without degrading services, or when it may need to support individual forces. The police sector is considering how to identify information that might give early warning of a force at risk. HMIC provides regular and thematic information on a wide range of policing areas. Forces provide data to HMIC, which it checks and verifies through inspection. However, in our view there is currently insufficient information to identify signs of the sector being unable to deliver services, unclear links between financial reductions and service pressures, and limited data on police productivity. The previous government removed public service agreement (PSA) targets in June 2010 as part of its move towards greater local accountability. Instead, commissioners and forces decide what information to collect and monitor in response to local priorities (paragraphs 3.11 to 3.16).

14 HMIC's new annual police effectiveness, efficiency and legitimacy (PEEL) assessment should give the Department assurance on the financial sustainability and the performance of forces. The PEEL framework should enable HMIC to assess forces' response to funding reductions and critically challenge their plans. HMIC inspects forces and, where they exist, against standards set by the College. It cannot mandate the collection of national performance data, although it could ask the Department to request data. We cannot yet comment on the effectiveness of PEEL as HMIC has not completed its first full assessment (paragraphs 3.23 to 3.29).

15 The accountability system for policing is more complete than that for local government. While there are limitations to the information in the system, HMIC does regularly report on forces' performance in various areas. In local government there is no equivalent organisation to HMIC for local authorities or the fire service. It relies on the statutory framework of checks and balances in place within councils (paragraph 3.24).

16 Organisations in the accountability system are not yet supporting forces to improve their capacity and capability around business skills. The College is responsible for setting professional standards, including expectations around business skills, and for identifying and sharing good practice throughout forces. The College does not consider it is sufficiently funded, or that it is within its remit, to support and develop business skills or to share good practice and learning in non-operational areas. However, there are no other appropriately-placed organisations within the sector to provide leadership and support to forces. With reducing funding, it is especially important that forces have strong business skills and learn from each other's experiences. Currently, forces share good practice and learn from poor practice, on an inconsistent basis, often through informal networks. If the College is to function effectively in these areas in the future, there will need to be careful consideration of its resources and priorities. The College also considers it may need to re-examine its powers to take on these activities (paragraphs 2.11 to 2.12 and 3.31 to 3.35).

Conclusion on value for money

17 Police forces have successfully reduced costs since 2010-11 and crime has reduced over the same period. But this is an incomplete picture; the available indicators of financial stress are limited, and there is insufficient information on service stress. Crime statistics do not capture all crime, and the police do more than deal with crime-related incidents. However, most forces do not have a thorough evidence-based understanding of demand, or what affects their costs. It is therefore difficult for them to transform services intelligently, show how much resource they need, and demonstrate that they are delivering value for money.

18 While forces and police and crime commissioners are responsible for demonstrating value for money locally, the Department is ultimately responsible for overseeing the police, distributing funding and assuring Parliament that forces are providing value for money. The Department needs to be better informed to discharge this role. It needs to work with HMIC, the College, commissioners and forces to fill the significant gaps in understanding, particularly around demand and on when forces may be at risk of failing to meet the policing needs of local communities.

Recommendations

- a The Department should build upon its ongoing review of the funding formula and adopt an approach to funding that takes account of forces' local circumstances more fairly.** It could consider, for example, the proportion of funding commissioners receive from local taxation, levels of demand, relative efficiency of forces and level of financial reserves.
- b The police sector should develop a better understanding of demand for its services.**
 - The College, building on its 2015 report and with the National Police Chiefs' Council, should establish common standards for measuring demand.
 - Forces should use a more evidence-based understanding of demand to inform discussions with other public sector partners about future local service delivery.
- c The Department should work with HMIC, the College, the National Police Chiefs' Council and Association of Police and Crime Commissioners to develop better information to give more assurance on the health of the service and give early warning of when a force might fail.** We do not think that having such information available is at odds with local autonomy.

- d** **HMIC should review annually its police effectiveness, efficiency and legitimacy methodology, as it did following the 2014 assessments.** In particular, it should seek and act on feedback from forces and the Department, and continue to ensure that its staff have the appropriate experience to critically challenge forces.
- e** **The College should, with other bodies such as the Chartered Institute for Public Finance and Accountancy (CIPFA) and the National Police Chief's Council, consider how best to support and develop business skills at all levels within forces, both in officers and police staff.**
- f** **The College, with the Department, HMIC and the National Police Chief's Council, should improve the sharing of good practice and learning from both operational and non-operational areas.** The College should develop the approach it is using in its crime reduction toolkit into sharing good practice in non-operational areas, including learning from other sectors such as health and local government.