



National Audit Office

Report

by the Comptroller
and Auditor General

Home Office

Financial sustainability of police forces in England and Wales

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Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

1 June 2015

This report examines whether the Department, with other policing stakeholders, has effectively managed the risks of reduced police funding.

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Key facts

£12.8bn

total amount spent in 2014-15 by all 43 police forces in England and Wales

25%

real-terms reduction in central government funding to police and crime commissioners, 2010-11 to 2015-16

36,672

reduction in the size of the police workforce (excluding special constables) between March 2010 and September 2014

£2.5 billion savings forces planned to make between 2011-12 and 2014-15

35% real-terms increase in reserves (across 39 forces with comparable data) between 2010-11 and 2013-14

3 number of forces rated as 'requires improvement' in their response to the spending review by HM Inspectorate of Constabulary in *Policing in Austerity: Meeting the Challenge* (July 2014)

16,659 reduction in the number of police officers between March 2010 and September 2014

0% to 47% variation in the percentage of forces' savings that came from collaboration in 2014-15

66% budget increase for HM Inspectorate of Constabulary for 2014-15

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.

Part One

Challenges to financial sustainability

1.1 Since 2010-11, police forces have faced significant funding reductions. Part One:

- introduces the police accountability landscape and explains how this report relates to our wider work on policing and financial sustainability;
- explains the different sources of police funding; and
- introduces the scale of the financial challenge, the impact of which is discussed in Part Two.

1.2 This report builds upon our *Police accountability: Landscape review*³ and our series of financial sustainability reports in other sectors.⁴ It examines whether the Home Office (the Department) and other policing stakeholder have effectively managed the risks of reduced police funding.

Introduction

1.3 There are 43 territorial police forces in England and Wales. A chief constable heads each force, with authority over all operational policing decisions and staff.⁵ Since November 2012, chief constables have reported to an elected police and crime commissioner ('commissioner'),⁶ a post created to replace police authorities.⁷

1.4 Commissioners, in consultation with their chief constables: set out in an annual police and crime plan the objectives for their police force; allocate the funds needed to achieve them; and hold police forces to account on behalf of the public. This system encourages local variation and reduces intervention from central government.

³ Comptroller and Auditor General, *Police Accountability: Landscape review*, Session 2013-14, HC 963, National Audit Office, January 2014.

⁴ Comptroller and Auditor General, *The financial sustainability of NHS bodies*, Session 2014-15, HC 722, National Audit Office, November 2014; Comptroller and Auditor General, *Financial sustainability of local authorities 2014*, Session 2014-15, HC 783, National Audit Office, November 2014; and Comptroller and Auditor General, *The impact of funding reductions on local authorities*, National Audit Office, November 2014.

⁵ Metropolitan Police Service and City of London Police each have their own commissioner rather than chief constables.

⁶ The equivalent organisations for the Metropolitan Police Service and City of London Police are the Mayor's Office for Policing and Crime and the Common Council of the City of London. In this report we refer to all these parties as 'commissioners'.

⁷ By the Police Reform and Social Responsibility Act 2011, September 2011.

1.5 The Department has overall responsibility in central government for policing. Its main responsibilities are to:

- allocate formula and specific grants to commissioners who decide how much goes to police forces and how much to other crime reduction initiatives;
- establish a framework to provide assurance to Parliament on the regularity, propriety and value for money of police spending, and that there are appropriate checks and balances in the system; and
- intervene if forces or commissioners fail to carry out their functions effectively.⁸

1.6 Within the accountability framework, the Department relies on HM Inspectorate of Constabulary (HMIC), whose main statutory function is to assess the effectiveness, efficiency and legitimacy 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. The police landscape is set out in Figure 10.

Police force funding

1.7 Commissioners receive funding from:

- central government;
- council tax precepts; and
- income from activities such as policing at major sporting events.

Commissioners then distribute funding to forces and other funding for crime reduction initiatives as they see fit. In 2014-15, the estimated gross spending of all 43 forces was £12.8 billion.

Central government funding

1.8 Government funding to the police has fallen substantially since 2010-11, in line with government objectives to reduce the deficit. The 2010 spending review specified a 20% reduction, by 2014-15, in the police departmental expenditure limit.⁹ The 2013 spending review included a further 4.9% real terms reduction for 2015-16.¹⁰

⁸ Home Office, *Accounting Officer Accountability System Statement for Policing and Crime Reduction*, March 2015.

⁹ HM Treasury, *Spending Review 2010*, October 2010, Table 1, p.10. Departmental expenditure limits are the budgets HM Treasury sets for general running costs.

¹⁰ Home Office, *Police Grant Report (England and Wales) 2015-16, written statement, HLWS226*, February 2015. Available at: www.gov.uk/government/publications/the-police-grant-report-england-and-wales-2015-to-16

1.9 Between 2010-11 and 2015-16 overall central government funding for the police, including specific grants and council tax freeze grants,¹¹ has reduced by £2.2 billion (22%) in real terms, from £9.7 billion to £7.5 billion.¹² With the exception of council tax freeze grants, the Department reallocates some of the total settlement into grants and other policing activities to support the sector more widely. Once reallocated funding has been removed, central government funding direct to commissioners reduced by £2.3 billion (25%), in real terms, from £9 billion to £6.7 billion between 2010-11 and 2015-16 (**Figure 1** overleaf).¹³

1.10 In 2015-16, the Department reallocated £177 million from the police settlement to make specific grants that forces could bid for, such as the Police Innovation Fund, or for central initiatives such as extra funding for HMIC to conduct its police effectiveness, efficiency and legitimacy (PEEL) programme (see Part Three). The amount reallocated in 2015-16 was £93 million (111%) more than in 2014-15, mainly because of a £20 million increase in the Police Innovation Fund, a £12 million increase in the funding to the Independent Police Complaints Commission and £40 million for major policing programmes. Police forces and commissioners we spoke to were critical of reallocated funding, considering it to have only limited value.

Distributing central government funding

1.11 Up to 2013-14 the Home Office and Department for Communities and Local Government (DCLG) distributed funding across forces using a formula. The formula took account of local conditions and likely policing needs by using various data, including on crime, fear of crime, population and the policing of special events. The outcome was subject to a mechanism known as ‘damping’ to smooth the large variations in funding allocations that arose from the formula, so that all forces received an equal reduction. For example, between 2010-11 and 2013-14 West Midlands had its initial funding allocation reduced by £132 million, while Northumbria received an extra £99 million in total over those 4 financial years. In 2014-15 and 2015-16, the Department continued to apply the same percentage funding reduction to all forces.

1.12 The formula takes account of the council tax base in each force area, but it does not take account of all demands on police time, relative efficiency of forces, levels of reserves or the proportion of central government to police precept funding. The system does not incentivise value for money or strong financial management as all forces have faced the same percentage reduction in their funding from central government – regardless of their financial position or service performance. All the police forces and commissioners we spoke to referred to a ‘broken’ or ‘unequal’ system of funding. The Department is aware of these concerns and is reviewing the funding formula.

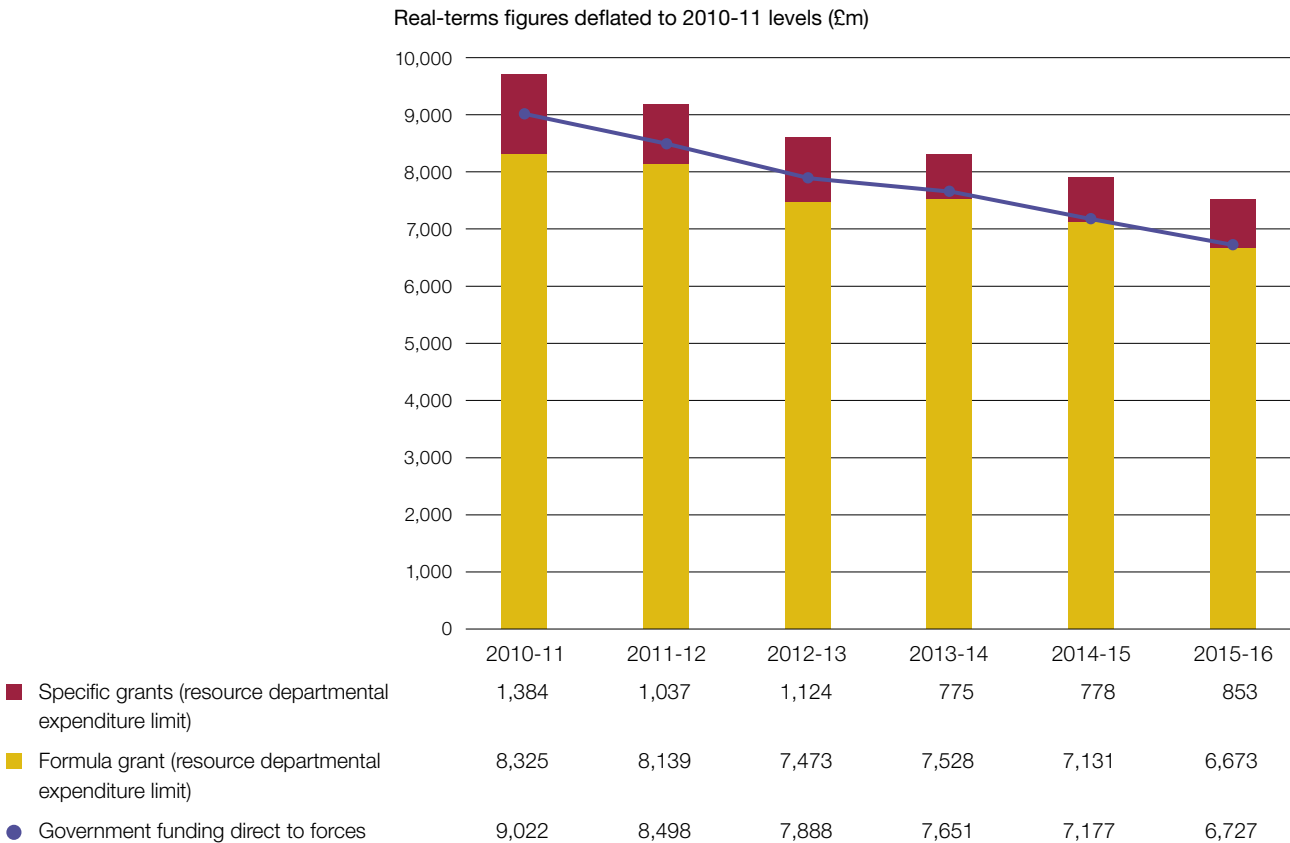
¹¹ See paragraph 1.16.

¹² Excluding £445 million capital funding between 2012-13 and 2015-16. Figures re-based to 2010-11 levels.

¹³ Excludes City of London as 2010-11 data are unavailable.

Figure 1
Central government revenue funding for the police, 2010-11 to 2015-16

Direct funding to forces has decreased by 25% in real terms since 2010-11



Notes

- 1 The base year for the real terms change is 2010-11. Throughout this report we use the Gross Domestic Product deflators at market prices, March 2015 (ONS Quarterly National Accounts).
- 2 Government funding figures exclude City of London Police because data are unavailable for 2010-11. Figures also exclude reallocated specific grants.
- 3 The Neighbourhood Policing Fund (previously a specific grant) was rolled into the police main grant in 2013-14. The Community Safety Fund (previously a specific grant) was rolled into the police main grant in 2014-15 and has been included in the 2013-14 figures.
- 4 In 2015-16, the Department allocated £928 million of specific and special grants (a 39% real-term reduction compared with 2010-11 grants) to cover expenditure in particular areas. This included: specific grants for major programmes (£40 million) and the Police Innovation Fund (£70 million); and special grants (£15 million) to support unforeseen police costs such as international summits or complex murder investigations (which cost more than 1% of a force's net revenue spending).
- 5 The police in England also receive small amounts of central government funding from other sources including the Ministry of Justice. These figures are excluded.

Source: National Audit Office analysis of Home Office data and the Police Grant Report (England and Wales) 2015-16, written statement, February 2015

Council tax funding

1.13 Commissioners receive funds raised from local taxation via the police precept: a levy collected as part of council tax for the force area the taxpayer lives in. Between 2010-11 and 2015-16 overall precept funding to commissioners, including local council tax support grants, increased by 2.1% (in real terms).

1.14 Commissioners in England, with scrutiny and approval from their Police and Crime Panels, can raise their precept by any amount they see fit. However, in 2015-16 any increase above 1.99% required a local referendum. In 2015, only one commissioner (in Bedfordshire) decided to hold a referendum, asking for a 15.8% increase in the police precept to help the force balance its budget and to support the strategic priorities of the commissioner.¹⁴ However, the majority (69.5%) voted against the increase. Commissioners in Wales do not need to hold a referendum if they increase their precept by more than 1.99%. However, the National Assembly for Wales can prevent increases that it sees as unreasonable.

1.15 Local capacity to generate council tax income means that commissioners have different levels of police precept funding as a proportion of overall funding. Almost all commissioners receive most of their funding from central government. In 2015-16, central government funding equated to 68% of the £10.9 billion funding that forces received, with the remaining 32% coming from local taxation. Commissioners vary significantly in terms of the proportion of central government funding to council tax funding they receive (**Figure 2** overleaf). For example, in 2015-16, 85% of Northumbria Police's funding came from central government, compared with 46% for Surrey Police. Force areas most affected by funding reductions are those with a greater proportion of central government funding (see **Figure 4** on page 19).

1.16 The Department also distributes legacy council tax grants to those forces in England whose local authority chose to freeze or lower the police precept in 2011-12, 2013-14 and 2014-15. DCLG previously distributed these funds. In 2015-16, legacy council tax grants and local council tax support grants were £534 million. These grants are included in **Figure 1**.

Other income

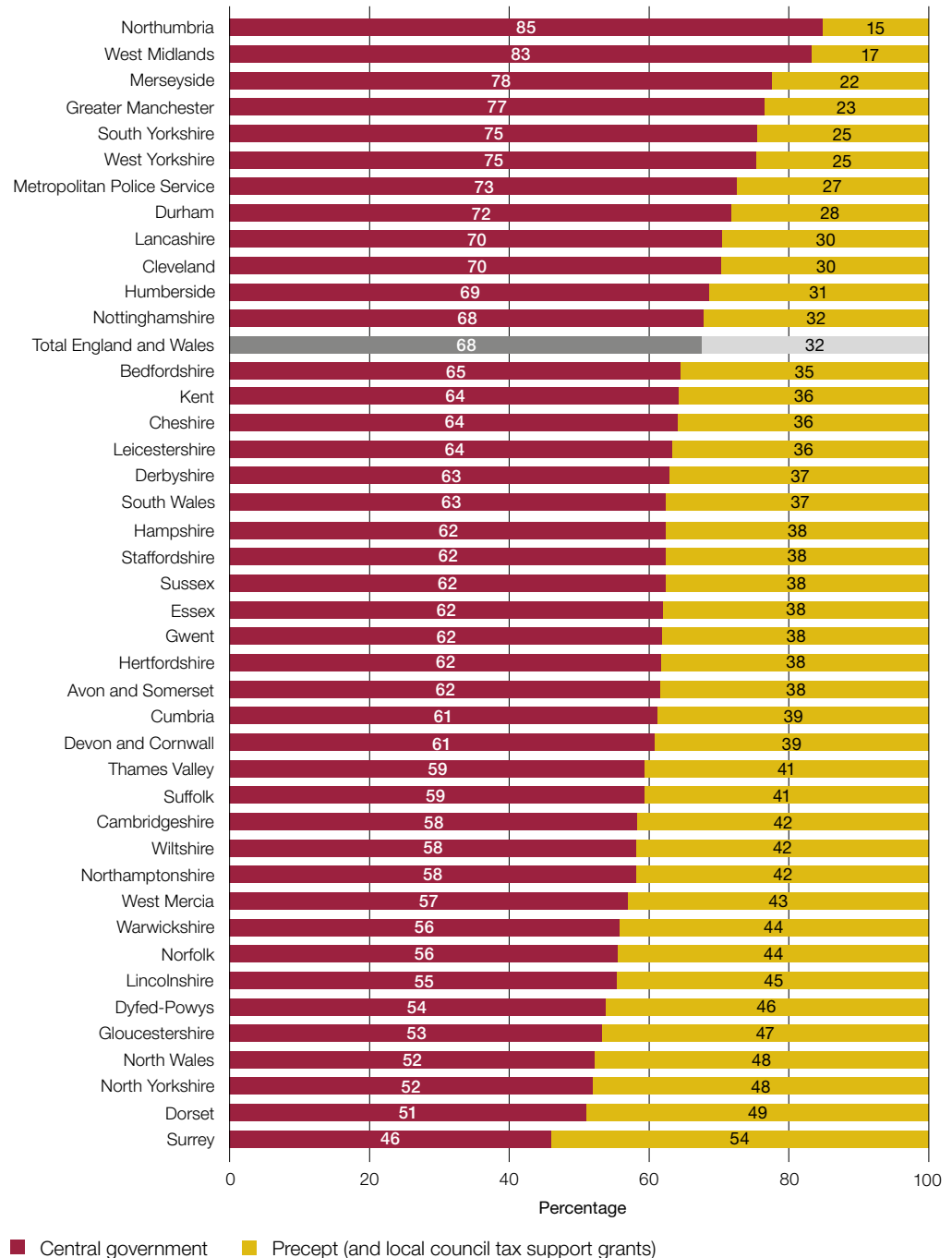
1.17 In 2013-14, police forces received £630 million of other income.¹⁵ Forces receive income from various activities, including: sales, fees, charges and rents; and income from other partners in the criminal justice system and wider public sector, such as local authorities that fund additional police community support officers (PCSOs).

1.18 Between 2010-11 and 2013-14 police force income reduced by 5% in real terms (**Figure 3** on page 17). Income from other public bodies (excluding other police forces) increased by 9% and sales, fees and charges income reduced by 5%. There is limited sector analysis about how forces raise income or the likely future trend.

¹⁴ Bedfordshire Police and Crime Commissioner, *Response to the Bedfordshire Police and Crime Panel Report and recommendations to the Police and Crime Commissioner on the proposed precept for 2015/2016*, February 2015.

¹⁵ Excludes income from: other forces (to avoid double counting), undefined partnerships or from the Proceeds of Crime Act.

Figure 2
Central versus local government funding by force area in 2015-16



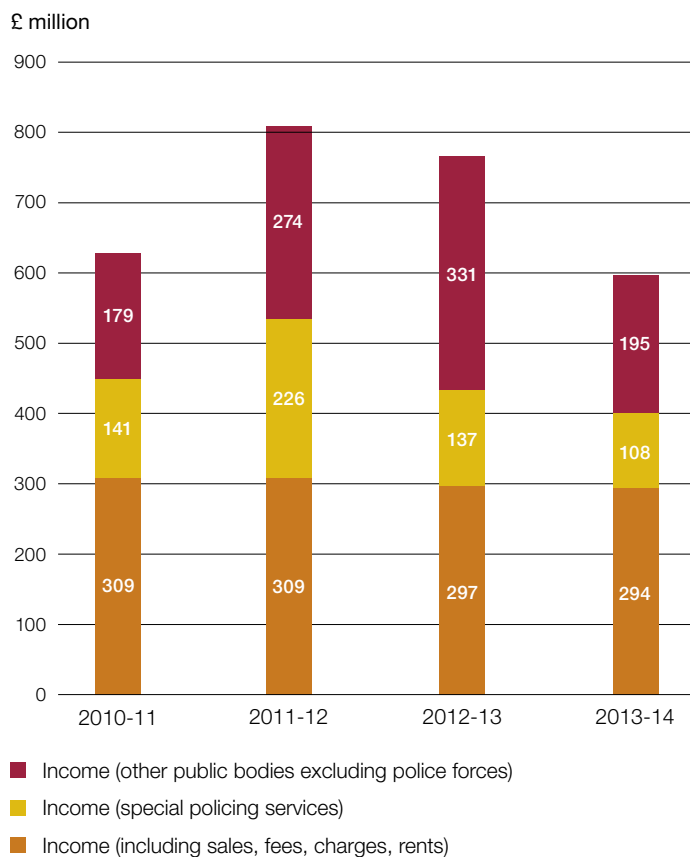
Notes

- 1 The base year for the real-terms change is 2010-11.
- 2 City of London Police do receive precept income; however, it is not possible to split out an amount that goes to the police as the City of London Corporation receives its precept.
- 3 Precept figures include local council tax support grants.
- 4 Central funding excludes counter-terrorism, Private Finance Initiatives and Police Innovation funding, as well as other reallocated funds. Also see Figure 1, note 5.
- 5 Precept figures exclude any distribution of previous year's council tax surplus.

Source: National Audit Office analysis of Home Office data

Figure 3
Real-terms changes in police force income, 2010-11 to 2013-14

Police force income has reduced by 5% in real terms



Notes

- 1 Figures deflated to 2010-11 levels.
- 2 Increases in 2011-12 may be related to the preparation for the London 2012 Olympics Games.

Source: The Chartered Institute of Public Finance & Accountancy police actuals (2010-11 to 2013-14), available at: www.cipfastats.net/

Savings required and achieved

1.19 Between 2010-11 and 2015-16 total funding to commissioners reduced by 18% in real terms. However, the funding reduction required by individual force areas ranged from 12% to 23% because of the variation in the proportion of central government funding to council tax funding that individual commissioners received (**Figure 4**).¹⁶ Forces also have different financial pressures relating to national insurance and pension changes, as well as local factors such as the size and nature of their workforce. These factors mean that between 2011-12 and 2015-16, individual forces had to make different levels of savings, ranging from 11% to 29% of their 2010-11 total spending (**Figure 5** on page 20).

1.20 HMIC has produced a series of reports examining how individual police forces have adapted to austerity. *Policing in Austerity: Meeting the Challenge* estimated that forces would need to make savings of £2.5 billion¹⁷ between 2011-12 and 2014-15.¹⁸ Forces had plans to achieve 96% (£2.4 billion) of the required savings, and expected to meet the remainder by using £107 million of reserves. Forces estimated they will need to save a further £656 million in 2015-16, of which £99 million will be offset by reserves (15% of the total estimated savings requirement). In Part Three we analyse forces' reserves in more detail.

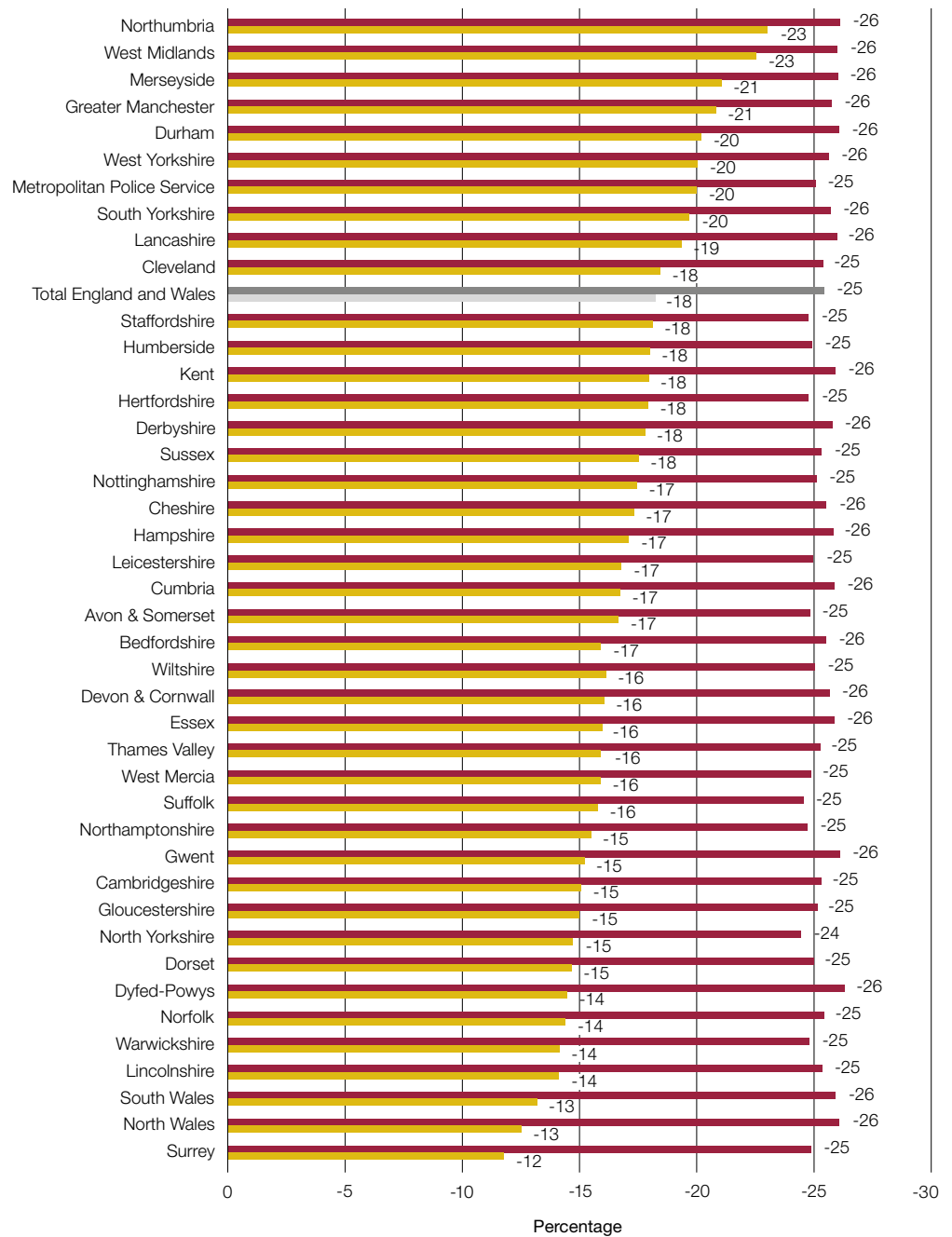
¹⁶ This excludes other income that forces generate.

¹⁷ Including inflationary pressures.

¹⁸ HM Inspectorate of Constabulary, *Policing in Austerity: Meeting the Challenge*. July 2014.

Figure 4

Real-terms funding reductions by force area, 2010-11 to 2015-16



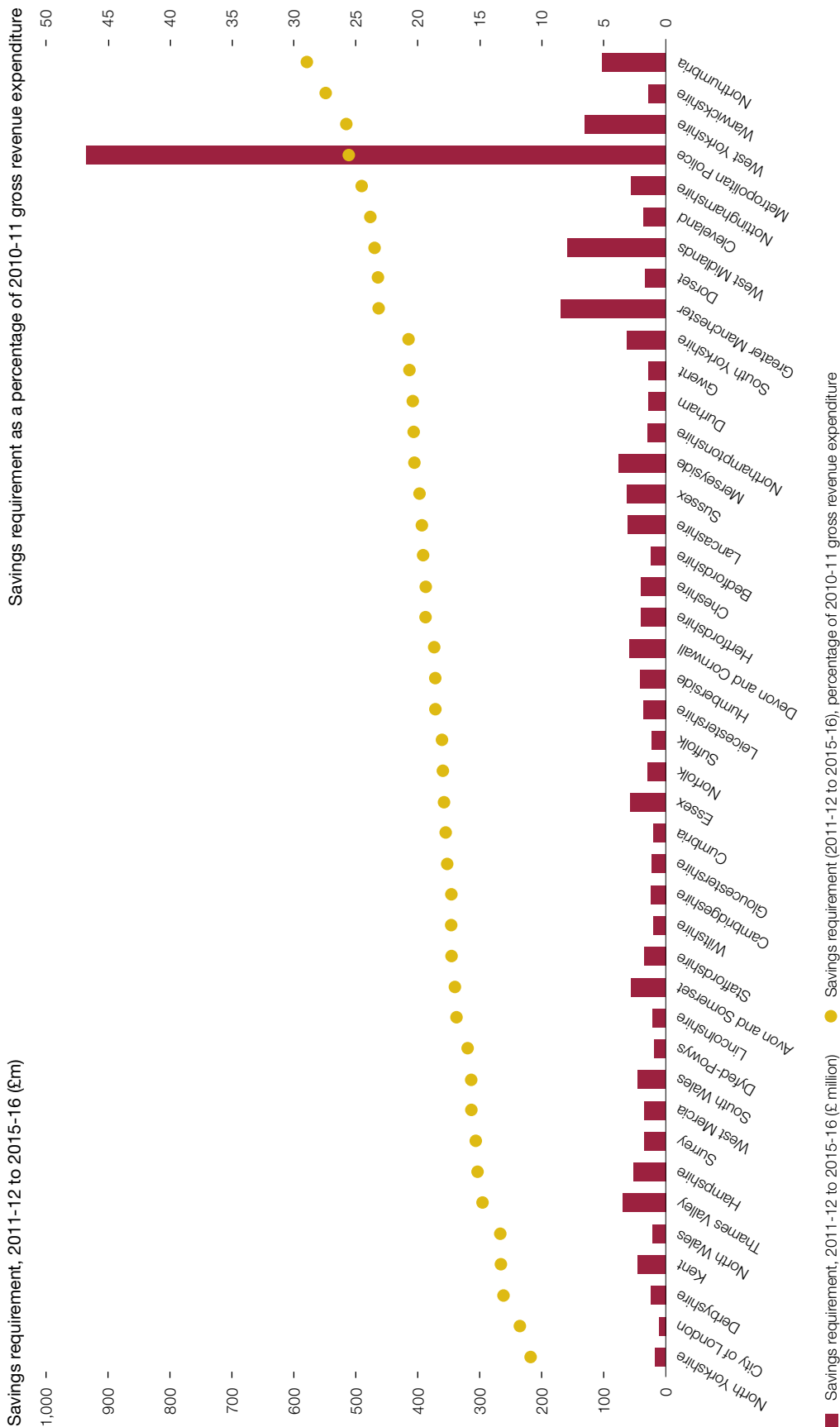
- Central government funding reduction
- Total funding reduction (central government plus council tax precept)

Notes

- 1 Excludes counter-terrorism, private finance initiatives and Police Innovation funding, as well as other reallocated funds. Also see Figure 1, Note 5 and Figure 2, Note 3.
- 2 Precept figures exclude any distribution of previous year's council tax surplus.

Source: National Audit Office analysis of Home Office data

Figure 5
Police forces' savings requirements, 2011-12 to 2015-16



Notes

- 1 Figures based on forces' planned savings and include additional factors such as wider income, national insurance and pension changes, and reserves.
- 2 2015-16 figures were estimates as of March 2014. Forces have provided updated data to HMIC as part of PEEL 2015 but these were not available at the time of publication.

Source: National Audit Office analysis of HM Inspectorate of Constabulary Valuing the police data (2014)

Part Two

The impact of funding reductions

2.1 Part Two explores how police and crime commissioners ('commissioners') and forces have managed the impact of funding reductions and examines:

- efforts to transform police forces, including workforce changes and collaboration; and
- how forces understand and manage demand.

Changing the way police work

2.2 The government has recognised that the cost reduction of the last Parliament can only go so far and that future savings will be harder to achieve, requiring the government to deliver public services more creatively.¹⁹

2.3 The Home Office (the Department) expects police forces to manage current and future funding reductions by transforming how they deliver services. This includes:

- changing the workforce structure and skills mix;
- engaging differently with the public;
- increasing use of digital channels and information technology; and
- increasing collaboration with other forces and service providers, such as other emergency services or the private sector.²⁰

2.4 Police forces vary significantly in their size and the financial challenges they face.²¹ Among the forces we visited, West Midlands Police is a good example of force transformation. Its new operating model is based on extensive work done over several years to build its understanding of demand and costs. This work provided a foundation for deciding on priorities and operational structures to provide better services at lower cost.

¹⁹ Cabinet Office and HM Treasury, *Efficiency and reform in the next parliament*, December 2014, p.19.

²⁰ HM Inspectorate of Constabulary, *State of Policing: The Annual Assessment of Policing in England and Wales, 2013/2014*, November 2014, pp.22–24.

²¹ HM Inspectorate of Constabulary's value-for-money profiles and valuing the police data provide data on the variation across forces.

2.5 However, based on our visits to 9 forces, many of the savings achieved to date could be considered tactical or efficiency savings,²² such as:

- reorganising neighbourhood policing teams to consolidate officer resources;
- improving the efficiency of emergency call centres;
- closing under-used police stations;
- reducing procurement costs; and
- freezing recruitment.

2.6 Forces will need to look at more radical ways to transform their operations, given the scale of workforce reductions required and the likely need to make further savings.

2.7 A more radical transformation happened in 2013, when the 8 Scottish police forces merged into one force. The reform cost £147 million²³ and is expected to save £106 million a year from 2015-16.²⁴ These expected savings have not been audited.

Workforce reductions

2.8 Staff costs make up 79% of police spending but, between 2011-12 and 2015-16, forces planned to make only 69% of savings from staff. This may be because forces have sought to protect officer numbers and partly because they have been impacted by restrictions on their ability to change the composition of their workforce:

- Forces cannot make police officers redundant because, as officers of the Crown rather than employees of individual forces, there is no legal process for doing so.
- Public pledges from commissioners about officer or police community support officer (PCSO) numbers can also restrict the control of chief constables over the size and shape of their workforce.

2.9 The Department's data show that between March 2010 and September 2014, the overall police workforce reduced by 36,672 (15%) (**Figure 6**). However, reductions varied by staff group and force:

- Police officers reduced by 16,659 (12%) to 127,075, varying from 21% reduction at Cleveland and Staffordshire to a 2% increase in Surrey.
- Civilian staff, who work in roles that support the work of police officers and the force, reduced by 20% from 79,596 to 63,678, varying from a 74% reduction at Cleveland²⁵ to a 31% increase at the City of London.

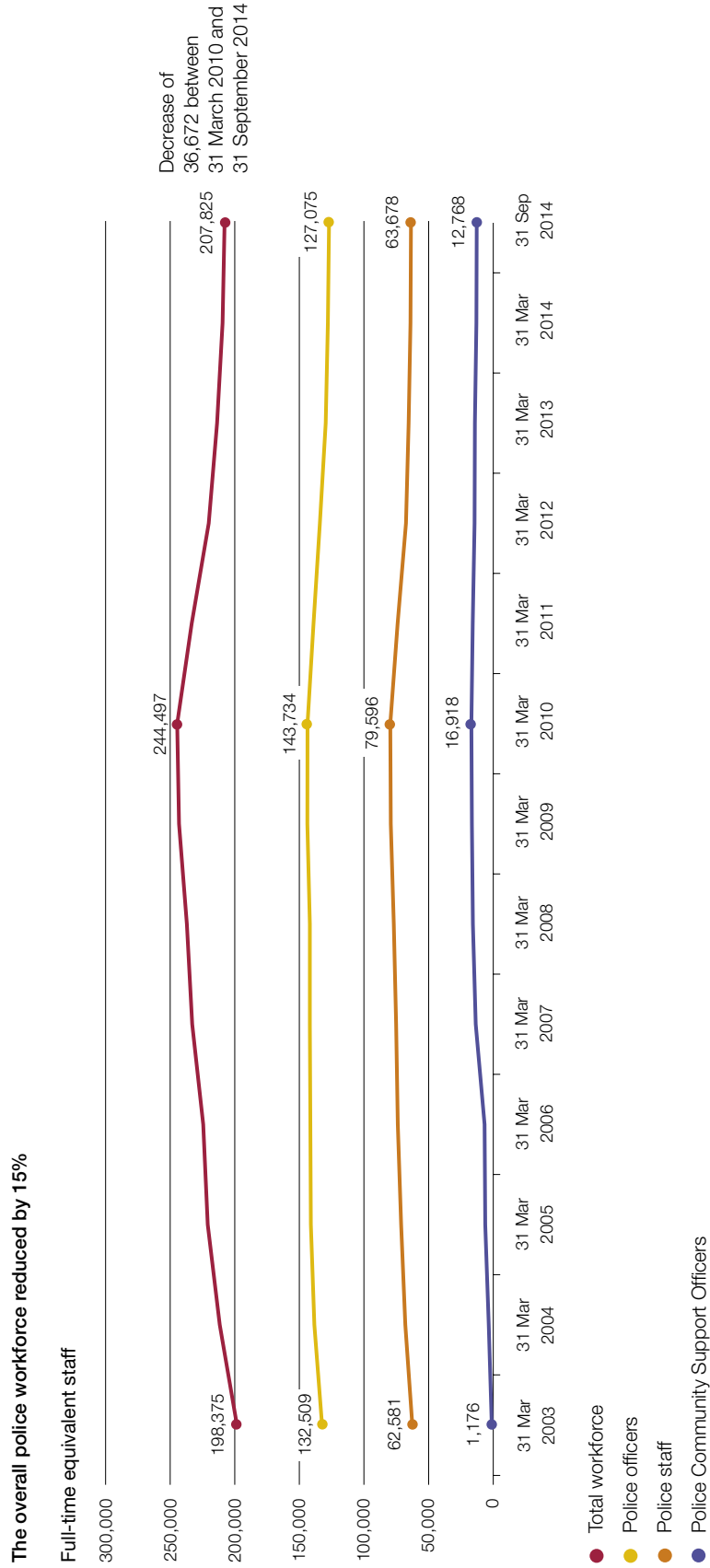
22 National Audit Office. *Short Guide to structured cost reduction*. June 2010, p.3.

23 Auditor General, *Police Reform: progress update 2013*, Audit Scotland, November 2013.

24 Scottish Government, *Police Reform Programme: Outline Business Case*, September 2011, p.8.

25 This is partly due to Cleveland Police's 10-year business partnering contract that led to around 500 police staff transferring to Steria.

Figure 6
Police workforce changes in England and Wales, March 2010 to September 2014



Notes

- 1 Total workforce includes police traffic wardens and designated officers.
- 2 Excludes special constables, British Transport Police and central secondments.

Source: National Audit Office analysis of Home Office data

- Nationally, staff working in finance functions reduced by an estimated 38%, from 2,421 to 1,498. Staff in performance review and corporate development reduced by 25% from 3,140 to 2,369.²⁶
- PCSOs, whose main role is to provide a force's visible presence in communities, reduced by 25% from 16,918 to 12,768.
- Special constables, who are volunteers that receive training to support regular police officers, increased by 8% from 15,505 to 16,792.

2.10 The reduction in civilian staff is significant at a time when forces have to transform the way they operate and risks creating an unbalanced workforce. Forces will need professional business skills at all levels to manage more radical transformation.

2.11 The College of Policing (the College), which sets professional standards in policing, was established in 2012. In November 2014, it outlined its *Five-Year Strategy*, which comprised five priority areas.²⁷ Relevant to this report, these include: identifying, developing and promoting practice based on evidence; and supporting the professional development of all those working in policing.

2.12 The College considers that it is not sufficiently funded to support business skills (such as finance, demand, performance, contract and change management) and that to do so would be out of its remit. It considers that support is available to forces from other bodies such as the Chartered Institute for Public Finance and Accountancy. Officers and police staff within the forces we spoke to were not clear where to go for support and advice in business skills. The College has produced a revised leadership training programme, which started in 2014, that includes some focus on professional business skills. However, it is not yet clear what support there is outside the training courses, or how it will support different staff groups within forces to have a greater business focus. It intends to revisit the training programme after publication of its police leadership review.²⁸

Collaboration

2.13 In line with the findings of HM Inspectorate of Constabulary's (HMIC's) *Policing in Austerity: meeting the challenge* report, the Department considers that forces will be able to achieve higher levels of savings by increasing collaboration across forces and between public and private service providers. It has introduced a statutory requirement on forces to consider collaboration opportunities when it is in the interest of efficiency or effectiveness of one or more forces. It also established the Police Innovation Fund to encourage innovative approaches to making savings, including through collaboration.

²⁶ CIPFA police objective analysis, 2010-11 to 2014-15.

²⁷ College of Policing, *Five-Year Strategy*, November 2014.

²⁸ The College published an interim report in March 2015.

2.14 Collaboration is not just important to make savings, it can also help forces to be more resilient in the longer term, and provide better services to the public. Forces are increasingly collaborating in different ways, including:

- collaboration with other forces on operational or support functions, such as with regional counter-terrorism units and organised crime units, as well as the National Police Air Service;
- collaboration with other locally based public sector agencies, such as fire or ambulance services and local authorities; and
- partnerships with private sector partners to provide facilities or support services.

2.15 Spending on, and savings from, collaboration vary significantly. In 2014-15, analysis of HMIC and CIPFA data found that around 12% of planned net revenue spending was on collaboration. HMIC estimates that the proportion of savings made from collaboration ranged from 0%–47% across forces (**Figure 7** overleaf). Forces such as West Mercia and Suffolk have a very high proportion of savings from collaboration because of formal arrangements with other forces.

2.16 There are limited data to explain the variation shown in Figure 7. Opportunities for collaboration are affected by various factors including:

- workforce mix;
- size of force;
- demographic and geographic factors such as boundaries with other partners; and
- the views of commissioners and chief constables.

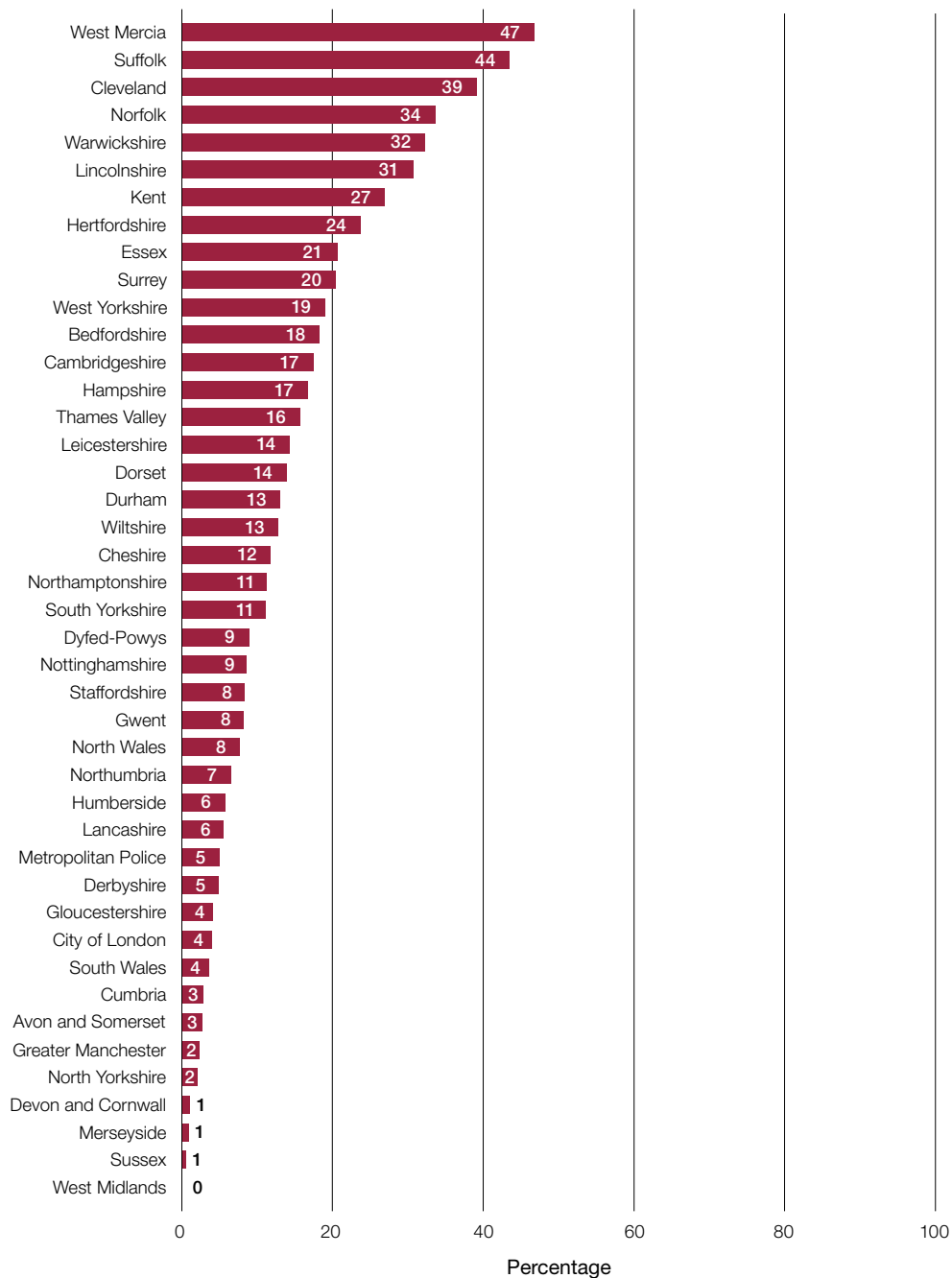
2.17 Data from forces on savings from collaboration are poor, and so there is insufficient analysis within the police accountability system of the variation in savings achieved from collaboration, or on what makes collaboration more likely to succeed. The variation in how forces have collaborated indicates that without further understanding, support or impetus, it will not be possible for all forces to make significant savings from collaboration.

Managing and measuring demand

2.18 To transform their operations effectively, it is important that forces understand and manage the demand for their services. Demands are diverse and include:

- crime;
- anti-social behaviour;
- protective and preventative work, such as child protection; and
- non-crime demand, including supporting other public sector agencies.

Figure 7
Planned savings from collaboration, 2014-15



■ Proportion of savings requirement saved from collaboration 2014-15

Note

1 This is based on data for 2014-15 that only provide a snapshot as some forces may have achieved different levels of savings from collaboration in previous and future years.

Source: National Audit Office analysis of HM Inspectorate of Constabulary data

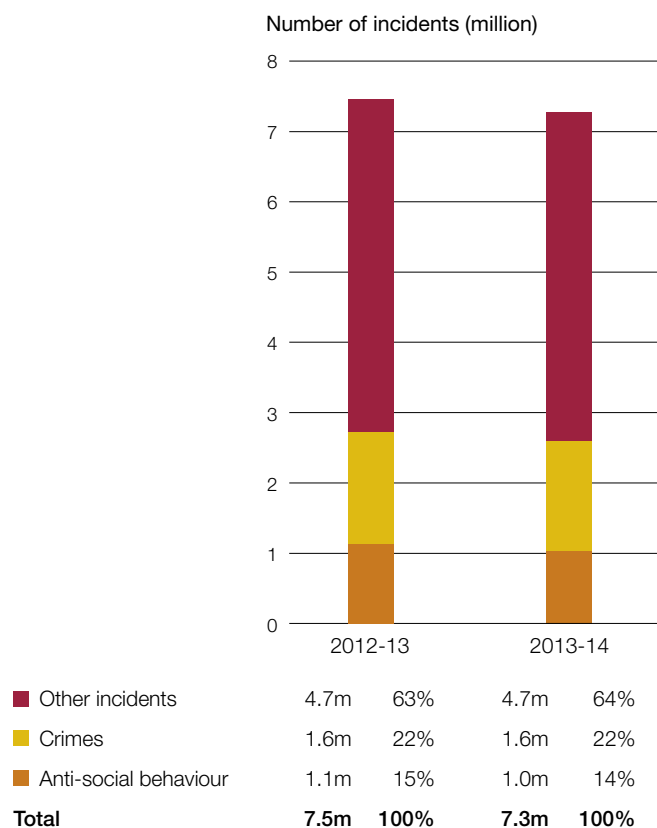
The changing nature of crime demand

2.19 HMIC data on demand for police services from emergency and priority incidents show that only 22% of incidents that police responded to were crime-related. This was consistent between 2012-13 and 2013-14 (**Figure 8**) and reflects number of incidents rather than the workload they generate.

Figure 8

Demand for police services from emergency and priority incidents

In 2013-14, 22% of incidents that police responded to were crime-related



Notes

- 1 Based on annual data returns from forces.
- 2 Figures may not reconcile due to rounding.

Source: HM Inspectorate of Constabulary value-for-money profiles, 2014

2.20 The most common measure of police demand is recorded crime, even though forces estimate that crime is a relatively low proportion of demand. Crime is also measured through the Crime Survey of England and Wales but both measures have limitations:

- Recorded crime only captures crimes reported by victims and those recorded by police.
- The crime survey excludes some crime types, such as fraud and murder, and some groups, such as people living in institutions.²⁹

2.21 Noting these limitations, between March 2010 and December 2014, recorded crime decreased by 9% nationally and crime recorded in the Crime Survey for England and Wales decreased by 26%³⁰ (**Figure 9**). However, recorded crime increased by 2% between the years ending December 2013 and 2014.

2.22 Although recorded crime has decreased over the past four years, some crime types such as child sexual abuse that have previously been under-reported to the police, are increasing. These are often complex and place substantial demands on police resources and capability.³¹ While data are very limited, some indicative examples include:

- reported cases of child sexual exploitation increased by 224% in the Metropolitan Police Service between 2013 and 2014;^{32, 33}
- nationally reported fraud offences increased by 34% between 2013 and 2014;³⁴
- human trafficking referrals increased by 47% between 2012 and 2013; and
- cyber-enabled crimes, which are widely thought to be growing but have only recently started to be recorded.

2.23 Of the 9 forces we visited, 8 expressed particular concerns about their capacity and capability to respond to cyber crime and child sexual exploitation. They also raised concerns about officers lacking the training to deal with people with mental health issues.

Understanding demand

2.24 A full understanding of the nature of demand for police services, and police productivity, is important because this has an impact on the resources and skills required by forces. We would expect public services to develop an understanding of demand alongside reducing costs and to use this information to develop new business models.

29 Office for National Statistics, *User guide to crime statistics for England and Wales*, February 2015.

30 Office for National Statistics, *Bulletin Tables – Crime in England and Wales*, year ending December 2014, Figure 1. Available at: www.ons.gov.uk/ons/rel/crime-stats/crime-statistics/year-ending-december-2014/crime-in-england-and-wales--year-ending-december-2014.html

31 College of Policing, *Estimating demand on the police service*, January 2015.

32 This was affected by the reporting of historic offences after the publicity of Jimmy Savile's offences.

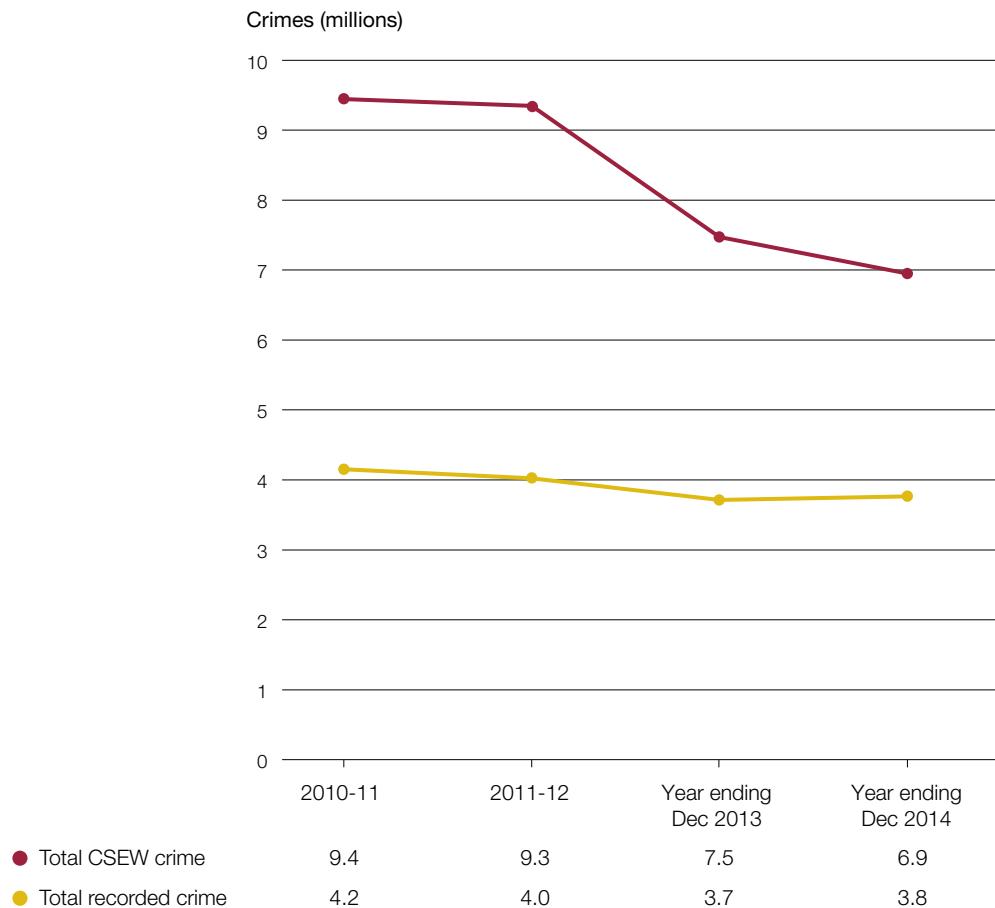
33 In March 2015, the Department gave child sexual abuse national threat status in the latest *Strategic Policing Requirement*.

34 See footnote 31.

Figure 9

Police-recorded and Crime Survey of England and Wales crime

Crime has decreased between March 2010 and December 2014



Source: Office for National Statistics, Crime Statistics, year ending December 2014

2.25 HMIC found that forces' understanding of demand varied considerably. While all forces had done some analysis, this often focused primarily on analysing 999 calls. In 2014, HMIC considered that only 10 of the 43 forces had a sophisticated understanding of the demand for police services,³⁵ despite forces having had to reduce their costs for 5 years.

2.26 Our case study visits confirmed HMIC's findings. Some of the forces, including West Midlands, West Yorkshire and South Wales, had undertaken detailed mapping or modelling exercises over several years and used the information to allocate funding and change the way they delivered services. However, other forces had only recently begun this work and did not have reliable systems for tracking demand.

35 HM Inspectorate of Constabulary, *Core Business: an inspection into crime prevention, police attendance and the use of police time*, September 2014.

2.27 Of the 9 forces we spoke to, 8 stated that they believed funding pressures in other sectors, such as mental health, local authority-funded community safety and ambulance services had an impact on policing services. However, there are no national data analysing demand on police services caused by funding reductions in other sectors, and none of the forces we visited had collected such data. Work is needed to determine the scale of the problem, to identify its potential impact on forces' and partners' service delivery and costs, and to assess whether it is appropriate for the police to pick up demand in some non-crime areas. This is particularly important as local authorities are also likely to face further significant funding reductions. The police sector is currently examining partnership working as part of its national debate on the future of policing.

2.28 Of the 9 forces we spoke to, 8 recognised more work was needed to integrate their understanding of financial, performance and demand information. Areas that could be improved included:

- providing more information in financial reports about the costs of various police activities;
- establishing productivity measures; and
- developing indicators of police performance that are more advanced than crime and victim satisfaction levels.

2.29 The variation in both the quality and type of data collected by police forces means that, in our view, there is no comprehensive national understanding of demand for police services. The College recently released a report that collated existing evidence on different types of demand and included some detailed data from a sample of 12 forces which it considers provides a starting point towards establishing a comprehensive picture of demand.³⁶ It plans to work with forces to establish consistent approaches to understanding demand that can be used to make decisions. Some forces have used the demand report to evaluate and compare their demand to that presented by the College. The multi-agency Silver Group, which focuses on police funding and finances and includes senior police leaders and commissioners, is considering demand in this context.

2.30 Without better information about demand and service performance at a national level, the Department and HMIC cannot reach a sufficiently informed view of what influences police costs locally, regionally and nationally. This limits the Department's ability to monitor and understand the link between financial and service pressures on forces.

³⁶ See footnote 31.

Part Three

Oversight and accountability

3.1 Part Three explores the police accountability landscape, and identifies gaps and risks for the Home Office (the Department) and other stakeholders to consider. In particular, we focus on:

- the current police accountability system;
- how the Department identifies and prevents financial and service failure;
- national and local scrutiny; and
- how good practice is shared within the police landscape.

The accountability system

3.2 The Department's *Accountability System Statement for Policing and Crime Reduction* outlines the accountability framework for police bodies and the Department's role.³⁷ It sets out the legislation, guidance and information underpinning the system. We outlined the Department's responsibilities in paragraph 1.5 and **Figure 10** overleaf explains the roles of stakeholders within the police accountability system.

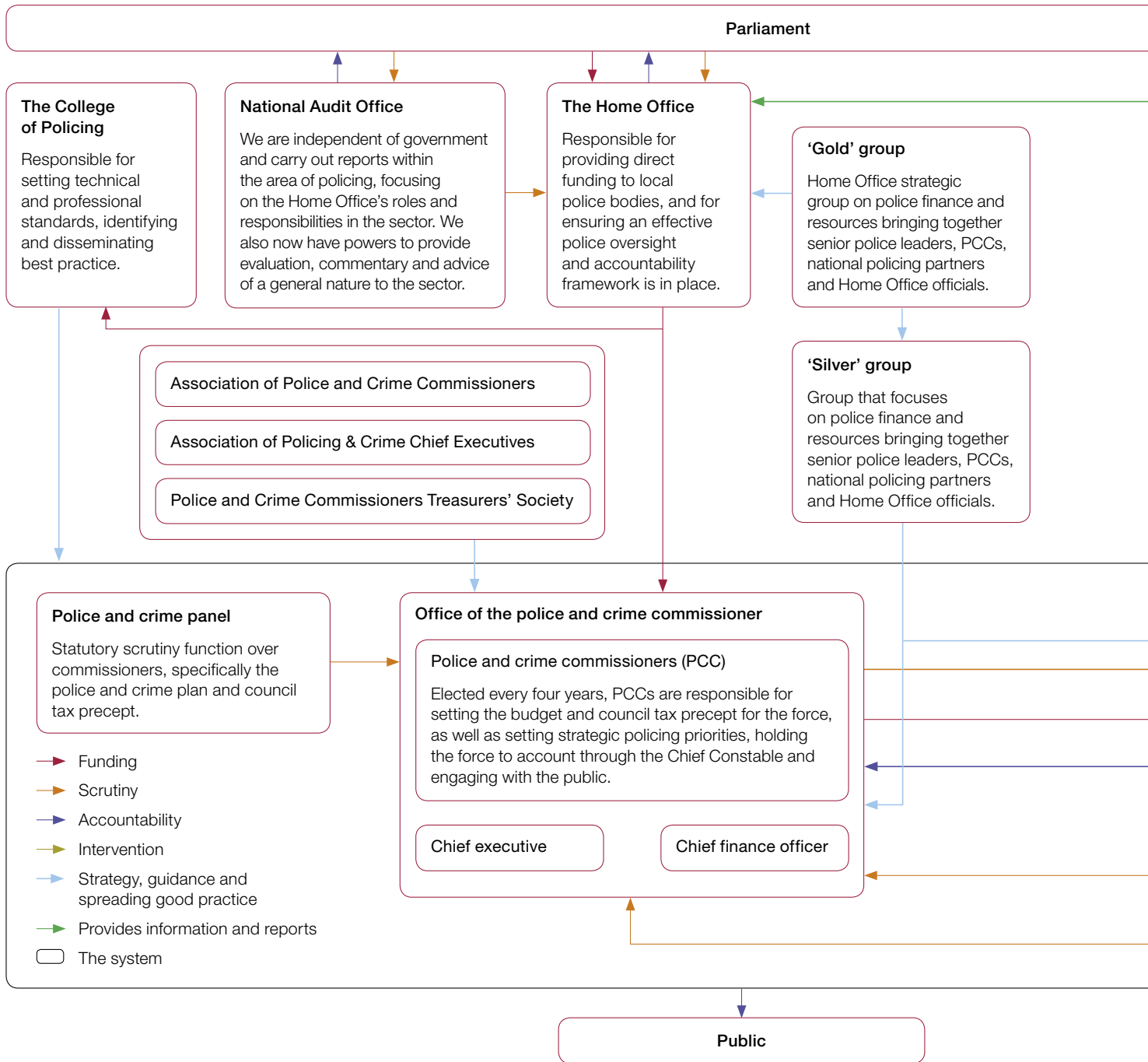
3.3 The *Financial Management Code of Practice for the Police Service of England and Wales* sets out the financial management responsibilities of commissioners, chief constables and other roles such as chief financial officers.³⁸ The responsibilities of the chief financial officers for forces and commissioners include:

- advising commissioners and chief constables on value for money of spending;
- reporting when it appears spending is likely to exceed available resources; and
- providing effective financial and budget planning for the short, medium and long term.

³⁷ Home Office. *Accounting Officer Accountability System Statement for Policing and Crime Reduction*, March 2015.

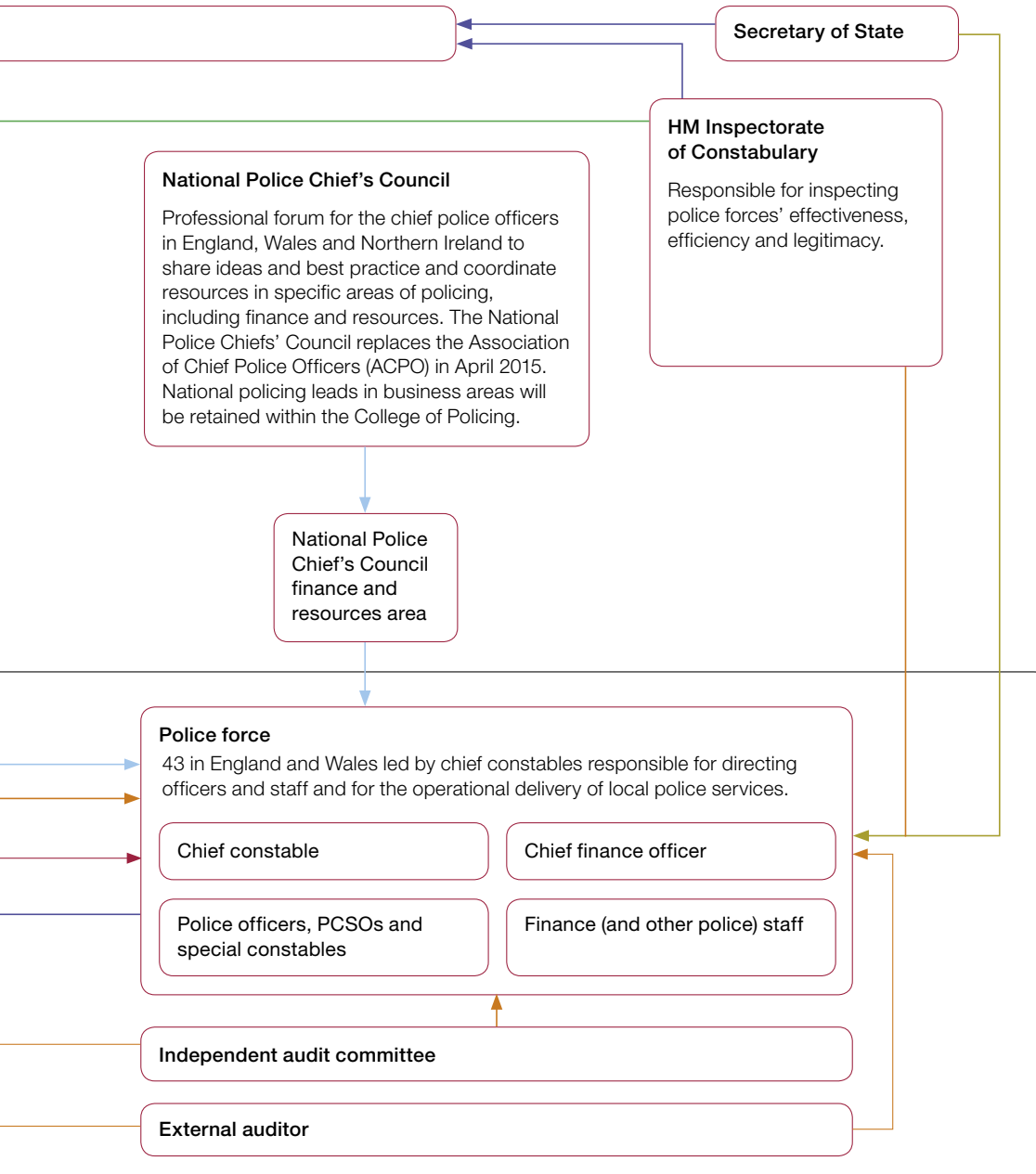
³⁸ Home Office, *Financial Management Code of Practice for the Police Service of England and Wales*, January 2012 (updated October 2013).

Figure 10
Police accountability landscape



Notes

- 1 The Association of Police and Crime Commissioners, Association of Policing and Crime Chief Executives and Police and Crime Commissioners Treasurers' Society are national bodies that support commissioners and share expertise on various issues, including finance.
- 2 The Chartered Institute of Public Finance and Accountancy (CIPFA) produces financial guidance and has various police work streams channelled through its police panel.
- 3 There is also a National Police Coordination Centre (NPoCC) that is responsible for coordinating the deployment of police officers and staff from across UK policing to support forces during large-scale events, operations and in times of national crisis.



The powers of the Home Secretary

3.4 The Home Secretary has ‘backstop powers’ to direct commissioners to take action when police forces or commissioners are failing to carry out their functions effectively.³⁹ Intervention is on a case-by-case basis and considered to be a last resort when all other options have failed. To date, the Home Secretary has never used these powers.

3.5 The Home Secretary also has additional powers that have been used to varying degrees (**Figure 11**).

3.6 The Home Secretary’s powers to intervene in failing forces, and when the Home Secretary would use them, are not widely understood by commissioners and forces. The Department’s system statement explains the powers but does not outline how it would use specific information and indicators to trigger intervention.

Figure 11

Home Secretary powers and their use since 2010

	Used?
Direct HM Inspectorate of Constabulary to look into a police force and report on any issue	✓
Intervene where force budgets are set too low and threaten the safety of people in that police area	X
Specify functions that all or some forces must perform in collaboration with other forces	✓
Direct chief officers or policing bodies to enter into, vary, not make or terminate collaboration agreements between forces and/or between local policing bodies	X
Mandate mutual aid agreements to meet special demand on resources (for example, the London 2012 Olympic Games)	✓
Prescribe requirements for the provision and standard of equipment (for example, procured under specific arrangements)	✓
Issue directions to the College of Policing	✓
Require the Mayor’s Office for Policing and Crime (MOPAC) to call upon the Commissioner or Deputy Commissioner of the Metropolitan Police to retire or resign	X
Require chief constables to provide specified information, for example within the Annual Data Requirement	✓

Source: National Audit Office analysis

³⁹ See footnote 37.

Signs of financial and service failure

3.7 The Department needs appropriate information about failure to intervene effectively. There are two types of failure that individual police forces might face: financial and service failure. The Department does not define what would constitute financial or service failure, arguing each case would be different.

Financial failure

3.8 The legal framework for police finances effectively prevents forces becoming insolvent because forces and commissioners cannot run deficits. This is enforced by legal duties for:

- commissioners and forces to set balanced annual budgets and ensure they have adequate reserves; and
- chief finance officers to issue a 'section 114' report if it appears a commissioner might spend more in a financial year than the resources available.

3.9 The Department relies on the accountability system to prevent or identify financial failure. The accountability system statement outlines the information available to the accounting officer to judge the financial health of the system. This includes:

- contact with HM Inspectorate of Constabulary (HMIC), commissioners, chief constables, chief executives and national organisations;
- various data, some of which is submitted to the Department and some for which the Department sets transparency requirements;⁴⁰ and
- external audit reports.⁴¹

Service failure

3.10 Owing to the legal framework, the Department recognises that any problems caused by funding reductions are more likely to manifest themselves in a force being unable to provide an adequate policing service (service failure) rather than financial failure.

⁴⁰ The Annual Data Requirement, available at: <http://data.police.uk/data/annual-data-requirement/>; and the Specified Information Order, which sets out what information commissioners have to publish.

⁴¹ See footnote 37.

Assessing financial and service stress

3.11 In 2010 the previous government removed public service agreement (PSA) targets as part of its move towards greater local accountability. Commissioners and forces decide what information to collect and monitor in response to local priorities.

3.12 We examined information available to the Department to assess whether the policing sector is experiencing or is likely to experience financial and service stress (**Figure 12**). We found that there are currently limited signs of financial or service stress in the sector as a whole following the funding reductions made since 2010-11. However, this information is limited in its ability to give the Department assurance on the health of the sector and is not an early warning indicator of potential stress.

3.13 HMIC provides the Department with valuable insight into how forces are performing and the service they are providing through:

- annual reports on how commissioners and forces have managed funding reductions;
- the police effectiveness, efficiency and legitimacy (PEEL) assessments, which inspect forces' performance in the round (see paragraphs 3.23 to 3.29);
- thematic reports that examine either all forces' responses, or a sample of forces' responses, to issues such as welfare of vulnerable people in police custody; and
- referring forces it is concerned about to its policing monitoring group.⁴²

3.14 Forces provide data to HMIC which checks and verifies it through inspection. However, we found a lack of data and analysis at a sector level on demand, productivity, professional capability and capacity, collaboration, reserves, workforce satisfaction and on whether savings made so far are sustainable in the long-term.

3.15 Without such information available to it, and to HMIC, it is difficult for the Department to determine how much further it can reduce funding without degrading services, when it should support forces or when it needs to use the Home Secretary's backstop and general powers. HMIC is currently developing a 'force management statement' which will require each force to annually publish data on a range of management and performance information from 2016. At the time of publication, the statements have not been finalised and therefore we have not audited HMIC's approach.

⁴² Available at: <https://www.justiceinspectorates.gov.uk/hmic/about-us/what-we-do/our-approach-to-monitoring-forces/>

Figure 12
Signs of financial and service stress within the system

Indicator	What it shows	Current position	Limitations of the indicator
'Section 114' report issued by chief financial officer	Reports any unlawful financial activity or failure to set or keep to a balanced budget.	None were issued by forces between 2010-11 and 2015-16.	This indicator would not identify forces that set a balanced budget but were under significant financial pressure, or failing to provide services.
HM Inspectorate of Constabulary rating	HMIC rated each force against three categories: ensuring a secure financial position; affordable policing; and efficiency.	None rated as inadequate. Three rated as "requires improvement" in their response to the spending review in July 2014. However, HMIC has expressed concern that some forces would not be viable in 3-5 years without more radical transformation.	Some gaps in analysis. Limited data on demand.
Reserves	Reducing reserves may indicate forces are using reserves to offset funding gaps.	Between 2010-11 and 2013-14 general reserves decreased by 17%, but total usable reserves increased by 35%.	Reserves alone are not a good indicator, and need to be examined regularly alongside analysis of each force's savings, business and transformation plans. The Police and Crime Commissioners' Treasurers' Society in discussion with Silver Group, have completed their first review of forces' reserves.
Forces/commissioners requesting help	The Association of Police and Crime Commissioners should have a view on financial sustainability across the sector.	All the Offices of Police and Crime Commissioners we contacted had expressed concerns. Lincolnshire's commissioner and chief constable have written to the Home Secretary outlining how they cannot manage future budget reductions without "degrading" the services they deliver.	This depends on the robustness of the evidence presented by commissioners or forces.
External auditors' concerns about value for money	External auditors have a duty to assess whether forces have adequate arrangements to secure economy, efficiency and effectiveness.	Auditors qualified South Yorkshire Police's 2013-14 accounts for failing to identify and manage the financial risks of widespread historical child sexual exploitation. No other concerns in any audit opinion. In exceptional cases auditors can issue public interest reports. Only one has been issued in recent years – relating to the termination of an ICT project in Surrey Police.	External auditors' work is risk-based and may not include detailed assessments of whether the savings made and planned are likely to be sustainable.
Crime	There are two main measures of crime: surveyed and recorded crime.	Between the years ending December 2013 and 2014, victim survey crime reduced by 7% but recorded crime increased by 2% (increasing in 28 of 43 forces).	Crime rates are a weak, proxy indicator of service stress and linked to variables wider than policing. This indicator does not take account of crime recording issues, the changing nature of crime or demands on police.
Public/victim satisfaction	Public perception of crime/policing, as well as victim satisfaction.	Between 2011 and 2014, victim satisfaction increased by 0.9 percentage points nationally, but changes varied from +7.5% to -4.1%.	There is a time-lag between funding reductions and the impact on satisfaction.
Crime outcomes (detection rates), eg charge/summons	Crimes a force has dealt with by formal sanctions such as charging or cautioning an offender.	Between 2010-11 and 2013-14, the charge / summons rate increased by 1.1% points.	Only includes crimes entering the criminal justice system and will be influenced by the mix of crimes and recording practices in forces.

Source: National Audit Office analysis

3.16 As part of its national debate on the future of policing, the police sector is considering how to identify information that might give better early warning of a force at risk. These may include financial, operational, reputational and organisational measures. If commissioners and forces agree that there is information relevant to all, or most, forces, they could agree on a standard approach to measurement so that this information would be available to HMIC and the Department. Different local priorities would likely mean that forces' positions in relation to this information would vary. Information that could be considered includes:

- response times for urgent and non-priority calls;
- number and type of public complaints (increased nationally by 15% between 2012-13 and 2013-14);
- levels of 'mutual aid' (support to/from other forces);
- workforce stress indicators, such as: overtime, workforce satisfaction levels, and sickness and turnover rates;
- productivity data; and
- levels of compliance with statutory obligations.

3.17 In comparison, NHS England collects monthly data on the performance of ambulance services. These include both clinical outcomes such as survival rates, and indicators of how the system is working, such as number of calls, response times and number of patient journeys.⁴³

3.18 Despite the lack of information on service stress, there are signs that some forces will find it difficult to manage in the medium term without major changes in the way they operate. Of the 9 forces we visited, 8 were either planning to use reserves to balance budgets or had savings yet to be identified. For example:

- **Nottinghamshire** needs to deliver £45 million savings between 2015-16 and 2019-20. To date, the force claims to have identified £32 million – leaving a further £13 million to be found. If these cannot be identified the force will have to use some of their £23 million reserves.
- **South Wales** has identified £15.6 million of savings between 2015-16 and 2018-19 but needs to identify a further £23 million.
- **West Yorkshire** plans to use £16 million earmarked and £18 million general reserves between 2015-16 and 2019-20 and still needs to identify a further £36 million of savings.

43 Health and Social Care Information Centre, *Ambulance Services England 2013-14*, July 2014.

Reserves

3.19 As commissioners and forces cannot run deficits, reserves enable them to manage financial uncertainty and fund some costs associated with service transformation such as redundancy payments. Commissioners can also use reserves to offset directly funding reductions. However, reserves are finite: once they are used it may be difficult to rebuild them while under continued funding pressure. Forces therefore cannot rely on using reserves to offset funding reductions.⁴⁴

3.20 We examined two types of reserves: earmarked reserves (those set aside for particular initiatives) and general reserves (a contingency fund). Between 2010-11 and 2013-14, forces' earmarked reserves increased by 57% in real terms, while general reserves decreased by 17%. Overall, total earmarked and general reserves increased by 35% in real terms to £1.85 billion (**Figure 13** overleaf).⁴⁵ This growth is not necessarily a sign of financial health.

- These increases are greater than, but broadly comparable to, those of local authorities, whose general reserves decreased by 16% in real terms, while earmarked reserves increased by 37%.⁴⁶
- We analysed comparable data for 39 forces and found significant variation: 34 forces had added to their total reserves; 5 forces decreased their reserves by between 12% and 44%.⁴⁷

3.21 There is significant variation in the size of forces' earmarked and general reserves as a percentage of net revenue spending – from 9% to 38% (**Figure 14** on page 41).

3.22 In May 2015, the Police and Crime Commissioners Treasurers' Society, in discussion with Silver Group, completed their first review of forces' current and planned levels of reserves. As well as confirming the increase in reserves (paragraph 3.20) it also found that commissioners are planning to reduce their reserves by 41% between April 2014 and April 2017. Of the 9 forces we spoke to, 8 said they would need to use reserves to offset any future funding reductions between 2015-16 and 2019-20.

44 Audit Commission, *Striking the Balance: improving councils' decision-making on reserves*, December 2012.

45 Analysis of CIPFA data from 39 forces.

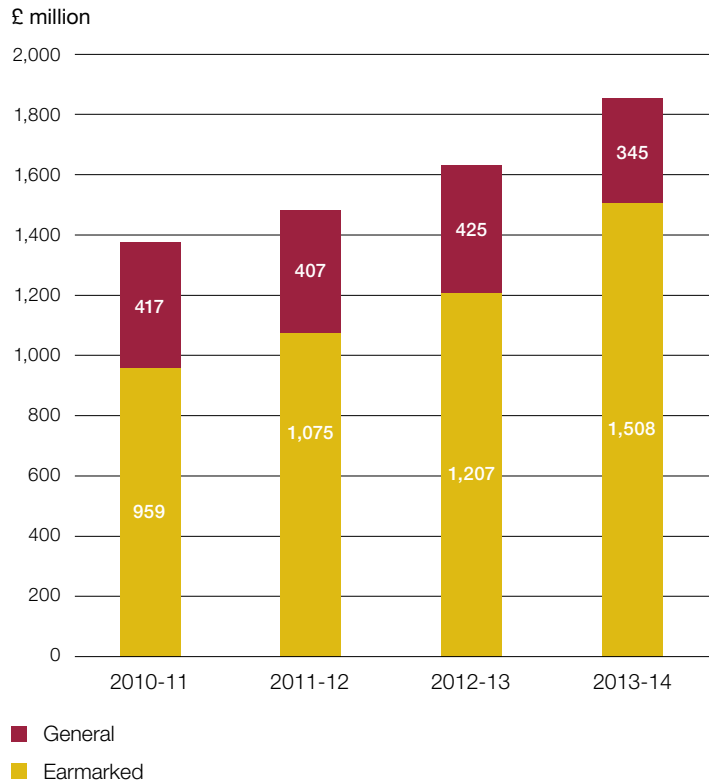
46 Comptroller and Auditor General, *Financial sustainability of local authorities 2014*, Session 2014-15, HC 783, National Audit Office, November 2014.

47 We separately received data from Northamptonshire Police on its reserves. Between 2010-11 and 2013-14 its general and earmarked reserves decreased by 10% in real terms: general reserves decreased by 56%, predominantly relating to a transfer between reserves, and earmarked reserves increased by 18%. These figures are excluded from our key facts, summary and Figure 13 as they were collected on a different basis.

Figure 13

Earmarked and general reserves, 2010-11 to 2013-14

Total reserves have increased by 35% in real terms



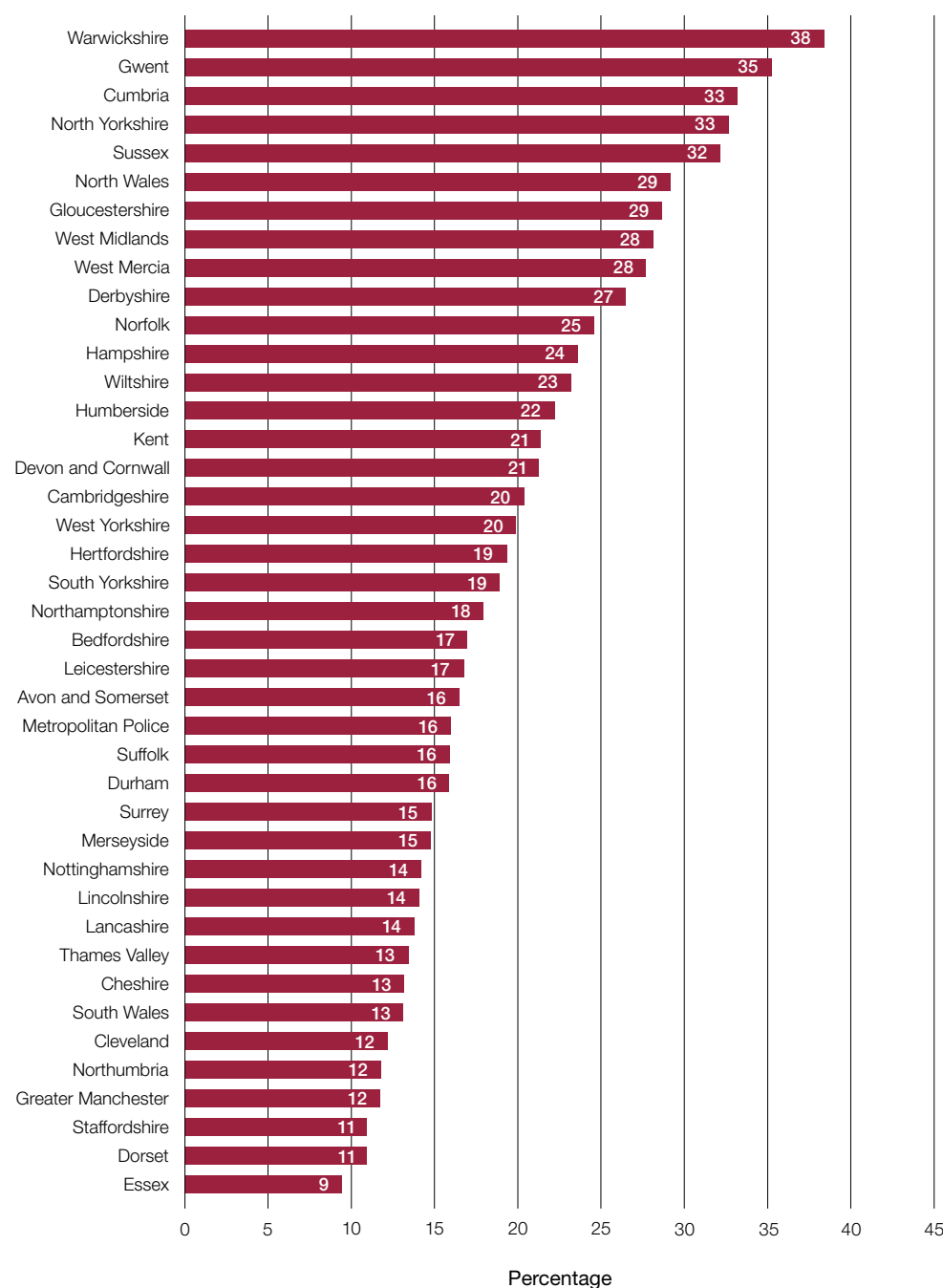
Notes

- 1 Figures deflated to 2010-11 levels.
- 2 Excludes City of London, Northamptonshire, West Mercia and Dyfed-Powys owing to a lack of comparable data.

Source: The Chartered Institute of Public Finance & Accountancy police actuals

Figure 14

Total earmarked and general reserves as a percentage of net revenue expenditure, 2013-14

**Notes**

- 1 Excludes City of London and Dyfed-Powys forces owing to a lack of comparable data.
- 2 Each force will have their own reserves strategy with some reserves earmarked for investment, for example in estates or ICT. Some forces will also have reserves related to private finance initiatives.

Source: National Audit Office analysis of Chartered Institute for Public Finance and Accountancy data, available at: www.cipfastats.net/

National and local scrutiny

HM Inspectorate of Constabulary

3.23 The Department relies on HMIC to understand how individual police forces have adapted to austerity. We previously reported that HMIC does not have the statutory authority to routinely inspect commissioners or their offices.⁴⁸ This gap remains with limited scrutiny by local and external audit arrangements.

3.24 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 force's performance in various areas. In local government there is no equivalent organisation to HMIC for local authorities or the fire service. The local government accountability system relies on the statutory framework of checks and balances in place within councils.

3.25 From 2014-15 the Department decided to provide HMIC with significant extra funding to enable it to carry out annual PEEL assessments covering all forces. The Department wanted an inspection approach that allowed the public to see from a few easy to understand categories, whether their local police force was performing well in cutting crime and providing value for money. Until then, HMIC conducted thematic inspections, and monitored and published data from forces. The Department gave HMIC an extra £9.25 million in 2014-15 to develop and carry out PEEL assessments, increasing its annual budget by 66% to £21.4 million.⁴⁹

3.26 In November 2014 HMIC published its first annual PEEL assessment.⁵⁰ It was only a partial assessment because the Department did not ask HMIC to inspect in this way until midway through 2014.⁵¹ It rated 3 forces as 'requires improvement' in their response to the spending review.⁵² On re-inspection in October 2014, HMIC found that all 3 forces were making good progress and taking steps to remedy the issues which had been identified.⁵³

3.27 HMIC developed its PEEL methodology in consultation with other criminal justice inspectorates, Ofsted and the Care Quality Commission as well as with the policing sector and other stakeholders, including the NAO and the public. Since its first assessment, it has continued to develop its methodology. It plans to complete all 43 inspections visits over 10 weeks, and will use a standardised methodology to ensure that the assessment is consistent across forces.

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

49 Comptroller and Auditor General, *Inspection: A comparative study*, Session 2014-15, HC 1030, National Audit Office, February 2015.

50 HM Inspectorate of Constabulary, *State of Policing: The Annual Assessment of Policing in England and Wales*, 2013/2014, November 2014.

51 Available at: www.justiceinspectorates.gov.uk/hmic/our-work/peel-assessments/the-first-peel-assessment/

52 The rating categories are outstanding, good, requires improvement, or inadequate.

53 See footnote 50.

3.28 Forces and commissioners we spoke to referred to a significant HMIC inspection burden, which they felt had increased since the Department asked HMIC to conduct PEEL assessments. This makes it even more important that HMIC's PEEL assessments are well regarded within the sector. HMIC expects the inspection burden to reduce over time once forces become more familiar with the PEEL methodology.

3.29 As the Department places so much reliance on HMIC assessments, it is important that HMIC has appropriately skilled staff. As part of PEEL, it undertook a skills audit to better understand its capability requirements, such as the need to bring in external expertise. A finance expert is part of each PEEL assessment team, and it can draw on HMIC staff with a range of expert skills.

External audit

3.30 The Department, within the wider police accountability system, relies on local external auditors to independently conclude on whether forces and commissioners have proper arrangements to secure economy, efficiency and effectiveness in their use of resources.⁵⁴ External auditors' work is risk-based. Unless an auditor concludes there is significant risk around a force or commissioner's savings plan, they are unlikely to carry out detailed assessments of whether the savings made and planned are likely to be sustainable.

Good practice and learning

3.31 An effective police accountability and oversight regime should enable the sector to share knowledge and learn from each other's experiences. This is crucial if the sector is to be more effective in reducing funding, maximising value for money and helping forces to transform. We previously recommended the Department should work more closely with HMIC and the College of Policing (the College) to identify and disseminate good practice.⁵⁵

3.32 The accountability system statement states that the College, as a Cabinet Office *What Works* centre for crime reduction,⁵⁶ should identify and share good practice, and set national standards. It is important that there is an independent, authoritative view, based on evidence and evaluation, of what is considered to be good practice. HMIC and the College have a concordat which enables the sharing of good practice.⁵⁷

⁵⁴ Home Office, *Accounting Officer Accountability System Statement for Policing and Crime Reduction*, March 2015. .

⁵⁵ Comptroller and Auditor General, *Police Accountability: Landscape review*, Session 2013-14, HC 963, National Audit Office, January 2014.

⁵⁶ Available at: www.gov.uk/what-works-network

⁵⁷ See footnote 49, Figure 9, p. 27.

3.33 We found that some forces are demonstrating what looks to be good practice in business areas. Currently, forces mainly identify good practice themselves using informal networks, such as the Police On-line Knowledge Area. The College is starting to share good practice in operational areas in its crime reduction toolkit; however it does not consider that it is sufficiently funded, or that it is within its powers, to share good practice and learning in non-operational areas. HMIC shares notable practice throughout its thematic and all force reports. We found that commissioners and forces make use of HMIC data to benchmark their performance with other police forces. However, there is a gap in identifying, evaluating and sharing good practice in non-operational, business areas, nor is there a 'critical friend' function in any body that could help forces looking for advice and support.

3.34 All the forces we visited said they had limited engagement with the College and that they would value more sharing of knowledge and experience from, for example, the College, the Department and HMIC in non-operational areas.

3.35 The policing sector also makes limited attempts to identify good practice in other sectors, such as health and education, or in the private sector. For example, hospitals delivering poor care can be put into special measures. This can include partnering the hospital with a high-performing NHS foundation trust to bring about improvement. This approach could be deployed in multiple areas of policing, such as demand management or digital policing.

Appendix One

Our audit approach

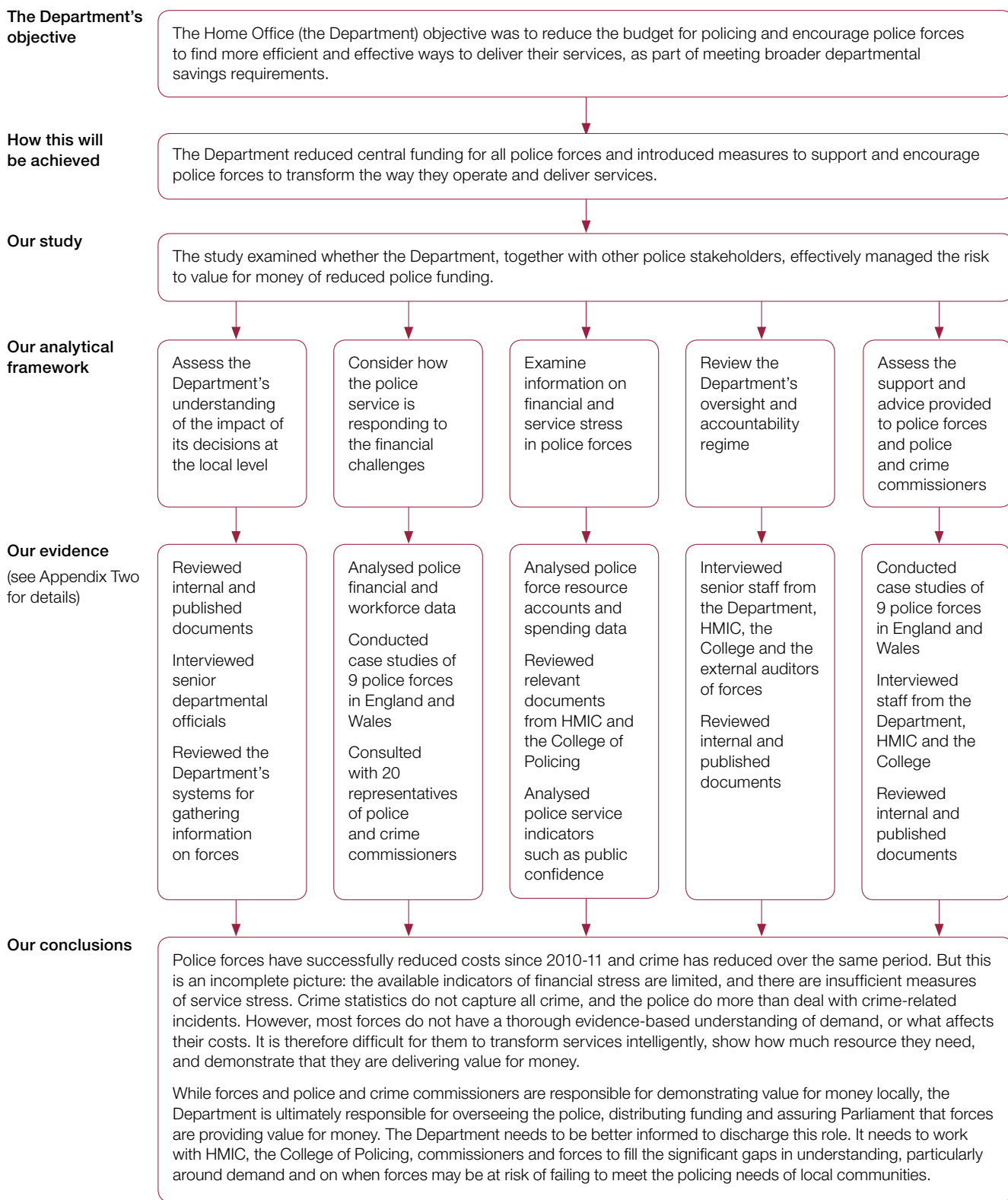
1 This study examined whether the Home Office (the Department) and other policing stakeholders, effectively managed the risks to value for money of reduced police funding.

2 Our analytical framework was based on assessing the Department's ability to identify and respond to current and future risks to financial sustainability. We reviewed:

- whether the Department has sufficient understanding of the impact of its police funding decisions at the local level;
- how the police service is responding to the financial challenge, as well as the changing nature of crime and demands on the service;
- the information on financial and service stress within police forces and how the Department uses this within its wider accountability system statement;
- whether there is an adequate oversight and accountability regime for the police sector; and
- whether sufficient support and advice are provided to forces and police and crime commissioners.

3 Our audit approach is summarised in **Figure 15** overleaf. Our evidence base is described in Appendix Two.

Figure 15
Our audit approach



Appendix Two

Our evidence base

1 Our conclusions on whether the Home Office (the Department), with other policing stakeholders, has effectively managed the risks to value for money of changes to police funding were reached following our analysis of evidence collected between October 2014 and March 2015. Our audit approach is outlined in Appendix One.

2 We assessed the Department's understanding of the impact of its funding decisions at the local level in the following ways:

- We reviewed around 200 internal and published documents, including board minutes, and strategy and research documents. These included the Department's updated *Accountability System Statement for Policing and Crime Reduction*, and Gold and Silver Group meeting minutes. We also reviewed reports by other bodies, such as HM Inspectorate of Constabulary (HMIC) and the Association of Chief Police Officers (ACPO), on police funding arrangements and their impact on police forces.
- We interviewed senior officials and other staff from the Department, HMIC and the College of Policing (the College).
- We reviewed the Department's systems for gathering and analysing information about forces' financial and service performance.
- We worked with teams that had completed financial sustainability reports in other sectors, particularly local government, to make comparisons and share experience.

3 We explored how the police service is responding to the financial challenges, as well as the changing nature of crime and demands on the service in the following ways:

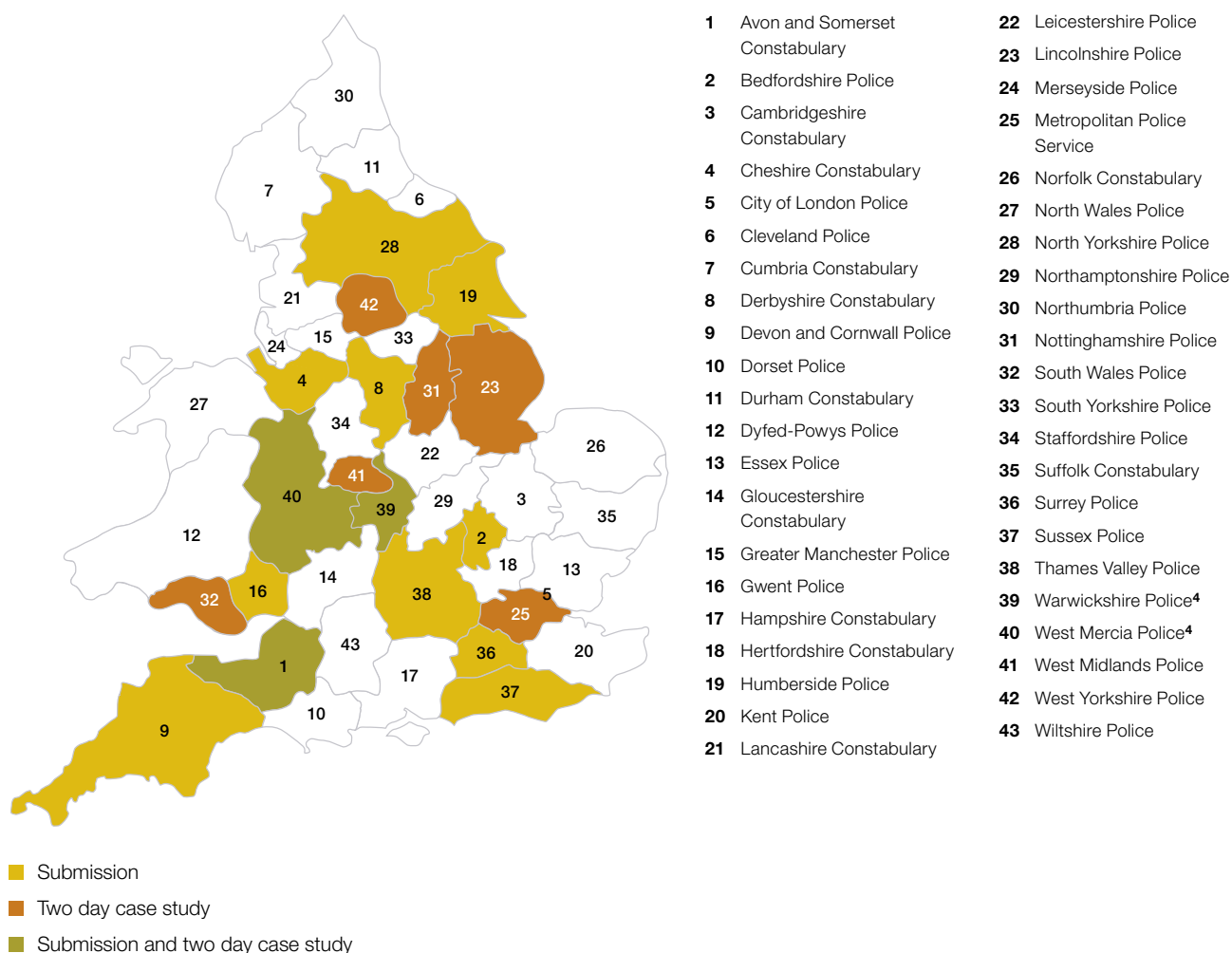
- We undertook financial and other quantitative analysis of data on spending, levels of reserves, workforce changes, crime and victim satisfaction.

- We visited 9 forces as case studies (see **Figure 16**). We selected them based on data from HMIC, the Chartered Institute for Public Finance and Accountancy (CIPFA) and a range of publicly available data on population and wider demographic factors, spending, financial position and staffing. Our visits included:
 - more than 50 interviews with senior police officers and civilian staff. Interviewees included: chief officers, police and crime commissioners, finance directors and staff, performance monitoring staff, change management staff, and human resources. The forces we visited represented around 44% of total police spending in 2014-15.
 - consulting with 20 representatives of the Office of Police and Crime Commissioners, through a combination of semi-structured interviews and written submissions.
- We systematically analysed all the qualitative data from interviews within the Department and the wider police sector using a computer-aided qualitative data analysis software tool.

4 We reviewed information on financial and service stress in police forces and how the Department uses this within its wider accountability system statements in the following ways:

- We analysed police and crime commissioner and police force group resource accounts and employment data. We also analysed HMIC and CIPFA data on police spending, reserves and workforce numbers.
- We reviewed relevant documents from HMIC, including its report *Policing in Austerity: Meeting the Challenge* and previous reports in this series, and from the College, including its report *Estimating demand on the police service*.
- We undertook quantitative analysis of potential service indicators including crime statistics, victim satisfaction and public confidence.
- We undertook qualitative and quantitative analysis of data on the demand for police services.
- We carried out case study interviews with senior police officers and civilian staff at 9 forces across England and Wales.
- We worked with our teams involved in financial sustainability reports in other sectors, particularly local government, to make comparisons and share experience. We have drawn on their findings throughout this report.

Figure 16
Police stakeholders we engaged with



Notes

- 1 We visited 9 police force areas.
- 2 Our visits typically involved some finance and performance systems walk-throughs, as well as some data review. We also interviewed chief constables (or chief officers), chief financial officers and HR directors, business change leads, police and crime commissioner (PCC) representatives, finance staff and those responsible for performance management and victims' satisfaction/public confidence work.
- 3 We received 13 submissions from PCCs against our study question areas. We also held teleconferences with Gwent and Surrey Office of the Police and Crime Commissioner (OPCC). All our case studies involved discussions with the PCC or OPCC representatives.
- 4 Joint visit owing to strategic alliance collaboration.

Source: National Audit Office

5 We examined the adequacy of the oversight and accountability regime for the police sector in the following ways:

- We interviewed senior staff from the Department, HMIC and the College about their roles and responsibilities.
- We reviewed approximately 200 internal and published documents, including board minutes, strategy and research documents. See paragraph 2 above for more details.
- We interviewed staff from the external auditors of police forces.
- We drew on our previous work on police accountability and worked with teams that have completed financial sustainability reports in other sectors, particularly local government, to make comparisons and share lessons. We have drawn on their findings throughout this report.

6 We examined the effectiveness of the support and advice provided to police forces in the following ways:

- We carried out case study interviews with senior police officers and civilian staff at 9 forces across England and Wales.
- We interviewed staff from the Department, HMIC and the College about the systems and structures established to support forces, particularly in non-operational business support areas.
- We reviewed relevant documents from the Department, HMIC, the College and other police stakeholders.

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