



National Audit Office

Report

by the Comptroller
and Auditor General

Home Office

Financial sustainability of police forces in England and Wales 2018

Summary

1 There are 43 territorial police forces (forces) in England and Wales. A chief constable heads each force, with authority over all operational policing decisions and staff. Chief constables report to locally elected police and crime commissioners in 40 of the 43 forces.¹

2 Police and crime commissioners (commissioners) are responsible for securing and maintaining efficient and effective local policing services.² In consultation with their chief constables, they:

- set objectives for their forces in an annual police and crime plan, taking account of the Home Secretary's Strategic Policing Requirement, which outlines current national threats;
- allocate the funds needed to achieve these objectives; and
- hold forces to account on behalf of the public.

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

- maintain a system of local accountability that assures Parliament that forces spend their resources with regularity and propriety and achieve value for money;
- assess how much funding forces need, decide how much the policing system receives as a whole, and allocate grants to commissioners (who decide how much goes to forces and how much to other initiatives to reduce crime);
- intervene if chief constables or commissioners fail to carry out their functions effectively; and
- identify opportunities for forces to work efficiently, support them to do so, and provide statutory guidance in respect of financial matters.

4 Within the accountability framework, the Department relies on HM Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) to assess and report on the efficiency and effectiveness of forces in England and Wales. The Department relies on the College of Policing (the College) to set standards and identify and share good practice.

¹ The Metropolitan Police Service, Greater Manchester Police and City of London Police have different arrangements.

² The Police Reform and Social Responsibility Act 2011.

5 Police forces' ability to provide an efficient and effective service is the defining test of their financial sustainability. The Department's role in ensuring that forces are financially sustainable is complex. Local accountability gives commissioners and chief constables greater control over spending decisions, but consequently, the Department has less oversight over forces' financial sustainability and how the funding it has provided is used. We have found the same challenge is faced by other departments with responsibility for local services, for example the Ministry of Housing, Communities & Local Government (MHCLG), which oversees local authorities.

6 It is nonetheless consistent with the principles of local accountability to assess whether the Department has enough information to make good decisions about the level and nature of funding it provides. While we recognise that the roles of government departments with responsibility for local services vary depending on the system through which those services are delivered, the Department should be in a position where it can get assurance that forces are not at risk of becoming financially unsustainable.

Our report

7 We reported on the financial sustainability of police forces in June 2015.³ We concluded that there were significant gaps in the Department's understanding of demand and of pressures on the service, and it needed to be better informed to discharge its duties of overseeing the police and distributing funding. At the time of our report, forces did not have an evidence-based understanding of demand, or what affected their costs, and so it was difficult for forces to provide services that met the needs of communities or to demonstrate how much resource they needed to deliver them.

8 The recommendations made by the Committee of Public Accounts in its subsequent report, published in September 2015, were intended to address what the chair of the Committee described as a significant failure by the Department to provide commissioners and senior officers with the tools they need to run their forces.⁴ This report follows up our 2015 report. It examines the Department's progress in managing a clear assurance and oversight system that:

- is effective in identifying risk and financial pressure;
- uses information on the demand for and cost of police services to inform its funding allocations; and
- supports forces to be financially sustainable by facilitating transformation and enabling forces to make savings.

This report does not look in detail at the activities of police forces or police and crime commissioners.

³ Comptroller and Auditor General, *Financial sustainability of police forces in England and Wales*, Session 2015-16, HC 78, National Audit Office, June 2015.

⁴ HC Committee of Public Accounts, *Financial sustainability of police forces in England and Wales*, First Report of Session 2015-16, HC 288, September 2015.

- Part One sets out the financial and non-financial pressures that forces have faced since 2010-11 and examines how they have responded;
- Part Two examines the effectiveness of the system for securing financial sustainability; and
- Part Three assesses the support provided by the Department to forces to help them achieve financial sustainability.

Key findings

Funding pressures

9 Central government funding to commissioners has fallen by 30% in real terms since 2010-11. Commissioners received £7.7 billion of funding from central government in 2018-19, 30% less than they received in 2010-11 in real terms. Commissioners also received £3.6 billion from council tax contributions in 2018-19. In total, commissioners received 19% less funding from central and local sources in 2018-19 than they received in 2010-11, in real terms. In 2018-19, the Department allowed commissioners to raise council tax contributions so that their total funding was, as a minimum, the same as it was in 2017-18 in real terms. This increased funding by £280 million. Commissioners allocate the majority of their funding to police forces (paragraphs 1.2, 1.3, 1.5, 1.6, 1.11, Figure 1, Figure 3).

10 Police forces' experience of funding reductions varies and the forces that most rely on government funding have experienced the greatest cuts. In 2018-19, the proportion of commissioners' funding coming from central government ranged from 43% to 81%. The forces most affected by funding reductions are those whose commissioners have a higher proportion of total funding coming from central government and a lower proportion of local funding, predominantly from council tax contributions. In 2018-19, the proportion of local funding varied between forces, from 57% in Surrey to 19% in Northumbria. Taking into account changes in central and local government funding since 2010-11, forces' total funding cuts vary between 11% and 25% (paragraphs 1.3, 1.7, 1.11, Figure 2, Figure 3).

11 The formula for funding police forces does not take into account the full range of demands on police time. The Department's approach to funding police forces through police and crime commissioners is to use the police funding formula to calculate how much money each force receives from central government funds. The formula does not consider the full range of demands on police time, the efficiency of forces, levels of financial reserves, or the proportion of funding that forces receive from central government relative to local funding. Furthermore, since 2010 funding has been reduced by an equal percentage for all forces, regardless of the outcome of the formula. The Department consulted with the sector and started to review its funding approach, but it stopped this work in March 2017 at the time of the general election. In December 2017, the Department stated that it would revisit plans to change the funding formula at the time of the next Spending Review. Any changes made as a result of this work will not be implemented until 2020-21 at the earliest (paragraphs 1.8 to 1.10).

Service stress

12 While no police force has failed financially, there are signs emerging that forces are finding it harder to deliver an effective service. As with local government, legal requirements prevent commissioners and forces from running deficits. Given this, the Department recognises that any problems caused by funding reductions are likely to manifest themselves in a force being unable to provide an adequate policing service rather than in financial failure. For example, the time it took to charge an offence increased from 14 days for the year ending March 2016, to 18 days for the year ending March 2018. In November 2017, the Department concluded in an internal report that forces were facing increased pressure in meeting the demand for police services. The Department attributed some of the growing pressure to the increased threat of terrorism, and to an increase in reporting of low-volume and high-harm crime, such as sexual offences, which are more costly to investigate (paragraphs 1.27 to 1.29, 2.7).

Financial sustainability

13 Forces reduced the amount of money (reserves) set aside for specific costs or exceptional events by 20% between March 2015 and March 2017 after growing their reserves in previous years. Commissioners have a legal duty to ensure that forces have adequate reserves. Financial reserves increased by 49% between March 2011 and March 2015, and we said in our 2015 report that this was not necessarily a sign of financial health. Forces have since reduced their reserves from a peak of 19% of net revenue expenditure (£2.1 billion) in March 2015, to 15% of net revenue expenditure (£1.7 billion) in March 2017. By comparison, local authorities held significantly more in reserve in March 2017 (40% of net revenue expenditure). The Department does not know what level of reserves forces need to be financially sustainable, or if a reduction in reserves overall reflects budget pressures. The Department is working with commissioners to understand what levels of reserves are appropriate (paragraphs 1.15 to 1.17, Figures 6 and 7).

14 Forces reduced the total size of their workforce by 18% between March 2010 and March 2018 and the impact of this is unknown. Forces reduced their police officer workforce by 15% between March 2010 and March 2018. Over the same period, numbers of police community support officers fell by 40% and the number of other police staff reduced by 21%. It is not clear what impact a reduced workforce will have on the ability of forces to meet increasing demand for police services (paragraphs 1.13, 1.14 and Figure 5).

System for ensuring police forces' financial sustainability

15 The Department's 'light touch' approach means forces' financial sustainability has not received proper attention. The Department is not clear in its accountability system statement how it gets assurance that the policing system is working, what information it uses to monitor forces' financial health, and how it will respond to forces' financial or service failure. This contrasts with the clear statement of MHCLG on how the accounting officer gets assurance and information on the financial sustainability and effectiveness of local authorities, which like police forces, are run by locally elected bodies. The Department expects commissioners to be accountable to their electorate for ensuring that the policing needs of local communities are met efficiently and effectively. Forces are subject to independent inspection by HMICFRS, but the Department recognises there are limitations to these inspections in terms of identifying risks to forces' financial sustainability (paragraphs 2.1 to 2.6, 2.10).

16 The Department does not use data systematically to get assurance of the financial sustainability of the sector. It uses information systems designed for different purposes (for example, HMICFRS inspections), or bespoke analysis commissioned for specific events to make an assessment of the financial health of the sector. For example, it assessed forces' financial resilience to inform decisions about 2018-19 funding. This assessment was not designed to monitor forces' financial sustainability or the risk of financial or service failure, and there are areas that could be strengthened. Without systematic monitoring, there is a risk that any deterioration in forces' resilience might not be spotted soon enough. Understanding the scale of financial risk and where it lies is important, as intervention after a failure is likely to be more costly than preventing the failure in the first place. The Department could learn from MHCLG, which has improved its oversight of local authorities' financial sustainability by collecting and analysing data regularly (paragraphs 2.10 to 2.12).

17 There are no common standards for measuring all demands for police services and their costs, and therefore no national picture of what forces need. A full understanding of the nature of demand for police services, including demand for services not related to crime, is important because this affects the resources and skills required by forces. Without an understanding of the demand for police services, it is difficult for forces to determine what skills and resources they require. We reported in 2015 that HMICFRS was developing 'force management statements' to improve forces' understanding of their business. These statements will require each force to publish data on a range of management and performance information each year, including on demand for police services. By June 2018, all forces had produced a force management statement for the first time but there was wide variation in how data on demand for police services were captured. HMICFRS plans to improve the consistency of how demand for police services is measured in future statements (paragraphs 2.13 to 2.15).

Supporting forces to achieve financial sustainability

18 The Department has no overarching strategy for policing, limiting its ability to plan investments and programmes of work over the longer term. The police sector has set its own strategic direction, *Policing Vision 2025*, under five main strands: local policing; specialist capabilities; workforce; digital policing; and business delivery. The Department supports forces to achieve this vision through funding and work to improve forces' capabilities in these five areas. However, the absence of an overarching Departmental strategy for policing limits its ability to plan investments and programmes of work over the longer term. Furthermore, its approach to approving funding for commissioners and transformation annually means that commissioners and forces are, in turn, limited in their ability to be strategic in how they plan and implement work (paragraphs 3.2 to 3.5, 3.8, 3.11).

19 The Department has devolved responsibility for police service transformation to a board which has limited resources and no powers. The Police Reform and Transformation Board (PRTB) is a voluntary association of its members, which include the National Police Chiefs Council (NPCC), the Association of Police and Crime Commissioners (APCC) and other national bodies, including the Department. Its purpose is to oversee and support the reform of policing. Members of the PRTB are working to achieve the vision set by the police through specific projects, such as developing forces' specialist capabilities. The PRTB has had some success in encouraging forces to sign up to its programmes. However, its role as a national coordinator of the transformation of police services is limited as it has no budget, formal powers or levers to make transformational change happen across all forces (paragraphs 3.6 and 3.7, Figure 8).

20 Delays approving transformation funding by the Department, and poor performance by forces in meeting funding requirements, is limiting forces' ability to make improvements and transform services. In May 2016, the Department replaced its Police Innovation Fund (PIF), which started in 2013, with the Police Transformation Fund (PTF). In 2018-19, forces could bid for a share of £175 million from the PTF. Forces have told us that the Department's approval process for the PTF is lengthy and has not provided timely funding, making it difficult for forces to establish projects and spend budgets as planned. The Department struggled at times to get timely ministerial approval for releasing funding. Other delays occurred because forces did not submit enough information to support their bid for funding. Furthermore, some forces did not comply with the Department's evaluation and monitoring requirements, making it harder to evaluate the extent of transformation (paragraphs 3.8 to 3.11).

21 Delays to the introduction of the Department-led programme to change the communications system used by forces has placed additional costs on forces. The Department plans to spend £1.3 billion on work to replace old IT systems used by forces between 2015-16 and 2019-20. It expects as much as 80% of the savings from this work to come from the introduction of the Emergency Services Network (ESN) communications system. By June 2018, this programme was at least 15 months behind schedule and the Department needed to continue spending £330 million a year from the total police budget to run the old Airwave system for longer than expected. Forces we visited told us that they are having to make significant investments to extend the life of their Airwave equipment while they wait for the ESN system to become available (paragraphs 3.12 and 3.13).

Conclusion on value for money

22 The Home Office's light touch approach to overseeing police forces means it does not know if the police system is financially sustainable. It lacks a long-term plan for policing and significant gaps remain in its understanding of demand for police services and their costs. The way the Department chooses to distribute funding has been ineffective and detached from the changing nature of policing for too long, and it cannot be sure overall funding is being directed to the right places. With plans to reform the funding formula on hold, and no systematic approach to ensuring forces are financially sustainable, we cannot conclude that the Home Office's oversight of the police system is value for money.

Recommendations

- a** **The Department should make clear all of the accountability relationships and processes for policing, setting out who is accountable for what at all levels of the system.** For example, it should explain how it works with HM Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) to gain assurance that the police system is financially sustainable and it should make this clear in its accounting officer system statement.
- b** **The Department should develop a clearer ongoing understanding of whether police forces' funding is sufficient to support them to deliver an efficient and effective police service.** The Department continues to have a role in securing financial and service sustainability. It can discharge this role more effectively by working to improve the quality of data on demand for police services, and by making better and fuller use of existing information. Working with partners in the police system, the Department should:
 - **select the right data and systematically review it to monitor for emerging signs of financial stress**, for example, reviewing capital spending alongside other indicators of financial pressure such as the level of reserves; and
 - **use existing data more intensively** to monitor for emerging signs of financial stress, which could indicate that certain types of police activity or forces are at greater financial risk. The Department could learn from the Ministry of Housing, Communities & Local Government (MHCLG), which has improved its oversight of local authorities' financial sustainability through regular data collection and analysis.

- c The Department should review 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 that commissioners receive from local taxation, levels of demand, the relative efficiency of forces, and levels of financial resilience.
- d The Department should develop an overall strategy for policing that includes clear thinking on how its support programmes, such as the Police Transformation Fund (PTF), contribute to forces' financial position.** A strategy for policing should provide:
- a long-term view setting out clear goals for policing;
 - longer-term certainty on police funding, for example, when to use multi-year settlements, and certainty about the availability of funding for transformation work, for ongoing work or new programmes of work; and
 - clarity about the Department's programme of projects and how these support its overall strategy, for example, clearly defined outcomes and benefits for the PTF.
- e When developing an overall strategy for policing, the Department should identify which of its policies and programmes are best delivered locally and which are best delivered nationally and assign them to bodies with the capability to fulfil them.** This includes:
- establishing when the Department is best placed to deliver programmes; and
 - ensuring that the Association of Police and Crime Commissioners (APCC), National Police Chiefs Council (NPCC) and the Police Reform and Transformation Board (PRTB) have the necessary resources and powers to succeed in their leadership roles.