House of Commons
Public Accounts Committee

Financial sustainability of police forces in England and Wales

First Report of Session 2015–16

Report, together with formal minutes relating to the report

Ordered by the House of Commons to be printed
9 September 2015
The Public Accounts Committee

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Committee reports are published on the Committee’s website at www.parliament.uk/pac and by The Stationary Office by Order of the House.

Evidence relating to this report is published on the inquiry page of the Committee’s website.

Committee staff

The current staff of the Committee are Sarah Petit (Clerk), Claire Cozens (Committee Specialist), James McQuade (Senior Committee Assistant), Sue Alexander and Jamie Mordue (Committee Assistants) and Tim Bowden (Media Officer).

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Summary

The Home Office (the Department) is responsible for allocating grants to Police and Crime Commissioners (who decide how much goes to police forces and how much to other crime reduction initiatives); establishing an accountability framework to assure Parliament on the regularity, propriety and value for money of police spending; and intervening if Chief Constables or Commissioners fail to carry out their functions effectively. We are concerned that the Department lacks all the information it needs to know the impact of reductions in funding on police capability at local level. Most police forces lack sufficient information on the current and future demands they face, which is essential for the Department, Commissioners and the police to ensure forces have the right skills and resources and understand the impact of savings measures. There is limited information on the impact of cost reductions made by other government departments on the police's workload (cost shunting). It is not clear how the structural reforms necessary to make expected further significant savings will be made within the devolved delivery model.
Introduction

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. Chief Constables report to an elected Police and Crime Commissioner (‘Commissioner’) created to replace Police Authorities. Commissioners, in consultation with their Chief Constable: 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.

Commissioners are funded by central government via the Department and through the police precept, which is collected alongside council tax in the relevant police force area. Commissioners fund their police force and other crime reduction initiatives. In 2014-15, police forces spent some £12.8 billion. Between 2010-11 and 2015-16, central government funding to Commissioners reduced by £2.3 billion (25%) from £9 billion to £6.7 billion in real terms.
Conclusions and recommendations

1. **The Department’s hands-off approach to police forces limits its ability to ensure value for money.** While the Department has overall responsibility for policing, it is Commissioners, in conjunction with their Chief Constable, who decide how police forces are organised, including things such as outsourcing functions, how funds are spent and what levels of financial reserves are required. The Department told us that it would only intervene locally in such matters “in extremis”, relying instead on informal conversations. HM Inspectorate of Constabulary (HMIC) estimated that police forces had been required to make savings of £2.5 billion between 2011-12 and 2014-15. The Department told us that it had been possible to achieve the required savings in the 2010-15 Parliament largely through squeezing money out of the existing system. But finding further significant savings as a result of the next Spending Review would require looking thoroughly at structural reforms including the integration of specialist capabilities and more partnership working. However, it is not clear how this would be achieved under the current devolved delivery model.

**Recommendation:** *The Department should set out how it proposes police forces make further significant savings via structural reforms, and assess the legal implications of changes and possible mergers, while having regard to local accountability.*

2. **The process by which the Department allocates funding to Commissioners by a formula is ineffective and the results have been subverted by the decision to apply an equal percentage funding reduction to all Commissioners regardless of local conditions.** The Department uses a formula to determine how much funding individual Commissioners require, which takes into account local conditions and likely policing needs by using data on crime, fear of crime, population and the policing of special events. While the formula takes account of the council tax base in each police force area, it does not take account of all demands on police time, relative efficiency of police forces, levels of financial reserves or the proportion of central government to police precept funding. Since 2010 actual funding for Commissioners has been subject to a process known as “damping”, whereby an equal percentage funding reduction has been applied to all Commissioners, regardless of the outcome of the formula. The Department accepts that the funding formula and the way it has been applied is ineffective and is seeking to address these issues by introducing a new formula which it hopes to apply for the 2016-17 funding process.

**Recommendation:** *The Department should ensure the new funding formula takes proper account of the demand for police services, the scope for savings, local circumstances including precepts, and the levels of reserves. It should introduce the new formula for 2016-17 after consulting with the sector. It must announce any changes to the formula as soon as possible, to allow forces to plan.*

3. **The impact of cost reductions made by other government departments on the police’s workload (cost shunting) is not known.** The police’s main duties are to protect the public and prevent crime. But police officers respond to a wide range of incidents. In 2013-14 just 22% of the 7.3 million emergency and priority incidents that police responded to were crime-related. The Department told us it was concerned that policing does not become the “social service of first resort” outside office hours in areas such as mental health because other services were not available. It recognised that this
is an issue that has to be tackled cross-government. However, no data currently exists which show the extent to which police forces are filling gaps in services that should be provided by others. HMIC has not systematically included police forces' responses to mental health issues in its inspections as yet.

**Recommendation:** The Department must ensure police forces collect data that allows it to identify the impact on forces of funding reductions elsewhere in government, and work closely with other departments to ensure that the impact of their spending decisions are not borne by the police service. HMIC should identify the scope for joint inspections of services in those areas where cuts may impact on the police.

4. It is not clear who is responsible for ensuring that there are adequate business skills to manage police forces effectively and for spreading best practice in this area. Senior police officers are responsible for managing complex safety-critical multi-million pound organisations, but the degree of sophisticated commercial and contract management skills amongst police officers is limited. The College of Policing (the 'College'), the professional body for policing, has provided 6.5 days of "management skills" training, covering finance, commercial and human resource skills, to 100 senior police officer candidates. The College considers that its £67 million budget is insufficient to allow it to take on a broader role spreading best practice or raising wider business skills throughout police forces in addition to the work to support front line policing it is already doing. We do not consider the College's view of its role to be a rounded description of what it is to be a professional body. We welcome the undertaking we received from the Department and the College to discuss the College's role and remit, and how best to support skills in police forces.

**Recommendation:** The Department and College need to ensure police officers have the requisite business skills to manage police forces effectively and form a joint view on the role and remit of the College in these areas as a matter of urgency.

5. Most police forces lack sufficient information on the current and future demands they face, which is essential for the Department and the police to ensure forces have the right skills and resources to meet that demand. HM Chief Inspector of Constabulary told us that “it is sometimes quite startling how little police forces truly understand the nature and volume of the demand that they face...”. Three quarters of police forces do not have a sophisticated understanding of demand. Without this it is not clear how forces will transform their organisations, or how the Department will make informed funding decisions. Police forces and Commissioners publish different information on demand and performance making comparisons between forces difficult. We welcome the Department's acceptance that it needs more information on demand, financial sustainability and performance. We also welcome HMIC’s new police efficiency, effectiveness and legitimacy (PEEL) assessments and force management statements which are designed to help fill some of the gaps in information available to the Department and the public. We note the College's commitment to produce a template for police forces to use to assess demand, although currently this stops short of being a common standard on measuring demand.

**Recommendation:** The Department, working closely with the College of Policing, should ensure that there is a common standard for measuring demand and that this is used to provide comparable, accessible data on all forces. This needs to be addressed as a matter of urgency.
6. The need to make further savings may encourage forces to make greater use of outsourcing, but even given the devolved accountability system for policing, current oversight for these types of arrangements is inadequate. Some police forces have already outsourced specific functions, for example Lincolnshire Police have an arrangement with G4S to provide various back office functions. It is likely more forces will make use of outsourcing arrangements in order to meet future savings requirements, but the Department only has limited oversight within the accountability system of such arrangements. We are very concerned that we and government should be able to properly hold private companies to account for their performance, and we welcome the Department's assurance that oversight arrangements will be examined in the new policing Bill due this year.

Recommendation: The Department should ensure any outsourcing arrangements undertaken by Commissioners or forces are subject to effective scrutiny. It should also develop a clearer mechanism for assessing the long-term value for money of outsourcing; and encourage arrangements that allow forces to retain the ability to respond to evolving needs.
1 Devolution and accountability

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Home Office (the Department), HM Inspectorate of Constabulary (HMIC) and the College of Policing (the College) on the financial sustainability of police forces in England and Wales.1

2. There are 43 territorial police forces in England and Wales, each headed by a Chief Constable with authority over all operational policing decisions and staff.2 Chief Constables report to elected Police and Crime Commissioners (Commissioners) created to replace Police Authorities.3 Commissioners decide on their force’s priority objectives, allocate funding and hold forces to account on behalf of the local electorate. They receive funding from: central government; the police precept, collected alongside council tax for the force area the taxpayer lives in; and income from activities such as policing at major sporting events. In 2014-15, the gross estimated spending of all 43 forces was £12.8 billion.4

3. The Department has overall responsibility in government for policing. It allocates funding to Commissioners, is responsible for the operation of the accountability framework that assures Parliament on the regularity, propriety and value for money of police spending, and intervenes if Chief Constables or Commissioners fail to carry out their duties effectively.5 The Department did not have its budget protected during the last Parliament, and forces will likely face further significant funding reductions. Between 2010-11 and 2015-16 overall precept funding to Commissioners, including local council tax support grants, increased by 2.1% (£67.1 million in real terms), while central government funding reduced by £2.3 billion (25%) from £9 billion to £6.7 billion in real terms.6

4. The Department uses a formula to determine how much funding individual Commissioners require which takes into account local conditions and likely policing needs by using data on crime, fear of crime, population and the policing of special events. While the formula takes account of the council tax base in each police force area, it does not take account of all demands on police time, relative efficiency of police forces, levels of financial reserves or the proportion of central government to police precept funding.7 Since 2010 actual funding for Commissioners has been subject to a process known as “damping”, which smoothes the large variations in funding allocations that arise from applying the funding formula, so that all Commissioners had an equal funding reduction.8 For example, West Midlands Police had its initial funding allocations reduced by £132 million between 2010-11 and 2013-14 as a result of damping, while Northumbria Police received an extra £99 million in the same period.9

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1 C&AG’s Report, Financial Sustainability of police forces in England and Wales, Session 2015-16, HC 78, 4 June 2015
2 Metropolitan Police Service and City of London Police have commissioners instead of chief constables.
3 Instead of police and crime commissioners, the Metropolitan Police Service has the Mayor’s Office for Policing and Crime, and the City of London Police has the Common Council of the City of London. In this report we refer to all these parties as ‘Commissioners’.
4 C&AG’s report, paragraphs 1.4, 1.7.
5 C&AG’s report, paragraph 1.5
6 C&AG’s report, paragraphs 12.1.9, 1.13
7 Q 17, C&AG’s report paragraphs 1.11, 1.12
8 Q 53
9 C&AG’s report, paragraphs 1.11
5. The Department accepted that the funding formula had flaws and noted that it had “become more and more detached from the real demands on policing.” The Department told us that Ministers in the last Parliament had taken the view that rather than revising the funding formula to address these issues they should apply damping to the results it produced. However, the Department was now reviewing the funding formula and seeking a new one “to address all of the ineffectiveness in the old formula and the way it was applied.” A consultation document on reforming the police funding arrangements was released, after the hearing, on 21 July 2015 with the aim of implementing the change for the 2016-17 police funding allocations.

6. The National Audit Office found that between 2010-11 and 2013-14, police forces’ total earmarked and general reserves increased by 35% in real terms to £1.85 billion, although there was significant variation across forces. We asked the Department what work it did to assess whether forces’ reserve levels were appropriate and whether there was any point at which it would challenge a force on its approach to spending central government funding. The Department told us that there were two key reasons why it was appropriate for police forces to run reserves: to manage their expenditure as they are not allowed to run a deficit; and to provide a fund for transformation investment. The Department maintained that a police force’s reserve level was a matter for Commissioners, and any concerns would be identified by either the Chief Financial Officer of the Commissioner, whose fiduciary duties are laid out in law, or HMIC’s new police effectiveness, efficiency and legitimacy (PEEL) assessment. The Department would only intervene in the management of a police force “in extremis”, and so far had seen no need to do so.

7. HMIC, estimated that police forces had been required to make savings of around £2.5 billion between 2011-12 and 2014-15. The Department told us that it had been possible to achieve the required savings in the 2010-15 Parliament largely through squeezing money out of the existing system. But finding further significant savings as a result of the next Spending Review would require looking thoroughly at structural reforms, including the integration of specialist capabilities and partnership working.

8. The Department confirmed that it would expect and put pressure on police forces to collaborate more to achieve the kind of savings that have been achieved by those forces that have collaborated effectively. The Department considered that the funding mechanism and fiscal pressure would drive more collaboration with other forces or with local public service delivery partners, which it incentivised through an innovation fund to kick-start collaborative projects. The Department accepted that its approach to greater collaboration was that it would be driven from the bottom-up rather than the top-down. The Department told us that there was an issue, yet to be resolved by Ministers, about the degree to which it should play a facilitating or an executive, decision-making role, and how that would work with the legal responsibilities of Commissioners. The Department

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10 Qq 55, 57
12 C&AG’s report, para 3.20
13 Qq 12, 14, 18 and 23
14 Qq 12-13
15 Qq 20-24
16 C&AG’s report, paragraph 1.20
17 Q 40
18 Qq 42, 43
noted that it does have “informal” conversations with individual police forces about why they are not adopting best practice.19

9. The Department told us that while it was open to formal mergers of police forces, Ministers would not impose them top-down. Any proposals for formal mergers would need to be agreed between the Commissioners involved, be supported by a business case, and need to win local consent.20 It was not clear whether local consent meant having a referendum. We noted on a visit to Devon and Cornwall Constabulary that there are legal barriers to more fundamental change, for example differing levels of police precept forces receive, that only the Department could address.21

10. Given that the Department would only intervene locally in extreme circumstances, we asked what it was doing to ensure that there was not excessive duplication of effort across police forces in areas such as contracting.22 The Department told us it had taken responsibility in some specific areas, for example, all police forces must use the National Police Air Service rather than maintain their own helicopters and there was a national procurement hub forces could use to identify the lowest cost for certain items.23 The Department said that while the Home Secretary had the power to mandate what forces do, Ministers have taken the view that collaborations should originate from the bottom-up, except where there was a good case to mandate something at either multi-force or national level.24

11. We asked the College what it was doing to support forces in sharing and learning from best practice. It told us that it shared best practice by running an online community and sending peer review teams out to police forces to identify best practice examples. However, take up of best practice was a local decision for police forces and Commissioners to make, although the Home Secretary has powers to mandate that things are done in a particular way.25

12. The College told us that the need to make savings had increased the importance of police forces possessing sufficient commercial, procurement and financial expertise.26 The College and HMIC told us that senior-level policing was very different from frontline policing. Senior police officers were essentially responsible for multi-million pound organisations. HMIC noted that around 95% of a Chief Constable’s time was spent “being the chief executive of a very large, complex, safety-critical essential monopoly and asset-intensive public service,” but that the degree of sophisticated commercial and contract skills amongst police officers was “pretty slight”.27

13. The College’s website describes it as the professional body for policing, working to find the best ways to deliver policing in an age of austerity.28 The National Audit Office reported that the College considered it did not have the resources or remit to share good practice and learning in non-operational areas.29 We asked the College to clarify its remit.

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19 Qq 76, 78  
20 Q 38  
21 Q 45-47  
22 Q 25  
23 Q 29  
24 Q 30  
25 Q 25-26, 29-30, 82  
26 Q 72-74  
27 Q 72, 79-80  
28 Q 85  
29 C&AG’s report, paragraph 3.33
It maintained that its £67 million annual budget was insufficient to allow it to take on a broader role sharing best practice and raising wider business skills, particularly around procurement, finance or HR at lower levels within police forces. It told us that its 5 year strategy, published in December 2014, focused on two main areas: dealing with high priority areas for the public such as child sexual exploitation, cybercrime and mental health; and developing and raising professional skills.30

14. The College told us that in terms of business skills, it focused its efforts on senior police officers.31 Since 2012 the College has run two strategic command courses for 100 senior police officer candidates, which included 6.5 days of what it described as “management skills” training, covering finance, commercial and HR.32 We asked the Department whether it considered that the College's remit was sufficient to support forces in the areas of finance, demand, performance, contract and change management. The Department thought that in general the College's remit was sufficient considering there are other professionals, such as Chief Finance Officers, involved in police forces. However, it undertook to discuss the College's remit with the College and HMIC, and how best to ensure senior police officers and management teams have the sufficient skills to run police forces.33
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2 Demand on police forces and the availability of information

15. In 2013-14 just 22% of the 7.3 million priority and emergency incidents that police responded to were crime-related. The remaining 78% related to anti-social behaviour or dealing with other incidents, such as mental health emergencies that occur outside of the opening times of dedicated services. HMIC told us that the main aims of the police were to keep people safe and prevent crime and public disorder, not to just deal with crime that has already occurred.34

16. HMIC noted that there were other agencies also charged with protecting the public that may be better placed to deal with mental health, education and social issues.35 Like police forces, these agencies have also had to deal with the challenge posed by financial austerity.36 The Department told us it was concerned that policing does not become the “social service of first resort at 5 o’clock on a Friday” and that services should “shrink together, not apart”, but that this was a strategic issue that would have to be looked at across Government as part of the spending review process.37

17. Of the 9 police forces the NAO visited for its report, 8 believed that funding pressures in other sectors, such as mental health, local authority-funded community safety and ambulance services, had had an impact on policing services. However, none had data analysing demand for police services passed on from other agencies, nor was there any national data.38 HMIC told us that its new police efficiency, effectiveness and legitimacy assessments and force management statements would examine how forces are coping with new forms of demand. HMIC told us that it carries out joint inspections with the Criminal Justice Chief Inspectors’ Group, which includes the chief inspectors for police, probation, prisons and prosecution, and agencies like Ofsted and the Care Quality Commission to examine how relevant agencies and police forces work together at a local level to prevent crime and protect the public. HMIC told us that about 40% of its current workload are joint inspections and that it planned to cover police forces’ responses to mental health in future PEEL assessments.39

18. 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. However, 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.40

19. HMIC told us that it was “sometimes quite startling how little police forces truly understand the nature and volume of demand that they face,” and that forces needed to

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34 Qq 7-8, 11; C&AG’s Report, paragraph 2.19, Figure 8
35 Q 33
37 Qq 7-8, 119
38 C&AG’s Report, paragraph 2.27
39 Qq 33-36
40 C&AG’s report, paras 2.24, 2.25
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develop more sophisticated demand modelling techniques.\(^{41}\) HMIC admitted that there was no common standard for measuring demand on police forces, and that forces do not all measure demand in the same way. HMIC considered that there was a need for a much more consistent and comparable data not only of the demand that police forces face, but on forces’ resources and assets, including on its staffing and skill base.\(^{42}\) The College told us that in the autumn it will publish a template all forces can use to analyse demand.\(^{43}\)

20. The Department admitted that it needs better data on police financial sustainability and on police performance more generally in order to discharge its responsibilities, and that police forces need better data on demand.\(^{44}\) As we may see more collaboration and outsourcing in policing in the future we asked the Department how it would ensure that there would be effective accountability and transparency in these areas. Some police forces have already outsourced specific functions, for example, Lincolnshire Police have an arrangement with G4S to provide various back office functions.\(^{45}\) Currently, commissioners are responsible for approving and scrutinising any contractual arrangements. External auditors examine contractual arrangements, but only on a risk-basis.\(^{46}\) HMIC does not have statutory access to companies providing services on behalf of a force and given the Department's reliance on HMIC to assess the effectiveness, efficiency and legitimacy of forces, the Department's oversight is therefore limited. The Department told us it intended to bring a new policing Bill to Parliament this year in which it aimed to address these issues.\(^{47}\)

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41 Q 33
42 Q 66
43 Q 10
44 Q 1
45 Qq 55-113
46 National Audit Office and HM Inspectorate of Constabulary, Private sector partnering in the police service: A practical guide to major business partnering, custody partnering and consultancy support, July 2013, p. 41
47 Qq 113-115, 118; Home Office, Accounting Officer Accountability System Statement for Policing and Crime Reduction, March 2015
Draft Report (Financial sustainability of police forces in England and Wales), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 20 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 14 September at 3.30 p.m.]
Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the Committee’s inquiry page.

Monday 13 July 2015

Mark Sedwill, Permanent Secretary, Home Office, Sir Tom Winsor, HM Chief Inspector of Constabulary, and Alex Marshall, Chief Executive, College of Policing

Published written evidence

The following written evidence was received and can be viewed on the Committee’s inquiry page. PFE numbers are generated by the evidence processing system and so may not be complete.

1. British Security Industry Association (BSIA) (PFE0001)
2. College of Policing (PFE0004)
3. Home Office (PFE0005)
4. Lincolnshire Police (PFE0003)
5. Office of the Police & Crime Commissioner for Devon, Cornwall and the Isles of Scilly (PFE0002)