

## Police finance: Grants and other sources of police income

### Briefing Outline

This briefing provides an explanation of how and why government police funding is allocated, the significance of Council Tax/Precept and other sources of police income. This is the second of three briefings about police finance.

### How does the government allocate police funding?

Home Office grants to local policing bodies are based initially on a formula which seeks to identify factors which 'explain' the variations between areas in terms of what they need to spend, and recognizing that every area has different socio-economic characteristics. In practice, population is by far the most significant driver of spending, but there are nearly 20 other main indicators reflected in the current formula. Data is updated regularly, particularly as new census results emerge. Your Treasurer will be able to provide specific details around how funding is calculated to your force area.

The government has been reviewing the formula. The original plan was to introduce a new system for 2016/17 but this has now been deferred.

### How are Local Policing Bodies (LPBs) protected from short-term grant fluctuations? - Floors and ceilings/ Damping

The grant process is an annual arrangement and substantial change can make forward planning difficult. The government has regularly adjusted the grant mechanisms to limit the annual reductions or gains to individual bodies. This reduces volatility and minimises the short term impact on services. The grant system is a 'zero sum game'; protecting some bodies from grant reductions can only be achieved by limiting the potential gains for others. In recent years, the Home Office has applied flat rate % changes to formula grant allocations. In 2016/17 direct government funding has been reduced by 0.6% in cash terms – representing 2.3% in real terms.

### Council Tax/Precept –What is the government's role?

The proportion of local budgets financed from Council Tax in different areas varies from just under 50% down to 12%. This is due to the interaction between the needs assessment formula, Council Tax Controls and the strength of the local Council Tax base. It reflects past decisions on Council Tax and the government's priorities within the formula grant process.

The government has controlled Council Tax increases for over 20 years using a variety of different mechanisms, including statutory limits. The government has made special grants available to PCCs who agreed to freeze Council Tax. A total of 19 PCCs froze Council Tax in 2012/13, but by 2015/16 this number had fallen to 6. One of the considerations is that PCCs are not allowed to apply a freeze in one year and then recover the gap in a subsequent year.

The government has also required PCCs to carry out a referendum if their proposed Council Tax increase exceeds a specified threshold. Following this route is a high risk strategy, with substantial cost implications for running the referendum and for any rebilling which might result from it. The rules for conducting the referendum are also very rigid; PCCs are only allowed to set out the proposed increase, without any supporting information on the reasons for the increase or the services for which the funding will be used. On behalf of PCCs the APCC is pressing the government to allow more local flexibility.

The PCC issues a precept on the local tax raising bodies. The precept is a cash sum requested by the PCC; it is expressed as a Council Tax using the standard bandings. At Band D, Council Tax levels for PCCs in 2015/16 outside London ranged from around £86 to £235.

### **What are other sources of income for PCCs and forces?**

Apart from grant and council tax, PCCs and forces will receive income from six other main sources:

- ▶ Reimbursements from the government for officers seconded onto national programmes
- ▶ Payments from other Forces for mutual aid
- ▶ Grants received from the Ministry of Justice (including for victims services)
- ▶ Payments received from local partnerships towards community safety and other joint projects
- ▶ Special Policing Services such as the policing of major or local sporting and entertainment events
- ▶ Fees, charges and other miscellaneous income

In conjunction with the Chief Constable, the PCC draws up a local policy on charges for Special Police Services.

### **Why do PCCs hold reserves and how they might be used?**

PCCs will hold reserves and contingency sums of various types. Some will be earmarked against specific commitments or events; the rest will be held as general reserves, to provide for:

- ▶ Unpredictable events ( such as a major incident)
- ▶ Short term variations in inflation
- ▶ Phasing the impact of year on year changes in demand and resources
- ▶ To support the capital programme
- ▶ Funding one-off spending initiatives.

Reserves can only be spent once. Therefore it is a golden rule that reserves should never be used to support the annual revenue budget unless it is a short term solution, with a robust plan for addressing the potential future shortfall.

There is no standard guideline for the level of reserves which should be held. The target for each area is agreed by the PCC based on advice from the Treasurer, who holds a statutory duty to report on, amongst other things, their adequacy. The Treasurer prepares an annual budgetary risk assessment and a figure for the safe minimum level. Individual PCCs take a view on the level of risks they are prepared to bear. All local Policing funds are under the overall control of the PCC. However, by agreement the PCC may place some reserves under the management of the Chief Constable (CC). These will often include budget carry forwards up to a level agreed in advance with the PCC.

### **The budget and precept timetable for 2016/17?**

Preparatory work on the 2016/17 budget started during autumn 2015. The main grant allocations were not announced provisionally until December 2015 and confirmed in February 2016. The PCC was required to inform the Police and Crime Panel (PCP) of the proposed precept by 1st February, and over the following 3 weeks there was a defined timetable for consultation and liaison. The PCP's initial response effectively set the parameters within which the final precept level was fixed by 1st March.

**Need more information?**

**APCC briefing: Police finance - Central government funding**

**APCC briefing: Police finance - The local corporate and financial process**

**Date produced: December 2015 (Updated 17/03/16)**