



House of Commons  
Home Affairs Committee

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**Reform of the Police  
Funding Formula:  
Government Response  
to the Committee's  
Fourth Report of  
Session 2015–16**

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**Eighth Special Report of  
Session 2016–17**

*Ordered by the House of Commons to be printed  
14 March 2017*

## Home Affairs Committee

The Home Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Home Office and its associated public bodies.

### Current membership

[Yvette Cooper MP](#) (*Labour, Normanton, Pontefract and Castleford*) (Chair)

[James Berry MP](#) (*Conservative, Kingston and Surbiton*)

[Mr David Burrowes MP](#) (*Conservative, Enfield, Southgate*)

[Byron Davies MP](#) (*Conservative, Gower*)

[Nusrat Ghani MP](#) (*Conservative, Wealden*)

[Mr Ranil Jayawardena MP](#) (*Conservative, North East Hampshire*)

[Tim Loughton MP](#) (*Conservative, East Worthing and Shoreham*)

[Stuart C. McDonald MP](#) (*Scottish National Party, Cumbernauld, Kilsyth and Kirkintilloch East*)

[Naz Shah MP](#) (*Labour, Bradford West*)

[Mr Chuka Umunna MP](#) (*Labour, Streatham*)

[Mr David Winnick MP](#) (*Labour, Walsall North*)

The following were also members of the Committee during the inquiry:

[Keith Vaz MP](#) (*Labour, Leicester East*)

[Victoria Atkins MP](#) (*Conservative, Louth and Horncastle*)

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

Committee reports are published on the Committee's website at [www.parliament.uk/homeaffairscom](http://www.parliament.uk/homeaffairscom) and in print by Order of the House.

Evidence relating to this report is published on the [inquiry publications page](#) of the Committee's website.

### Committee staff

The current staff of the Committee are Carol Oxborough (Clerk), Phil Jones (Second Clerk), Harriet Deane (Committee Specialist), Adrian Hitchins (Committee Specialist), Andy Boyd (Senior Committee Assistant), Mandy Sullivan (Committee Assistant) and Jessica Bridges-Palmer (Committee Media Officer).

### Contacts

All correspondence should be addressed to the Clerk of the Home Affairs Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 2049; the Committee's email address is [homeaffcom@parliament.uk](mailto:homeaffcom@parliament.uk).

## Eighth Special Report

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The Home Affairs Committee published its Fourth Report of Session 2015–16, *Reform of the Police Funding Formula* (HC 476), on 11 December 2015. The Government's response was received on 8 March 2017 and is appended to this report.

In the Government response the Committee's recommendations are shown in **bold** type; the Government's response is shown in plain type.

## Appendix 1: Letter from Minister of State for Policing and the Fire Service to Committee Chair

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I would like to thank the Committee for their comprehensive report 'Reform of the Police Funding Formula'. The attached memorandum contains a response to the recommendations made by the Committee.

I apologise for the delay in the Department's response, which was due to the decision to pause the funding formula reform process in 2015.

We are currently undertaking a period of detailed engagement with the policing sector and relevant experts on reform of the police funding formula. This Review will provide recommendations which will be considered carefully before reaching decisions on how to proceed.

Reforming the formula remains a key priority for this Government. The response emphasises this commitment, to ensure that the future distribution of core grant funding to force areas in England and Wales is based on a fairer, more up-to-date and transparent formula.

Rt Hon Brandon Lewis MP

## Appendix 2: Government Response

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### Introduction

The Government welcomes the Committee's comprehensive report on the reform of the police funding formula. We remain committed to reforming police funding arrangements, to ensure that the future process for distributing core grant to force areas in England and Wales is based on a fairer, up-to-date and transparent formula.

In July 2015, the Government launched a public consultation on the core principles of a new police funding formula.

As the Committee's report sets out, we decided to pause work, following the identification of errors in the data used for the proposed formula. Since the publication of the Committee's report, the Government has developed a new review process, taking into consideration the Committee's recommendations and the lessons learnt from the previous process.

On 14 September 2016, the Minister of State for Policing and the Fire Service launched the Review of the Police Core Grant Distribution Formula. This has commenced with a period of detailed engagement with the policing sector and experts. This will provide recommendations which Ministers will consider carefully before reaching decisions on next steps. Any new arrangements proposed would be followed, in due course, by a further public consultation.

The Government is clear that any future formula should distribute police core grant to where it is needed the most on the basis of relative risk and demands. This will enable all forces to drive forward much needed transformation, further improve efficiency and deliver an increasingly effective response to current and future challenges.

The Committee's specific conclusions and recommendations are addressed below.

### **The 2015 consultation**

**The Home Office should also consider compensating PCCs for the costs they incurred to gain access to the "Urban Adversity" data which the Home Office used in its calculations but which were only available to PCCs through commercial subscription.** (Paragraph 52)

**As a result of the Home Office's error, confidence in the process has been lost; time, effort, resources and energy have been wasted; and the reputation of the Home Office has been damaged with its principal stakeholders. We welcome the Permanent Secretary's commitment to keep us informed about the outcome of the review he has set up to establish what went wrong and his statement that disciplinary action should be taken where serious errors are found to have been made. He must report back to us before Christmas 2015. We will be undertaking further work on police funding and the formula review once decisions have been taken by the Home Office on what action to take. As part of this, we will keep the action points resulting from the review under ongoing scrutiny.** (Paragraph 58)

**The lead Home Office official in respect of these matters, Mary Calam, replied to the 2 November letter from the Office of the Devon and Cornwall PCC on 5 November. She accepted the error in the Home Office's calculations but she clearly did not understand its seriousness as she did not refer the matter to Ministers until the day after her reply to Devon and Cornwall PCC had been sent. In fact, the error meant that, at a single stroke, police forces which believed that they would be winners became losers and vice versa. Improvements in the Home Office's internal communications are clearly needed.** (Paragraph 59)

The Government accepts that the error made in information shared with PCCs and forces on the indicative impacts of our proposed model was a serious and regrettable matter. Previous Ministers have apologised publicly for it.

The Government does not intend to compensate PCCs for the costs of accessing any dataset. While the work undertaken by PCCs was commendable for bringing to light the error, that decision is entirely a matter for individual PCCs, with the benefit of advice from their staff. We have, however, recognised in subsequent considerations the issues around using privately-generated datasets and will seek where possible to utilise publicly available data in any future formula.

On 15 December 2015, the Permanent Secretary wrote to the previous Chair of the Committee, setting out the findings and action being taken as a result of the independent management review into the circumstances of the error.

Since the review, a number of changes have been made in the way in which the department handles and quality assures data to ensure greater oversight of information before publication and reduce the risk of any future errors.

## Consultation

**In response to this Report, the Home Office should explain why it did not set out the transitional arrangements it envisaged putting in place, even by the late stage of the second round of consultation.** (Paragraph 35)

**The Home Office should also make efforts to show how they arrived at figures in a clear and precise fashion.** (Paragraph 60)

**We recommend that, during the pause in the review process, an independent panel be appointed to assist the Home Office in formulating revised proposals. We recommend that a member of the following organisations be appointed to that panel:**

- **The Chartered Institute of Public Finance and Accountancy (CIPFA—which has a police panel that advises forces and PCCs)**
- **The College of Policing**
- **The Institute for Fiscal Studies**
- **Grant Thornton and PriceWaterhouseCoopers (which provide external audit to a number of forces and PCCs and therefore have an understanding of financial risk within policing)**
- **The Royal Statistical Society.** (Paragraph 61)

**The Home Office must work with its policing partners during the pause in the review to co-design an effective and fair funding formula.** (Paragraph 67)

**The demands on the police are many and various, and differ in each force area. It is right that PCCs and Chief Constables should make their case for particular local demands to be included in the funding formula. The Home Office may then choose to disregard these arguments, but it needs to be open and transparent about the reason for those decisions.** (Paragraph 83)

On 14 September 2016, the Minister of State for Policing and the Fire Service wrote to all Police and Crime Commissioners (PCCs) setting out the Government's plans for continuing the process of police funding formula reform by launching the Review of the Police Core Grant Distribution Formula.

The first stage of the Review is a period of detailed engagement with the policing sector and relevant experts. This provides a space for them to work openly and constructively with the Department in finding the best solution and drive progress towards developing a fairer, up-to-date and transparent formula.

The Review consists of three strands:

- (1) The Senior Sector Group (SSG), chaired by Paul Lincoln, Director-General of the Home Office's Crime, Policing and Fire Group. This Group sets direction, provides strategic oversight and considers policy issues on the new funding formula.
- (2) The Technical Reference Group (TRG), chaired by Professor Tim Holt, former President of the Royal Statistical Society and ex-Director of the Office for National Statistics, advises on technical elements of a new funding formula, including the most appropriate data sources, the suitability of indicators and weighting techniques.
- (3) The Minister of State for Policing and the Fire Service is operating an open door policy with all PCCs and forces who would like to discuss the formula.

In line with the Committee's recommendation, the membership of both the SSG and TRG are made up of police representatives, academics and members from organisations such as CIPFA, the Institute for Fiscal Studies and the College of Policing. Issues are being discussed and considered by the Groups as we move through the Review process.

The Review will provide recommendations which Ministers will consider carefully before reaching decisions on next steps. No new arrangements would be implemented without a public consultation.

### Construction of a formula

**Any future funding formula must ensure that those 'low-cost' per capita forces which anticipated potential reductions to their budgets and made the necessary efficiencies before others, are not unfairly penalised in future reductions. It must not be indiscriminate, in the way that the blanket percentage reductions of previous years has been; it should do more to reward or compensate those who have historically been more efficient, to incentivise innovation and smart decision-making. (Paragraph 68)**

**The funding formula model must also re-examine the provisions for raising funding through the local taxing precept.**

**Any new formula should try to reset precepts at a common level, or to propose some means of mitigating the difference by, for example, reducing grants given to forces with lower precept levels while strengthening their powers to raise income from council tax. (Paragraph 69)**

**We recommend that in the next iteration of the funding formula, there is an element that specifically accounts for diversity.** (Paragraph 81)

**We recommend that the demands of counter-terrorism policing be included in the funding formula.** (Paragraph 84)

The Government is clear that any future formula should distribute police core grant funding to where it is needed the most on the basis of relative risk and demands. This will enable all forces to drive forward much needed transformation, further improve efficiency and deliver an increasingly effective response to current and future challenges.

As part of our process of engagement with the policing sector and relevant experts, we will consider the relative financial position of forces and whether and in what way, precept should be taken into account in reaching decisions on how core grant is distributed.

There will inevitably be ‘winners’ and ‘losers’ in any reforms to the way a finite envelope of funding is distributed. However, the Government remains committed to ensuring that forces are supported through appropriate transitional arrangements.

Whilst the Government recognises the role of wider policing in supporting counter terrorism, it would be complicated to distribute funding for counter-terrorism policing as part of the police core grant. It is allocated separately by Ministers through a ring-fenced Counter Terrorism Policing Grant, and for security reasons, these allocations are not available in the public domain. As part of our process of engagement with the policing sector and relevant experts, we will consider whether there are relevant statistical indicators for the drivers of related crime and demand which could be incorporated into a future formula.

### **Assessment of relative risk and demands**

**We recommend that, in response to this Report, the Home Office explains how new and emerging crime types, such as cyber-crime, child sexual exploitation, and radicalisation, are accounted for in the funding formula.** (Paragraph 77)

**Given the need to develop an effective funding formula, the Home Office must demonstrate that it understands these wider demands on the police, and that they are not only ‘crime fighters’.** (Paragraph 78)

**The Home Office should set out clearly and explicitly what it expects the police to do, and what the police are not expected, and not funded, to do. However, police forces also need to contribute to this process by assessing what their demand is, including non-crime demand.** (Paragraph 79)

**There also needs to be more recognition of the cross-boundary nature of crime. Any funding arrangement should reflect not simply the population within a police authority area, but the neighbouring areas as well. While the goal of simplifying the complicated funding system is a valid one, population distribution should not be examined in isolation.** (Paragraph 83)

**We welcome the work that has been started by the College of Policing and Her Majesty’s Inspectorate of Constabulary to develop a more sophisticated understanding of**

**demand. In light of the pause in the reform of the funding formula, we recommend that the Home Office assess the work that has been done so far, and incorporate relevant findings into the next iteration of the model.** (Paragraph 89)

As part of our process of engagement with the policing sector and relevant experts, we are working closely with the National Police Chiefs' Council (NPCC) and the College of Policing who are jointly taking forward further work on understanding police demand; and also with Her Majesty's Inspectorate of Constabulary as they look to deepen collective understanding of the different characteristics of, and challenges faced, by police force areas.

Our view is that determining the relative resource required in each force area by understanding more about the population and characteristics of the area is the most appropriate way of reflecting relative risk and demands.

The Government is clear that as forces transform themselves to respond to a changing set of crimes and demands they should pursue greater collaboration. By doing so, forces can work more efficiently to save money on back-office and operational support functions, as well as tackling serious and cross-boundary criminality more effectively.

Any future funding arrangements should not create barriers or disincentives to collaboration and should form part of a broad and coherent package of police-led transformation.