

Devon and Cornwall Police Authority Resources Committee

28 September 2005

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Report of the Treasurer

Formula Grant Distribution Consultation

Recommendations:

- (i) That the Police Authority Treasurer, in consultation with the Chair of Resources Committee, prepares a response to the consultation document in support of the position of Devon & Cornwall Police Authority;**
- (ii) That this should include the case for recognising the problems of rural policing and the need to give greater priority to sparsity within the formula and / or to retain the current specific rural grant.**

Background

1. The formula grant distribution system was last reviewed for the 2003-04 local government finance settlement. Since then, the distribution formula has remained frozen for a period of three years, in order to provide local authorities with some stability in their funding. This three year formula freeze came to an end with the 2005-06 settlement.
2. Following the last review, a Settlement Working Group was formed to consider how the formulae might be updated and modernised once the formula freeze was lifted. Separate technical groups were set up to look at the formulae for the police and fire funding blocks. These groups then fed back into the Settlement Working Group for consideration within the overall discussions. Representation was provided throughout the process by the Association of Police Authorities.
3. The government has published a consultation paper setting out options for changes to grant distribution formulae from 2006-07. The paper also provides more information on the introduction of 3 year settlements. As well as police and fire, the proposals cover the full range of services provided by local authorities. The deadline for responses to reach the Office of the Deputy Prime Minister (ODPM) is 10 October. However, in order to ensure proper consideration, it is advised that responses are submitted sooner if possible.
4. The government's stated aim is to produce a robust and fair system that will be fit for use in the context of three year settlements. However, they recognise that any system based on formulae cannot reflect all possible circumstances, so there will be inevitably an element of rough justice.

Proposals for a new Funding Formula

5. The current police formula divides funds at a national level between policing components, such as call management and crime management. These components are then allocated to police authorities by means of a workload model, using factors such as population, deprivation, density and sparsity.
6. The proposed components for the new formula are linked to the Police Performance Assessment Framework domains:
 - Crime
 - Calls for service
 - Traffic
 - Reassurance / Fear of Crime
 - Special Events
7. Information on police resources will still be used to distribute provision between the main operational components above. Previously, this was determined by limited sampling in some Forces. However, the apportionment for 2006-07 relies upon the results of Activity Based Costing for 2003-04. This is a major step forward.
8. The document confirms that police pension funding arrangements will change from 2006-07. Authorities will now pay an actuarially assessed employers' contribution into a pensions account, with any difference in actual net payments resulting in a cash adjustment to the Home Office, depending upon whether the actual payments were more or less than the actuarially assessed payment. Option POL1 of the paper provides an exemplification showing a reduction in grant to this Authority of £1.985 million. The anticipated reduction in cost as a result of these proposals needs to be firmed up. However, current budget forecasts are based upon the assumption that the impact is neutral here.
9. The ODPM has produced a range of options as to how the grant will be distributed, based upon different workload models. Each of these has a separate exemplification of how this would have impacted upon each Authority for 2005-06, given no change in the data. All the options assume that the pensions element will be removed. Authorities are asked to nominate a preferred option. The exercise is based upon a workload weighting around seven crime categories, namely:
 - Serious violence and sexual crime
 - Robbery
 - Less serious violence
 - Domestic burglary
 - Vehicle
 - Other crime, high cost
 - Other crime, low cost
10. A summary of what each option provides and how it impacts upon Devon & Cornwall Police Authority is shown below. The change in grant levels is in addition to any reduction identified as part of the pensions changes in POL1.

<u>Option</u>	<u>Description</u>	<u>Change in grant (£m)</u>
POL2	Based upon all 7 categories of crime, using a review and updating of all police formulae	-1.994
POL3	Based upon 6 categories of crime, robbery being amalgamated with serious violence and sexual crime	-4.073
POL4	As per POL2, but based upon much fewer variables to create the formula	-5.314
POL5	As per POL2, but leaving the component formula for 'incidents' unchanged, to reflect concerns about the quality of data used	-1.632

Note: The actual impact in 2006-07 is likely to be different from above, since it is envisaged that the most recent data will be used, including population.

11. The ODPM also wish to consult on the future of dedicated security posts funding. Currently, this represents 2.3% of the funding formula. The option is whether such funding should continue to be allocated as part of general grants or removed from the formula and distributed as special grant. No exemplification has been provided for this change.
12. Further exemplifications have been provided for options on capital financing, the Area Cost Adjustment and damping. Some of these impact upon the grant settlement for Devon & Cornwall Police.
13. No mention has been made within the paper of the specific grant for sparsity, which benefits Devon & Cornwall Police Authority by over £3 million per annum. If this is subsumed within the overall settlement, there will be a significant loss for Devon and Cornwall.

Three Year Settlements

14. The consultation paper also discusses the introduction of three year settlements. The first three year settlement will be for two years only, starting in 2006-07. In effect, the second year will only be a provisional settlement because of the potential effects of revaluation of private dwellings in 2007-08.
15. Thereafter, the three year settlements would align with the spending review round. Projections will be used for the dominant data drivers of population and council tax base. For other data items, figures will be based upon multi-year averages and frozen for each three year settlement period. As part of this process, specific revenue grants and capital allocations will be allocated in advance. If new funding is introduced during a settlement period, it will be distributed as specific grant until it can be incorporated into the settlement cycle.

Conclusion

16. The consultation paper is a very lengthy and complex document which contains a number of outcomes, dependent upon which combination of exemplifications is chosen. This report only presents a flavour of its content. As an overall view, there seems to be a lack of joined up thinking from ODPM regarding the timing of these proposals. There is an obvious linkage between the Lyon's review, the proposed revaluation of domestic dwellings, the move towards three year settlements and the introduction of any new grant formulae. However, any outcomes from the Lyon's review and revaluation seem to have been disregarded in this exercise.
17. Certainly, all of the options relating directly to policing would be to the detriment of Devon and Cornwall in terms of grant settlement. It is proposed that a damping system be retained, but this Authority already "benefits" from the current damping system. It is recommended that the Police Authority Treasurer, in consultation with the Chair of Resources Committee, prepares a response to the consultation document in support of the position of Devon & Cornwall Police Authority. It is further recommended that this should include requests for the ODPM to give greater recognition to sparsity elements within the formula and / or to retain a specific rural grant, in order to reflect current practice.

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Footnote

This report takes no account of press reports regarding changes to the timing of any revaluation exercise.