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No Reply needed



JS

Sir Michael Lyons
Inquiry into Local Government Funding
Room 3/12
1 Horse Guards Rd
LONDON SW1A 2HQ

21 April 2005

Dear Sir Michael

INQUIRY INTO LOCAL GOVERNMENT FUNDING

Thank you for the opportunity to comment on the issues raised by your review of local government funding, which we can amplify at our meeting today.

There are a number of problems with the current system of funding the police service, set out below. They affect other parts of local government to a greater or lesser extent.

Overall funding

The need for sufficient funding to enable police authorities and forces to deliver policing services as required both by the Government and local communities is paramount. However in recent years central Government has repeatedly fallen short of the funding levels our member authorities require. Each year the APA carries out a survey of police authorities on what level of funding they need to continue to deliver existing levels of policing services plus any new obligatory requirements such as new legislation (for example Freedom of Information Act, Disability Discrimination Act), implementing the recommendations of enquiries such as that following the tragic death of Victoria Climbié, and the demands of the Government's uncosted National Policing Plan.

This is not a wish list but a sensible assessment of need which is shared with Government and which they have confirmed they find very useful. There is constant growth in demands on policing services. The "new burdens" approach to local government was designed to cover expansions like this, but it is far from clear that it does, nor are any assumptions used made clear.

For 2005/06 some additional funding was found by central Government for the settlement (following a successful lobbying campaign by APA with ACPO) but the size of the funding gap in the previous 3 years was £240m in 2004/05, £207m in 2003/04 and £162m in 2002/03. But it appears that this additional funding in 2005/06 was a one-off, making the position insecure and unpredictable for next year and beyond.

Police authorities have consistently met and exceeded Government targets for efficiency savings. But despite this authorities are left each year with a choice: cut policing services or raise additional revenue via the council tax precept (subject to Government capping strictures).

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Lack of clarity in the police funding system

Confusion is caused by funding police authorities partly through Home Office Specific Grant, partly through Revenue Support Grant, and partly through the redistribution of business rates. According to the Home Office, in 1998/99 total police spending (revenue and capital) was £7.8 billion. The estimated outturn for 2003/04 was £10.3 billion, a gross percentage increase of 32%. However, the level of spending supported by Home Office grant stayed relatively stable - £4.27 billion in 1998/99 up to £4.68 billion in 2003/04, a percentage increase of just 9.6%.

The fact that nearly half of police spending comes from specific grants, on top of Revenue Support Grant and National non-domestic rates, does not aid understanding. For example in South Yorkshire the precept for band D council taxpayers is £108 for police and £48 for fire, yet the police budget is more than 4 times that of the fire authority. In addition judgemental decisions taken by Government, for example in imposing a flat rate funding increase in 2004/05, undermine the funding formula and make transparency difficult.

Complete
in precept
account

Lack of flexibility in resource deployment

Police authorities' flexibility in resource usage is severely restricted by a number of factors:

- As above, the regular provision of increases in the amount of central funding passed on to police authorities which are below the rate of increases in policing costs
- the increase in ring-fenced grants for specific initiatives provided by the Home Office. While Government policy is to reduce reliance on such ring-fenced grants, progress in doing so has been slow. This widespread use of time-limited grants adds to police authorities' insecurity in planning for the medium to long term.
- the plethora of national targets set by the Home Office which make it difficult for police authorities to be responsive to local priorities
- the fact that over 80% of police authorities' costs are staff-related (police officer and staff pay increases are determined nationally and have run slightly ahead of both the inflation rate and central grant increases). This is exacerbated by the Government's Crime Fighting Fund, which dictates that police officer numbers must be at a certain level for an authority to receive funding. The Government's obsession with police officer numbers severely restricts the flexibility of local police authorities and chief officers, who would like to be able to consider other configurations for delivering services.
- Continuing increases in police pension costs, which must be met from revenue funding. This has had a severe impact in recent years, but the planned

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introduction of a new pensions financing regime from 2006/07 will mean this cost is fixed and predictable and should not impact on operational policing.

As a result of these factors police authorities often find themselves setting large (in percentage terms) increases in council tax precepts just to continue to provide the same level of service as the previous year, and to respond to national targets and initiatives which have not been fully funded. As a result they have little real flexibility to respond to any specific local policing priorities, and can only do so by setting even higher increases in the precept. In the last 3 years police council tax has gone up more than twice as much as the overall budget increase (47.3% compared with 20.8% across England and Wales). Looking at the longer term the proportion of police budgets met by council tax has nearly doubled from 12.2% in 1995/6 to 23.8% in 2004-2005. One police authority (Surrey) now raises more than half its income via the council tax.

Gearing

The gearing effect is even more pronounced for police authorities than for other local authorities. The average gearing ratio in 2005/06 is 3.95:1. The gearing effect was, it is claimed, designed to enhance accountability by magnifying the impact of local decisions. However the process has achieved the reverse, confusing the electorate, encouraging cynicism and blurring accountability. It is difficult to explain successfully to local people that a 5% increase in spending locally, over and above the support grant received, automatically leads to a 20% (or in some areas higher) increase in the council tax precept for policing. Indeed despite police authorities' strenuous efforts it is clear that many people believe that the council tax precept increase is actually the police budget increase.

Each time central grant fails to keep pace with spending needs, many of which are determined centrally, the precept rises with no obvious improvement in local services. Accountability is confused because an authority can rightly blame the gearing effect for a step change in the precept, whilst Government can draw attention to decisions being made at the local level. This blurring of accountability is not helpful, either for the community, central or local government or the quality of the policing service provided. Gearing has a pernicious effect, which is particularly distorting in the case of single service police authorities. This is combined with a lack of public understanding of the relationship between council tax percentage increases and actual council tax cost.

When police authorities have consulted communities on proposed budget increases, they almost invariably receive strong support for increases linked to specific improvements in service. Communities take the point too that while percentage increases in precept can appear high, the actual increase in cash terms is often low compared to the cost of other services.

Capping

As police authorities we are responsible to communities for delivering effective and efficient policing services. Compared with other local authorities we have a higher proportion of expenditure funded by grant, creating a relatively high gearing on the council tax and making percentage council tax increases particularly sensitive to changes in grant. As a single service authority we have no leeway to balance savings in one area against additional costs in others. We have a legal duty to consult communities and regularly consult communities on proposed council tax precept rises, and normally receive strong support from communities in independently run surveys.

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Despite all these factors, and Government's stated desire to see greater local accountability for policing services, we have in recent years been made subject to strong Government warnings about capping. In 2004/05 three police authorities were nominated as part of the Government's capping action, so that their 2005/06 budgets were assessed against Government-set nominal budgets for 2004/05. In 2005/06 all police authorities were warned strongly to keep precept increases below 5%. A small number went slightly above that figure (and escaped capping) but many authorities set budgets which meant cuts in services including reverse civilianisation (ie reducing numbers of police staff and bringing officers in off the streets to do administrative jobs). Some had to ignore their communities' wishes to pay more, or did not consult on the basis that the results would be ignored by Government anyway!

Balance of Funding

Police authorities on the whole support in principle a change in the balance of funding so that a higher proportion is raised locally. We believe that a change in the balance of funding which reduces the reliance on central government support would indeed improve police authorities' accountability for policing services. A key principle of the earlier Layfield enquiry was that whoever is responsible for incurring expenditure should also raise the necessary revenue. This is not delivered by the current system not only because of the current balance of funding but also because of the extent to which local service delivery is currently dominated by national objectives. A change in the balance of funding must be accompanied by a commensurate shift away from over-centralisation, which allows police authorities to be more fully responsive to local priorities and needs.

National non-domestic rates should be returned to local control

One way of tilting the balance of funding back towards the local is to return national non-domestic rates to local control. This would to some extent alleviate the problems caused by gearing (see above). Local business has a very clear interest in the nature of policing services provided locally and should be asked to meet any additional costs in the same way as local council tax payers. Involving local business in this way would increase local accountability. The contribution from business rates nationally has decreased in real terms from 31.4% in 1991-1992 to 21.6% in 2003-2004.

We regard it as essential that the setting of business rates is returned to local control, and also that the pegging of business rates to Gross Domestic Product is ended. Business rate increases should reflect the inflationary pressures facing police authorities which are considerably higher than the GDP.

If you were interested in piloting the return of business rates to local control you may wish to consider police authorities acting as the pilot for the rest of local government. Alternatively it may be that it would be possible, and would be seen by business as a fair compromise, to repatriate the business rate just for the police.

Proposal to move to 3-year settlements

The Government plans to introduce 3-year financial settlements, but it is not clear how this system will cope with changes in funding formula data or the kind of large and

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unpredictable cost which in policing can occur at national and/or local level much more readily than in other services. We welcome in principle the proposal to move to 3-year settlements, but firm commitments to budget and council tax levels could be affected by local circumstances and national financial trends. Some flexibility to refine the figures is needed. There is now uncertainty about 3-year settlements starting in 2006/07. If there is to be a different approach, the ODPM have been talking about simpler formulae, which may or may not build on the existing formulae. However we have no idea at the moment whether this is possible and there is much discussion to come, which given the importance of the base year (2006/07) does not bode well for the future.

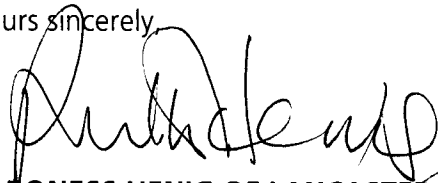
Alternative systems

While the APA does not support one system of local taxation over another, and for example a local income tax is being proposed in certain quarters, it is clear that there are concerns over the way the council tax operates which have been exacerbated by the large increases in the levels of the tax (including the policing element) in recent years. Options for improving the existing system would include more council tax bands and more frequent property revaluations. The threat of capping should be removed, leaving responsible authorities free to make realistic decisions concerning their budgets and tax levels.

We would however see the following as guiding principles:

- Transparency – see section above about lack of clarity in police funding system
- Stability & Predictability - these are essential to forward planning and despite continual promises from the government have yet to be achieved. Staffing costs are a large demand on Police budgets, but for 2005-2006 using this as the most recent example, we now have much uncertainty on whether the level of the grant settlement will be repeated in 2006-2007. Meaningful forward planning is very difficult with this uncertainty.
- Freedom Flexibility & Responsibility - these principles need to be fully embedded in a new approach to police funding. There must be less dependency on government funding and an ability to raise funds locally to meet policing needs determined by the authority and constabulary.
- Fairness - achieving fairness is a complex task. The unfairness of current funding is considerable. Council Tax payers and the community need to see, understand and agree with the link between Council Tax increases, the effect on Police budgets and the impact on policing in the community.

Yours sincerely,



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Chairman

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