

Funding the English & Welsh police service: from boom to bust?

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Executive summary

- Police spending in England and Wales is financed from two main sources: grants from central government, and a component added to local council tax called the police precept. Some police forces are much more reliant on grant funding than others. For example, in 2010–11, Surrey Police received 54% of its revenue from grants, while Northumbria Police received 88%.
- Between 2000–01 and 2010–11, total police spending increased by 31% in real terms. This was mainly due to increases in precept revenues, which increased from 17% of total revenues to 25%.
- The forces that saw the biggest increases in police spending over the 2000s were those that increased revenues from the precept by the most. North Yorkshire more than tripled its precept revenues between 2000–01 and 2010–11 and saw overall revenues increase by more than 50%, whereas Northumbria increased precept revenues by only a third and saw overall revenues increase by just 14%.
- In marked contrast to the 2000s, police grants were cut by 20% in real terms between 2010–11 and 2014–15, and total police spending fell by 14%. Because some forces are much more reliant on grant funding than others, the cuts to spending power varied substantially across forces: Surrey Police saw its revenues fall by 10% between 2010–11 and 2014–15, while Northumbria Police saw its revenues fall by 19%.

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- The forces least reliant on grant funding in 2010–11 were also those that raised most revenues from the precept over the 2000s. Therefore, the forces that saw the biggest cuts to spending between 2010–11 and 2014–15 also typically saw the smallest increases over the 2000s.
- The forces that increased their precept revenues most over the 2000s generally had lower levels of spending per person in 2000–01. This meant there was convergence in levels of police funding per person across England and Wales between 2000–01 and 2014–15.
- Why some forces increased precept revenues by so much more than others remains an important question. It could be a result of the formula for allocating grants not adequately reflecting relative need. Or it could be due to local preferences. Understanding these different motivations will be crucial for the Home Office as it seeks to reform how grant funding is allocated between forces going forward.

1. Introduction

Police funding in England and Wales is currently in the news. As an ‘unprotected sector’ (unlike much of the NHS, schools and overseas aid), police spending has been one of the sectors that has borne significant spending cuts arising from the government’s austerity programme. A recent briefing note by the House of Commons Library showed that expenditure by police forces has been cut in real terms by 18% between 2010–11 and 2015–16, with the component of police spending centrally funded by the Home Office falling by an even larger amount.²

For the 2015 Spending Review, unprotected departments such as the Home Office have been invited to consider how to implement further spending cuts of 25% and 40% by 2019–20.³ At the same time, the Home Office has issued a consultation document that proposes a major reform of the current funding formula used to allocate the majority of central

² National Audit Office, *Financial Sustainability of Police Forces in England and Wales*, 2015, <https://www.nao.org.uk/wp-content/uploads/2015/06/Financial-sustainability-of-police-forces.pdf>.

³ As laid out in HM Treasury, *A Country that Lives within Its Means: Spending Review 2015*, 2015, <https://www.gov.uk/government/publications/spending-review-2015-a-country-that-lives-within-its-means>.

government funding for the police across forces,⁴ which the Minister for Policing recently described as ‘complex, opaque and out of date’.⁵ Potential reform scenarios might lead to reallocations of grant funding, which further increase the budget cut facing some police forces.

Irene Curtis, president of the Police Superintendents’ Association of England and Wales (PSAEW), is one of many senior officers to issue a warning to Home Secretary Theresa May about the impact of possible cuts. She has said:

I do not believe that individually every force can find the savings that will be needed. Even working collectively, I do not believe that 43 forces together will be able to meet the savings targets without it potentially leading to dramatic, unfair and dangerous variations in the level of service provided from one force to the next, and the loss of public confidence that will inevitably result.⁶

This situation is a remarkable turnaround from the period from 1995–96 to 2010–11 during which the police service saw significant real increases in real resources.⁷ This briefing note therefore takes a slightly longer-term perspective to consider changes in police spending in England and Wales. It examines the period from the introduction of the council tax precept as a source of police revenues in 1995–96 through to the last year for which we have full spending outcomes as opposed to planned spending, which is 2014–15.

We focus on how the growth of police spending over the 2000s, and the cuts that followed, differed across police forces. In particular, we are interested in seeing how much of the changes in spending arose from

⁴ Home Office, *Consultation on Reform of Police Funding Arrangements in England and Wales*, 2015,

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/447083/2015_07_20_Police_funding_consultation_doc.pdf.

⁵ <https://www.gov.uk/government/news/minister-for-policing-launches-consultation-on-police-funding-reform-in-england-and-wales>.

⁶ <https://uk.news.yahoo.com/theresa-may-warned-over-budget-cuts-senior-police-100309230.html#JWhelmo>.

⁷ As documented by E. Boyd, R. Geoghegan and B. Gibbs, *Cost of the Cops: Manpower and Deployment in Policing*, Policy Exchange, London, 2011,

<http://www.policyexchange.org.uk/images/publications/cost%20of%20the%20cops%20-%20sep%2011.pdf>.

differences in central allocations of funds and how much was due to the differential growth of revenue from the local precept. We also investigate whether the police forces that disproportionately increased their spending pre-2011 faced the greatest or least cuts in budgets since that time.

To analyse these trends, we use data from the Chartered Institute of Public Finance and Accountancy (CIPFA), from the Home Office and from the Department for Communities and Local Government (DCLG). The remainder of this briefing note proceeds as follows. Section 2 briefly outlines the sources of police funding. Section 3 outlines the changes in police funding at the aggregate level. Section 4 considers how the changes in police funding varied across police forces, considering first the period of growth up to 2010–11, then the cuts that followed, and finally the relationship between the changes in both periods. Section 5 concludes.

2. Police funding sources

Police forces in England and Wales have three main funding sources. The largest source of revenue is grants from central government. In 2014–15, just over two-thirds of police force revenues (excluding income from providing ‘special services’, as discussed below) came from grants, although this proportion has fallen over time, as will be shown in Section 3. The vast majority of central government grants are allocated to police forces by the Home Office using what is known as the police allocation formula (PAF)⁸ and are published in the Home Office’s annual Police Grant Report. However, prior to 2013–14, a significant component of these formula grants was allocated by the Department for Communities and Local Government as part of the local government finance settlement.

In addition, police forces receive a small number of special grants from the Home Office and other central government departments, which are often ring-fenced for specific activities, such as counter-terrorism. The number of special grants increased substantially between 2000–01 and 2010–11 but since that time most special grants have been absorbed into the Police Main Grant.

⁸ For background on the police allocation formula, see Home Office, ‘Guide to the police allocation formula’, 2013, <https://www.gov.uk/guidance/guide-to-the-police-allocation-formula>.

Police forces also raise significant revenues through the council tax precept, which was introduced shortly after council tax replaced the community charge in the mid 1990s. Police forces themselves do not collect taxes, but police authorities and, since 2012, Police and Crime Commissioners set precept rates that are collected on their behalf by local authorities.

A third source of revenue is income charged for special services, such as providing police services at football matches and pop concerts. Police forces are not explicitly allowed to generate additional revenue over and above cost for providing these services.⁹ In this briefing note, we exclude such service income, as we focus on spending on core policing activities rather than these special services.

The main focus of this briefing note is on how spending on police services changed in aggregate and across police forces between 1995–96 and 2014–15, and on changes in the extent to which service spending has been funded by grants and precept revenues. In practice, police service spending may differ slightly from the total of grant and precept revenues as police forces may allocate revenues to capital spending, may have interest payments and receipts, and may contribute to or draw on funds from their reserves. However, for simplicity, for the remainder of this briefing note, we will refer to the total of grants and precept revenues as ‘total revenues’ or ‘spending’ interchangeably.

We focus on day-to-day spending in that we exclude grants specifically for capital spending. We also include in spending only the employer pension contributions paid by forces in respect of their current serving officers, rather than the pension payments to retired officers (the police pension system is an unfunded ‘pay as you go’ scheme).¹⁰ We do this to ensure a

⁹ N. Johnston, ‘Police funding’, House of Commons Library Briefing Paper CBP7279, 2015, <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7279>.

¹⁰ In practice, this means that from 2006–07 we exclude the ‘pensions top-up grant’ (a grant introduced to make up the difference between police forces’ net pension outgoings and employers’ contributions – for further discussion, see R. Crawford and R. Disney, ‘Reform of police pensions in England and Wales’, *Journal of Public Economics*, 2014, 16, 62–72). Prior to 2006–07, we use the methodology of Home Office (2010) to remove an estimate of what the top-up grant would have been had it been in place – see Home Office, ‘Central government police revenue funding 1995/6 – 2009/10: a

consistent treatment of pension spending over time, and to ensure that changes in spending over time more accurately reflect changes in forces' ability to spend on current police services, rather than being unduly influenced by the stock of pension liabilities.

3. Changes in aggregate police authority funding

Table 1 summarises the real changes in (non-capital) spending on the police from 1995–96 to 2014–15, and for five-year periods in between. (All monetary figures quoted in the text of this briefing note are in 2014–15 prices, inflated/deflated using the GDP deflator.)

Spending on the police in England and Wales increased from £9.7 billion in 1995–96 to £13.6 billion in 2010–11, an average increase of 2.3% a year over the 15-year period. This is a similar rate to real GDP growth over the period (2.2% a year), but slightly lower than the average 2.9% per year increase in total public spending. In the first five of these years, the annual increase in police spending was slightly slower than the average for the period as a whole, followed by more rapid growth of overall police spending in the early 2000s and slower growth in the late 2000s.

In the four years following 2010–11 – as the coalition government implemented broader cuts to public service spending – police spending shrank to £11.7 billion in real terms, an average cut of 3.7% per year. This is large relative to the average 1.0% per year cut to total public spending outside of social security and debt interest payments. The cuts to police spending implemented from 2010–11 onwards have also been large relative to the increase in spending in the preceding 15 years. By 2014–15, spending per person on the police was roughly back to the level it was in 2002–03.

One striking feature of the increase in police spending between 1995–96 and 2010–11 is the dramatic increase in funding from the council tax precept, which nearly trebled over the period. Precept revenues increased particularly rapidly over the early 2000s, with an average annual growth rate of 12.0%, which was followed by slower growth of precept revenues in the second half of the 2000s. Over the 2000s as a whole, precept

technical explanation', 2010, <https://www.gov.uk/government/publications/central-government-police-funding>.

Table 1. Changes in police spending, 1995–96 to 2014–15 (real terms in 2014–15 prices)

		Police spending					Average annual percentage change			
		1995–96	2000–01	2005–06	2010–11	2014–15	1995–96 to 2000–01	2000–01 to 2005–06	2005–06 to 2010–11	2010–11 to 2014–15
Total (£ million)	Spending	9,706	10,409	12,710	13,617	11,702	1.4%	4.1%	1.4%	–3.7%
	Grant	8,493	8,673	9,648	10,182	8,168	0.4%	2.2%	1.1%	–5.4%
	Precept	1,213	1,736	3,062	3,435	3,534	7.4%	12.0%	2.3%	0.7%
Per person (£)	Spending	188	196	238	249	205	0.9%	3.9%	0.9%	–4.6%
	Grant	164	164	181	186	143	–0.1%	2.0%	0.6%	–6.3%
	Precept	23	33	57	63	62	6.9%	11.9%	1.8%	–0.3%
Proportion of spending	Grant	88%	83%	76%	75%	70%				
	Precept	12%	17%	24%	25%	30%				
Total (£ million) excl. counter- terrorism grant	Spending	9,706	10,409	12,583	13,147	11,138	1.4%	3.9%	0.9%	–4.1%
	Grant	8,493	8,673	9,521	9,711	7,604	0.4%	1.9%	0.4%	–5.9%
	Precept	1,213	1,736	3,062	3,435	3,534	7.4%	12.0%	2.3%	0.7%

Note: Excludes City of London. Grants exclude capital grants and Private Finance Initiative (PFI) grant. Excludes the pension top-up grant, using estimated values prior to 2006–07 as in Home Office (2010) – see footnote 10. Council tax freeze grants and council tax support grants are included as council tax precept revenues and not as grants. 2014–15 prices.

Source: CIPFA Police Actuals, DCLG, Home Office Police Grant Reports and Police Force Financial Statements.

revenues increased by 98%. This dramatic increase in revenues from the precept was also highlighted by Boyd et al. (2011).¹¹ In contrast, from 1995–96 to 2010–11, grants increased only modestly, by on average 1.2% per year, and over the whole of the 2000s they increased by just 17%. The rapid growth of council tax precept revenues and modest growth in grant revenues meant that increases in revenues from the council tax precept accounted for 57% of the total increase in police revenues from 1995–96 to 2010–11.

Since 2010–11, grants have been cut substantially, by on average 5.4% a year. Meanwhile, the coalition government limited the extent to which police forces could offset the cuts to their grants by increasing precept revenues, having replaced local police authorities by Police and Crime Commissioners (PCCs). PCCs are now required to get approval from a local referendum if they want to implement an increase in precept rates of 2% or more. Only one referendum has so far taken place, by Bedfordshire PCC in May 2015, and its proposal to increase precept rates by 15.8% was rejected.¹² Additionally, each year since 2011–12, police forces have been offered additional grants if they froze (or cut) precept rates in nominal terms. (A freeze in precept rates does not necessarily imply that precept revenues will be frozen, because the tax base typically grows over time as the number of properties in the local area increases.) Precept revenues did increase in real terms between 2010–11 and 2014–15, but at a much slower rate than they did over the 2000s.

Since grants increased only modestly over the 2000s and have since been cut substantially, central government funding of the police in 2014–15 was below its 1995–96 level in real terms. The growth of precept revenues combined with the shrinking of grants means that the share of police revenues from the council tax precept increased between 1995–96 and 2010–11 and has continued to increase thereafter. In 1995–96, just 12% of police funding came from the precept; in 2014–15, this figure was 32%.

¹¹ E. Boyd, R. Geoghegan and B. Gibbs, *Cost of the Cops: Manpower and Deployment in Policing*, Policy Exchange, London, 2011, <http://www.policyexchange.org.uk/images/publications/cost%20of%20the%20cops%20-%20sep%2011.pdf>.

¹² M. Sandford, 'Council tax: local referendums', House of Commons Library Briefing Paper 05682, 2015, <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN05682>.

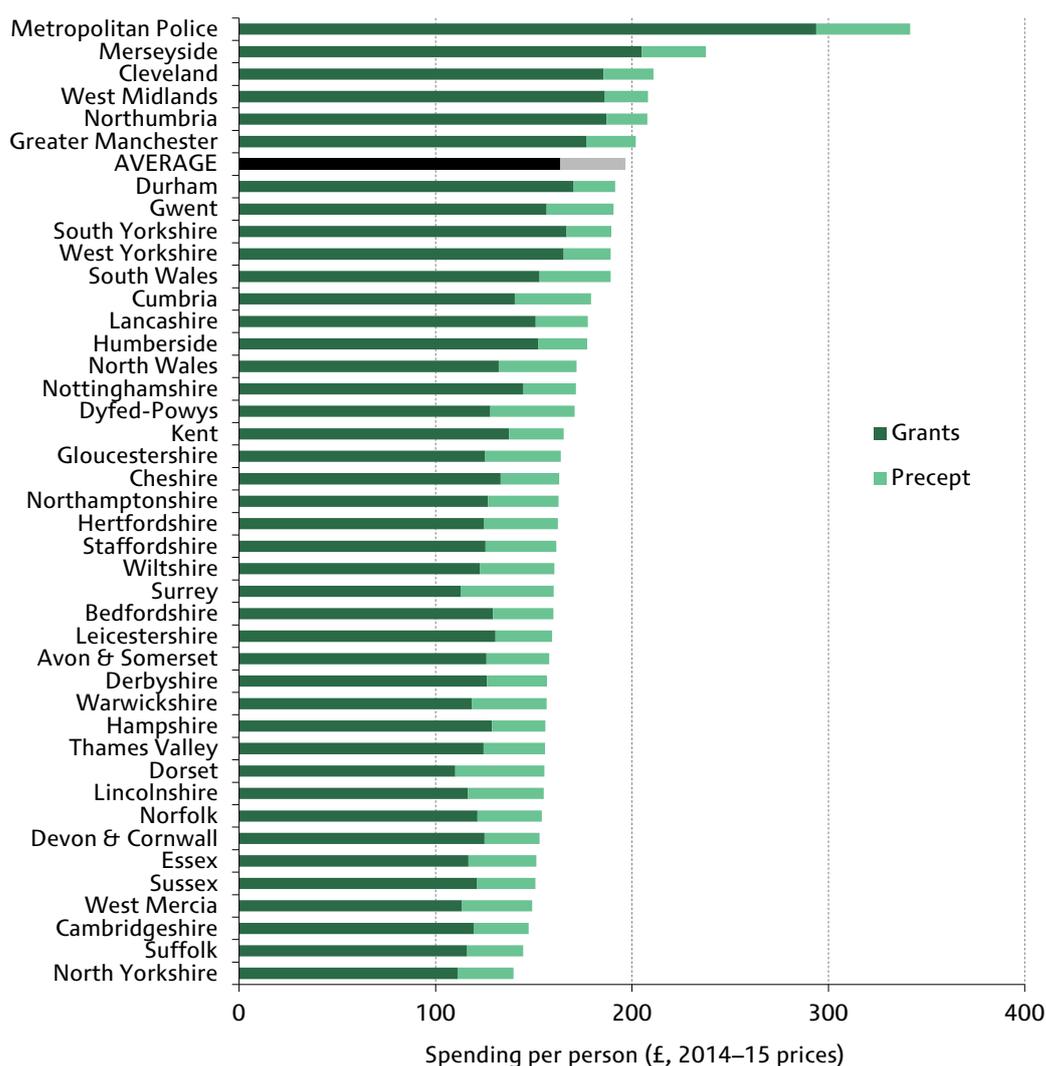
In the rest of this briefing note, we explore how these changes in revenues over time differ across police forces. To do this, we must make one final adjustment to our measures of grants and total revenue. The allocation of the counter-terrorism grant across police forces has not been made public in recent years for security reasons. Therefore we exclude the counter-terrorism grant in all years in order to focus on a consistent measure of spending over time. The final two rows of Table 1 show changes in spending and grants throughout the period excluding the counter-terrorism grant. Since there has been a large increase in counter-terrorism spending since the grant was first introduced in 2001–02, excluding the grant makes the increases in police spending over the 2000s smaller and the cuts since 2010–11 larger.

4. Variation in the changes in spending by police authority

The previous section highlighted two distinct periods for police spending in England and Wales: one of growth up to 2010–11, driven mainly by an increase in precept revenues; and one of cuts since 2010–11, driven by cuts to central government grants to police forces. In this section, we consider how the changes in police spending have differed across police forces. Due to boundary changes implemented in April 2000, it is not possible to look at the change in spending for all police forces over the whole period. We instead focus on changes from 2000–01 onwards. We first consider the periods up to and following 2010–11 separately, and then look at the relationship between changes in spending across the two periods.

To set the scene, Figure 1 shows the distribution of spending per person across English and Welsh police forces in 2000–01. The Metropolitan Police is a clear outlier at the top of the distribution, with over £100 more spending per person than the force with the next-highest spending (Merseyside). This is not surprising given that the Metropolitan Police has responsibility for some national issues such as counter-terrorism activities. Several of the forces at the upper end of the spending distribution are those covering metropolitan areas other than London. Among the bottom three-fifths of forces, spending per head of population ('per person') ranged between £140 and £170. It is also notable, comparing the shares arising from grants and precept, that grants were by

Figure 1. Spending per person by police force in 2000–01



Note: Excludes City of London. Grants exclude capital grants, counter-terrorism grant and Private Finance Initiative (PFI) grant. Excludes the pension top-up grant, using estimated values as in Home Office (2010) – see footnote 10. Council tax freeze grants and council tax support grants are included as council tax precept revenues and not as grants. 2014–15 prices. Source: CIPFA Police Actuals, DCLG, Home Office Police Grant Reports and Police Force Financial Statements.

far the largest source of revenue for all forces. The proportion of revenue from grants ranged from 71% (Surrey) to 90% (Northumbria).

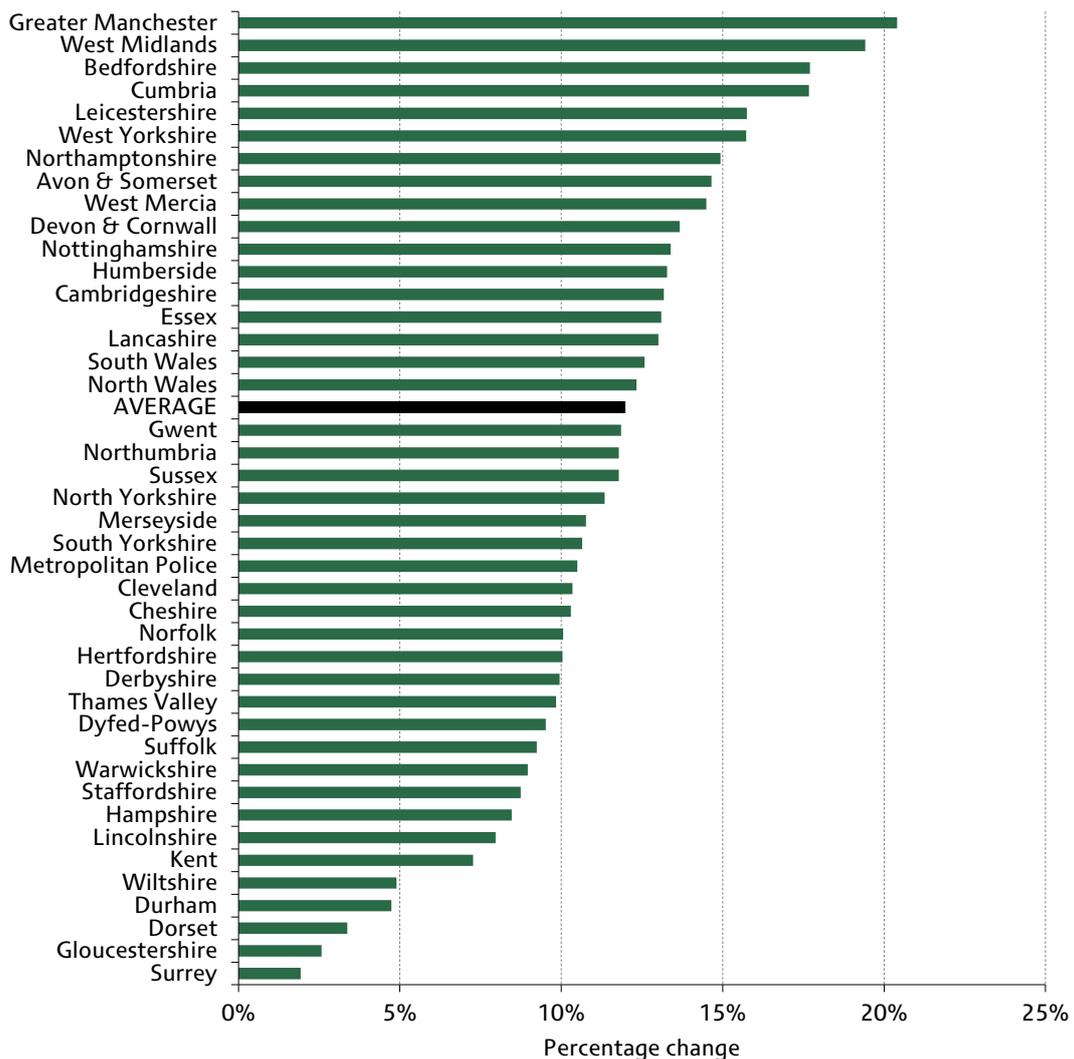
Period of growth: 2000–01 to 2010–11

In considering the variation in changes in police spending over the 2000s, we look first at changes in grants, then changes in precept revenues and finally changes in overall spending.

Changes in grants

Figure 2 shows the distribution of changes in government grants for police forces in England and Wales between 2000–01 and 2010–11. It shows considerable variation across police forces in the changes seen over the period. While the median change in grants was an 11.1% increase, one-in-seven police forces saw grants increase by more than 15%, while five forces saw grants increase by less than 5% in real terms.

Figure 2. Percentage change in grants, 2000–01 to 2010–11



Note: Excludes City of London. Grants exclude capital grants, counter-terrorism grant and Private Finance Initiative (PFI) grant. Excludes the pension top-up grant, using estimated values prior to 2006–07 as in Home Office (2010) – see footnote 10. Council tax freeze grants and council tax support grants are included as council tax precept revenues and not as grants. 2014–15 prices.

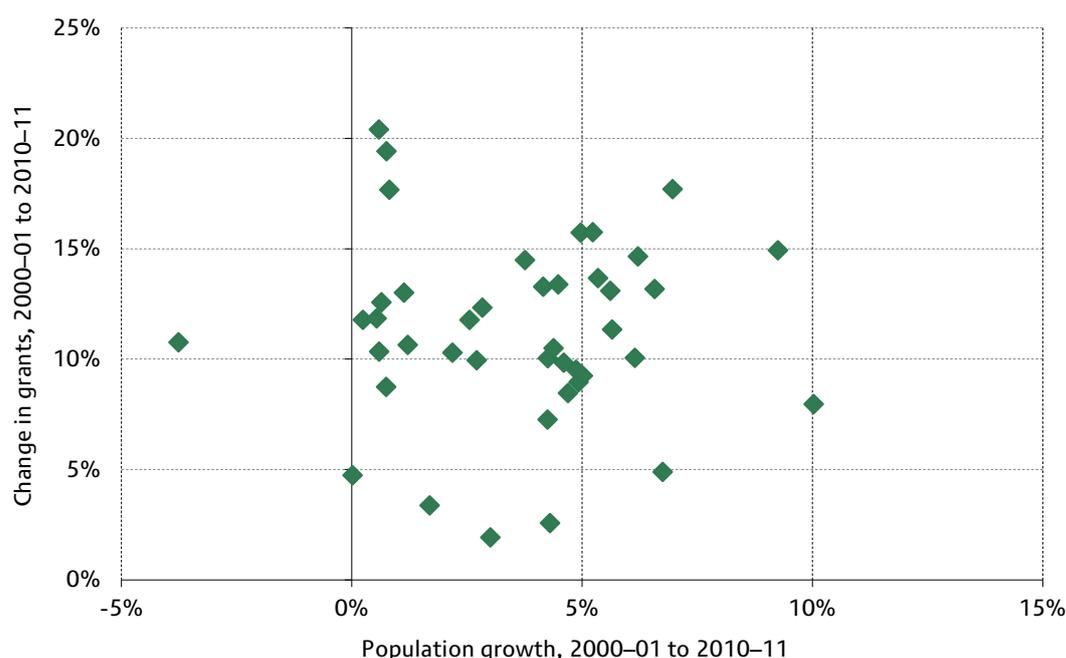
Source: CIPFA Police Actuals, DCLG, Home Office Police Grant Reports and Police Force Financial Statements.

What explains these different changes in grants? To begin to answer this, it is useful to consider how grants are allocated to police forces. Police forces receive a small proportion of grant funding as specific grants, such as for activities covered by the Crime Fighting Fund. The number of specific grants and the proportion of grant funding delivered through specific grants increased over the period (but specific grants still only made up 8.2% of funding in 2010–11). The bulk of central government grants to police forces comes from ‘formula funding’, based primarily on an estimate of the ‘relative need’ for spending in each police force.¹³ This estimate of ‘relative need’ is arrived at by first estimating the workload for different types of police activity based on local demographic and socio-economic factors, then estimating the police inputs required to deal with each activity (for example, dealing with burglaries) and then aggregating these to give an estimate of the total police inputs required. Finally, adjustments are made to account for differences in local costs of police inputs to give an estimate of the relative need for police spending. In theory, the indicator variables and calculations of police inputs required for each activity were updated each year. In practice, however, these updates have not occurred annually since 2006–07, and year-on-year volatility arising from the underlying formula has also been ‘dampened’ by adjusting grant allocations in an ad hoc fashion to ensure all forces see at least a minimum increase (or at most a maximum reduction) in grants each year.

It is beyond the scope of this briefing note to conduct a full decomposition of the funding formula in order to explain fully the variation in the changes in grants over the period. However, one factor that we might expect to play an important role is population growth, since population is one of the main drivers of the estimated police workloads used in the funding formula. Figure 3 plots the relationship between the change in grants and population growth over the 2000s, and shows that there is in fact surprisingly little correlation between the two series (correlation

¹³ Prior to 2013–14, formula funding comprised two parts – the police grant, allocated by the Home Office, and the revenue support grant and redistributed business rates, allocated by the Department for Communities and Local Government. While both allocations were based on an estimate of ‘relative need’, the DCLG funding allocations also took into account the size of the local council tax base, allocating smaller grants to areas with higher tax bases and therefore greater local revenue-raising capacity. Since 2013–14, all formula funding has been allocated by the Home Office.

Figure 3. Relationship between change in grants and population growth



Note: Correlation coefficient = -0.01 . Excludes City of London. Grants exclude capital grants, counter-terrorism grant and Private Finance Initiative (PFI) grant. Excludes the pension top-up grant, using estimated values prior to 2006–07 as in Home Office (2010) – see footnote 10. Council tax freeze grants and council tax support grants are included as council tax precept revenues and not as grants. 2014–15 prices.

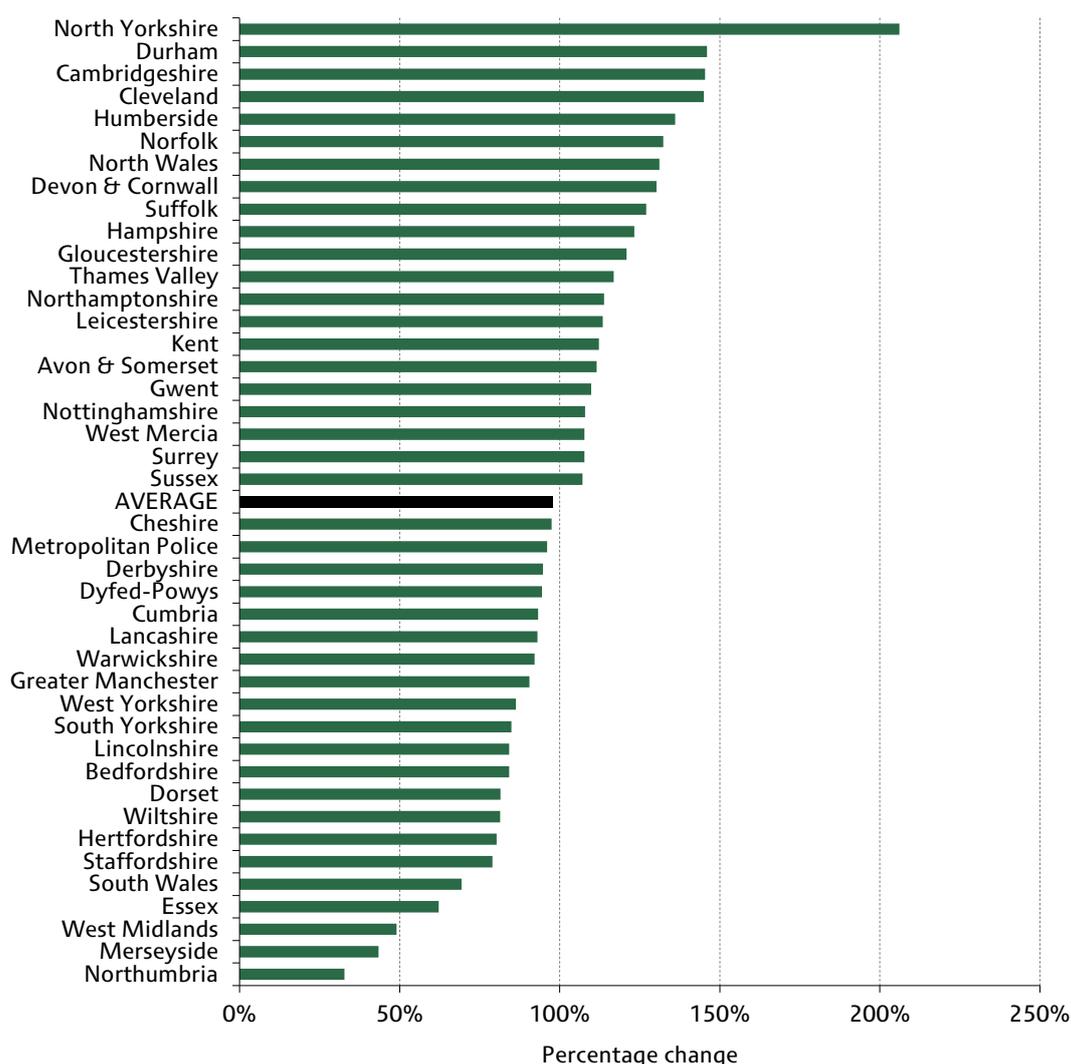
Source: CIPFA Police Actuals, DCLG, Home Office Police Grant Reports and Police Force Financial Statements.

coefficient of -0.01). The variation across forces in the growth in police grants per capita is in fact higher than the variation in the growth in total police grants (standard deviation of 5.0% compared with 4.2%).

Changes in precept revenues

Given that, nationwide, just under two-thirds of the overall change in police funding over the 2000s (excluding counter-terrorism funding) came from changes in precept revenues, the distribution of changes in revenues from the precept is of particular interest. Whilst Figure 2 suggests that there was variation in the change in police grants across police forces in this period (from just under 2% to over 20%), there was much greater variation in the changes in precept revenues across forces (Figure 4). The median change in precept revenues over the period was an increase of 97% but three police forces saw revenues increase by less than 50%, while one force – North Yorkshire – tripled its revenues from the precept.

Figure 4. Percentage change in precept revenues, 2000–01 to 2010–11



Note: Excludes City of London. 2014–15 prices.

Source: CIPFA Police Actuals, DCLG, Home Office Police Grant Reports and Police Force Financial Statements.

To understand further the changes in precept revenues, it is useful to consider how forces set precept rates. The council tax precept was introduced for most police forces in 1995–96,¹⁴ following the replacement of the community charge with council tax in 1993–94.

In the first year, the vast majority of police forces set the precept at the same rate of £45 per year per band D property in current prices (£69.54 in 2014–15 prices). By 2010–11, there was a wide distribution of precept

¹⁴ The police forces covering the main metropolitan areas other than London – Greater Manchester, Merseyside, Northumbria, South Yorkshire, West Midlands and West Yorkshire – introduced the precept in 1993–94.

rates across police forces – ranging from £90.13 in Northumbria to £220.33 in North Yorkshire (in 2014–15 prices). So what happened in between?

Figure 5 uses a ‘box-and-whisker plot’ of precept rates for police forces in England in each year from their introduction in 1995–96 until 2010–11 to show how the distribution of precept rates widened over the period.¹⁵ The figure shows that in the early years of the precept the vast majority of forces set similar precept rates, and initial increases in the precept from year to year were modest. Up to 1997, a system of ‘universal capping’ was in place, whereby police authorities were informed before they formed their budgets of the increase in the precept that would be permitted.¹⁶ Emmerson et al. (1998) estimated that, as a result of universal capping, spending on local services including the police was 4% lower than it would have been in the absence of capping.¹⁷

In 1997, the new Labour government replaced the system of universal capping with one of ‘selective capping’, whereby police forces would first draw up their budgets including their planned increase in the precept and the government could then designate forces for capping if it judged their planned increase in the precept to be ‘excessive’. However, in practice, such capping was not used for police forces until 2004–05.¹⁸

Figure 5 does show a striking change in precept rates between 1997–98, when universal capping was replaced with selective capping, and 2004–05, when selective capping began to be used in practice. In the late 1990s, the distribution of precept rates began to widen slightly, and then there was a marked increase in average precept rates and a widening of the distribution of precept rates in the early 2000s, with a particularly striking

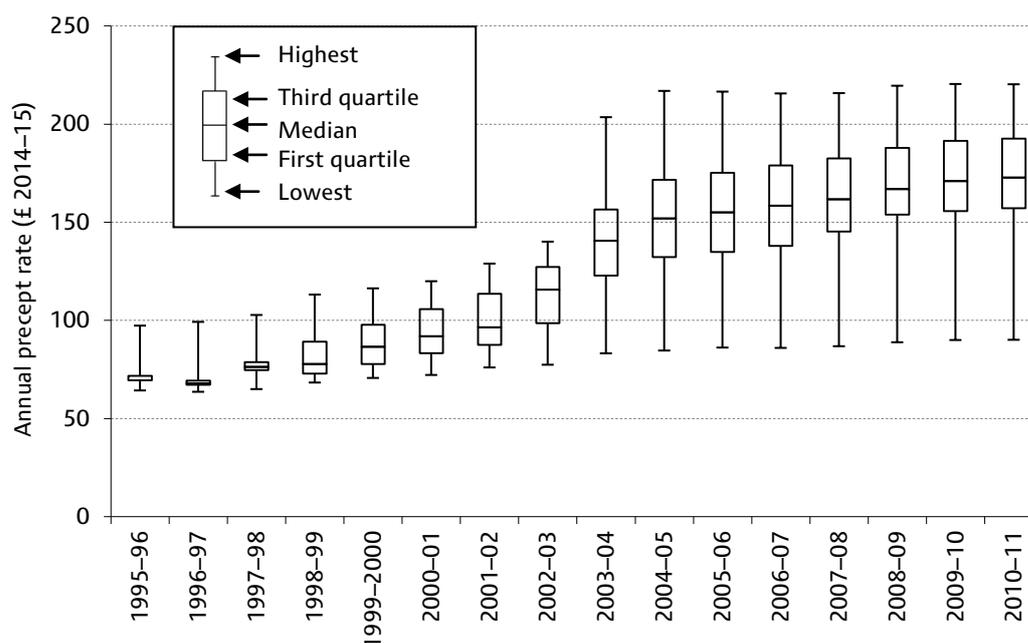
¹⁵ We do not include Welsh police forces here because precept rates are based on different property bandings that were updated in 2003.

¹⁶ C. Sear and G. Berman, ‘Council tax capping’, House of Commons Library Research Paper 04/56, 2004, <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/RP04-56>.

¹⁷ C. Emmerson, J. Hall and F. Windmeijer, ‘Impact of capping on local service provision’, IFS Commentary 71, 1998, <http://www.ifs.org.uk/comms/comm71.pdf>.

¹⁸ N. Johnston, ‘Police funding’, House of Commons Library Briefing Paper CBP7279, 2015, <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7279>.

Figure 5. Box-and-whisker plot of council tax precept rates for English police forces



Note: The ‘box-and-whisker plot’ shows points of the distribution of precept rates across police forces. The ‘box’ shows the first quartile, median and third quartile of precept rates, while the ‘whiskers’ show the lowest and highest rates. Excludes Welsh police forces, the Metropolitan Police and the City of London. 2014–15 prices.
Source: DCLG.

change between 2002–03 and 2003–04. North Yorkshire increased the precept by 73% in real terms in this single year.

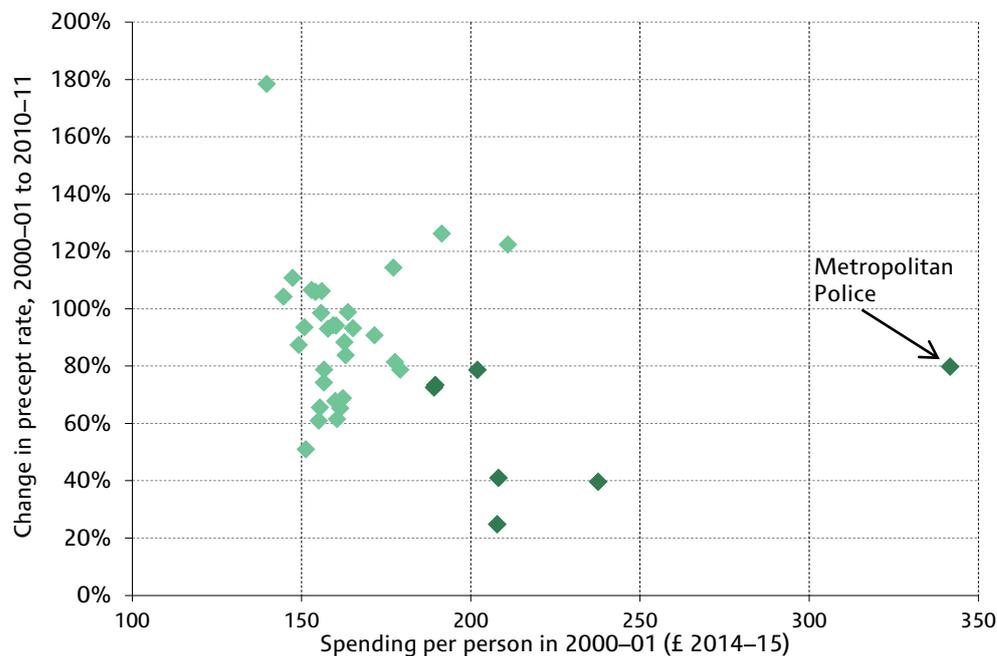
From 2004–05 onwards, the constraint on increases in precept rates from the potential for them to be capped became more apparent. In 2004–05, three police forces – Cumbria, Northamptonshire and West Mercia – were threatened with having the increase in their precept capped, although in practice their precepts were not actually capped. There were a number of examples of capping in the following years – for example, Lincolnshire Police Authority had its increase in precept capped when it planned a 79% increase in 2008–09. A number of other examples are provided by Johnston (2015).¹⁹ In the period following the first threatening of capping of precept rates in 2004–05, the growth of precept rates slowed, although there still remained a wide distribution of rates across police forces.

Why is there so much variation in precept increases across forces and what led some forces to increase their precept revenues by more than

¹⁹ N. Johnston, ‘Police funding’, House of Commons Library Briefing Paper CBP7279, 2015, <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7279>.

others? A detailed analysis of the factors explaining the variation in changes in precept rates is beyond the scope of this briefing note. However, Figure 6 explores one possible factor. The figure plots the percentage change in the precept rate between 2000–01 and 2010–11 against the level of spending per person in 2000–01, with each diamond representing a police force. The Metropolitan Police is a clear outlier in terms of spending per person, but saw a roughly average percentage increase in precept rates. Looking at the other forces, there is a negative association between spending per person and the increase in precept rates, with a correlation coefficient of -0.40 . It is especially notable that many forces covering metropolitan areas (the darker diamonds) other than London have relatively high spending per person and saw relatively small increases in precept rates. North Yorkshire, with relatively small initial spending per person, saw by far the largest increase in precept rates over the 2000s (178%). However, its precept rate in 2010–11 (£220) was only slightly higher than Surrey’s (£214), despite Surrey increasing its precept rate by just 94% over the 2000s. This is because by 2000–01

Figure 6. Relationship between changes in precept rates and spending per person



Note: Correlation coefficient = -0.27 ; excluding the Metropolitan Police = -0.40 . Forces covering metropolitan areas shown as darker diamonds. Excludes City of London and Welsh police forces.

Source: CIPFA Police Actuals, DCLG, Home Office Police Grant Reports and Police Force Financial Statements.

Surrey had already increased its precept rate substantially since its inception (from £64 in 1995–96 to £110 in 2000–01), whereas North Yorkshire’s precept rate had, in real terms, only increased modestly (£79 in 2000–01 compared with £70 in 1995–96).

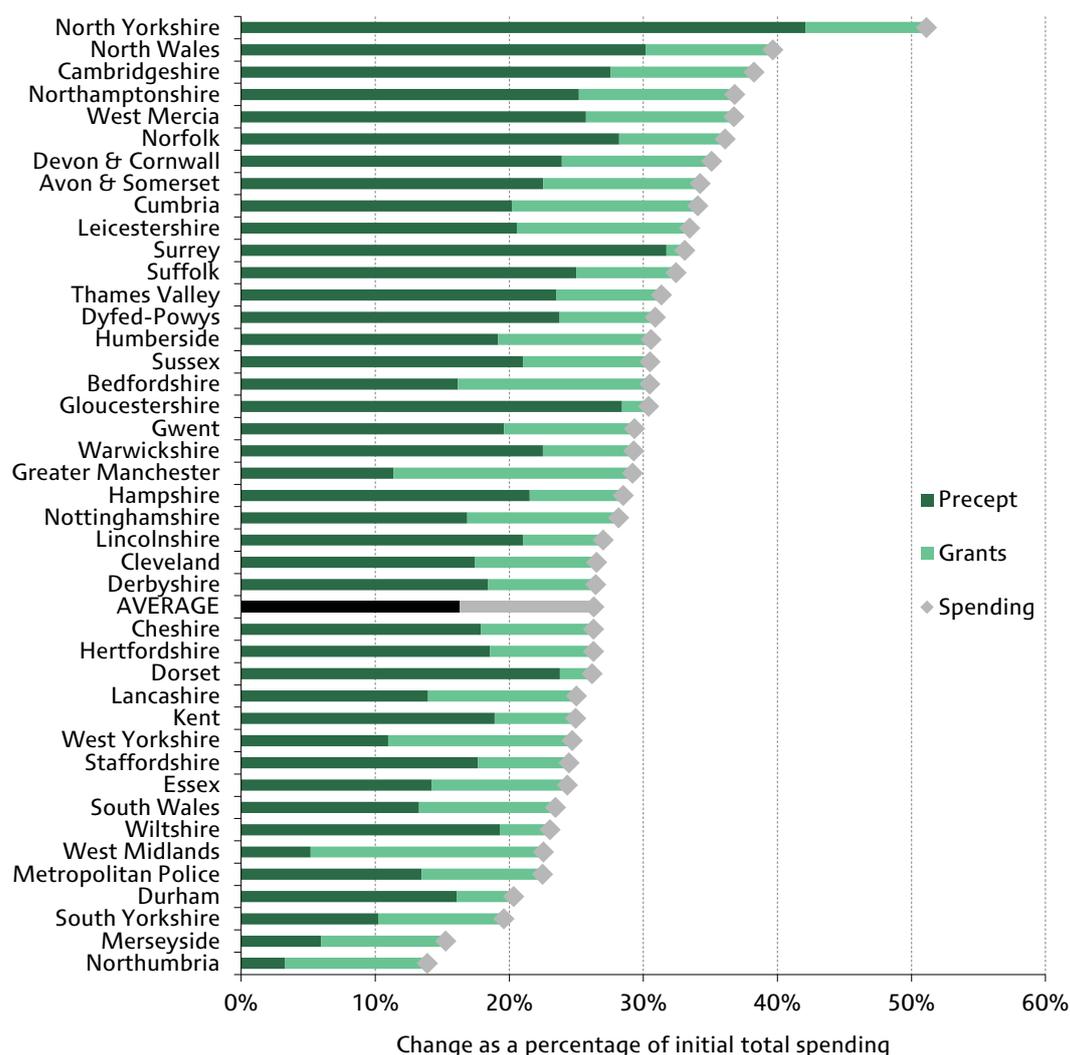
What explains the relationship between the change in precept rates and the level of spending per person? One story might be that forces with lower spending per person had more incentive to raise revenues through the precept, so as to ‘catch up’ to the levels of spending by other forces. Alternatively, it could be that these areas in some way found it politically easier to raise revenues through pushing up the precept – for example, because of greater local demand for police services, or perhaps because the structure of local government was different. Unfortunately, Figure 6 is not sufficient to tell which of these stories, if either, best explains the observed pattern.

Changes in spending

We now bring the change in grants and precept revenues together to consider the change in forces’ total revenues and therefore level of spending. Figure 7 shows the change in spending between 2000–01 and 2010–11 for each force and splits out how much of the growth came from grants and how much from precept revenues. Again, there is substantial variation across police forces in the size of changes in spending. While in aggregate police spending increased by 26.3% over the period, it is striking that there is a wide range of differences: from Northumbria, which saw an increase in funding of just 13.9%, to North Yorkshire, which saw funding increase by more than half.

For the vast majority of police forces, most of the increase in funding came from precept revenues. For only five forces – Greater Manchester, Merseyside, Northumbria, the West Midlands and West Yorkshire – did more than half of the increase come from increases in grants. North Yorkshire – the force that increased revenues most – had over 80% of this increase from the precept, while Surrey saw more than 95% of its increase in revenues coming from the precept. As we would expect given their relatively low precept rates in 2000–01 (shown in Figure 1), many of the forces covering metropolitan areas saw relatively small increases in spending over the period.

Figure 7. Percentage change in spending coming from precept and grant revenues, 2000–01 to 2010–11



Note: Precept and grant numbers show the change in revenues from each source as a percentage of initial total spending. Excludes City of London. Grants exclude capital grants, counter-terrorism grant and Private Finance Initiative (PFI) grant. 2014–15 prices.

Source: CIPFA Police Actuals, DCLG, Home Office Police Grant Reports and Police Force Financial Statements.

Period of cuts: 2010–11 to 2014–15

From 2010–11 to 2014–15, the variation in changes in grants and precept revenues across police forces was much smaller than in the preceding period. Rather than allocating grants according to the funding formula, the coalition government applied the same percentage cut to each police authority’s formula grant.²⁰ A number of special grants were also

²⁰ See Home Office, *Consultation on Reform of Police Funding Arrangements in England and Wales*, 2015,

subsumed into the formula grant so that these were subject to the same funding reduction too. The percentage cut to total government grants was therefore almost the same for all police forces in England and Wales.

Central government also took steps to limit the amount that police forces could offset the cuts to their grants by raising precept revenues. First, in 2012, the government introduced locally-elected Police and Crime Commissioners, who would be responsible for setting the strategic priorities and budget (and therefore the precept rate) for the local police force.²¹ This was intended to increase the accountability of the police to the local community and increase efficiency. Second, the government returned to a system of universal capping for police forces in England, whereby any proposed increase in nominal precept rates of 2% or more required backing through a local referendum. Under this constraint, no police force successfully implemented an increase in the precept rate of 2% or more over the period.²² Finally, each year from 2011–12 to 2014–15, police forces in England were offered additional temporary grant funding if they froze (or cut) their precept rate in nominal terms. (Welsh police forces did not face the same constraints on their precept rates as the Labour Welsh Assembly Government kept in place the system of selective capping and did not offer additional grants to authorities that chose to freeze, or cut, their rates of council tax.)

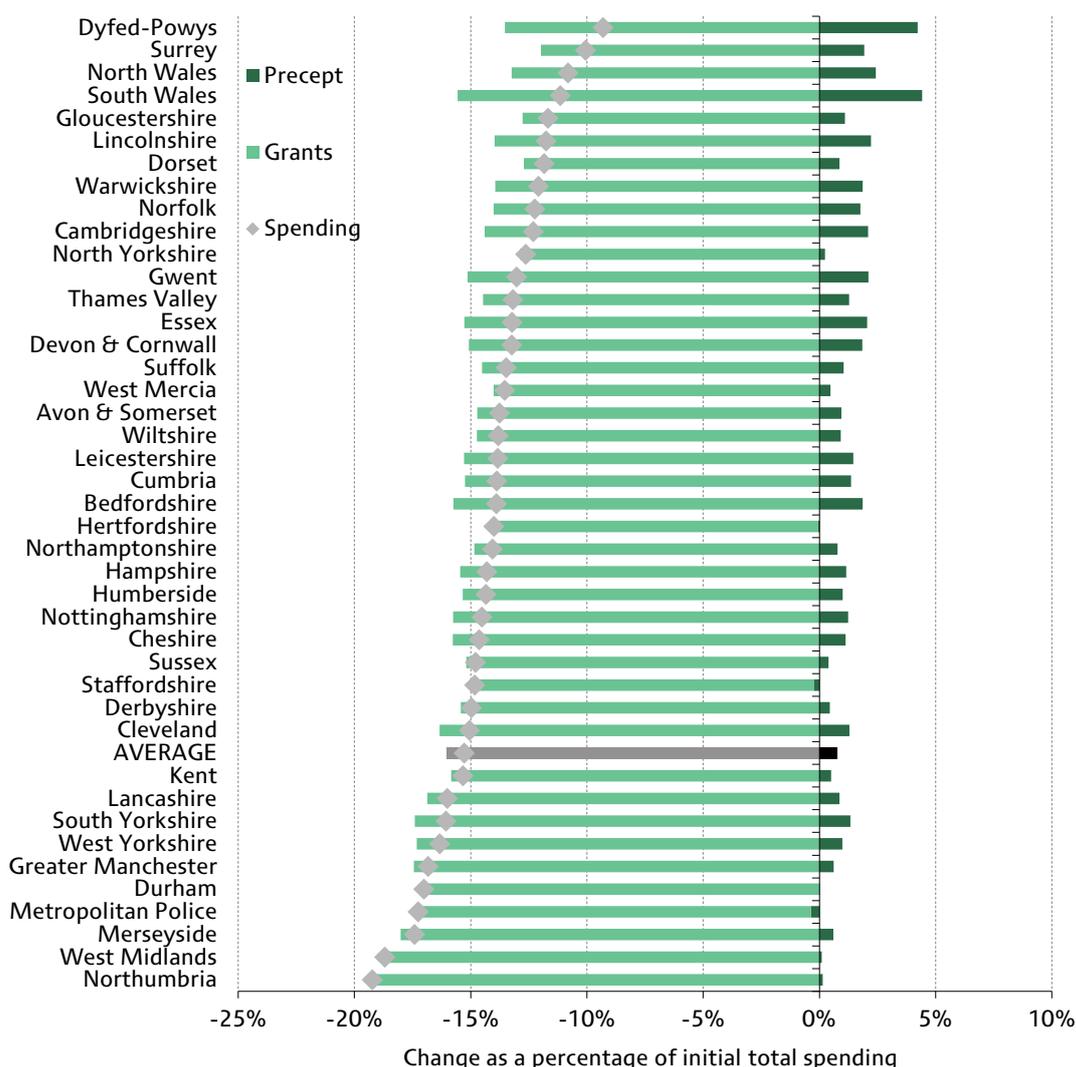
Figure 8 shows the distribution of the changes in spending from 2010–11 to 2014–15, and breaks down the percentage change in spending coming from changes in grants and the precept. As can be seen, applying roughly

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/447083/2015_07_20_Police_funding_consultation_doc.pdf and National Audit Office, *Financial Sustainability of Police Forces in England and Wales*, 2015, <https://www.nao.org.uk/wp-content/uploads/2015/06/Financial-sustainability-of-police-forces.pdf>.

²¹ These replaced police authorities – bodies with around 17 members (nine from the local authority and eight independent members of whom at least three were local magistrates) – which were previously responsible for setting the local force’s budget and precept.

²² Although a referendum to increase the precept rate by 15.8% was held in Bedfordshire in May 2015, the proposal was rejected. The Surrey PCC backed down from a proposal to initiate a referendum after public criticism from the DCLG Secretary of State.

Figure 8. Percentage change in spending coming from precept and grant revenues, 2010–11 to 2014–15



Note: Precept and grant numbers show the change in revenues from each source as a percentage of initial total spending. Excludes City of London. Grants exclude capital grants, counter-terrorism grant and Private Finance Initiative (PFI) grant. Council tax freeze grants and council tax support grants are included as council tax precept revenues and not as grants. 2014–15 prices.

Source: CIPFA Police Actuals, DCLG, Home Office Police Grant Reports and Police Force Financial Statements.

the same percentage cuts to grants meant a bigger cut to total revenues for some police forces than for others. For example, Surrey Police cut spending by 10%, while Northumbria Police cut spending by 19%. As the National Audit Office (2015) states, ‘The forces most affected by [central government] funding reductions are those with a higher percentage of

total funding coming from central government'.²³ In particular, police forces in metropolitan areas saw large percentage falls in their overall revenues. These findings mirror those for the cuts to English local authority spending implemented since 2010–11. Similar to police forces, the same percentage cut to 'core' grants was applied to all local authorities, and this amounted to bigger cuts to spending for the authorities most reliant on grant funding.²⁴

Some of those forces seeing smaller falls in their overall revenues did see some increase in their real council tax revenues, although this was never close to being sufficient to offset fully the cut to grant revenues. Two Welsh police forces – Dyfed-Powys and South Wales – do stand out, however, each with precept revenues as a proportion of initial total revenues increasing by more than 4%. This resulted in them seeing the first- and fourth-smallest overall cut to revenues. (Smaller cuts were experienced by Surrey and North Wales, which both experienced relatively small falls in total revenues from reduced grant funding and increased precept revenues.)

Relationship between spending growth and spending cuts

Having examined the variation in the changes in spending across police forces in the two periods separately, we now consider how police forces fared over the period as a whole.

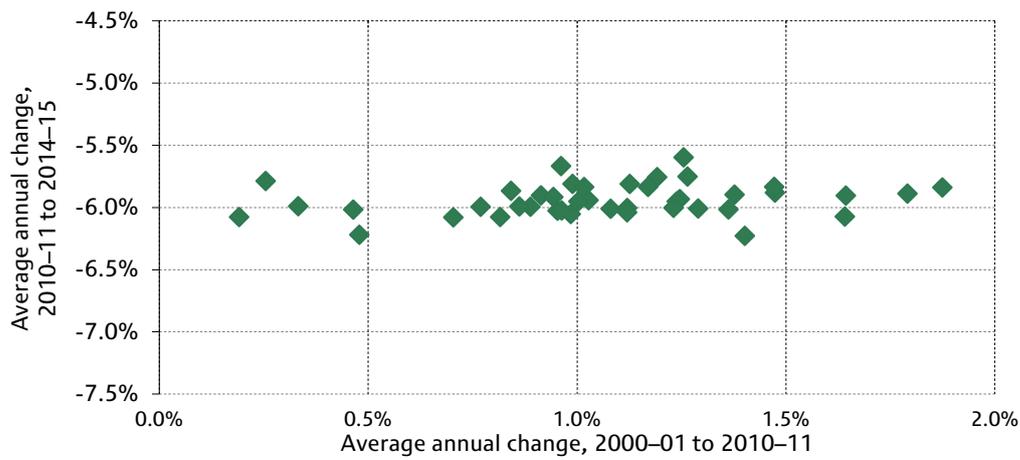
Figure 9 plots the average annual change in revenues from 2000–01 to 2010–11 against the average annual change in revenues from 2010–11 to 2014–15, with each diamond representing a police force. The first panel looks at grants, the second precept revenues and the third overall revenues (or spending). Given that the coalition government applied practically the same percentage cut to grants for all police forces between 2010–11 and 2014–15, and limited the increases in precept rates of English police forces over this period, it is unsurprising that there is no

²³ National Audit Office, *Financial Sustainability of Police Forces in England and Wales*, 2015, <https://www.nao.org.uk/wp-content/uploads/2015/06/Financial-sustainability-of-police-forces.pdf>.

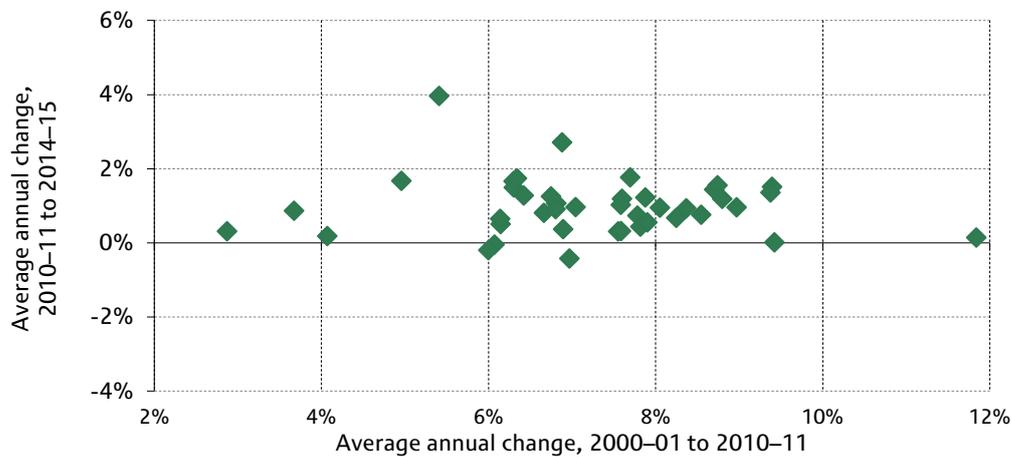
²⁴ D. Innes and G. Tetlow, 'Central cuts, local decision-making: changes in local government spending and revenues in England, 2009–10 to 2014–15', IFS Briefing Note BN166, 2015, <http://www.ifs.org.uk/publications/7617>.

Figure 9. Relationship between change in revenues 2000–01 to 2010–11 and change in revenues 2010–11 to 2014–15

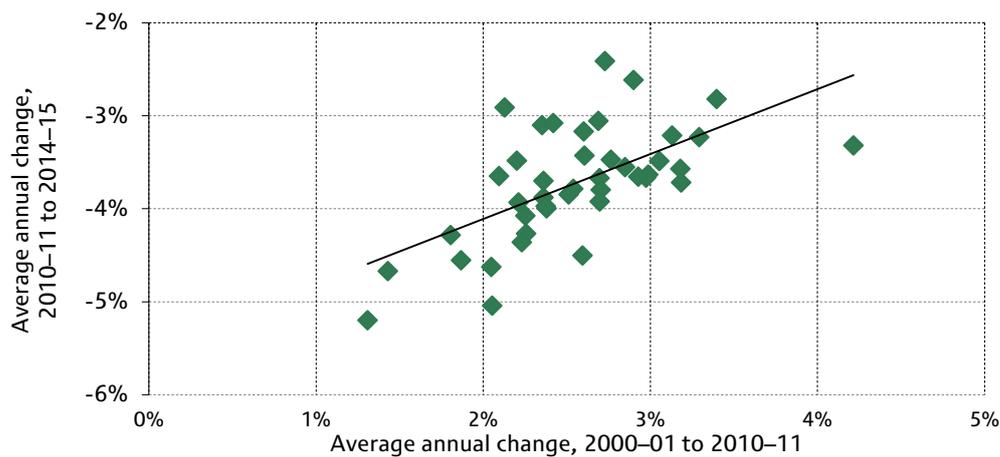
Grants



Precept



Total revenues



Note: Correlation coefficients +0.23, -0.06 and +0.61 in top, middle and bottom panels respectively. Excludes City of London. Grants exclude capital grants, counter-terrorism grant and Private Finance Initiative (PFI) grant. Council tax freeze grants and council tax support grants are included as council tax precept revenues and not as grants. 2014–15 prices. Source: CIPFA Police Actuals, DCLG, Home Office Police Grant Reports and Police Force Financial Statements.

notable relationship between changes in either grants or precept revenues in the two periods.

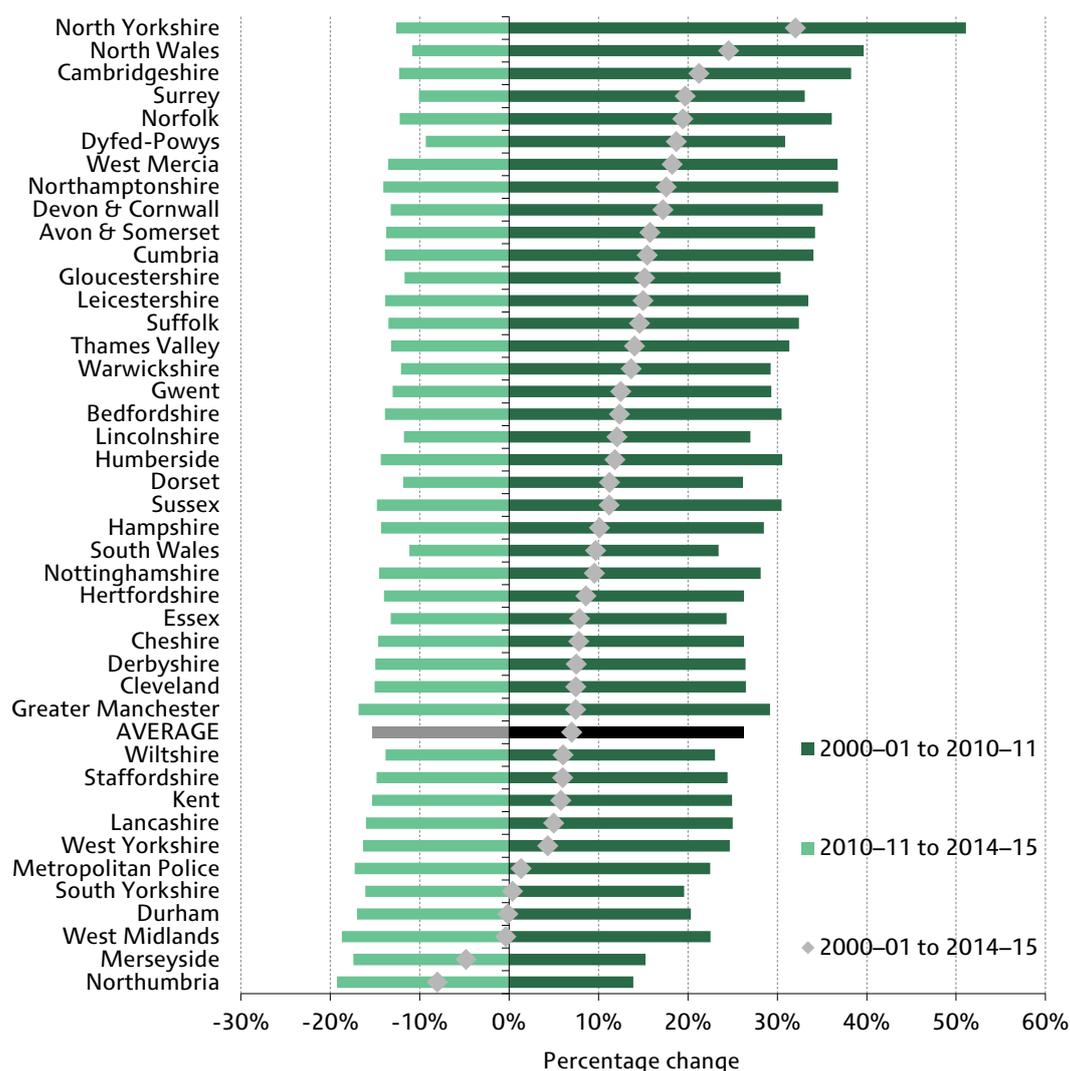
The bottom panel, however, shows that there is a positive correlation between the average annual change in overall spending over the 2000s and the average annual change in spending that followed (with a correlation coefficient of +0.61). In other words, police forces that saw smaller increases in spending over the 2000s also saw bigger cuts to spending between 2010–11 and 2014–15.

The analysis presented above provides a coherent explanation for this. The forces that increased spending most over the 2000s were those that were able to increase their revenues from the precept the most, and they therefore had larger shares of their revenues from the precept in 2010–11. The larger the share of a force's revenues that came from the precept in 2010–11, the smaller the cut it saw to its overall spending, since all forces saw the same percentage cuts each year to their grants. Therefore, the forces that increased their spending most over the 2000s were also those forces that saw the smallest cuts from 2010–11 onwards. This is a form of 'gearing effect' of the central grant on police spending, in so far as police forces that had become less dependent on revenues from the Home Office were less affected by the across-the-board cuts in central grants.²⁵

This positive correlation between the change in spending in the two periods means that there was substantial variation in the overall change in police forces' revenues across the whole period from 2000–01 to 2014–15, as shown in Figure 10. In aggregate, police spending was 7.0% higher in 2014–15 than in 2000–01. However, the two police forces that increased precept revenues the least over the 2000s – Northumbria and Merseyside – saw revenues fall in real terms by 8.0% and 4.8% respectively. In contrast, the force that increased precept revenues the most over the 2000s – North Yorkshire – had revenues that were still more than 30% higher in 2014–15 than they were in 2000–01.

²⁵ For a discussion of 'resource effects' and 'gearing effects' in the context of local authority spending funded both from central allocations and from local revenue-raising, see C. Giles and M. Ridge, 'Right this time? An analysis of the first year's council tax figures', IFS Commentary 37, 1993, <http://www.ifs.org.uk/comms/comm37.pdf>.

Figure 10. Overall change in revenues, 2000–01 to 2014–15



Note: Excludes City of London. Grants exclude capital grants, counter-terrorism grant and Private Finance Initiative (PFI) grant. 2014–15 prices.

Source: CIPFA Police Actuals, DCLG, Home Office Police Grant Reports and Police Force Financial Statements.

Taking into account population growth, total spending per person on the police in England and Wales (excluding the counter-terrorism grant) was essentially flat in real terms between 2000–01 and 2014–15. North Yorkshire saw the biggest increase in spending per person (as well as total spending), with spending per person growing by 23.6% between 2000–01 and 2014–15. However, the Metropolitan Police saw the largest fall in spending per person (by 10.7%), due to population growth in Greater London of 13.5%. Merseyside police force, despite seeing the second-largest fall in police spending, saw only the seventh-largest fall in police spending per head, as its population fell by 1.2%. In total, 10 police forces had lower spending per person in 2014–15 than in 2000–01.

Implications for the variation in levels of spending per person

How has this variation in changes in spending across police forces affected the distribution of spending per person that was shown in Figure 1? Whilst all forces saw increases in spending over the 2000s, there was convergence in levels of spending per person across police forces. The ratio of spending by the force at the 90th percentile to spending by the force at the 10th percentile (the '90:10' ratio) fell from 1.35 in 2000–01 to 1.33 in 2010–11 (the standard deviation as a percentage of mean spending per person fell from 17.2% in 2000–01 to 15.9% in 2010–11). This is because over the 2000s, forces with initially lower spending per person set higher precept rates (shown in Figure 6) and saw the biggest percentage increases in their overall revenues. In particular, forces in metropolitan areas, which tended to have higher levels of initial spending per person, saw relatively small increases in precept revenues over the 2000s.

Since 2010–11, all forces have seen the same percentage cuts to their grants, but this amounted to smaller cuts to overall revenues for forces with a higher proportion of revenues from the precept in 2010–11. These were typically the forces that had increased their precept revenues most over the 2000s. The convergence of spending per person across police forces therefore continued, with the standard deviation of spending per person as a percentage of mean spending falling to 14.3% (the 90:10 ratio of spending per person across forces remained at 1.33).

5. Conclusions

Over the period 2010–11 to 2014–15, police spending in England and Wales was cut by 14% as part of the government's austerity drive. However, as has received much attention recently,²⁶ within that average some forces have fared better than others. For example, Surrey Police cut spending by 10%, while Northumbria Police cut spending by 19%. This is because applying the same percentage cut to grants across all police forces since 2010–11 led to bigger percentage cuts to spending for those

²⁶ See, for example, National Audit Office, *Financial Sustainability of Police Forces in England and Wales*, 2015, <https://www.nao.org.uk/wp-content/uploads/2015/06/Financial-sustainability-of-police-forces.pdf> and N. Johnston, 'Police funding', House of Commons Library Briefing Paper CBP7279, 2015, <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7279>.

authorities that received a higher proportion of their revenues from grants.

In this briefing note, we have placed these cuts to police spending since 2010–11 in the context of the increase in police spending over the preceding decade. This reveals the striking finding that the forces with the largest spending cuts since 2010–11 are also those that saw the smallest spending increases between 2000–01 and 2010–11. This is because the majority of the increase in police spending over the 2000s was driven by increases in precept revenues, which increased by 98% over the period (compared with an increase in grants of 17%). The forces that increased their precept revenues the most over the 2000s had a smaller proportion of their total budgets coming from grant revenues in 2010, and therefore were less affected by the significant cuts to central government grants that followed.

We have also demonstrated that there is a correlation between the increase in precept revenues and the initial level of per-capita spending: forces with higher spending per capita typically increased their precept revenues by less. As a result, there has been some convergence over time in the level of police spending per person across forces in England and Wales.

Two important questions that remain are why some forces increased their precept revenues by more than other forces and why there has been this convergence in levels of police spending. There are a number of potential reasons. For example, it could be that the formula for allocating police funding did not adequately reflect differences in relative need for police spending in different areas, and so police forces that received less in grant needed to make up extra revenue from the precept. Or it could be that some forces found it easier to increase the precept than other forces – for example, because of different preferences for increasing spending on policing in different areas.

Understanding the role played by these, and other, possible explanations, and therefore why police forces have made different decisions about raising revenue, will be crucial for the Home Office as it seeks to reform how central government grants are allocated between forces going forwards.