FOOTING THE BILL:
FINANCING PROVINCIAL POLICE FORCES

SUMMARY

The police service is a local authority function which has a unique relationship with central government. The 41 provincial forces in England and Wales are controlled through a tripartite relationship between central government, local government and chief constables. It is the police authority’s responsibility to secure the maintenance of an adequate and efficient force for an area, while the chief constable exercises operational direction and control. But the Home Secretary has extensive powers over both.

Partly because of this special constitutional relationship, a system of central government grants and expenditure controls, substantially different from that governing most other local authority services, is in place. These controls were enshrined in the Police Act 1964, but they have evolved to the point where they are now threatening to undermine the responsibilities of police authorities incorporated in the tripartite structure.

The total cost of the 41 provincial police forces in England and Wales in 1989/90 was almost £3 billion. This total has risen sharply in recent years; it is some 40% higher in real terms than in 1979/80 (Exhibit 1). About 70% of this cost is met by central government. The Home Office reimburses police authorities for 51% of

Exhibit 1
EXPENDITURE ON POLICING 1979/80 - 1989/90

In real terms total expenditure on policing has risen sharply over the last ten years...

Note: Expenditure in 1984/85 was affected by the miners' strike

Source: Home Office and CIPFA Police Statistics-Estimates 1979/89. GDP deflator from HM Treasury - this will tend to understimate inflation in services such as police which are heavily dependent on labour.
their net expenditure, and the Department of Environment/Welsh Office provide further support through revenue support grants to local authorities.

While the police authority is charged with determining the number of officers in its force (the ‘establishment’), its decision is subject to the approval of the Home Secretary, who must also approve all significant capital expenditure.

The operation of these controls does not encourage police authorities to manage their resources efficiently – accountability is blurred, and financial and management responsibilities are out of step. Furthermore, the English system generates perverse incentives. For example, the grants received from central government more than cover the marginal cost of employing extra police officers. Thus police authorities are encouraged to bid for extra manpower. The Home Office is able to pick and choose which bids to accept and, in effect, to determine the establishment of each force. This does not sit happily with the police authority’s responsibility under the tripartite structure.

On the other hand, the same grant mechanism meets only half the cost of employing extra civilians. So civilianisation, which the government wishes to promote as a means of freeing more police officers for duty on the beat, is discouraged.

Central government revenue grant is not distributed between forces according to a visibly objective assessment of need. The Home Office cannot in practice reduce the establishment of a force, only consider bids for increases. So it cannot respond easily to changes in relative population or levels of crime.

Home Office controls on police capital expenditure are more detailed than those of almost any other local authority service – even though, in relation to revenue, police capital expenditure is small. This makes planning difficult and tempts police authorities to seek alternatives involving increased revenue expenditure.

All these problems reduce local accountability, and work against value for money.

A new approach is needed – one which takes as its starting point the tripartite structure, and revitalises local accountability within that structure. Both revenue and capital grant should be distributed according to an objective assessment of need, preferably based on a formula. The specific grant could be cash limited and police authorities given discretion as to whether they spend the money on police officers, civilians or otherwise.

**INTRODUCTION**

1 Most provincial police forces serve the same area as their parent county or former metropolitan county, though some serve two or more counties. They are controlled through a tripartite relationship between central government, local government and chief constables. The Police Act 1964 makes the chief constable of each force responsible for its direction and control but confers significant powers on the police authority and the Home Secretary. This relationship distinguishes the police from other local authority services. It is designed to strike a balance between the powers of local and central government and to prevent interference by either party in operational matters.

2 Local government’s responsibilities are discharged through a police authority. One third of the members of a police authority are magistrates, the remainder are, in the case of county forces, councillors nominated by the parent authority or, for joint and metropolitan forces, by the constituent authorities. It is the police authority’s responsibility to secure the maintenance of an adequate and efficient force for the area. For this purpose, it must:

- appoint all officers of assistant chief constable rank and above;
- determine the number of officers of each rank (‘the establishment’);
- provide buildings and equipment.

All these powers are, however, subject to various forms of control by the Home Secretary.*

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* The situation of the London Metropolitan Police is different. The Home Secretary is the police authority; the Receiver is the chief administrative officer. After consultation with the Commissioner, the Receiver prepares annual financial estimates and recommends to the Home Secretary the amount of the precept to be levied on the authorities within the Metropolitan Police District. Other key sources of income are the Home Office grant, paid subject to the same conditions which apply to provincial forces, and a revenue support grant paid direct by the Department of the Environment. The Metropolitan Police is, therefore, a competitor for the resources allocated to the police by central government.

The Audit Commission has no remit within the London Metropolitan Police, and it and the City of London Police have been excluded from the analyses and discussion in this paper.
The powers of the Home Secretary particularly relevant to this paper are to approve applications by police authorities for changes in police establishments, to approve some categories of capital expenditure and to arrange for the annual inspection of forces by Her Majesty’s Inspectors of Constabulary (HMIC) to ensure they are efficient.

The total cost of the 41 provincial police forces in 1989/90 was almost £3 billion. Individual forces spent between £28m and £210m, nearly three quarters of which arose from the direct costs of employing police men and women (Exhibit 2).

Central government meets the lion's share of police expenditure. The Home Office directly reimburses 51% of net revenue and approved capital expenditure; the Department of Environment/Welsh Office provide further support through their revenue support grants to local authorities. Overall about 70% of the cost of provincial forces is met by central government (Exhibit 3). In total, these grants cost the Exchequer almost £2bn in 1989/90.

This paper examines how central government allocates its financial support to forces, and the impact of its expenditure controls. In particular, it considers whether they align financial responsibilities with the managerial responsibilities defined by the tripartite structure and whether they encourage forces to manage their resources economically, efficiently and effectively.

For most local government services, central government relies on cash limits to control the level of its contribution. In the case of the police, the government places the emphasis on direct controls, particularly over the number of police officers each force can employ. There are also controls over forces' expenditure on capital projects such as the construction of buildings and the amount of borrowing forces can incur for the purchase of equipment.

The principle of these controls is laid down in the Police Act 1964, but the manner of their application has evolved over the years in response to perceived problems facing the police service. For example, in the last ten years central government has encouraged increases in the number of uniformed police officers in response to the growth in crime.
REVENUE EXPENDITURE
FINANCING
9 Central government provides two types of revenue support for policing: a specific police grant from the Home Office and a policing element in the revenue support grant provided by the DOE/Welsh Office. The £1.4 billion police grant paid by the Home Office in 1989/90 is by far the largest specific grant made by central to local government. Unlike many other areas of public expenditure, the grant is not cash limited – the Home Office will meet 51% of forces’ net expenditure, whatever it is. The only condition is that, before a force can receive grant, Her Majesty’s Inspectors of Constabulary (HMIC) must certify that it is efficient. No force has failed to meet this condition in recent years.

10 The revenue support grant to local authorities is based on a central assessment of what authorities need to spend to provide a common standard of service overall (the ‘Standard Spending Assessment’). Various criteria are used to assess local needs for each service – including police.

11 Before 1987/88, the police element of the assessment for English authorities was based on a formula which took into account several factors, such as population, crime rates and road lengths. Since 1987/88 the assessment has been based simply on the police officer establishment set by the police authority and approved by the Home Office. In Wales, by contrast, grant determination is based on the population in the force area and a measure of social need.

12 Individual service assessments are added together to determine each authority’s share of the national grant cake. In practice, revenue support grant is now paid to collection funds, run by the authorities collecting community charge. Any authority can calculate the Standard Spending Assessment for each service and thus the level of expenditure the government assumed appropriate. However an authority is under no obligation to spend that amount on the service.

CONTROLLING
13 The key central government control over police revenue expenditure is Home Office approval of force establishments. Currently, all forces are staffed at, or very close to, establishment. If a police authority wishes to increase its establishment it must submit a detailed bid to the Home Secretary for his consideration. It has become standard practice for almost all forces to submit bids every year – only four did not do so for 1990/91. It is also commonplace for the Home Office to approve less than half the number requested (Exhibit 4). So, in practice, most force establishments are ‘capped’ by the Home Office.

14 Capping establishments has a great impact on the overall expenditure of forces; there is a close correlation between establishments and actual expenditure, which determines the Home Office specific grant (Exhibit 5).

15 Although there is guidance on the relevant criteria, there has in the past been no standard methodology to assess manpower requirements. Therefore the Home Office has based its assessment of relative need on the quality of the bids, centrally available data and the professional judgement of HMIC.

16 The lack of a standard methodology to assess manpower requirements has been recognised recently, and last year a joint Home Office/Treasury working party recommended that a formula be developed to assist the assessment, and a number of alternative formulae were investigated. Discus-

Exhibit 4
APPLICATIONS FOR ESTABLISHMENT INCREASES
It has become commonplace for the Home Office to approve less than half the increase for which forces bid.

Source: Home Office
There is a close correlation between establishment and total expenditure...


sions continue as to how much of the needs of a police force can be captured by a formula.

CAPITAL EXPENDITURE

FINANCING

17 Police schemes account for less than 2% of capital expenditure by local government – typically around £140 million a year, about half of which is spent on vehicles and equipment. Police capital expenditure, like revenue, is supported by a specific grant from the Home Office – it meets 51% of the actual cost of the schemes it has approved. Under new arrangements announced in a recent circular (HOC 35/1989), the Home Office will issue 'credit approvals' to support approved capital spending by allowing the authority to borrow, but can take into account the ability of authorities to finance capital expenditure from capital receipts. If a scheme is given supplementary credit approval it costs the local community chargepayers virtually nothing, because the DOE/Welsh Office revenue support grant allows for the cost of debt charges and repayments on such schemes (net of Home Office specific grant).

18 While the system sets a ceiling on central government support, it does not control the overall level of capital expenditure. If a police authority wishes to carry out additional capital projects not approved by the Home Office, it may do so, but the projects do not then attract capital or revenue support grant. Such schemes can be financed by:

- borrowing against credit approvals given to the parent/constituent local authority(ies) for services such as education or social services;
- using revenue funds;
- using up to 25% of the receipts from the sale of assets (the remainder must be used for the redemption of debt).

In practice it may be difficult to persuade other services to relinquish credit approvals or revenue funds to support capital expenditure on police, especially when more than one authority is involved as in the case of metropolitan and combined forces.

CONTROLLING

19 Home Office controls on police capital expenditure (the 'project and programme approval' approach outlined in HOC 35/1989) are more detailed than those on almost any other local authority service – even though police capital expenditure is smaller than most in relation to revenue.

20 The Home Office scrutinises capital spending by forces under four categories:

(i) major schemes costing more than £1m;
(ii) intermediate schemes costing between £200,000 and £1m;
(iii) minor works costing less than £200,000;
(iv) vehicles and equipment.

21 Major and intermediate schemes are subject to a detailed approval process (Exhibit 6 overleaf). It begins with the Home Office inviting forces to submit bids. This happens about once every three years; the last invitation was in 1988. The bids are ranked by HMIC according to their assessment of 'operational priority'. The schemes considered most important form the 'priority planning list' (PPL).

22 Entry to the PPL entitles the force to begin Stage I planning. It must prepare a full description and justification of the scheme and, for major schemes, a first stage investment appraisal in accordance with Home Office requirements. It must then submit the plans to the Home Office for further consideration.

23 If the Home Office is satisfied with the Stage I plans, the force will proceed to Stage II planning.
force must then prepare more detailed designs and, for major schemes, more detailed cost-benefit appraisals. If the Home Office is satisfied with the Stage II plans, it will fix the 'approved cost limit' (ACL) for the scheme and give the force permission to prepare even more detailed plans.

24 A scheme may then remain on the PPL typically for six years, but in extreme cases for ten years or more, before the force is given a date when construction can begin. Once a start date has been given, the force may go out to tender for contractors to do the work. After construction has started, the force must submit six-monthly progress reports to the Home Office. It must also obtain express approval for any increases in expenditure above the tender price.

25 Finance for minor works is subject to an annual bidding system. Bids are framed in terms of individual projects. But, once the bid has been approved, the force is free to spend its allocation however it wishes.

26 The average value of forces' minor works allocations for 1989/90 was £125,000, well below the £200,000 limit for individual schemes. In practice, therefore, this may allow a force's single top priority minor works scheme to go ahead but little else.

27 Until this year the Home Office was prepared to fund 51% of expenditure on the purchase of vehicles and equipment and no limit was imposed, although in earlier years the Home Office had exercised control over the total number of vehicles a force could own. From 1990/91 onwards, the new system introduced a block allocation for vehicles, plant and equipment similar to that for minor works. Authorities will receive capital grant on expenditure up to their approved level, and will be free to change their priorities between minor works and vehicles, plant and equipment. Expenditure above the allocation will not attract grant.

THE PROBLEMS

28 The control systems described in the previous section have evolved over many years in response to the perceived problems and pressures facing the police service. A balance has always been struck between the interests of central government, local government and the police service itself. But the balance has now tilted so far towards the centre that the role of local police authorities in the tripartite structure is significantly diminished. Accountability is blurred and financial and management responsibilities are out of step. Furthermore the system embodies some perverse incentives which do not encourage police authorities to manage their resources effectively.

REVENUE

29 The system of allocating and controlling revenue expenditure has several drawbacks:
— it encourages English police authorities to bid for establishment increases because they are likely to bear almost none of the cost; this both undermines their role under the tripartite structure to determine establishments and may promote manpower increases irrespective of need;
— it perversely penalises forces which employ additional civilians rather than uniformed officers;
— grant is not distributed between forces according to a visible assessment of relative need;
— police managers are constrained from responding to change by the delay inherent in the system.

INCENTIVES

A key concern of a police force and its parent or constituent authority(ies) is the financial impact of its decisions on local residents. This concern is heightened by the introduction of the community charge. The impact of the grant system is crucial if the right incentives are to be created.

However, the new system of central government grants to English police authorities has some surprising consequences, which arise from basing revenue support grant on police establishments, rather than, as in Wales, on a formula designed to measure need.

Bidding for establishment increases

If an English police authority increases the number of police officers following approval from the Home Office, then in subsequent years (provided the DOE maintains about the same total revenue support grant for provincial forces) the combination of specific grant and DOE revenue support grant will provide more than the full employment costs of those additional officers (Exhibit 7). Thus the money that has to be raised through the community charge will reduce. If the force simultaneously increases the number of officers and takes on a normal proportion of extra civilians and associated equipment etc., then the cost to the community charge will be close to zero.

This happens because the Home Office specific grant will meet 51% of all revenue costs incurred and the DOE revenue support grant allocates about £17,000 for each officer in the establishment – the precise amount may vary from one year to the next.

It is the intention of the revenue support grant system that a recognised marginal increase in resources required to provide a common level of service should cost community chargepayers nothing. However, the shortcoming in the system for the police is that in England the DOE takes establishment as a proxy for need instead of measuring need objectively. So a grant system has evolved in which English police authorities are always encouraged to bid for more manpower increases and are driven to employ ever greater numbers of police officers. Unless a police authority is prepared to ignore the financial imperatives, its responsibility to determine the establishment will be biased by the grant mechanism.

Decisions on police establishment are thus effectively transferred to the Home Office, which can pick and choose between bids received, knowing that the demand for establishment increases stimulated by the grant system will always exceed that which it is prepared to supply. This cuts across the responsibility of the police authority under the tripartite structure to determine the establishment.

Discouragement to civilianise

If the authority does not increase its establishment but increases other revenue expenditure, for example by employing extra civilians in order to release police officers for operational duties, then 51% of the additional cost is met by the Home Office, but DOE revenue support grant does not increase, leaving the balance to be met from increased community charge (Exhibit 7).

Exhibit 7
APPROXIMATE IMPACT OF GRANT SYSTEM ON COMMUNITY CHARGE
Increasing resources can have surprising consequences for community charge...

<table>
<thead>
<tr>
<th>Nature of resource increase</th>
<th>Gross cost (£000)</th>
<th>Consequent increases in...</th>
<th>Impact on community charge (£000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balanced growth:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 officers*, 3 civilians, associated premises etc.</td>
<td>340</td>
<td>173</td>
<td>170</td>
</tr>
<tr>
<td>10 extra police officers*</td>
<td>230</td>
<td>117</td>
<td>170</td>
</tr>
<tr>
<td>10 extra civilians</td>
<td>120</td>
<td>61</td>
<td>0</td>
</tr>
</tbody>
</table>

Notes: *With associated increase in approved establishment
# Assuming that the force always staffs up to approved establishment.
Costs of police officers include a 30% provision in lieu of pension contributions.

Source: Audit Commission analysis
A force which requires extra manpower may face a choice between employing civilians or bidding for an increase in police officer establishment. Police officers are difficult to recruit, take a long time to train and typically cost twice as much as their civilian counterparts (Exhibit 8). Thus it makes sense to employ civilians if the jobs can be done by them, but the English grant mechanism perversely reduces the impact on community charge if police officers are recruited in preference to civilians, and thus penalises forces which civilianise posts.

It is too early for the impact of the new grant calculation introduced in England in 1987/88 to have been observed, or for differences between Wales and England to have emerged. Since 1983 the proportion of civilians in the police service has risen steadily. But, there is still considerable further scope. For example, in the Commission’s Police Paper No. 2, Improving the Performance of the Fingerprint Service, it was estimated that the savings from civilianising those fingerprint and scene of crime officer posts currently occupied by police officers would pay for enough additional resources to secure a 50% increase in detections – 44,000 more identifications a year. In Police Paper No. 4, The Management of Police Training, it was pointed out that there was considerable disparity between forces in the extent to which they used civilians in their training schools, while in Police Paper No. 5, Improving Police Communications Rooms, the Commission estimated that £8 million a year could be saved from civilianisation.

The degree of civilianisation and scope for further progress are among the factors specifically taken into account by HMIC in assessing bids for establishment increases. The Home Office has issued several circulars urging forces to identify posts currently filled by police officers which could be civilianised. But the drive for further civilianisation will in future be inhibited if forces react to the implications of the new grant mechanism. Pressure to civilianise would clearly be stronger if the aims of HMIC and the incentives delivered by the grant mechanism reinforced one another, rather than pulling in different directions.

The Home Office is not well placed to determine establishment levels. In practice, it considers only applications for changes in manpower. It does not, as a matter of course, review establishments. Indeed, since forces do not need approval to staff below establishment, the Home Office’s role is confined to considering applications for increases. This contributes to a climate in which forces are encouraged to put in bids for increases in establishment, since they are faced with a ‘no-lose’ situation.

There are wide variations in the number of police officers per head of population (Exhibit 9). Some of the
variation may be justified by other factors. In particular, forces with high population density tend to have more police officers per head of population than those with low population density. Also, forces with high crime levels tend to have relatively more police officers. But the system limits severely the ability of central government to distribute resources between forces according to any objective assessment of relative need, or to redistribute resources following any changes in those needs.

41 The weakness of a system based on controlling increases is illustrated by its response to the significant changes in the distribution of population in England and Wales in the last decade. While the population has decreased in nine force areas, it has increased by more than 10% in others. The ability of the Home Office to respond by moving police resources accordingly has been constrained; it has not reduced establishments in forces where the population is falling (Exhibit 10).

42 The forces experiencing the most rapid growth in population have been recognised by being awarded above average increases in establishment, but forces with population changes ranging from declines to growths of 4% over ten years have tended to be awarded similar establishment increases.

43 A bid for establishment increases takes considerable time and effort to prepare. Forces consider it important to compose high quality bids if they are to be successful, so they use some of their best people to do the job. It is clearly desirable that forces should take care in reviewing their establishments, and the estimated annual cost of bid preparation of six staff months per force might be considered money well spent. But having put in this effort, the likelihood is that the bid will, at best, be only partially accepted – and at worst be rejected altogether. Thirty six forces submitted bids totalling 2,759 officers for 1989/90 of which 783 posts were approved.

LOCAL FLEXIBILITY

44 The system of bidding for increases in establishments creates uncertainty when forces are trying to prepare forward plans, and limits their flexibility to respond to new demands. Having identified a need for extra officers locally, it takes a minimum of two years before they can be recruited, and four before they complete their probation (Exhibit 11).

45 If a police authority wants to short-circuit the system and is prepared to pay for additional police men and women entirely from local funds, it is prevented from doing so. Forces can compensate to an extent by...
using overtime but this is an expensive alternative to a long-term need for an increased establishment.

**CAPITAL**

46 The capital grant system also dilutes the role of police authorities. Beyond that, the main problems are the excessive administrative effort the approval process demands and the difficulty of trying to co-ordinate capital schemes locally because of the considerable uncertainties over start dates. In addition, there are potential problems with any control mechanism which severely rations capital grant while imposing no limit on revenue grant. The temptation locally must be to find solutions to problems which minimise capital expenditure but incur additional revenue expenditure. These solutions may well, in the long run, be wasteful of resources.

**ADMINISTRATIVE EFFORT**

47 Major and intermediate schemes are subject to the most detailed controls (Exhibit 6 on page 6). The Home Office maintains a much greater involvement in vetting designs and controlling the progress of schemes than do central government departments in most other local authority services. Indeed, for other major local government services, with the exception of highways, specific central government controls are being replaced by limits on the overall level of borrowing by the authority. The trend in the police service is in the opposite direction.

48 Again, the heavy central involvement does not sit happily with the police authority’s responsibility to provide the necessary resources to enable the force area to be policed adequately and efficiently. The administrative effort may be justified if the quality of the decisions is thereby improved, but there is no clear evidence to support that contention.

49 However well advised, the central adjudication of individual schemes cannot be entirely sensitive to local needs. A survey of police stations was carried out by the Home Office recently to assess priorities in terms of overcrowding and building condition. This information was available when the PPL was compiled, but there were significant differences between the two lists, suggesting that overcrowding and building condition were not primary considerations in preparing the PPL. In part this may have been because many of the applications related to new projects rather than replacements of existing buildings, and it is difficult at the centre to compare the priorities of the two types of scheme.

50 The system encourages gamesmanship. Bids for minor works schemes currently outstrip allocations by a factor of three to one. Expenditure on minor works has halved in real terms since 1985/86 and is now just over 10% of capital expenditure on buildings. Deciding at what level to pitch a bid in these circumstances is like making applications for shares in a company when the shares are expected to be over-subscribed. Will there be a threshold below which all applications will be accepted? What proportion of the bids above such a threshold will be rejected? The danger is that the outcome of the applications may be determined more by the bidding strategy than by the intrinsic merits of the application.

51 A similar danger exists with so-called ‘gap fillers’. In Circular 74/1986, the Home Office acknowledged that some schemes may be allowed to proceed at short notice. Some forces contact the Home Office each year, at the time when gap fillers may be needed, with schemes ready to start or urgent requests for site purchases.

**DELAYS AND UNCERTAINTIES**

52 Given the limited size of the national capital budget compared with the magnitude of the bids made against it, the Home Office has no alternative under current arrangements other than to ration the approval of schemes and programme their implementation. Indeed, the infrequent opportunity to submit schemes (usually once every three years) is itself a form of contraception, limiting the entry of schemes into the system.

53 Major and intermediate schemes are subject to the greatest delay. Of the bids submitted to the Home Office in 1985, half the schemes accepted to the PPL still had not been given a start date by May 1989 (Exhibit 12). Those given start dates should be completed within eight years of submission; no estimate can be given for those without a start date.

54 These delays often cost money – for example one force prevented from relocating one of its administrative offices incurred an estimated £80,000 a year in extra costs arising from the age of the building. The force also suffers the handicap of operating with unsuitable accommodation. The building is in a prime location and could be sold for more than the cost of purpose-built offices in a more suitable
PROGRESS OF MAJOR AND INTERMEDIATE SCHEME BIDS

Half the schemes accepted to the Priority Planning List in 1985 still had not been given start dates by May 1989...

Source: Home Office

location. This option is not available to the force however because only 25% of the capital receipts obtained can be used to pay for new offices so in effect the scheme cannot proceed without specific Home Office approval and financial support.

Another force planning a major overhaul of its communications rooms is intending to spend several million pounds in the next few years, but there is now a risk that it may not receive sufficient minor works allocations from the Home Office to allow completion of the scheme. The force estimates that each year of delay costs £160,000 in extra staffing costs.

Perhaps the most telling disadvantage of the capital control scheme is that it stifles many good practice initiatives, because the delays and uncertainties it introduces makes co-ordination between schemes almost impossible. For example, many forces own houses which are now surplus to requirements because police officers increasingly want to own their homes rather than rent them. Selling surplus houses located in rural areas can be controversial, since local communities resent the loss of a visible police presence. But if the sale of houses could be linked to a scheme involving the construction of a new or relocated police station, it might prove much more acceptable. The long lead times on capital projects make such linkages extremely difficult to establish. Forces therefore have a diminished incentive to rationalise their housing stock.

This is reflected in the high number of unoccupied houses. An Audit Commission study of five forces found vacancy rates of police houses of between 8 and 15%, even after excluding dwellings allocated for sale. This compares with a vacancy rate of 2.5% for local authority dwellings.

One possible safety valve in the capital system is the ability to finance capital expenditure in the other ways outlined in paragraph 18 above. But schemes not approved by the Home Office do not attract grant and police authorities are reluctant to undertake them for that reason.

BALANCE BETWEEN CAPITAL AND REVENUE

Faced with an operational problem, the ready availability of 51% grant for revenue expenditure in contrast to the onerous procedures to secure capital grant must influence police authorities to seek solutions involving increased revenue expenditure. Frequently, operational problems cannot await delayed solutions dependent on capital funding. Revenue based solutions may be appropriate in some cases but more expensive and less effective in others. The danger is that police authorities are driven to adopting them in circumstances when they do not represent value for money. A capital control system which encourages police authorities to behave in this fashion is flawed.

These drawbacks, taken together, amount to a compelling case for change. The revenue grant mechanism will not on its own encourage value for money and has to be buttressed by other measures, in particular the HMIC influence in approving establishment increases. The capital control process causes delays and uncertainties which thwart planning and may introduce distortion. Neither mechanism sits happily with the stated role of police authorities in the tripartite structure. In addition, because the present system frustrates police forces, they seek means of circumventing its controls. Circumvention invites further controls. Further controls lead to greater centralisation. Greater centralisation increases the distance between responsibility and authority.
AN ALTERNATIVE APPROACH

61 But it is one thing to establish that the current system is flawed, quite another to design a replacement which adequately protects the interests of the parties involved while also embodying incentives for efficient and effective local management.

62 It is not for the Audit Commission to devise the details of an alternative scheme, but it is persuaded that it would be possible to devise an approach which minimised many of the problems described above, and gave greater reality to the tripartite structure, while remaining consistent with the government’s objectives for public expenditure control.

63 The starting point must be a recognition of the objectives of the three major players. Central government seeks to influence the total expenditure on local authority services as part of its overall control of public spending. A local authority may put the emphasis on controlling costs and maximising the grant from central government, because it has concerns about the level of community charge and the need to fund other services from a limited local budget. The police authority and the force itself are likely to put the emphasis on effective local policing in response to local needs. This means that they will be attracted by a system which maximises their flexibility in resource deployment.

OBJECTIVE ASSESSMENT OF NEED

64 All these aims can be promoted within a system which begins with an objective assessment of policing need. Significant progress has been made by the joint Home Office/Treasury working party on a formula to establish the overall manpower requirements of a force. The work should be extended and the formula refashioned to measure revenue expenditure needs rather than manpower alone so that it can be used as the basis for needs assessment and therefore for distributing grant. Similar work should be undertaken on a formula to reflect the need for capital expenditure other than on major projects. Using a formula to measure need would give forces a greater degree of certainty about their future funding and eliminate the need for special pleading.

65 The formula should be based on variables which are not open to manipulation. In particular, there is a substantial body of research evidence that crime and detection rates depend to a significant extent on the recording practices adopted by individual forces. For this reason, they would not be suitable criteria. Unless this requirement is observed, there will always be temptation to abuse the system.

66 In the longer term, the formula should be sophisticated enough to take account of the variation in workload between forces. Before this can be achieved, however, there will need to be a greater consensus about what determines workload. In the Commission’s view, this is to a large degree an empirical question. Forces will then need to collect the appropriate data on a consistent basis.

67 Initially there may be no need for a high level of sophistication. To demonstrate that the approach is viable the Commission has developed a simple formula, based on population and an index of social deprivation, which quite closely reproduces current variations in expenditure levels (Exhibit 13). The forces which are significantly above or below the line are those in which the population has grown significantly faster (or slower) than the national trend. This does not
confirm that the existing allocation is more or less correct, but rather that a formula approach is feasible and does not necessarily generate politically or practicably impossible shifts in resources. Other formulae can be developed, but it is worth noting that this one contains the same basic variables used by the Welsh Office to determine revenue support grant allocations for forces in Wales.

**CAPITAL EXPENDITURE FORMULA**

68 In a perfect world, the formula would distribute both capital and revenue allocation. The trend elsewhere in the public expenditure system – which the Commission supports – is to soften or remove the sharp distinction between revenue and capital which has created much economic distortion in the past.

69 The major difficulty in developing a formula which reflects need for capital expenditure is the 'lumpiness' of such expenditure from year to year. In practice, however, the lumpiness is largely caused by major building projects. The need for expenditure on intermediate and minor schemes, vehicles and equipment (other than perhaps computers) is more consistent from one year to the next. The categories of capital expenditure to be covered by a formula would need careful consideration, but they might be chosen to exclude buildings such as force headquarters and major new police stations.

**CASH LIMITED GRANT AND LOCAL DISCRETION**

70 The second key feature of any new scheme would be to cash limit the specific grant and at the same time allow local police authorities discretion as to whether they spend money on police officers, civilians or other heads, including some items of capital expenditure.

71 Police specific grant would be distributed as a percentage of relevant expenditure up to a cash limit for each force. The limit would be determined by the formula reflecting the need for revenue and capital expenditure, as discussed above. The formula would be used only to set a ceiling to grant distribution, not expenditure. A police authority would be free to 'top up' expenditure if it wished.

72 Within the overall specific grant limit set by the Home Office forces could, for example, choose whether to have fewer police officers but more vehicles or vice versa. The choice of a capital or revenue solution to a problem would be made at the local level. For major capital expenditure on, say, buildings and land, forces would submit bids for grant much as they do now for major and intermediate schemes, but the number of schemes would be smaller because of the higher threshold.

73 The police element of DOE/Welsh Office revenue support grant, while remaining an integral element of the whole local authority grant system, could be based on the same formula as that for specific grant. As now, local authorities would not be obliged to spend it on the police.

74 Translating the results of a formula into a cash limit is not a new concept in relations between central and local government. It is the basis of the revenue support grant system. In other law and order services such as magistrates courts and the probation service a cash limited grant is under active consideration.

75 In addition to providing financial support, government also wishes to control credit, and under the Local Government and Housing Act 1989 it does this by issuing credit approvals. The Home Office could issue supplementary credit approvals for all capital expenditure not capable of being financed by capital receipts – up to the formula limit for other than major schemes, and for accepted bids for major schemes. If police authorities wished to spend more than these limits then they would be free to do so as now.

**THE ADVANTAGES OF CHANGE**

76 The key advantage of this new system is that it would align financial responsibilities with the managerial responsibilities defined by the tripartite structure. Further, the full marginal cost of local decisions would fall on the community charge i.e. if these decisions resulted in an increase in expenditure beyond the level envisaged in the formula then the full financial consequences of such decisions would be borne locally. Within the overall constraints, forces and their police authorities would have much greater flexibility. They would be able to respond to change more readily.

77 In addition, there would be a positive incentive to encourage value for money, for example through promoting civilianisation. If a police force could identify ways of improving productivity, reducing unit costs or deploying resources to better effect,
then it could implement them and reap the rewards.

78 Central government would have the benefit of certainty about the level of its financial support for police forces. There would be no need, therefore, to retain direct controls over establishments. The responsibility for deciding how many police officers to employ would lie with local police authorities. They would be held accountable for the consequences of those decisions locally and be subject to scrutiny by the HMIC. The HMIC role would become much more clearly to review the efficiency and effectiveness of forces.

79 As of this year Inspectors' reports will be published. An authority which wished to deploy fewer police officers than the HMIC believed appropriate would be publicly censured for so doing. There will therefore be an important sanction in addition to the extreme measure of withdrawal of eligibility to grant, although this should still be retained. The HMIC could, in effect, act as professional advisors in the event of disputes between the chief constable and the police authority as to the appropriate level of resourcing.

80 There would be transitional problems for individual forces that would need to be addressed. These could be handled in a number of ways. For example, for a limited period a small percentage of the grant could be withheld and distributed to forces in response to bids.

**CONCLUSION**

81 The current systems which control police revenue and capital expenditure threaten to undermine the role of police authorities in the tripartite structure and do not promote the economic, efficient and effective use of resources. There is therefore a strong case for examining the feasibility of an alternative approach which would revitalise local accountability while meeting central government's objectives. This paper has set out the key features of a possible alternative. The Commission looks to the Home Office to initiate a discussion with the other interested parties to examine this and other options. The Home Office's immediate step should be to bring to fruition the work of developing a formula to measure policing need.