

**SUBJECT : LOCAL GOVERNMENT FINANCE – FORMULA GRANT  
DISTRIBUTION CONSULTATION PAPER****REPORT OF THE TREASURER**

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**Purpose of the Report**

1. To inform the Police Authority that the government issued a consultation paper on 8 July on possible changes to the formulae used to distribute grant to English local authorities (including police authorities) and to request that members receive a further report recommending a proposed response to the consultation paper by the due deadline of 30 September 2002.

**Background**

2. Approximately 25% of public spending in England takes the form of spending by local authorities on services they provide. Most of this money is distributed as grant from central government, with the balance being raised locally via council tax.
3. In partnership with local government and other interested parties, the government has been reviewing for some time how these resources are divided up between authorities (in the annual local government finance settlement). Earlier this year, the government made a commitment to a consult on exactly how that new system might work.
4. Reform of the grant distribution system has been the subject of technical work for some time. Following the Green Paper in September 2000 three working groups were established with the aim of developing options scrutinising proposals, these covered:
  - Police;
  - Education; and
  - All other formulae.
5. In addition a Revenue Grant Distribution Group was set up to oversee the three technical groups, and also to consider wider grant issues.
6. Responses to the Local Government Finance Green Paper showed that a big majority of the local government respondents wanted the new system to continue to be based on formulae and to do the same basic job. The government announced in the 2001 Local Government White Paper "Strong Local Leadership Quality Public Services" that it agreed, "We want new formulae that are fairer, simpler; more intelligible and more stable".

7. Members have previously been advised that a reform of the grant distribution system was likely (minute 146, 2001/02 refers).

### **Police – The Current System**

8. The police funding formula is the basis for distributing both Police Grant (currently £4bn, around 51% of police total standard spending) and Revenue Support Grant (with NNDR about £3.0bn, around 38% of police TSS). This provides un-hypothecated funding to police authorities. The principles and framework of the formulae have been broadly accepted by the policing community, which had a large hand in developing it in 1994/95, and has been consulted about changes over the years.
9. From Spending Review 2000 there are additional elements for specific initiatives supporting government policy – the main ones being the Crime Fighting Fund, the Rural Policing Fund, Airwave (the new police communications system) and additional payments for forces in London and the South East.

### **Police – The New System**

10. The police funding Formula is 'needs based' – allocations within the total provision are made in relation to projected needs for policing services. There is a need to update the activity data by which over 70% of provision is attributed in order to maintain service credibility and to bring the formulae in line with present policing needs and the Government's agenda for the future of the service.
11. Consideration is also being given to making the formulae more proactive. In particular, options are proposed that would direct resources towards areas likely to be pressed by street crime and deprivation.
12. The Police Allocation Formula Working Group (AFWG) made up of representatives from government departments, local government, and the police service, has discussed proposals for change to the formulae and this work has been taken into account in developing several of the options for change.
13. The proposed options are designed to bring the 1995 funding formulae in line with present policing needs and the Government's agenda for the future of the service. Final decisions on these or other options for police funding or particular changes in the police funding formulae will be made following consultation in time for implementation in 2003/04.
14. The key issues addressed through the proposed options are:
  - Updating – activity analysis;
  - Sparsity / the rural policing fund;
  - Removing the established component; and
  - Making the formulae proactive.

## Options

15. There are 5 options in the consultation concerning the key issues relevant to police identified in paragraph 14 above. These options propose changes to data used in the formulae as well as changes in the weightings of different components of the formulae.
16. The 5 options have been exemplified on the basis of their effect on 2002/03 Standard Spending Assessments (SSA) for each police authority. These exemplification's suggest that the Authority would be a net beneficiary as a result of *any* option being adopted. The highest increase in SSA would be - £4.7m or 2.1%, whilst the lowest increase in SSA would be £1.7m or 0.7%.
17. However, these are not the figures that will appear in the 2003/04 local government finance settlement because changes will occur in overall funding totals as a result of the forthcoming spending review and more importantly to an authority like Northumbria, through changes to data such as population. A declining population will have an adverse impact. For this reason, further consideration of the 5 options (and any others) is needed so that the real impact on the Authority can be assessed.
18. In addition, four options are proposed for capital finance. Two of the options using the governments exemplification's are broadly neutral although one option would have an adverse impact.
19. The government is seeking views on which options are the most preferable and whether any alternative or additional changes are necessary. These questions will need to be addressed in any response that the Authority submits to government by the due deadline of 30 September 2002.

## Financial Implications

20. The Treasurer confirms that whilst the exemplification's in the consultation paper suggest that the Authority would be a net beneficiary as a result of *any* of the options being adopted, it is difficult to assess the full impact of the proposals at this stage because of unknown variables such as the forthcoming spending review and future data changes.

## Human Rights Implications

21. Nil

## Equal Opportunities Implications

22. Nil

## **Recommendations**

23. The Authority is requested to:-

- (i) note the contents of this report; and
- (ii) agree to receive a further report, recommending a proposed response to the consultation paper by the due deadline of 30 September 2002.