

MERSEYSIDE POLICE AUTHORITY

BUDGET 2004/2005

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TO: ALL MEMBERS OF THE POLICE AUTHORITY

MEETING: 19 FEBRUARY 2004

JOINT REPORT OF THE TREASURER AND CHIEF CONSTABLE

BUDGET 2004/05

PART 1. INTRODUCTION

1.1.1. The purpose of this report is to :-

- Provide an updated report on the Revised Estimate for 2003/04;
- Seek approval for the Revenue and Capital budgets of the Authority for 2004/05; and
- Seek approval for the adoption of the Prudential Code, and for the various parameters necessary to its implementation.

1.1.2. The Authority has been awarded a net increase in general grants of 3.25% in the Local Authority Finance Settlement 2004/05. In itself, this falls significantly short of the requirements to increase the base level budget to accommodate the pressures of committed growth including pensions and police pay reform.

1.1.3. This is against a backdrop of the Police Authority setting the lowest police precept increase last year and indeed the lowest National cumulative budget increase over the last three years. It is also worthy of note that the Police Authority received a substantially lower grant settlement than that of the Merseyside local authorities and the fire service.

1.1.4. This report contains an illustrative budget that will commence the Authority's policy to increase Police Officer numbers in the Neighbourhoods, which was approved by the Authority on the 30th October 2003. In addition, it seeks to address the concerns aired by both Members and the general public regarding calls and response and it also allows for the funding of essential service requirements identified by the Chief Constable.

1.1.5. In order to address these policy aspirations and service requirements the Chief Constable has formulated 2004/05 spending proposals, for which the Treasurer has constructed a proposed resourcing plan; these are detailed in the report.

1.1.6. In accordance with the agreed policy of the Authority, the budget aims to develop the links between financial and operational performance and focuses developments on the priorities set out in the Local Policing Plan, and identified as high priority by the Authority Members.

1.1.7. The report has been jointly prepared by the Treasurer and the Chief Constable to enable Members to gain assurance over the balance taken between local and strategic service priorities and the financial considerations of the precept and the longer term financial position.

PART 2. REVISED ESTIMATE 2003/04

2.1. Revised Estimate 2003/04

- 2.1.1. The Original Budget for 2003/04 totals **£303.208m** after adjusting for the contribution from general balances of £0.300m and the Robbery Initiative Reserve of £0.896m. In addition, budgets for 2003/04 were increased by the carry over by budget holders of **£1.494m** from 2002/03.
- 2.1.2 The budget included provision for specific grants totalling £19.149m, this has subsequently been increased to £23.195m, an increase of £4.046m. **Table 1** provides a summary of the significant movements in specific grants in 2003/04.

Table 1: Movement in Specific Grants

Specific Grant	Movement	£m
BCU Fund	New	1.392
DNA Expansion	Increase	0.657
Street Crime Initiative	Increase	0.491
Community Support Officer Schemes	Increase	0.328
Drug Testing on Charge Initiative	New	0.351
Illegal Immigration	New	0.234
Wirral Custody Drugs	New	0.214
Other Schemes	New/Increase	0.379
TOTAL		4.046

- 2.1.3 The major change in specific grant funding arises from the introduction of the BCU fund. This Home Office initiative provides funding to promote partnership working and help deliver crime reduction on the frontline for initiatives that would not otherwise have been provided. The estimated value of this grant in 2003/04 amounts to £1.392m.
- 2.1.4 Additional encouragement for the collection and submission of DNA samples has been given during the year with the increases in funding for the DNA expansion scheme. This has resulted in additional funding of £0.657m with total expected DNA grant monies reaching £1.413m in 2003/04. Street Crime Initiatives and Community Safety Officer funding for phases 1 and phase 2 increased by £0.491m and £0.328m respectively.
- 2.1.5 The Contingency for Pay and Prices in the original budget totalled £6.800m. The major pay and pension settlements during the year amounted to 3% for the Police Pay award and 3.25% for the Support Staff award. After adjustments for other price increases it is anticipated that a saving of £0.350m will be achieved in this provision. In addition, a contingency of £5.176m was held to cover the additional costs arising from Police Pay Reform. This provision was also able to meet the budget shortfall of £0.227m arising from the Authority's budget resolution last year. Given this we anticipate that the contingency will be marginally overspent by £0.013m at the year end. Overall

the net anticipated savings on the Pay and Prices provision amounts to **£0.337m**.

- 2.1.6 The budget for 2003/04 included a sum of £3.379m for Developments. As previously reported to the Resources and Strategy Committee an underspend is anticipated on these developments. This sum is now estimated to be **£0.433m**. In the main this relates to delays in the initiation of developments and resultant savings in staff costs. The major schemes where delays occurred were the automatic vehicle location scheme (AVLS), the mobile police unit, the money laundering and the child abuse on the Internet projects.
- 2.1.7 It is anticipated that the net underspend position to be carried forward by budget holders to 2004/05 under the authority approved scheme will amount to £0.789m. After account is taken of this carry-over, the remaining underspend on individual budget allocations, plus the variations in central budgets are expected to generate a further saving of **£0.555m**.
- 2.1.8 The cost of Police Pensions in 2003/04 is expected to fall considerably below the original budget, currently an estimated underspend of **£2.518m**. This is primarily as a result of the lower than expected number of officers retiring during the year. The original budget envisaged 156 retirements and this has now been revised to 128. However there is a strong belief that officers are delaying retirement to the next financial year in order to benefit from the full year effect of the pay increases introduced under the Police Reform Agenda. Consequently, there are two elements to the pensions underspend as follows:-
- (i) Recurring pension savings (£0.5m). It is proposed to utilise these savings in 2004/05 to reduce the pressure on the revenue budget; and
 - (ii) Commutation payments (£2.018m), which are little more than a rephasing into future years. It is proposed that £1.718m of this underspend should be transferred to the Pension Provision to be used to finance future pension commitments and to make a contribution of £0.3m to the Compensatory Grant Provision, in order to address the concerns of the District Auditor.
- 2.1.9 It is proposed that a sum of **£1m** be utilised to fund 2003/04 capital expenditure from unapplied capital receipts. This enables the releasing of £1m revenue provision to be carried forward, transferred to General Balances, in part to support the 2004/05 revenue budget and the remainder to establish an invest to save fund to finance a proportion of the Chief Constable's essential requirements.
- 2.1.10 A further one-off saving of **£0.325m** has been identified in capital expenditure in relation to estates works. This will also be carried forward in to general balances and utilised in 2004/05. **Table 2** summarises the estimated net underspend for 2003/04.

Table 2: Net Underspend 2003/04

	£m
Contingency for Pay and Prices	0.337
Developments	0.433
Devolved and Central Budgets – Net Underspend	0.555
Police Pensions	2.518
Release of capital receipts	1.000
Savings in Estates capital works	0.325
Total Net Underspend	5.168

2.1.11 **Appendix A** provides an analysis of the revised estimates for 2003/04, whilst **Appendix B** provides commentary on the variances from original budget across the various units.

2.1.12 It is proposed that the Authority utilises the opportunity offered by these underspends to increase General Balances, the Pension Provision and the Compensatory Grant Provision. It is further recommended that a proportion of the increase in General Balances be utilised to supplement the funding available for developments in 2004/05, including the expansion of police capacity via the improvement in calls and response and associated anticipated growth in police numbers.

Table 3: Proposed Use of 2003/04 Net Underspend

	£m
General Balances – Use to fund 2004/05 developments	2.650
Increase in Pensions Provision	1.718
Increase in Compensatory Grant Provision	0.300
Use of Pension underspend to fund developments	0.500
Total	5.168

2.1.13 The increase in the Pensions Provision continues the strategy for dealing with pensions growth expected in 2005/06 and 2006/07 and the anticipated increase in commutation payments arising in 2004/05 as a result of the police pay reforms, as highlighted in paragraph 2.1.8.

2.1.14 The further contribution to the Compensatory Grant Provision is a response to concerns expressed by the District Auditor over our liabilities for these payments. A five-year strategy has been agreed with the District Auditor by which time it is envisaged that the provision will be sufficient to meet the anticipated liabilities estimated to be £1.5m. This strategy has been reported to and approved by the Authority during 2003/04.

PART 3. BUDGET 2004/05

3.1 Local Government Finance Settlement

- 3.1.1 The 2004/05 settlement for Police Authorities uses the fundamental changes to the funding formula which were introduced in 2003/04 for allocation of funds as its base. Whilst Merseyside's General Grant increase during 2003/04 was set at the ceiling level, the Home Office have applied a national uplift rate of 3.25% in 2004/05. This at least ameliorates the loss of £2.0m in 2003/04 as a result of this Authority being at the ceiling increase.
- 3.1.2 This level of resources falls short of that required to maintain the budget let alone incorporate developments essential to the delivery of the Local Policing Plan. Consequently, the Chief Constable and the Treasurer have been required to formulate spending and resources plans which strike a balance between addressing policy and service requirements and limiting the impact on local taxpayers on Merseyside.
- 3.1.3 In applying the overall 3.25% increase, there are a number of small changes to the make up of the settlement which have had varying effects upon different forces. For example, the funding of officer posts under the second round of the Crime Fighting Fund Initiative has been reduced from 75% to 60%, covering those officers recruited since 1st April 2003. For Merseyside, this affects 18 officers at an annual cost of some £0.090m, and has been incorporated into the overall base uplift. The effect on some other forces has been even more pronounced.
- 3.1.4 Merseyside's commitment to the Airwave scheme in 2004/05 is £1.7m of revenue funding; the Home Office has awarded £0.937m of funding to match revenue spending in 2004/05, with a further £1.130m of capital funding. This will accommodate our Airwave needs for capital and revenue in 2003/04 and 2004/05, incorporating a 5% contingency. However, funding for Airwave beyond this point is not guaranteed and is likely to fall into the base budget calculations. Further, the impact of Airwave on day to day operations has not yet been fully assessed in a live environment, and may produce further costs.
- 3.1.5 The Authority has received £2.67m in General Capital Grants for 2004/05. This represents a reduction of £0.164m in general grants, but this is more than offset by a grant of £0.589m for technology which can be accessed via matching resources from the current capital programme.
- 3.1.6 In addition to the General Grant Settlement, the Government has also provided **£20.622m** in specific revenue grants for 2004/05. These are as follows:-

Table 4: Specific Revenue Grants 2004/05

	£m	
Crime Fighting Fund	9.500	Funding for the recruitment of 332 officers in the period 2000/01 to 2002/03 and funding at 60% for 18 officers recruited in 2003/04
AIRWAVE	2.067	Represents the initial expectation for revenue grant, which has now been amended both revenue and capital grant totaling £2.067m has now been confirmed.
Community Support Officers	1.205	Continuation of the 40 CSOs in the Areas at reduced funding of 75% and additional funding at 50% for a further 60 CSOs.
Recovered Asset Fund	2.006	Continuation of the funding for the Middle Market Drugs Unit.
Special Priority Payments Grant	1.968	Anticipated level of grant to meet costs of these payments under the police reform agenda.
DNA	1.835	Resources to be used to fund DNA initiatives
BCU Fund	1.392	Continuation of the initiative to help deliver crime reduction targeted directly to Basic Command Units
Other Schemes	0.649	Initiatives for National Intelligence Model, drug testing and illegal immigration
Total Specific Grants	20.622	

- 3.1.7 Following the announcement of the Authority's Capital Grant settlement, the budget has been constructed utilising the new framework for capital accounting. Due to the introduction of CIPFA's Prudential Code on Borrowings, the Authority can elect to introduce borrowing to finance capital spending, which can remove the majority of the effects of capital funding on the revenue account. Section 3.8 explains the Prudential Code and its implications in more detail, and **Appendix C** gives details of the proposed Capital Programme.
- 3.1.8 In the Chancellor's Pre-Budget review in November 2003, there was some recognition of the increasing tax burden placed on local people via the council tax, with the announcement of extra funding for local authorities. However, there was no further funding made available in this manner for Police Authorities.
- 3.1.9 The Merseyside local authorities have been successful in gaining extra funds from the Local Government Spending settlement this year, with the increases ranging from 4.1% to 6.36%. The average increase awarded for Merseyside is 4.71%, in comparison to the Police increase of 3.25%.
- 3.1.10 To finance the budget proposed by the Chief Constable and the Treasurer, requires additional funding of £3.9m to be raised locally. This represents a police precept increase of 8.5%, and has been achieved by the utilisation of savings from 2003/04, the identification of savings and targeted efficiencies in 2004/05 and a number of financing measures, such as the implementation of the Prudential Code and the freeing up of capital receipts in part to support expenditure and to use as an invest to save fund. The detail of these measures are contained in the next section of the report.
- 3.1.11 The impact of the proposed precept increase contained within this report on the overall council tax increase for the five Merseyside Local Authorities at Band A is 11p per week (£5.75 pa), and Band D 16p per week (£8.63 pa).

3.2 Revised Base Budget 2004/05

3.2.1 Table 5 provides an overall summary of the illustrated base budget.

Table 5: Illustrative Budget

Description	£m	£m
Repriced 2003/04 Base Budget		313.090
Committed Growth		5.292
Approved Growth		0.882
Base Budget Savings Achieved		(1.478)
Decrease in Grant Aided Schemes		(0.449)
Revised Base Budget for 2004/05 (Appendix D)		317.337
<i>Policy Improvements:</i>		
- Additional Policing Strength	3.578	
- Calls and Response	1.087	
- Other Essential Developments	1.074	
		5.739
<i>Savings and Financing Measures</i>		
2003/04 Savings	(1.650)	
2004/05 Savings	(1.217)	
Financing Measures	(4.721)	
		(7.588)
Total Net Expenditure for 2004/05		315.488
<i>Finance Income Settlement</i>		
General Police Grants	(135.220)	
Revenue Support Grant	(94.642)	
National Non-Domestic Rate Income	(18.536)	
Specific Police Grants	(20.622)	
Collection Fund Surplus	(0.227)	
		(269.247)
Net Precept Requirement (£73.45 at Band A, £110.17 at Band D)		(46.241)
Increase over 2003/04 (£5.75 at Band A, £8.63 at Band D)		8.5%

3.2.2 The revised base budget shown above incorporates both savings and budgetary pressures, including:

- the effects of inflation for pay and prices;
- police reform and national agreements across the force;
- committed growth items such as the increase in police pensions over and above inflation, payroll contract re-tendering costs, funding shortfalls in Crime Fighting Fund and Community Support Officers;
- approved growth pertaining to the ongoing running costs of previous capital and revenue developments;
- savings realised from operational savings such as leap year costs and cessation of some operations following efficiency reviews;
- decreases in grant aided expenditure in line with funding levels.

3.2.3 The policy improvements incorporate 250 additional neighbourhood police officers, investment in calls and response and developments required by the Chief Constable to ensure the Force is effective and to deliver the policing plan.

3.2.4 The savings and financing measures utilised to reduce the 2004/05 revenue budget represent savings against the approved budget for 2003/04 rolled forward to meet the extra costs, savings identified against the illustrative budget for 2004/05 and a range of financing measures utilising the Prudential code, capital receipts and a release from the pension reserve.

3.2.5 The overall impact of the illustrative budget on the precept is an increase of 8.5% to deliver the Local Policing Plan, incorporating the Authority's policy decision to expand front line police officers by 250, and to address concerns in calls and response in order to achieve an increase in public satisfaction and confidence. When the Authority has approved a budget and the precept requirement, a Provisional Cash Limit will be established, as appropriate for each budget holder, taking account of any variations required to be implemented by such approvals. Each budget holder will be given a Cash Limit from which they will be required to prepare a detailed budget to ensure proper budget management and monitoring within the Force.

Staffing

3.2.6 The Government invited Police Authorities to bid for additional finances from the Crime Fighting Fund to cover the costs of recruiting police officers from 2000/01. Decisions by the Government have provided Merseyside with grants towards a total of 332 recruits over the three years. The Government has indicated that grants of **£9.5m** will be paid in 2004/05 mainly to cover the ongoing costs of these recruits. There was a limited proportion of this grant (approximately £0.1m) available to finance some recruitment in 2003/04

which occurred late in the financial year, but this funding has been proportionately reduced in 2004/05 from 75% to 60% of the overall costs. For Merseyside, this represents 18 officers, and a net £0.090m of funding to be found from within the base grant allocation for 2004/05. Further recruits under the Crime Fighting Fund arrangements are not anticipated during 2004/05.

- 3.2.7 The following table provides a summary of the expected position in respect of police officer numbers within the budget shown in **Appendix A**. This assumes continuation of the existing Section 92 arrangements.

Table 6: Budget Provision for Police Officer Numbers

	2002/03	2003/04	2004/05
Start of Year	4,266	4,256	4,288
Estimated Wastage:-			
Retirements	(140)	(150)	(145)
Resignations, etc	(40)	(40)	(40)
Re-phasing due to police reform		20	(20)
Recruitment Assumptions:-			
Baseline for CFF	40	-	-
CFF Grant Aided	114	-	-
Transfers	10	10	10
Recruitment Balance for Wastage	16	180	175
Developments (Net)	(10)	1	-
Budget Reductions for 2004/05	-	(47)	(2)
	4,256	4,230	4,266
Proposed Developments for 2004/05			
- Police Officer Growth	-	-	150
- Essential	-	58	-
- Risk	-	-	-
End of Year	4,256	4,288	4,416

- 3.2.8 **Table 6** above shows that the Crime Fighting Fund will again have no significant effect on recruitment in 2004/05. The largest impact will be the proposal to recruit an extra 150 police officers, taking the overall total to 4,416 by 31 March 2005.

- 3.2.9 The approved budget for 2003/04 made provision for 1,783 support staff. Proposed budget reductions offset by civilianisation issues would amend the 2004/05 provision to 1,883 staff, inclusive of the backfill requirements for the 100 officers redeployed to front line neighbourhood duties.

3.2.10 The Community Support Officers are not included in the above figures. At the time of writing, there are 36 CSO's under Round 1 funding, whose contracts were extended in January 2004, with the approval of the Police Authority. The level of funding for these officers dropped from 100% to 75% with effect from 2004/05 and the extra costs fall onto the base funding. The second round of CSO's are fully funded, by means of central grant coupled with local arrangements with partners (e.g. Merseytravel, Local Authorities).

Pensions

3.2.11 The managed reduction of ill-health retirements achieved since 1997/98, plus the recommended targets from the national policing plan has provided the basis for determining the budget requirements of 35 Ill Health retirements in 2004/05. This level has been achieved in the current year, and is the proposed level for 2004/05.

3.2.12 In addition, recent experience suggests that a gradual increase in the level of ordinary retirements could be anticipated, given the number of officers reaching retirement age. The impact of the Pay Reforms during 2003/04 has influenced officers about their choice of retirement date, as suspected, and has resulted in an underspend on pensions in the current year. As discussed in para 2.1.8, some £1.718m will be carried forward to meet those commutation lump sums which are merely a phasing issue, and should not be regarded as an overall saving. For this reason, the numbers of retirees in 2004/05 can be regarded as normal retirements, in addition to those carrying over from 2003/04 but this will be accommodated without unduly affecting the overall budget.

3.2.13 The Financial Strategy anticipated this gradual increase in retirement levels, and the Authority approved the conversion of the Pensions Reserve into a Pensions Provision which would, in part, cover the commutation costs of officers serving beyond their retirement date of 30 years pensionable service. In the light of these uncertainties, the budget provision for 2004/05 reflects the following estimated numbers of retirements.

Table 7: Number of Retirements

Number of Retirements	
Ordinary Retirements	110
Ill-Health Retirements	35
Total	145

Table 8: Number of Pensioners

Number of Pensioners	
1 st April, 2004.	4,510
31 st March, 2005.	4,610

3.2.14 The above table shows the growth in the pensioner numbers during the year, but in addition the average value is also increasing, as the value of new pensions exceed the value of older pensions which are no longer paid. Overall net pension costs are estimated to increase by £1.701m above inflation.

3.2.15 The Authority can expect to face considerable budgetary pressure in the coming years to meet the demands of the pensions bill. An analysis of service levels within Merseyside Police indicates a particularly volatile situation over the next few years, in respect of the potential for officers to retire. On top of those officers still serving, with the necessary 30 years pensionable service, the following officers will achieve this threshold in the years indicated in **Table 9**.

Table 9: Potential Police Officer Retirements

Year	Police Officers Reaching 30 years pensionable service	Budget Provision / Financial Strategy for Retirements
2004/05	92	110
2005/06	151	140
2006/07	160	150
2007/08	150	160
2008/09	210	170
2009/10	223	170
2010/11	149	170

3.2.16 The above statement indicates that there will be a significant problem in the year 2005/06, and this has been addressed in the Financial Strategy as indicated above. In addition to this budgetary provision, it is proposed that **£1.718m** from the current year's underspend is set aside as a contribution to the Pension Provision, in order to address the phasing issue that has arisen following the introduction of the Police Reform agenda, as discussed. The full year impact of this is expected to take place in April 2004. This contribution and interest on the balance during the year will take the provision to £5.009m at the end of 2003/04.

3.2.17 The Pensions situation will be reviewed closely, particularly in terms of retirement patterns, the adequacy of the annual pensions budget and the opportunity to make further contributions to the provision, in order that there will be sufficient provision to meet the volatility in the annual budgeted pensions expenditure. In addition to the anticipated increase in retirees in

2005/06, there is a further substantial increase in the year 2008/09, which is just outside the current planning horizon.

- 3.2.18 The Home Office have just released details of proposals for a new scheme to take effect from April 2006. The impact of this will be evaluated as part of the medium term financial plan, but it is not expected to have a significant impact on the situation in the short or medium term.

3.3 Budgetary Savings and Financing Measures

- 3.3.1 In assessing his budgetary requirements, the Chief Constable has included a number of expenditure reductions achieved during 2003/04 within the base budget for 2004/05. These include reductions in allowances following police reform, the removal of the leap year effect from the base, and other operations which have been amalgamated into existing operations (e.g. Operation Care).
- 3.3.2 Within the original Capital Programme for 2004/05 a contribution was provided from the Revenue Account of £2.747m. After adjusting for the rephasing of the Prescott Police Station (which is currently out to public consultation), and the IT Strategy, the contribution required in 2004/05 to finance the current programme is reduced by **£1.312m** to £1.435m.
- 3.3.3 The impact of the Prudential Code, which is fully explained in Section 3.8 of the Report, produces a budget reduction of **£1.435m**, as a result of the changed financing rules applicable to the remainder of the Capital Programme. This effectively means that the Revenue Account no longer needs to underwrite that extent of the Capital Programme which is not grant funded
- 3.3.4 In order to ensure the financing of the proposed Essential Developments (**Appendix E**), the Chief Constable has undertaken a further review of the support functions in the Force. This review has identified further revenue savings of **£1.042m** which are incorporated in **Table 10** below, and detailed in **Appendix F**. These are primarily staffing reductions from across the force, targeted reductions in running costs and an overall reduction in the level of Corporate Development Fund required for 2004/05. This is less than in previous years as the scope for 'slicing' 2% off budgets without performance impact is becoming limited. The proposed efficiency plan for 2004/05 which illustrates the cashable and non-cashable savings to be incorporated into the budget and annual policing plan is attached at **Appendix G**.
- 3.3.5 Overall further savings of £2.82m from general underspends and utilisation of a small proportion of reserves, have reduced the Revenue Budget in 2004/05 by a total of £7.588m. These are detailed in **Table 10**.

Table 10 Total Budget Reductions

	£m	£m
Savings:		
2003/04		
- Savings on Pay and Prices / General Underspend	(1.325)	
- Savings on Estates Capital Programme 2003/04	(0.325)	(1.650)
		<hr/>
2004/05		
Savings	(0.717)	
Targeted Efficiencies	(0.500)	(1.217)
		<hr/>
Contributions:		
- Utilisation of Pension Reserves		(0.500)
Financing Measures:		
- Prudential Code	(1.435)	
- Capital Receipts Applied	(1.000)	
- Rescheduling of Capital Requirements	(1.312)	
- Utilisation of Additional Capital Grants	(0.474)	(4.221)
		<hr/>
Reduction in Budget Requirements		(7.588)
		<hr/>

3.4 Strategic Development Areas

- 3.4.1 Merseyside Police Authority has highlighted two key areas for investment and development, both of which feature highly within the construction of the budget. This is fully endorsed by the Chief Constable and he has put plans underway to deliver these priorities. They are the expansion of police officer numbers, and an improvement in calls and response.
- 3.4.2 The expansion of **police officer numbers** to front line, neighbourhood policing would give 250 extra police officers to neighbourhoods at a 2004/05 cost of **£3.578m**, with a 2005/06 full year cost of **£5.681m**. The first year cost includes initial recruitment, training, kit and induction costs, and assumes 50% of the cost of officer and, where appropriate, backfill salaries to allow for phased recruitment. The impact upon estates requirements is significant but will be reduced by the implementation of an outsourced records management system across the force, which is included within the Chief Constable's essential developments, and the financing of which is proposed to be subject of an invest to save bid.
- 3.4.3 The extra officers would increase visibility, and public satisfaction and confidence, as they would represent an average of 5 extra officers in each neighbourhood once fully implemented (although of course the actual deployment of police officer time will be led by operational demand via the National Intelligence Model).
- 3.4.4 The **calls and response (Appendix H)** problems have been a concern of the Authority at a number of meetings and committees during 2003/04, and the Members have asked for an action plan to introduce improvements. Calls from the public have increased by over 40% over the last five years, but there has not been a corresponding increase in resources within the department. Members will be familiar with the problems encountered by Merseyside Regional Ambulance Service and reported in the local press, in their calls and response. They have recently secured a funding package worth £2.5m annually via collaboration across a number of Primary Care Trusts to resolve these problems, targeting both front line delivery and calls/response management.
- 3.4.5 A review to address performance in calls and response is underway. It should be noted that the public satisfaction and confidence issues are not only affected by how their call is answered and dealt with, but also how their problem is responded to; in emergency services, the two are part of the same service. The proposed investment in calls and response will be made alongside the growth in officer numbers, so that as the availability of staff to take calls is increased, there will also be more frontline officers available to respond.
- 3.4.6 It is proposed to invest **£1.087m (See Appendix H)** in the department on a recurring basis. The majority of this investment covers staff across the six areas, initially to boost service levels. Associated IT investments in telephony infrastructure have already been made during 2003/04 as part of the IT capital programme, and the implementation of Airwave (radio communications) and Altaris (Command and Control) during early 2004/05 should also contribute to

the improvements. A further IT investment on a replacement call management system will also be required, but this is already included within the IT forward strategy approved by the Authority, and incorporated into future plans.

- 3.4.7 This Budget report addresses the current resource levels to meet policing demands and maintain a focus on our strategic priorities of improving public confidence and satisfaction with the service received from Merseyside Police and reducing the fear of crime. It incorporates key policy development areas identified by Merseyside Police Authority as priority for investment. It must also respond to the new agenda for policing, addressing national, as well as local priorities.
- 3.4.8 Following a rigorous vetting process, the Chief Constable has prioritised a small number of developments as being essential to effective delivery of a policing service (**Appendix E**), and these are shown in **Table 11**.

Table 11: Proposed Essential Requirements

	Essential £000 2004/05	Essential £000 Full Year Effect
Investors in People	68	68
Estate Management backlog maintenance	350	350
Records Management for Force	400	400
CBRN/PSU resilience (minimum recommended level of cover, and are only half that required)	206	0
Witness Assistance Unit	50	50
Total	1,074	868

3.5 Balances, Provisions and Reserves

General Balances

- 3.5.1 Given the nature of an emergency service such as a Police Force it is recommended by the Treasurer that a General Balance broadly equivalent to 2% of the budget is maintained as a minimum requirement. It was anticipated in last years budget that General Balances would be utilised in 2003/04 to supplement expenditure by £0.300m. As a result of the anticipated underspends in the year this is now unlikely to be required and as a result the balance has been maintained. The General Balances have been utilised to carry forward the savings identified in 2003/04 and used to supplement the revenue budget in 2004/05.

Table 12: General Balances

	2003/04	2004/05	2005/06	2006/07
	£m	£m	£m	£m
General Balance				
Balance at beginning of year :	6.505	9.355	6.705	6.705
Contribution from (to) Revenue	2.850	(2.650)	0.000	0.000
Balance at end of year :	9.355	6.705	6.705	6.705

Pensions Provisions

- 3.5.2 The provision for pensions is held in respect of officers who are eligible to retire having completed 30 or more years of service. These officers have the option of commuting a proportion of their pension to a lump sum. Significant numbers of retirements with officers taking the commutation option would represent a significant burden on the Authority and the provision is held to counteract the impact of this eventuality. As mentioned in section 3.2, we believe that a number of officers have held off retirement to maximise the benefits of the Police Pay Reform package, the consequential savings in lump sum payments have been carried forward to prevent any major strain on the Authority budget in 2004/05, a sum of £1.718m. A further £0.500m has been utilised from the provision in 2004/05 to supplement the required developments.

Table 13: Pensions Provision

	2003/04	2004/05
Pension Provision	£m	£m
Balance at beginning of year :	3.111	4.829
Additional commutation payments 2004/05	0.000	(1.718)
Contribution from/(to) Revenue	1.718	(0.500)
Balance at end of year :	4.829	2.611

Compensatory Grant Provision

- 3.5.3 The provision for compensatory grant in respect of transitional rent allowances was established during 2002/03. The allowance is to meet the individuals tax liabilities introduced on rent allowances, the sum reduces each year as officers entitled to the allowance leave the Force, the sum paid in April 2003 being £2.1m. The increase in the provision is recognition of the Authority's agreement to fully provide for this liability over five years.

Table 14: Compensatory Grant Provision

	2003/04	2004/05
Compensatory Grant Provision	£m	£m
Balance at beginning of year :	0.400	0.700
Contribution from Revenue	0.300	0.300
Balance at end of year :	0.700	1.000

3.5.4 **Appendix I** provides a summary of all the other reserves, provisions and funds the Authority currently holds.

AIRWAVE

3.5.5 Additional funding for the Airwave project has been announced recently by the Home Office. The sums fall short of our original expectations and are in the form of additional revenue grant in 2004/05 (£0.937m) and capital grant in 2004/05 (£1.131m). We have re-calculated our commitments for the Airwave programme and believe these sums will accommodate our requirements for capital and revenue costs up to the end of 2004/05. There is at this stage no commitment of any additional revenue funding for this programme beyond 2004/05.

Table 15: AIRWAVE

	Capital £m	Revenue £m
AIRWAVE Grant received/due	7.556	4.804
Project costs	(7.608)	(3.017)
Running costs 2004/05	-	(1.705)
Balance at end of year :	(52)	82

Robbery Initiative Reserve

3.5.6 Grants were provided totalling £1.8m to finance a two-year programme up to March 2002 on initiatives to reduce robberies. Subsequently advice from the Home Office extended the requirements to March 2004. The spending plans have been adjusted to this revised timescale, and the grant received has been put into a reserve, to be released when needed per **Table 16** below:-

Table 16: Robbery Initiative Reserve

	2003/04	2004/05
Robbery Initiative Reserve	£m	£m
Balance at beginning of year :	0.623	0.000
Contribution to Revenue	(0.623)	0.000
Balance at end of year :	0.000	0.000

3.6 Key Risks affecting Financial Position 2004/05

3.6.1 In preparing the budget, a number of risk factors have been considered in relation to their potential impact upon the Force financial health. These are discussed below, covering the future developments that may be required by the Chief Constable in order to adequately deal with them, and the need to hold balances and contingencies for any unforeseen risks.

3.6.2 Chief Constable's Risk Managed Developments

In assessing the need for future developments, the Chief Constable has taken cognisance of the need for a tight budgetary settlement. There are some developments that he considers to be required by the Force to ensure effectiveness and resilience. However, he considers that the Police Authority may wish to take a risk-managed approach to these developments. In other words, the Police Authority may take the view that the developments could be delayed further or if they become essential during the financial year, then expenditure may be required within the budget and specifically the contingencies identified in paragraph 3.6.3 below. **Table 17** below highlights developments that fall into this category.

Table 17: Chief Constable's Risk Managed Developments

	Risk £000 2004/05	Risk £000 Full Year Effect
Civilianisation of Crime Recording Bureau	421,739	421,739
Expansion of DNA sampling re national initiatives	403,000	403,000
Professional Standards Unit, to address Police Reform Act	234,000	553,402
CBRN/PSU resilience (recommended level of cover)	206,000	206,000
Establish Police Main Base Station	600,000	-
Total	1,864,739	1,584,141

The Crime Recording Bureau civilianisation programme was a Best Value recommendation and remains an ambition of the Chief Constable. The expansion of DNA sampling would lead to greater likelihood of crimes being detected but there is a cost benefit assessment to be made. The advent of the Independent Police Complaints Commission heralds greater bureaucracy and the Professional Standards Unit will be maintained at its current establishment until this additional impact is better understood. There is an amount in the Essential Developments for CBRN suits and equipment. The recommended level of cover is 2 suits per officer. The Chief Constable informs the Police Authority that it is possible to take a risk-managed approach and provide only 1 suit per officer at this time and phase the recommended additional cover in subsequent years. Finally, any terrorist incident would need to be managed from a Police Main Base Station. Merseyside has inadequate cover for a Police Main Base Station but the Chief Constable has instructed his officers to explore regional solutions before returning to the Authority with this development need.

Police Authority Members can therefore be assured that the Chief Constable has kept development growth to the lowest possible cost. He does feel that Police Authority Members do need to be aware of other developments that, notwithstanding, can be held in abeyance at this stage but there is a risk, which the Chief Constable is prepared to manage in 2004/05.

3.6.3 Contingencies

The Force hold an operational contingency in the Area Operations budget of c£600k for the use of BCU's for operational contingency. This has been used in the past to assist areas where major incidents have been unable to be fully accommodated, or where excess pressure on budgets are giving a high level of overspend that become too difficult to contain within the overall regime. For example, DNA expenditure in the current year has been high due to initial problems in the implementation of new guidelines introduced by the Home Office. Further contingency management has been applied by the use of any underspends in central budgets such as the Corporate Development Fund, which is used to implement the recommendations of Best Value reports, or for small one off improvements that will contribute to efficiency.

Overall, the level of contingency held within the overall budget is not high, and certainly represents well under 1% of the force budget. Because of this, there is a strong need to maintain the level of balances to a level that could cope in the event of a major problem hitting the Force. The Authority is currently holding non-earmarked reserve balances of £6.7m, which represents 2% of the overall budget, and this should be regarded as the minimum level to be maintained. If at all possible, the Authority may wish to consider increasing this level at some time in the future.

3.6.4 Pensions

The pensions problem remains very much a key issue, and the levels of provision against the likely rate of retirement will be kept under regular review. The Home Office have released details of the proposed new police pension scheme, and the impact of this will be evaluated as part of the medium term financial strategy, although it is not anticipated that this will have a significant impact other than in the long term. The level of provision is felt to be suitable to cover up to 50% of the maximum estimated exposure to retirements in the medium term, and any shortfall in the effect of those assumptions would need to be borne by the general balances.

3.7 Capital Programme

3.7.1 Capital Outturn 2003/2004

In 2003/04 capital expenditure will be funded under the old capital financing arrangements with Capital Grant, supplementary credit approval and contribution from revenue.

The main variations for the projected outturn are as follows:-

- (i) There is a projected underspend on the Estates Strategy of £325k. This sum is to be taken as a one-off saving.
- (ii) It has been decided to utilise £1.00m of unapplied capital receipts to reduce the revenue financing requirement in 2003/04, as detailed in para 2.1.9.
- (iii) The Authority has been successful in 2003/04 in obtaining £453k additional premises Improvement Fund grant. This will be matched by funds from Areas and Departments. £70k is due to be received in 2003/04 with the remainder falling in 2004/05.

The impact that these changes will have on capital expenditure is shown in **Table 18** over and in **Appendix C**.

For 2004/05 it has been confirmed that Capital Grant of £2.670m will be received and in addition a further £0.589m will be available as match funding for technology initiatives which impact operational policing. The balance of our proposed capital spend will be met from borrowing in line with the Prudential Code. To minimise this borrowing requirement it is proposed to re-phase £1m of Estates work into 2005/06 and 2006/07 and to reduce the IT Strategy by £0.312m to acknowledge the reduced requirement from re-phasing schemes.

3.8 The Prudential Code

- 3.8.1 The Local Government Bill 2003 has introduced a new system of capital financing and control which comes into effect from 1 April 2004. Currently, in relation to capital expenditure the Police Authority receive supplementary credit approvals which allow the authority to borrow to finance capital projects on a scheme by scheme basis. The new system removes this credit approval process and allows the Authority to set its own overall level of borrowing to finance capital schemes, this is governed by a set of regulations known as the Prudential Code.

3.8.2 As an Authority we have also in recent years supplemented our capital programme with significant contributions from our revenue budget. It is now proposed that the Authority take advantage of the provisions of the prudential code and the opportunity to finance capital expenditure through borrowing. This will give a saving in 2004/05 of the proposed revenue contribution to capital, less the anticipated borrowing costs, and amounts to a revenue budget reduction of £1.450m.

3.8.3 The standards for adopting the new system are contained within the CIPFA Prudential Code for Capital Finance. This Code sets out a number of indicators that have to be calculated and approved by the Authority. The Code stresses that these indicators are designed to support local decision making and are not designed to be comparative performance indicators. In particular police authorities will have widely different debt positions at the start of the Prudential system and these differences are likely to increase over time as the result of local decisions regarding capital investment.

Affordability and Associated Indicators

3.8.4 The indicators of affordability address the impact on the revenue account and budgets of the Authority’s capital strategy.

Capital expenditure

3.8.5 The first indicator is an estimate of capital expenditure for 2003-04 to 2006-07 and actual capital expenditure in 2002-03. This is set out in **Table 18** below. Details of the schemes making up these figures are set out in **Appendix C**.

Table 18: Actual and Estimated Capital Expenditure 2002/03 to 2006/07

	2002-03 £000 Actual	2003-04 £000 Estimate	2004-05 £000 Estimate	2005-06 £000 Estimate	2006-07 £000 Estimate
Total	11,261	14,386	9,041	6,795	7,767

Revenue Costs

3.8.6 In order to give an indication whether the proposed borrowings and the associated revenue costs are affordable the following indicators are calculated for consideration by the Authority:-

- Ratio of financing costs to net revenue stream
- Impact of capital investment decisions on the precept

For the purpose of these indicators, financing costs are calculated on a prudent basis and defined as total interest payable for short and long term borrowing, the replacement of the Minimum Revenue Provision (a sum to reflect the capital repayment element of any borrowing) and premiums in respect of

prematurely repaid debt, less interest and investment income. The total financing costs have been included in the budget.

The net revenue stream is the estimate of the amount to be met from Revenue Support Grant, Business Rate Income and the Precept.

- 3.8.7 Estimates of the ratio of financing costs to net revenue stream for the current and future years and the actual figures for 2002-03 are as follows:

Table 19: Ratio of financing costs to net revenue stream

	2002/03 Actual £m	2003/04 Estimate £m	2004/05 Estimate £m	2005/06 Estimate £m	2006/07 Estimate £m
Financing costs	0.439	0.839	1.148	1.336	1.430
Net Revenue Stream	268.5	282.9	294.9	305.2	315.9
Ratio (%)	0.16	0.30	0.39	0.44	0.45

- 3.8.8 The estimates of the incremental impact of the expected capital borrowing are as follows:-

Table 20: Impact of borrowing on Precept

	2004/05 Estimate	2005/06 Estimate	2006/07 Estimate
Actual Increase (£m)	0.094	0.094	0.094
% Precept Increase	0.22%	0.22%	0.22%
Impact £ on Band D property	0.22p	0.22p	0.22p

Capital Financing Requirement

- 3.8.9 In order to measure the authority's underlying need to borrow to finance capital expenditure a measure known as the Capital Financing Requirement has been introduced. A number of financing options are available by which to fund capital investment:

- Use of capital receipts
- Direct revenue financing
- Capital grants

- 3.8.10 Capital expenditure not financed by one of the above will increase the capital financing requirement of the authority. It is important to understand that there is no direct relationship between this sum and the actual external borrowing undertaken. The Authority through the integrated treasury management strategy takes account of overall planned cash flow and this may negate or reduce the borrowing to fund capital investment. The Capital Financing Requirement is thus a reflection on the underlying sums required to finance the capital programme rather than the actual borrowings. Every year the Authority has received a supplementary credit approval. This is the approval

to borrow to finance capital expenditure although the Authority has not yet had to borrow for capital purposes by using an integrated Treasury Management Policy.

- 3.8.11 Estimates of the end of year Capital Financing Requirement for the current year and future years together with the actual Capital Financing Requirement at 31 March 2003 are detailed in **Table 21** below. The Capital Financing Requirement at 2002/03 can be considered to be the net amount of long term borrowing which would be required to finance capital spend to date if the Authority did not have sufficient cash reserves.

Table 21: Capital Financing Requirements 2002/03 to 2006/07

2002/03 Actual £m	2003/04 Estimate £m	2004/05 Estimate £m	2005/06 Estimate £m	2006/07 Estimate £m
23.510	25.068	27.935	30.823	34.589

- 3.8.12 In order to ensure that medium term net borrowing will only be utilised for capital purposes external borrowing should not, except in the short term, exceed the total of Capital Financing Requirement for the current and next 2 financial years.

Authorised Borrowing Limit

- 3.8.13 The authorised borrowing limit reflects the level of borrowing which the Authority deem suitable given the estimated capital plans and affordability. It is not an upper limit for borrowing for capital purposes alone since it must also encompass temporary borrowing for cash flow purposes. Any unanticipated revision to this limit would be considered an exceptional event and would trigger a review of the affordability indicators.
- 3.8.14 The proposed authorised limits for the authority’s total external debt are as follows.

Table 22: Authorised Borrowing Limits 2003/04 to 2006/07

2003/04 Estimate £m	2004/05 Estimate £m	2005/06 Estimate £m	2006/07 Estimate £m
23.975	25.452	30.340	36.106

- 3.8.15 These limits are consistent with the authority’s current commitments and plans. They also accord with the approved treasury management policies and practices. Whilst they represent the most likely and prudent scenario they should also allow sufficient headroom for operational management matters, for example unexpected cash flow movements.

Operational Boundary

- 3.8.16 The Authorised Limit is set to establish an ultimate boundary of the Authority's borrowing, it does not form part of routine financial management. For this purpose an Operational Boundary is set. This is designed to estimate the level of borrowing based upon the probable events projected by the estimates and makes no allowance for any headroom. It is designed to alert the Authority to any imminent breach of the Authorised Limit.
- 3.8.17 The following are the proposed operational boundaries for the authority's total external debt.

Table 23: Proposed Operational Boundary 2003/04 to 2006/07

2003/04 Estimate £m	2004/05 Estimate £m	2005/06 Estimate £m	2006/07 Estimate £m
21.975	23.452	28.340	34.106

Affordability

- 3.8.18 In considering the programme for capital investment the Authority should have regard to a measure of affordability. As a rough indication the full year interest cost of borrowing an additional £1m to invest in the programme would be approximately £60k. This rises in the subsequent year as the Minimum Revenue Provision applies and becomes a total of £100k per £1m borrowed.

Prudence and Associated Indicators

- 3.8.19 There are a number of prudential indicators in respect of Treasury Management, the first of which is that the Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Authority has already adopted this code and this is enshrined in its own Financial Regulations, i.e. Financial Regulation 6.3.2.
- 3.8.20 In addition, there are a number of treasury management indicators designed to ensure that external debt is kept within sustainable limits and is addressed year on year. It is possible that, while the financial strategy may be affordable in the short term, it is unsustainable in the medium term because it relies on borrowing to fund revenue expenditure.
- 3.8.21 In order to monitor this, except in the short term, net borrowing should not exceed the total Capital Financing Requirement in the previous year plus the estimates of any additional Capital Financing Requirements for the current and

next two financial years. Monitoring procedures will be put in place to ensure this is complied with.

- 3.8.22 A number of measures are also required for treasury management, to recognise the key implications of the borrowing and investment strategies. The Prudential Code identifies a number of indicators to monitor these risks and limit and monitor exposure to interest rate risks. These are set out below.

Upper limits for fixed rate exposure

- 3.8.23 2004-05 will be the first year the Authority could potentially undertake long term borrowing for capital. It is therefore recommended that the Authority sets an upper limit for 2004-05, 2005-06 and 2006-07 of 100% of its net outstanding principal sums. This will enable the Authority to take out all of any required initial long term borrowing at a fixed rate if this is the most favourable option. It is thought that over time this indicator will reduce to 95%.

Upper limits for variable rate exposure

- 3.8.24 It is recommended that the authority sets an upper limit on its variable interest rate exposures for 2004-05, 2005-06 and 2006-07 of 40% of its net outstanding principal sums.
- 3.8.25 The Director of Resources, in conjunction with the Treasurer, will consequently manage fixed interest rate exposures within the range 60% to 100% and variable rate exposures within the range 0% to 40%.

Maturity Structure

- 3.8.26 In order to minimise the risk of large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates it is recommended that the authority sets the following upper and lower limits for the maturity structure of its borrowing.

Table 24: Maturity Structure Limits for Borrowing

	Upper limit	Lower limit
Under 12 months	10%	0%
12 months and within 24 months	10%	0%
24 months and within 5 years	20%	5%
5 years and within 10 years	35%	10%
10 years and above	100%	30%

Reporting Procedures

- 3.8.27 Monitoring procedures will be set up to ensure that the authority does not exceed its Authorised Limit for borrowings. The Director of Resources, in conjunction with the Treasurer, will report to the Authority if it appears likely that any limit is likely to be breached.

PART 4. FUTURE FINANCIAL STRATEGY

4.1 Budget Strategy

4.1.1 In accordance with the Authority's agreed Financial Strategy, the overall key budget assumptions are shown below. As in previous years, this strategy will need to be kept under review to reflect the actual financial circumstances pertaining to that time. In the first cycle of the New Financial Year a revised Medium Term Financial Plan will be submitted to the Resources and Strategy Committee. This strategy will take account of the following factors:-

- (i) Government spending plans, anticipated grant distribution and the Authority's requirements in terms of expansion of police officer numbers;
- (ii) Government inflation targets of 2.5%, adjusted to 3.5% for pay awards;
- (iii) Meeting the capital financing variations utilising the new Prudential Code along with any implied revenue implications;
- (iv) A balanced judgement in respect of future demands and prospects, and the need to maintain an adequate level of reserves for an uncertain future, with particular emphasis on the pensions situation (e.g. there is no guarantee about future levels of specific grants);
- (v) Operational spending which includes inflation, the effects of committed and approved growth less savings contained in the budget option that is approved, and the expenditure implications of the specific grant funding. Consequently, any growth in future years would need to be met in accordance with the Financial Strategy.
- (vi) The impact on the base budget of the full complement of extra police officers recruited in 2004/05.
- (vii) for illustration purposes a precept increase for 2005/06 equivalent to that in 2004/05, i.e. 8.5%.
- (vii) Spending pressures arising from further police reform, the increased use of science and technology in crime detection, and the Authority's plans for future increases in policing strength.

4.1.2 In advance to the review of the financial plan, an initial forecast for 2005/06, incorporating a precept increase equivalent to 2004/05, i.e. 8.5%, indicates that a standstill budget, i.e. incorporating the full year effect of spending and resourcing decisions in 2004/05 would require a Government grant increase in excess of 6%. As this would represent a significant uplift on both this year's settlement and the Government's spending plans the review will need to include a fundamental consideration of all potential opportunities to maximise resources and their most efficient utilisation.

4.2 The Future

- 4.2.1 It is recognised that changes to the funding formula for 2003/04 were initially positive, particularly in the areas of activity analysis, resource equalisation and area cost adjustment. The approach taken for 2004/05 for a blanket increase across all forces does not build upon this methodology, nor does it address the pensions issues, which are particularly expensive within Merseyside.
- 4.2.2 Specific funding now represents 7.6% of the Revenue Budget (2003/04 6.9%), highlighting the continuing growth of this method of targeted funding.
- 4.2.3 The pension position is an ongoing financial issue for the Authority, and the first step increase in projected retirements takes place in the following financial year, 2005/06. The Authority continues to lobby Central Government for a real resolution to this, and the issue is currently being considered. A new pension scheme is due to be launched that would take effect from April 2006, and this involves a 35 year service provision, evenly accrued benefits, reduced contribution rates for officers (albeit over a longer timescale) and the options to transfer from the existing scheme. Work will need to be undertaken to model the impact of the new scheme on the Financial Strategy, although at this stage it is considered a longer term solution and not one that will give immediate relief to the problem. In the absence of a national solution, the Authority is developing a strategy through the utilisation of a pension provision, which will help to cushion the expected variations in pension expenditure particularly from 2005/06 onwards.
- 4.2.4 The continuing impact of the Police Reform Act is reflected in the budget proposals for 2004/05 at £6.077m. However, the longer term costs will increase to at least £7.1m in 2005/06, as the Special Priority Payments reach the expected maximum impact and the overall effect on future retirement costs is addressed.
- 4.2.5 The National Policing Plan was published in November 2002, and updated in November 2003. It identified the primary objectives for the police service over the next three years, which were to deliver improved force performance and greater public reassurance. Local three year strategy plans and annual policing plans must be responsive to local needs, whilst contributing to meeting the national priorities. Future spending plans will need to be determined in the light of the budget approvals for 2004/05, and the manner in which the Force will meet those local needs and national priorities.

PART 5. CONCLUSIONS AND RECOMMENDATIONS

5.1. Conclusions

- 5.1.1. This report seeks to provide Members of the Authority with the opportunity to consider a budget which addresses the Authority's key policies of improved visibility and response along with the Chief Constable's key service requirements.
- 5.1.2. In particular it will deliver the following: -
- (i) 250 extra officers in the neighbourhoods;
 - (ii) a significantly enhanced call and response service; and
 - (iii) resources to tackle the Authority's maintenance backlog, terrorism resilience and Force Records Management.
- 5.1.3. In constructing the budget, the Chief Constable has formulated spending proposals for which the Treasurer has constructed a proposed resourcing plan, which if approved, would require a precept increase of 8.5%.
- 5.1.4. This increase should be viewed against a backdrop of a national police grant increase of only 3.25% which falls significantly short of the resources required to accommodate spending pressures and service developments.
- 5.1.5. Consequently, the Treasurer has been required to put together proposals which incorporate significant savings along with financing measures, some of a one off nature, which will deliver a progressive budget without placing an unreasonable burden on the Council Tax payers of Merseyside.

5.2. Recommendations

5.2.1. The Authority is recommended to:-

- (a) approve a Revised Estimate for 2003/04 of **£301,813,124**;
- (b) approve the use of the underspend in 2003/04 as set out in **paragraph 2.1.12**;
- (c) approve the Capital Programme and financing arrangements as set out in **Appendix C** with anticipated payments of **£9.041m** in 2004/05 and the prudential indicators outlined in section 3.8 of this report;
- (d) approve a Revenue Budget for 2004/05 at a level it thinks most appropriate, having taken account of the advice and information set out in this report;
- (e) revisit and report upon the Authority's Financial Strategy in the light of its final budgetary decision; and
- (f) issue an appropriate precept requirement (after deduction of specific revenue grants, revenue support grant and business rate income) on the five Billing Authorities in the Merseyside area, to be levied as part of the Council Tax for the purposes of Police Authority expenses for the financial year beginning 1st April 2004 and ending 31st March 2005.

STEVE HOUSTON,
Treasurer

NORMAN BETTISON,
Chief Constable

APPENDICES

APPENDIX A – Illustrative Budget Summary

APPENDIX B - Projected Outturn 2003/04, Variance Analysis

APPENDIX C – Capital Programme

APPENDIX D – Revised Base Budget 2004/05

Description	£m	£m
Approved Base Budget 2003/04		303.208
Add Inflation – full year effect of 2003/04	2.181	
- Contingency for 2004/05	6.800	8.981
Police Reform – Full Year Effect of 2004/05		0.901
Repriced Base Budget		<u>313.090</u>
<i>Committed Growth</i>		
Police Pensions	1.701	
Support Staff – Pensions Contributions	0.340	
Contribution to Compensatory Grant Provision	0.300	
Payroll Retendering Costs	0.240	
Crime Bureau – Police Staffing	0.455	
CSO and CFF funding level cuts	0.407	
Planned Revenue Contributions to Capital	1.297	
Other Commitments	0.552	
Approved Growth		
Capital Schemes – Revenue Running Costs	0.330	
2003/04 Developments	0.552	
		<u>6.174</u>
Savings Achieved		
Allowances	(0.475)	
Leap Year – Police Pay and Allowances	(0.320)	
Operation Care	(0.320)	
Joint Operation – Serious Fraud Investigation	(0.363)	
		<u>(1.478)</u>
Decrease in Direct Grant Aided Expenditure		(0.449)
Base Budget for 2004/05		<u>317.337</u>

APPENDIX E – Proposed Developments

Chief Constables Essential Developments

INVESTORS IN PEOPLE			
Purpose of Proposal	Risk Issues Identified	Performance Measures Impact	Resource Implications
<p>A national initiative by HMIC encourages forces to pursue accreditation under the Investors in People scheme. The national strategy to promote Learning in the Police Service sets a target of 50% of Forces working towards IIP accreditation by Dec 2003 and all forces by April 2005. The benefits of such a scheme are driven from the opportunity to undertake a review of training and development practices against a recognised benchmark and develop these in a structured and proven framework.</p>	<p>Failure to undertake this development will prevent us from adopting best practice against which inspection will be made and taking advantage of the beneficial opportunities afforded by IIP accreditation</p>	<p>IIP Accreditation is designed to improve customer satisfaction and improve motivation and skills. It would therefore indirectly impact our domain performance across all areas.</p>	<p>The proposal envisages the creation of an Investors in People implementation and maintenance team within the Personnel Department.</p> <p style="text-align: right;">COST £68k per annum</p>

ESTATES MANAGEMENT BACKLOG

Purpose of Proposal

The Estate Management Strategy has suffered significant resource pressures over recent years and as a result a backlog of maintenance works has accumulated. The backlog of works was assessed at £7.8m in the annual estates report.

Risk Issues Identified

The failure to undertake a pro-active approach to estate maintenance results in a deteriorating estate and in the longer-term greater overall cost and disruption. If preventative maintenance is under-resourced for too long there is the risk that premises will become difficult and costly to repair.

Performance Measures Impact

The lack of a suitably resourced maintenance plan results in a lower quality estate, more cost in the longer term and reduces the image and morale of the Force.

Resource Implications

The proposal for addressing the Estates Management Backlog envisages increasing maintenance spend by a sum of £350k per annum in recognition of the need to increase spending on the preventative maintenance programme.
COST £350k per annum

FORCE RECORDS MANAGEMENT SYSTEM

Purpose of Proposal

The introduction of the Freedom of Information Act from January 2005 places an obligation on the Force to produce records requested within 20 working days. Failure to comply or produce all relevant records will result in a breach of the Acts requirements. Enquiries can be upon any element of the forces operations and we must be in a position to produce all relevant records wherever retained.

Risk Issues Identified

Currently records of all kinds are kept in a number of locations ranging from individual filing cabinets to storerooms, the majority of which are not tracked or logged. The Act requires production of all records and the lack of a central storage, logging and document management facility will render the Force likely to fail to reasonably meet the requirements of the Act.

Performance Measures Impact

A central records management system will enable the Force to best meet the requirements of the Act. An added benefit will be freeing up space in a number of locations for operational use. The proposal does not significantly impact any performance measures but facilitates compliance with the legislation and alleviates premises issues related to the expansion of operational officers.

Resource Implications

The resource implications are being reviewed and the most favourable option will be pursued. This is likely to entail an element of out-sourcing.

COST £400k per annum

CBRN PSU Resilience

Purpose of Proposal

Existing protective clothing for use in a chemical, biological, radioactive or nuclear incident is old military equipment that is no longer fit for purpose. The Home Office recommends the provision of two protective suits and equipment per officer. This proposal is sufficient to supply one suit per officer.

Risk Issues Identified

The failure to have available suitable protection and equipment to deal with a CBRN incident would be in breach of Home Office guidelines and would put officers at unacceptable risks in dealing with such a situation. The proposal already assumes a risk level by not providing the recommended two suits per officer.

Performance Measures Impact

The provision of the suits and equipment will not directly impact performance measures unless such an incident occurs. However it must be acknowledged that public perception and Force morale could be seriously damaged if this equipment was not available to address such an incident.

Resource Implications

The proposal addresses the cost of supply of one suit per officer, the balance being included in the risk managed category of developments. ACPO are currently pushing for funding of this equipment to be met from national funds but this has not at this stage proved successful.

COST £206k

WITNESS ASSISTANCE UNIT

Purpose of Proposal

The Witness Assistance Unit provides specialist assistance and support to threaten intimidated and vulnerable witnesses. The Unit handles cases referred from across the Force operations. The proposal will extend the services to provide greater levels of service to areas, family support units, middle market drugs unit and the public protection unit.

This investment in witness protection supports the Governments Crime Action Plan, which is being personally driven by the Home Secretary.

Risk Issues Identified

The unit operates under nationally agreed ACPO guidelines, which govern the criteria for assessment and relocation of witnesses, and lays down operating procedures for witness protection units. Failure to expand the service will impact the availability of assistance in these cases with consequential impact on the availability of witnesses in these cases.

Performance Measures Impact

The provision of high quality witness assistance services operating within the ACPO guidelines will impact:

- Crime Reduction
- Crime Investigation
- Public Safety

Resource Implications

The proposal envisages the expansion of the services currently offered.

COST £50k per annum

Total Essential Developments

£1.074m

APPENDIX F – Budget Reductions

Area	£m
Strategic Development Deletion of 2 vacant posts and reduction in cash limited funds	0.055
Corporate Development Fund Reduction in funds available for consideration by Chief Officers	0.273
Resources Directorate Restructure and deletion of 2 posts and greater efficiencies in purchasing contracts, catering and utility costs.	0.085
Savings identified in Estates Capital works during 2003/04 carried forward to supplement 2004/05 developments	0.325
Professional Standards Reduction of 1 post and cash limited budgets.	0.054
Corporate Criminal Justice Deletion of post.	0.016
Court Support Services Deletion and restructure of 4 posts	0.063
Area Co-ordination and Operations Budget reductions and deletion of 1 part time post	0.030
Force Crime Operations Deletion of 1 post offset by additional overtime	0.020
Intelligence and Security Services Reduction of 1.5 posts and budget reduction measures, additional income from surveillance training	0.121
Total	£1.042m

APPENDIX G – Proposed Efficiency Plan 2004/05

Introduction

This section of the Annual Policing Plan contains the Efficiency Plan element. All forces are required to achieve a target of 2% year on year improvements in efficiency. This equates to 2% of the Force budget. The efficiency planning process is seen as an integral part of overall Best Value arrangements.

An 'efficiency improvement' is defined as being made when more or better services are delivered for the same or less cost. It is achieved where a costed analysis demonstrates that:

- ◆ The same level of output of the same quality is achieved for less cost (efficiency savings), or
- ◆ More output and/or output of better quality is achieved at the same or less cost (efficiency gains).

Efficiency improvements therefore fall into two broad categories:

- ◆ Those achieved through the redeployment of financial resources or a reduction of the total resource requirement, i.e. which are cashable;
- ◆ Those achieved through an improvement in performance, but where financial resources are not released; i.e. which are not immediately cashable but which lead to increased output or avoid the need for additional expenditure in the longer term.

Merseyside Police has developed programmes for efficiency savings for some years. Significant examples have been the Force re-engineering programmes which commenced in 1993, major territorial restructuring (1995/1997), ongoing management reviews, the Force Shift Arrangements Review (1998) and the Departmental Structure Reviews (1999). These have subsequently reduced management oncosts and increased the availability of officers to meet operational demands. More recently the Departmental Structure Review (2000 and 2001) and the Policing Style Review have achieved further savings in support functions and assisted in the implementation of neighbourhood policing, which will create changes in work practices and thus the potential for efficiencies. In total efficiency gains of £45 million have been achieved since 1997/98.

Efficiency planning is an important aspect of the Best Value process, whereby Best Value Reviews may enable efficiency gains to be achieved which will count towards the efficiency plan target.

This Efficiency Plan examines the following issues:

- The Efficiency Targets for 2003/04 – 2005/06
- Efficiency Plans :
 - Achievements to date 2001/02 and 2002/03
 - Forecast Results for 2003/04
 - Future Plans 2004/05 and 2005/06
- Re-investment of Savings and Gains
- Impact of Best Value Reviews and the Policing Bureaucracy Taskforce.

1. THE EFFICIENCY TARGET

- ◆ Quantified efficiency target to be achieved in the year.

For the purpose of the Efficiency Plan, the 2% efficiency target is calculated on the Police Authority's estimated **Net Revenue Expenditure (NRE)** for that year. Only money actually spent during the financial year will be subject to the 2% efficiency target.

2003/04		2004/05		2005/06	
£000		£000		£000	
Total NRE	£282,863	Total NRE	£299,221	Total NRE	£308,950
2% Target	£5,657	2% Target	£5,984	2% Target	£6,179

2. EFFICIENCY PLANS

2.a) EFFICIENCY ACHIEVEMENTS

Review of efficiency savings and gains to date (i.e. projects completed or already commenced).

ACTION	2001/02		2002/03	
	Cashable savings £000	Non-cashable gains £000	Cashable savings £000	Non-cashable gains £000
Departmental structure revisions	1,676		1,614	
Review of Area support duties		1,504		
Areas – duty systems, working arrangements, post changes				1,242
Traffic Wardens			284	30
Communication & Media			134	130
Procurement	120			
Custody arrangements implementation		200		
Catering Services Review	423		300	
Replacement of AFR Contract	600		280	
Vehicle Recovery	40			
Force Traffic Review		1,020		
Crime Recording – standards and workload				328
17. Call management workloads				439
18. Deployment of non operation officers				501
19. Information management - audit				40
20. Custody Arrangements – full year				168
TOTALS	2,859	2,724	2,612	2,878

2.b) 2003/04 : EFFICIENCY PLAN – FORECAST RESULTS

ACTION	2003/04 – NRE : £282.863M 2% TARGET : £5.657M PLAN : £6.432M		
	(i) Cashable Savings £000	(ii) Non Cashable Gains £000	Total £000
Support Functions review	2,652		2,652
Replacement Computer Systems	746		746
Overtime Reductions	313		313
Deployment of Non-Operational Officers		781	781
Crime Recording		600	600
Operational Working Arrangements		600	600
TOTALS	3,711	1,981	5,692

2 (c) FUTURE PLANS

(i) 2004/05 EFFICIENCY PLAN

ACTION

2004/05 – NRE: £299.221

2% TARGET : £5.984m

PLAN £6.529m

	Cashable Savings	Non Cashable Gains	Total
	£000	£000	£000
1. Support Functions Review	942	180	1,122
2. Overtime Reductions	303		303
3. Ill Health Retirements	1,054		1,054
4. Operational Working Arrangements		990	990
5. Reduction in Corporate Developments	280		280
6. Capital Financing Arrangements	1,435		1,435
7. Best Value Reviews		900	900
8. Centralisation of Civil Litigation		170	170
9. Bureaucracy	125	150	275
Total	4,139	2,390	6,529

(ii) Efficiency Plan 2004/05 : COMMENTARY

Support Functions Review

This is the fifth year of a programme for reviewing the costs of Support functions, in order to determine what budget reductions could be achieved without significantly impacting on the standards of service provided. The main cashable financial contributions are to be made from the Strategic Development Department, Estates, Court Support Services and Intelligence and Security Bureau. Total cash savings of **£942,000** were built into the budget or redirected directly within the department concerned. Also included are efficiencies to be generated from revised working arrangements for Scene of Crimes administrative staff and vehicle maintenance totaling **£180,000**.

Overtime Reductions

As part of the changes to Police Pay and Conditions, within the Police Reform Agenda, the Home Office set a target for reductions to be made to overtime working equivalent to 15% from 2003/04 to 2005/06. The budget for 2004/05 included provision for 5% reductions to be achieved in the coming year equivalent to **£303,000**.

Ill Health Retirements

The National Policing Plan has set a requirement for forces to reduce medical retirements. The target for Merseyside for 2005/06 being 27. This has been taken into account when setting the current target of 35 retirements for 2004/05 and setting the budget for 2004/05 and represents a reduction of **£1,054,000**.

Operational Working Arrangements

Areas and Operational Support functions will be further reassessing their policing arrangements, shift patterns, post designations etc, during the year, in order to provide improved focus and staffing availability for operational duties targeted at **£990,000**.

Reduction in Corporate Developments

Cash savings of **£280,000** have been built into the budget for 2004/05. This will reduce the spend on corporate issues during the year.

Capital Financing Arrangements

The introduction of the Prudential Code has enabled the force to finance the capital programme for 2004/05 differently. Instead of making a large contribution from the revenue budget, the intention is to borrow. This reduction in cost of **£1,435,000** has been built into the budget.

Best Value Reviews

A number of best value reviews are due to be implemented during 2004/05. These will provide efficiency savings through revised working arrangements. The target is set at **£900,000**.

Centralisation of Civil Litigation

Currently there are police forces employed full time in Areas and departments investigating Civil Litigation cases. The work is due to be centralised within Professional Standards, which will lead to savings of **£170,000**.

Bureaucracy Task Force Changes

The introduction of the Video Identification Parade Electronic Recording (VIPER) will mean that there will be a reduction in the payments to volunteers. Further initiatives are also likely to be introduced during 2004/05, the target is **£275,000**.

(iii) Efficiency Plan 2005/06

£000

Total NRE - £308,950
2% Target - £6,179

2 (d) Efficiency Plans – Summary Table

	2003/04 £000	2004/05 £000
EFFICIENCY TARGETS		
2% Target of Force NRE	5,657	5,984
Force Target	6,432	6,529
EFFICIENCY SAVINGS		
Cashable Savings	3,711	4,139
Non Cashable Savings	1,981	2,390
TOTAL	5,692 (Forecast)	6,529 (Target)

REINVESTMENT OF SAVINGS AND GAINS

2003/04 Reinvestment – Forecast Results

Action	Cashable Savings £000	Non Cashable Gains £000	Total £000
Baton Guns and Ammunition	38		38
Public Protection Unit	500		500
Computer Investigation Unit	60		60
Video Identification of Offenders	45		45
Money Laundering Unit	104		104
Visible Police Presence at Crown Court	120		120
Integrity Vetting	14		14
Asylum Seekers – Liaison Officer	55		55
Mobile Custody Unit	50		50
National Intelligence Model	1,300		1,300
Communications	24		24
Freedom of Information Act	200		200
Occupational Health	115		115
Improving Performance at Incident Response	63		63
CCT Screens	93		93
Driver Identification System	165		165
Contribution towards financing Police Reform of Pay and Conditions	765		765
Deployment of Non-Operational Officers		781	781
Crime Recording		600	600
Operational Working Arrangements		600	600
	3,711	1,981	5,692

3. REINVESTMENT OF SAVINGS AND GAINS

3.2 2004/05 RE-INVESTMENT PLAN

Action	Use of Cashable Savings £000	Use of Non Cashable Gains £000	Total £000
Investors in People Scheme	32		32
Maintenance of Force Estate	163		163
Record Management System	227		227
CBRN PSU Resilience	96		96
Witness Assistance Unit	23		23
Contribution to Operational Policing	113		113
Information Systems and Telecommunications Developments	501		501
Contribution towards additional officers	1,897		1,897
Calls and Response	1,087		1,087
Support Function Review		180	180
Centralisation of Civil Litigation		170	170
Best Value Reviews		900	900
Operational Working Arrangements		990	990
Bureaucracy Task Force Changes		150	150
	4,139	2,390	6,529

2004/05 Reinvestment Plan – COMMENTARY

Investors in People Scheme

The HMIC and the National Strategy to promote Learning in the Police require the force to seek Investors in People accreditation. The Force is to adopt the proposal through the creation of an implementation and maintenance team. **(£32,000)**

Maintenance of Force Estate

The Annual Estate report identified a current maintenance backlog on the Estate of £7.8 million. The additional funding will contribute to the reduction of this backlog. **(£163,000)**

Record Management System

The Freedom of Information Act comes into effect from January 2005, and the Force will be required to produce relevant records within 20 working days of an enquiry. The Force needs to invest in a new record management system to ensure that the Act is complied with. **(£227,000)**

CBRN PSU Resilience - Chemical, biological, radioactive and nuclear Police Support Unit

To address the additional issues arising since September 11th. This will increase the Force's resilience and replace outdated ex-military clothing which is no longer fit for purpose. **(£96,000)**

Witness Assistance Unit

To address the support offered within the Unit by providing additional support staff in accordance with the government's Crime Action Plan initiatives. **(£23,000).**

Contribution to Operational Policing

This represents reductions in electricity and rates expenditure which will be utilised by Areas to provide additional support to operational policing. **(£113,000).**

Information Systems and Telecommunications Developments

Reductions will be reinvested to provide for the additional maintenance costs for new systems and to support additional users. **(£501,000)**

Contribution to Additional Officers

This will increase the number of frontline police officers. This is required to increase the visibility and accessibility of the Force. **(£1,897,000).**

Calls and Response

This will provide for improvements in the calls and response system needed to cope with the 40% increase in workload and the increase expected from the additional frontline police officers. **(£1,087,000)**

Support Function Review

The revised working arrangements within the departments will lead to a reduction in charges to Areas e.g. on vehicle recharges. This will enable more resources to be utilised to support operational policing. **(£180,000).**

Centralisation of Civil Litigation

The revised arrangements will free up police officer time leading to an increase in operational policing. **(£170,000).**

Best Value Reviews

The implementation of the recommendations of best value reviews will lead to savings in police officer time. **(£900,000).**

Operational Working Arrangements

Areas and Operational Support functions will be further reassessing their policing arrangements, duty systems, shift patterns etc., during the year, in order to provide improved focus and staffing availability for operational duties. **(£990,000).**

Bureaucracy Task Force Changes

As part of the Police Reform Programme the Government established the above Taskforce with the remit to determine ways of releasing patrol officers from time-consuming bureaucratic tasks. These are being researched and various proposals are expected to save police officer time. **(£150,000).**

APPENDIX H – Calls and Response

The need:

- Since 1997 36% increase in calls via 999, staff numbers have reduced over recent years.
- Need to provide 24-hour cover over 5 control rooms to support local neighborhoods.
- Need to improve quality of call response 80% of police contact is via phone
- Current demands are being met by overtime, an unsatisfactory and expensive option
- There will be increasing demands on control rooms arising from additional operational police numbers
- The requirements of the NCRS regarding incident classification requires longer caller interrogation to achieve compliance

The Proposal:

- Recruit additional operational and supervisory posts to improve quality, reduce overtime and meet additional demands.
- The recruitment will cover both the call handlers and the communications officers who dispatch and monitor response to incidents
- Provide essential developments to the IT systems utilised in calls and response
- Develop shifts to better match call answering capacity with demand
- Initiate a programme of calling back to check needs have been met and improve service satisfaction levels

Cost:

The initial proposal to fully address all issues envisages an increased annual cost of £2.1m. However reflecting the need to phase implementation and monitor performance improvements alongside the investment, the proposal for 2004/05 is an increase of £1.087m. We will implement a process of review to monitor performance as the project develops and make every effort to ensure that any potential savings are optimized and service levels improved.

Context:

The Merseyside Ambulance Service has received an additional allocation of £2.5m to address similar issues. We understand this breaks down roughly as £1m in calls and response and £1.5m on additional ambulance and operational personnel. This covers a smaller service operating only 1 control room but nonetheless recognizes the need to enhance call handling services particularly where an increase in operational resources occurs.

Calls and Response Development Bid

Costed Plans

Increased staffing across 5 Control rooms

Support staff supervisors to improve service standards across control rooms
 Increased number of Communications Officers to handle key times and additional officers
 Additional call handlers to improve call response standards
 System administrator and Analyst posts to ensure best utilisation of technology

Description	Staff Numbers	Cost £k
Support Staff Supervisors	5	196
Communications Officers (full time)	8	222
Communications Officers (key time 20 hours pw)	9	137
Call Handlers	19	416
System support and analyst	3	88
Additional system upgrade/support costs	0	28
	44	1087

Assumptions:

Staff will be recruited as soon as possible in new financial year
 Recruitment/training costs and reduced overtime will offset FYE in year 2
 Staff costs are based upon existing gradings and costing

Performance Issues:	2003/04	2004/05
Improve 999 call answering performance		
Calls answered within 10 seconds	79%	88%
Caller satisfaction measure (satisfied/very satisfied)	80%	85%
Anticipated 999 call increases	6%	6.50%

Other performance benefits:

Improved non urgent call handling
 Improved customer management and handling
 Introduction of call back to ensure customer needs are met
 Improved intelligence gathering and support for neighbourhoods

APPENDIX I - Other Reserves, Provisions and Funds

APPENDIX J - The Local Government Finance Settlement 2004/05

	2003/04 £m	2004/05 £m
<u>1</u> SPECIFIC HOME OFFICE GRANT		
The Home Office pay police authorities a specific revenue grant. Since 1995/96 this grant has been cash-limited, the amount payable being set by the Government at a sum relative to the FSS, irrespective of actual spending. For Merseyside Police Authority the grant has been set at: -	134.5	135.2
<u>2</u> REVENUE SUPPORT GRANT (RSG)		
Revenue Support Grants is the amount of general Government grant paid to all authorities, including Police Authorities, and is distributed by reference to each Authority's FSS. For Merseyside Police Authority the amount is: -	86.6	94.7
<u>3</u> BUSINESS RATE INCOME		
The Business Rate is collected by local authorities at a national rate. The proceeds are pooled nationally and distributed between all local authorities in proportion to the Registrar General's estimate of resident population. This Authority's share is: -	19.4	18.5
TOTAL	240.5	248.4
<u>% Increase</u>		3.27%