

## Appendix 3 Part 1

<b>PROJECTED GRANT FUNDING 2002/03 – 2006/07</b>						
	<i>Notes</i>	2002/03	2003/04	2004/05	2005/06	2006/07
		£m	£m	£m	£m	£m
Central funding allocated by national allocation formula (ie main police grant, RSG and NNDR)	1	1,479.3	1,508.9	1,539.1	1,569.8	1,601.2
<i>Annual increase</i>			2.0%	2.0%	2.0%	2.0%
Grant reduction due to change in civil pensions arrangements	2		-6.7	-6.8	-7.0	-7.1
Additional SSA arising from higher SCAs during period	3		0.6	1.1	1.7	2.2
MPS special payment	4	197.0	200.9	205.0	209.1	213.2
<i>Annual increase</i>		3.1%	2.0%	2.0%	2.0%	2.0%
<b>Hypothecated grants:</b>						
Crime Fighting Fund	5	61.9	68.6	70.4	72.3	74.3
Pay lead grant	6	19.1	22.4	25.5	28.3	31.3
DNA expansion programme grant	7	2.5	5.6	0.0	0.0	0.0
Loan charges grant	8	3.9	3.7	3.5	3.4	3.3
Grant for free rail travel for police officers	9	2.5	2.5	2.5	2.5	2.5
Airwave grant	10	0.0	3.9	29.8	23.9	23.9
Funding for net cost of police reform	11	0.0	28.4	38.1	44.2	45.9
Funding for counter-terrorism	12	0.0	49.0	49.0	49.0	49.0
<b>TOTAL FUNDING</b>		<b>1,766.2</b>	<b>1,887.8</b>	<b>1,957.1</b>	<b>1,997.2</b>	<b>2,039.8</b>
<b><i>Annual increase</i></b>			<b>6.9%</b>	<b>3.7%</b>	<b>2.0%</b>	<b>2.1%</b>

### Notes

1. See Appendix 3 Part 2 for further details around assumptions underpinning formula-allocated funding. No assumption has been made about the availability of PFI credits.
2. Assessed net reduction in grant following change in civil staff pension arrangements assumed to match savings in expenditure.
3. SSA will be increased in recognition of additional Supplementary Credit Approvals granted to fund higher capital expenditure throughout the period. Assumed to be at 83% of cost.
4. MPS special payment is assumed to increase at same rate as police grant.
5. Crime Fighting Fund runs to 2002/03. Funding arrangements thereafter are unclear but this line shows the sums that will need to be obtained through the formula allocation to meet the cost of all officers recruited under the CFF scheme.
6. Assumes HO will fund London pay lead at 75% of annual cost excluding ERNIC. Approaches have been made to HO for full funding; outcome may depend on Comprehensive Spending Review.
7. Grant payments available up to 2003/04, subject to qualifying expenditure. Grant assumed to cease after that year.
8. This grant is paid as a contribution to costs associated with pre-1990 debt and will disappear over time.
9. HO grant towards cost of free rail travel expected to continue throughout planning period.
10. Assumes all Airwave costs will be funded by grant from HO.
11. Assumes full cost of police reform proposals will be funded by additional grant.
12. Assumes counter-terrorism grant continues at 2002/03 level.

## Part 2: Technical assumptions underpinning funding projections

? The forecast increase in general grant funding has been based on the SR2000 provision for 2003/04 which provides for an overall increase in police resources of 3.1%. However the overall increases in the two previous years have translated into increases at only half their level for formula-distributed grant to police authorities. If this pattern were repeated it would imply an increase in formula-distributed grant for 2003/04 of just 1.5%. Consideration of the likely relative movements in earmarked grants suggests that this would be over-pessimistic and the projections in the funding projection are based on an assumed increase of 2% as the mid point of a range of 1.5%-2.5%. Each 0.5% change in the assumption would change the grant forecast by approximately £8.5 million.

? The grant projections are subject to change through (a) changes in the level of resources earmarked for policing at national level and (b) changes in the distribution of the national provision.

?SR2002 – concluding in July this year – will re-set the national total for police expenditure in the Government's plans for 2003/04 and establish the position for the two subsequent years. A change in the overall provision will feed through proportionately to all police authorities.

? The distribution of resources is affected by annual data changes and by changes in the methodology for setting the distribution formula. There will be significant variations within the planning envelope as new data from the 2001 census is incorporated within the distribution formula since this involves a ten year data change in a single adjustment. The main impact will probably not be until 2004/05. No changes to the distribution formula have been factored into the projections.

? There has been a moratorium on methodology changes to the formula for the last three years but a review is currently under way to determine changes which would affect 2003/04. The review has not yet concluded. The major areas likely to be affected are:

- i. The elimination of the remaining 10% weighting for the establishment factor – which damped the impact of the new formula introduced in 1995 – is virtually certain. This will result in a loss to the MPA of about £20 million.
- ii. The Area Cost Adjustment (ACA), which compensates for higher costs in London and the South East is under review. The MPA may be disadvantaged by any agreed changes.
- iii. The police activity analysis underlying the allocation formula is being updated. Initial results suggest that this may prove favourable to the MPA but it is too early to draw firm conclusions.
- iv. Any favourable movement in the formula towards the MPA is likely to prompt further questioning of the level of the special payment.

**Specific Grants:** A significant proportion of funding is derived from specific grants (e.g. Crime Fighting Fund and DNA expansion grant). Many grants are of limited duration, and there is no certainty about future arrangements for funding the associated longer term commitments. Following SR2002 some may continue to enable Home Office to influence the direction in which resources are deployed, whereas others may be subsumed into the level of resources allocated by the distribution formula. The potential risk surrounding these funding projections is considerable but not quantifiable at this time.