



BUDGET

2009/10

MERSEYSIDE POLICE AUTHORITY

BUDGET REPORT 2009/10

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RESOLUTION OF THE MERSEYSIDE POLICE AUTHORITY

THE BUDGET 2009/10

That following detailed consideration of the Joint Report on the Budget by the Treasurer and the Chief Constable, and in accordance with Sections 43-48 of the Local Government Finance Act, 1992 the Authority:-

- (a) note the Revised Estimate for 2008/09 as set out in **Table 3**;
- (b) approve the earmarking of the underspend in 2008/09 relating to capital financing interest into the Estate Strategy Reserve, as referred to in **paragraph 2.4.6**;
- (c) approve the utilisation of £0.556m from General Balances in 2009/10 to fund the declared 2008/09 Collection Fund Deficit by the Local Authorities, as set out in **paragraph 3.3.5**;
- (d) approve the transfer of the savings in capital financing charges identified in the Medium Term Financial Strategy of £0.849m and £0.161m, in 2009/10 and 2010/11 respectively, into the Estate Strategy Reserve as referred to in **paragraph 5.6.3**;
- (e) approve the creation of an earmarked Taser Reserve as set out in **Section 5.9**;
- (f) approve the policy for the calculation of the Minimum Revenue Provision, in that it should now relate to borrowing over the life of the asset as outlined in **paragraph 6.3.2**;
- (g) approve the Capital Programme and financing arrangements as set out in **Appendix C** and the prudential indicators outlined in **Section 6.3** of this report;
- (h) approve in broad terms the Medium Term Financial Strategy as set out in **Appendix J**;
- (i) approve the Revenue Budget for 2009/10 of **£358,287,787**;

(cont)

- (j) issue an appropriate precept requirement of **£59,258,630**, an increase of £2,581,200, equivalent to a Band D increase of 5%, (after deduction of specific police 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 2009 and ending 31st March 2010.

a precept of **£93.74** for properties in Band A
£109.36 for properties in Band B
£124.99 for properties in Band C
£140.61 for properties in Band D
£171.86 for properties in Band E
£203.10 for properties in Band F
£234.35 for properties in Band G
£281.22 for properties in Band H;

- (k) requires the five Billing Authorities in the Merseyside area to pay to the Treasurer the amounts due from them respectively in pursuance of paragraph (e) above, by ten, equal instalments payable on or before:-

the 21st day of April 2009
the 29th day of May 2009
the 6th day of July 2009
the 11th day of August 2009
the 17th day of September 2009
the 23rd day of October 2009
the 27th day of November 2009
the 6th day of January 2010
the 10th day of February 2010
the 17th day of March 2010

TO: THE CHAIRMAN AND MEMBERS OF THE POLICE AUTHORITY

MEETING: 19th FEBRUARY 2009

JOINT REPORT OF THE TREASURER AND CHIEF CONSTABLE
BUDGET 2009/10 AND
MEDIUM TERM FINANCIAL STRATEGY 2009/10 TO 2011/12

PART 1. INTRODUCTION

1.1.1 The purpose of this report is to:-

- provide an update on the Revised Estimate for 2008/09;
- seek approval for the Revenue Budget of the Authority for 2009/10;
- seek approval for the Capital Budget of the Authority for 2009/10 that continues the development of the Authority's Estate Strategy, IT Strategy and the Vehicle Replacement programme; and
- seek agreement on the Medium Term Financial Strategy (MTFS) for 2009/10 to 2011/12, which demonstrates the significant progress that has been made in recent years to achieve savings for reinvestment in priority services and reassures Members as to the resilient financial position of the Authority.

1.1.2 The Authority has been awarded a net increase in general grants of 2.6% in the Local Authority Finance Settlement 2009/10. This increase is in line with that announced as part of the 2008/09 settlement. Members will recall that as part of the Local Authority Finance Settlement 2008/09, the Government announced the provisional settlement figures for 2009/10 and 2010/11. In respect of 2010/11 the provisional grant increase is also expected to be 2.6%.

1.1.3 Whilst the announcement of a three year indication of grant settlements was welcomed last year, it is again worth reiterating that the level of the settlement awarded to this Authority falls short of the average increase for Metropolitan Forces of 3.1% for each of the next two years. Indeed the increase of 2.6% is below the overall average increase for all Forces of 2.8%. Had Merseyside received the average increase for Metropolitan Forces this would have resulted in an additional £1.225m each year of the settlement period, or £3.675m over the three years.

1.1.4 As is consistent with recent years the Authority has again suffered as a result of the imposition of 'Floors', i.e. a minimum increase for all forces. This guaranteed minimum increase is funded by scaling back increases determined by the funding formula from those Forces above the 'Floor'.

Thus, whilst the funding formula applied to forces across England and Wales determines the level of Police Grant, Revenue Support Grant and National Non-Domestic Rates based on need, these sums are reduced to guarantee the 'Floor' increase. The 'Floor' was set as part of the three-year settlement announcement at 2.5% for each of the three years. If this 'Floor' had not been in place the overall grant for Merseyside would have been an increase of 3.53% for 2009/10 and 3.04% for 2010/11. This would have resulted in additional grant of £2.341m and £1.251m for each year respectively. Whilst the imposition of a minimum 'Floor' increase has worked against the Authority in recent years it is noticeable that the funding mechanism is moving the Authority to the point where it could be a net beneficiary in future years.

- 1.1.5 Despite the lower than average increases in grant and the loss of funding through the 'Floor' mechanism, in recent years Members have supported budgets designed to both stabilise the financial position of the Authority and enable reinvestment in key areas of service. This policy has enabled the Authority to plan services for the medium term with more certainty. The announcement of longer-term grant settlements has helped with the Authority's financial planning but, by being pre-determined, this places even more importance on the future levels of pay and price increases. The announcement of three-year pay settlements for police officers and staff has now eased this potential area of uncertainty to some extent, however to ultimately address this issue, pay settlement periods need to be aligned to the Comprehensive Spending Review (CSR) periods. Whilst other price increases remain volatile, in particular the pressures brought about by fuel increases in mid 2008, more recently these have eased.
- 1.1.6 The financial out-turn position for 2008/09 looks favourable. The absence to date of any particular incident-led budget pressures has helped the situation, together with improved performance on central budgets brought about by improved financial management. This is particularly apparent with regard to the budgets for forensic costs and ill-health retirements. Whilst changes can occur in the remaining months of the year, the projected out-turn for 2008/09 should contribute further to the financial stability of the Authority.
- 1.1.7 The Chief Constable and indeed the Authority would clearly like to develop services further, but in accordance with the Medium Term Financial Strategy this will only be facilitated by matching savings with any such developments. This budget has been drawn together with that objective in mind. Thus this document presents a balanced and sustainable budget with emphasis on ensuring financial stability and the use of resources effectively.
- 1.1.8 The Authority has the opportunity to agree a balanced budget and Medium Term Financial Strategy for the next three years. The spending plans set out in this report rely on savings targets in future years, but these are deemed achievable and avoid the necessity to utilise reserves and other one-off funding measures in the medium term.

- 1.1.9 The budget as presented has strong links with operational performance and is developed in conjunction with the Local Policing Plan, the Authority's and Force's Risk Registers, as well as the Capital Strategy. Whenever developments and matching savings are being proposed these will be measured against their impact on performance and the issues contained within the risk registers. This gives Members confidence that funds are being applied in areas that will generate improvements in performance and/or alleviate risk.
- 1.1.10 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 regarding the precept and the medium to longer term financial position.

PART 2. REVISED ESTIMATE 2008/09

2.1. Introduction

- 2.1.1 The Original Budget for 2008/09 totalled £349.148m after adjustments for the planned contributions from General Balances and movements on provisions and reserves of £1.963m. Overall, devolved budgets for 2008/09 were increased by a net £0.934m resulting from the net carry over of under-spends by budget holders from 2007/08. This net carry-over helped a number of budget holders during 2008/09, though some were still required to carry forward overspends.
- 2.1.2 Members will recall that in last year's budget, the Treasurer recommended the suspension of an element of the carry over rules so that relevant budget holders were not unfairly affected by some specific major operations. The decision of the Authority to support this has proved successful in allowing some flexibility for budget holders, whilst maintaining the objective of financial prudence and stability.
- 2.1.3 Several budgets have been managed centrally throughout 2008/09 or have been moved to central management during the year. The understanding gained from these arrangements has been a valuable exercise in preparation for the implementation of the Finance Structures and Ratios proposals and improvements in budgetary performance in these areas have been noticeable.
- 2.1.4 Unlike the picture at the time of writing the budget report last year, this financial year has, so far, been more manageable in terms of major incidents. Whilst there have been several serious incidents, these have not stretched the Force's resources in the way that was experienced in 2007/08 and it has been assumed that this picture will hold out for the remainder of the year. However, this situation is not consistent across the Force, with some Area budgets having suffered a larger share of significant incidents than would have been expected; for example Knowsley BCU has suffered six murders in the year to date as opposed to two for the whole of the previous year.
- 2.1.5 The impact on Force budgets and the overall out-turn position for the year is detailed in **Section 2.4** below.

2.2 Specific Grants 2008/09

- 2.2.1 The 2008/09 budget included provision for a number of specific grants, totalling £30.085m. This amount subsequently increased to £31.640m as a result of success in attracting new grants and adjustments to the assumed levels of existing grants. This overall increase of £1.555m enabled the Authority to increase budgets in the corresponding Areas and Departments. Where grants are reduced or withdrawn, budgets are reduced by a similar amount. **Table 1** provides a summary of the significant movements in specific grants based on the latest available data for 2008/09.

Table 1: Movement in Specific Grants 2008/09

Specific Grant	Movement	£m
Grants related to PCSOs	Decrease	(0.901)
Drug Testing on Charge	Increase	1.065
Tackling Gangs and Knives	Increase	0.747
Ports Protection	New	0.183
Risk Identification and Management	New	0.200
Other Movements	Various	0.261
TOTAL		1.555

2.2.2 The significant movements in grants are as follows:-

- **PCSOs** – The grant related to PCSOs is directly related to the numbers employed. As numbers have fallen so the grant, a proportion of which is drawn from the PCSO Reserve, has reduced. This results in a reduction in expenditure offset by a reduction in the grant made available. Members are updated regularly on the situation with regard to PCSOs and the current situation is outlined later in this report;
- **Drug Testing on Charge** – This is a continuation of grant to enable those individuals charged with offences to be tested for drugs and encouraged to take up treatment for addiction;
- **Tackling Gang and Knife Crime Programme** – Two sums of £0.286m and £0.461m were received as part of the tackling gangs funding aimed at reducing serious violence perpetrated by young people as part of gang related activities;
- **Ports Protection** – Funding to enable high visibility policing at Liverpool John Lennon Airport;
- **Risk Identification and Management** – Funding for multi-agency identification and management of potentially dangerous individuals; and
- **Other Movements** – Various other movements in grants and new funding each under £0.100m.

2.3 Pay and Prices and Police Reform

2.3.1 A contingency to cover the impact of Pay and Price increases is included in the budget; this totalled £7.083m for 2008/09 and assumed an overall increase in pay and prices of 2.65%. This level assumed pay increases of 2.5% with the balance being for non-pay inflation, including the anticipated large increases in gas and electricity arising from the new energy tendering exercise. The actual picture on inflation proved challenging and

rendered predictions extremely difficult given the changing financial climate that evolved throughout the year.

- 2.3.2 In reality, pay awards were agreed at a rate above the assumed level and for a period of three years, as shown in **Table 2** below. Non-pay inflation moved during the year from being an emerging major issue, as fuel prices rose significantly during the summer only to fall back towards the end of the year. Whilst the current economic uncertainty prevails it will prove difficult to predict future movements in inflation but the stability that the three-year pay settlement provides is a welcome relief in this regard. This situation would be improved further however if the three year awards were aligned to the CSR period.

Table 2: Police Officer and Staff Pay Awards 2008 to 2010

Description	Sept 2008 %	Sept 2009 %	Sept 2010 %
Police Officers	2.65	2.60	2.55
Police Staff	2.60	2.60	2.58

- 2.3.3 The agreement of the pay award at rates above those anticipated impacted the sums available for inflation on other budget items. Some of these price rises were more significant than others. For example gas and electricity costs rose by 36% and 31% respectively as a result of the expiry of existing contracts. The estimated additional costs for these supplies alone amounts to £0.540m per annum. Other price rises were evident and have been calculated on case-by-case basis. After all reasonable pay and price increases have been applied to individual budgets it is estimated that a shortfall of £0.378m will be shown on the pay and prices contingency fund.
- 2.3.4 In addition to the contingency for pay and prices, a provision of £2.844m is held to cover the additional costs arising from Police Pay Reform, these sums being used to fund Special Priority Payments. Budgets are adjusted to take account of these costs in the areas where the payments are utilised. Based upon the outcome of the 2008 scheme and the estimates for the 2009 scheme, it is now anticipated that an under-spend of £0.193m will be achieved and can be released from this provision at the year-end.

2.4 Projected Out-turn Position 2008/09

- 2.4.1 The projected out-turn position takes account of a number of factors which are summarised in **Table 3** below. These include individual budget-holders' performance on devolved budgets, the position on centrally held budgets, the take up of new development monies and centrally held

contingencies. Within devolved budgets the Authority's approved carry-over rules apply whereby any overspend is carried forward in full into the following year and under-spend is allowed for carry over up to 1% of budget or £0.025m whichever is greater. Central budgets are allowed no carry-over with any under or overspend directly affecting the Authority's overall financial position.

- 2.4.2 After application of the Authority carry-over rules the position on devolved budgets is expected to be a net carry-over under-spend of £0.834m. A further sum of £0.760m is estimated as the under-spend on devolved budgets in excess of the carry-over rules, to be returned to the Authority. This will be added to the estimated under and over-spends on central budgets, including the central contingencies above and the developments and Structures and Ratios positions referred to below and totals a further £1.221m .

New Developments

- 2.4.3 Included in the budget for 2008/09 was a sum of £3.132m for new developments. This sum provided for recruitment of an additional 100 police officers and 8 police staff. This budget sum allowed for 10 months of salary for each officer, however, the actual budget allocated to individual budget-holders is based upon when posts are actually filled. Recruitment commenced early in the year and funds were allocated accordingly as staff were appointed. However, the overall picture showed slippage of around 1 month on recruitment and as a result there is a one-off saving on this budget of £0.318m.

Structures and Ratios

- 2.4.4 The Structures and Ratios project has been ongoing throughout the year and had a target saving in the budget for 2008/09 of £0.300m, with a full year saving of £1.200m to be achieved during 2009/10. The target set for 2008/09 envisaged an implementation later during the year. Savings to date have been made on the Communications and Marketing strand, which accounted for £0.109m. The savings on Finance, Personnel and Audit and Inspection strands have been delayed due to the lengthy consultation process and are now likely to be achieved in early 2009/10. As a result, £0.191m of the savings target will be deferred to the 2009/10 budget to be achieved together with the balance of £0.900m.

Movements on Other Central Budgets

- 2.4.5 Within **Table 3** below there are movements shown on central budgets that are not subject to the carry-over rules applied to devolved budgets. Thus any over or under-spend on these budgets directly affects the overall Authority budget position. Apart from the items mentioned earlier the position on the other highlighted areas is as follows:-

- **Estate Strategy Department** – The Estate Strategy Department was created to drive forward development of a fit for purpose estate

across Merseyside. From the outset the department did not have a formal budget, though some posts were funded from transfer from the existing Estate Management Department. This was a known budget pressure highlighted in the budget report last year. Throughout 2008/09 the department has been developing proposals for a generic Area Command Centre, and more recently the Wirral Area Command Centre. This process has incurred professional fees on top of the already unfunded element of the department. It may be possible to capitalise an element of these fees if the Wirral scheme is commenced this year, though given the projected overall financial position for 2008/09 the Treasurer has constructed proposals to offset this overspend against the other central budget under-spend positions. This amounts to an overspend of £0.693m.

- **Capital Financing Interest** – Capital financing costs are based upon the planned levels of spending in the capital plan. They consist of a capital charge and the cost of borrowing to cover the sums expended. As detailed in **Part 6** of this report, capital expenditure has been incurred at a rate lower than originally envisaged and as a result savings have been achieved in both capital charges and borrowing costs. This amounts to an underspend of £1.150m.
- **Forensics** – The Forensics budget has been the subject of scrutiny and improved control over the last two years. Measures have been taken not only to control the quality of samples sent for forensic examination, but also to more carefully manage the costs arising from these submissions. During 2008/09 the impact of the introduction of the consortium purchasing arrangements was evident together with quality control measures such as the use of the Trace Evidence Recovery Facility. These initiatives have been reflected in the reduced forensics spend against a budget that had already been reduced as part of the 2008/09 budget savings targets. This amounts to an underspend of £0.393m.
- **Pensions** – The pension budget is made up of a number of elements most of which are, to a great extent, outside of the Authority's control e.g. employer pension contributions. However the area that has shown the most consistent ability to produce savings has been ill-health retirements. These retirements, are to an extent, capable of managerial control and over recent years levels have been consistently below the targets set in the Home Office actuarial assumptions. The Authority has set a budget for 23 such cases each year against the actuarial assumption of 29. For 2008/09 it is expected that there will be 18 ill health retirements and this has resulted in an underspend of £0.435m.

Summary of Revised Estimate 2008/09

- 2.4.6 The position overall, including the impact of devolved budgets, central contingencies and new developments is as shown in **Table 3** below. This shows that the Authority has an estimated under-spend at year-end of £1.981m. However, £1.150m of this sum is related to interest payments/receipts. This is primarily due to the delays in spending on the Estate Strategy, thus the Authority have had funds invested for longer than anticipated and a reduced borrowing requirement to that originally envisaged. On the basis that these savings have arisen from the delay in the Estate Strategy, the Treasurer is proposing that this saving be applied to the Estate Strategy Reserve to be used as and when schemes come on line. This will thus delay the future borrowing required to fund these schemes. The balance of savings, currently estimated at £0.831m, will be transferred to the Authority's General Balances Account at the year-end.

Table 3: Estimated Net Budget Outturn Position 2008/09

Description	£m	£m
Central Budget Overspends		
Pay and Prices Contingency	0.378	
Structures and Ratios	0.191	
Estate Strategy Department	0.693	
Net Overspend on Other Central Budgets	0.006	
Total Central Budget Overspends		1.268
Central Budget Underspends		
Special Priority Payments	(0.193)	
New Developments	(0.318)	
Capital Financing Interest	(1.150)	
Forensics	(0.393)	
Pensions	(0.435)	
Total Central Budget Underspends		(2.489)
Excess Underspend on Devolved Budgets		(0.760)
Total Authority Underspend		(1.981)
Capital Savings applied to Estate Reserve		1.150
Underspend Applied to General Balances		(0.831)

- 2.4.7 Included at **Appendix A** is an analysis of the revised estimate for 2008/09 categorised across the Force operational areas. **Appendix B** provides a summary of variances to the original budget together with explanations to these movements.

2.4.8 Both **Appendix A and B** are analysed in the format that has been used for some years. However changes are being introduced nationally to standardise reporting in a new format entitled the “Police Objective Analysis.” Whilst a formal Government decision is awaited it is likely that adoption of this standard will replace the need for the Activity Analysis and Activity Based Costing exercises. The new standard has been consulted upon widely and should be seen as a step forward from existing arrangements.

2.4.9 The Treasurer and the Force are currently assessing the implications of the adoption of the new reporting standards within the existing financial software package. The budget will need to be restated to conform to the new standards and whilst this will be challenging it is aimed to have this in place for the start of the new financial year. A detailed report will be presented to the Resources and Strategy Committee explaining the changes and detailing the restated budget once this has been finalised.

2.5 Budget Changes during 2008/09

2.5.1 Throughout the year a number of transfers, known as virements, are made within budgets to reflect reporting or operational changes. These changes have not impacted the allocation of budget between cost categories, e.g. staff costs to running expenses, but rather reflect movements arising from operational decisions. These virements have no impact on the revenue budget, but are transfers and amount to a value of £1.120m. A summary of these movements is included in **Table 4** below.

Table 4: Summary of 2008/09 Budget Movements

Virement	£m
SARC - Transfer of officers to the new Sexual Assault Referral Centre, reduces Sexual Offenders Liaison Officer (SOLO) requirements in areas and transfers resource to Force Crimes Operations Unit (FCOU).	0.255
Rent and Service Charges – Transfer of rent and service charge for units at Brunswick to the Estate Management Department for consistency.	0.194
NICHE Project Team – Transfer of posts from Citizen Focus to Information Systems.	0.194
Youth Issues Team – Transfer from Community Relations to Anti-social Behaviour Taskforce.	0.142
Management Information Team – Transfer of posts from Information Systems to Information Bureau.	0.127
Structures and Ratios – the movement of Police Staff from the Areas to the Centre following the implementation of the Communications and Marketing recommendations.	0.208
Value of Virement	1.120

2.6 Operational Performance against Budget Performance 2008/09

2.6.1 The Force has maintained strong improvements in performance throughout 2008 and should again show substantial performance improvement over the 2008/09 financial year. These improvements have occurred against the backdrop of an ever improving financial position that has allowed for investment in additional officers and the increasing efficiency in the use of resources as demonstrated by the Efficiency Plan.

2.6.2 Some of the key achievements in the current year are set out below¹:

- Overall crime reduced by 7%
- Violent crime reduced by 8%
- Serious Violent Crime reduced by 10%
- Serious Acquisitive Crime reduced by 15%
- Burglary of dwelling reduced by 11%
- Criminal damage and Arson reduced by 16%
- Theft from motor vehicle reduced by 19%

2.6.3 Performance is reported regularly and in detail against the targets and the Policing Plan to the Authority's Performance Scrutiny and Review Committee. The final financial out-turn position will be reported to the Resources and Strategy Committee alongside the monitoring of the 2009/10 budget performance.

¹ Percentage change in performance Apr to Dec 08 compared to Apr to Dec 07

PART 3. 2009/10 BASE BUDGET

3.1 Local Government Finance Settlement

3.1.1 The provisional Local Government Finance Settlement for 2009/10 was announced as part of the three-year settlement covering 2008/09, 2009/10 and 2010/11 in December 2007. The amounts and the increases for 2009/10 and 2010/11, included in this announcement, were confirmed by the Government in January 2009. These sums remain at the levels announced in last year's budget report to the Authority. There has as yet been no indication as to the likely level of settlement for the year 2011/12 and beyond. Consequently, the first two years covered by the Medium Term Financial Strategy presented in this report are relatively certain. However, with regard to 2011/12 the position is far less clear.

3.1.2 As referred to in **paragraph 1.1.2** of this report, the increase in grant for Merseyside for 2009/10 and 2010/11 was 2.6%. This was at the higher end of the Authority's initial expectations when announced last year. Nonetheless it is disappointing when compared to the 2.7% received in 2008/09, the comparable average for Police Authorities overall of 2.8% and the Metropolitan Force average of 3.1%.

3.1.3 The announcement of future year's planned grant levels helped the Authority and Force to prepare financial plans in preparation for this level of increase. The approach to financial planning in recent years, through careful budget planning, approval of only fully funded developments and targeted budget savings has resulted in a stable and sustainable financial position. Whilst some savings will be required over the next three years, in order to maintain existing PCSO levels and proceed with the Estate Strategy, these are thought to be achievable at the grant levels announced and reflect the prudent approach to budgets taken by the Authority and Force in recent years.

3.1.4 Other points from the funding announcement for 2009/10 include:-

- Crime Fighting Fund will be available for 2009/10 but will remain at the same amount as previous years;
- Neighbourhood Policing Fund will remain for at least the next two years, with funding increasing by an average of 2.7% in each year;
- BCU Fund will run for one final year in 2009/10 while plans for a replacement Community Safety Fund are developed;
- Counter Terrorism Funding will be increased overall by 5.3%;
- additional funding will be available to address protective services, guns, gangs and knives and the Safer and Stronger Communities Fund;
- capital grants will remain at the levels for 2008/09;

- a further £25m of capital funding will be available for hand held computers in 2009/10; and
- indication made that “there is no excuse for excessive increases in precepts” and that capping powers will be used where necessary. Authorities designated for advance capping measures following action on precept increases in 2008/09 have been limited to increases of 3% in 2009/10.

3.1.5 The overall impact of the increase in general grant and the impact of the imposition of a 2.5% ‘Floor’ level increase is illustrated in **Table 5** below. Members will note from this table that the ‘Floor’ damping methodology, which guarantees a minimum increase for all Authorities, has reduced this Authority’s grant by £2.341m in 2009/10 and £1.251m in 2010/11. Whilst this is an overall reduction of £3.592m over the next two years the Authority is moving closer to the point where the ‘Floor’ may begin to offer grant protection if the funding formula alone is allowed to run its course.

Table 5: Analysis of General Grant Increases 2009/10 to 2010/11

	£m	%	Effect of Damping £m
2009/10 Final Settlement			
Allocation 2009/10 (before floor damping)	269.759	3.53	
Allocation 2009/10 (after floor damping)	267.418	2.630	-2.341
2010/11 Provisional Settlement			
Allocation 2010/11 (before floor damping)	275.554	3.04	
Allocation 2010/11 (after floor damping)	274.303	2.575	-1.251

3.2 Specific Revenue and Capital Grants

3.2.1 The Authority receives a number of specific revenue grants in addition to the general grant settlement. These are aimed at particular initiatives, some new and others that have been in place for some time. Within the budget, specific grants are treated as additional funding and where these grants increase, the relevant budget headings are increased in line with the grant and vice versa where grants are reduced or cease.

3.2.2 New specific grant funding can be made available throughout the year. The detail of the position as at the time of writing the report and, therefore included in the budget for 2009/10 is shown in **Table 6** below.

Table 6: Specific Revenue Grants 2009/10

Grant	£m	Details
Rule 2 Grant	4.787	This grant replaced a number of former specific grants, these include Forensic Grant, Special Priority Payments Grant and IPDLP Grant; this grant has not increased for a number of years. The cost to the Authority of not uplifting these grants over the period is estimated to be £0.5m.
Crime Fighting Fund	9.499	Funding based on increases in police officer numbers recruited between 2000/01 and 2002/03; this sum has remained static for several years. It is estimated that the cost of not uplifting this grant over the period is £1.42m.
Dedicated Security Post Grant	5.455	Introduced as a specific grant in 2006/07 and replaced general grant for dedicated security posts; actual sums for Merseyside are yet to be confirmed.
Neighbourhood Policing Fund	9.626	Funding for expansion of PCSO posts introduced in 2006/07. This funding is confirmed for at least two years and will increase in line with inflation.
BCU Fund	1.114	Grant directed at BCUs to deliver crime reduction initiatives; the level is the same as last year, but it has been announced this will be the final year of grant in this format.
Total Specific Grants	30.481	

3.2.3 The Authority additionally receives General Capital Grant to support capital schemes and expenditure. The grant for 2009/10 remains at 2008/09 level of £4.224m. The impact of the capital grant is less pronounced on the revenue budget since the introduction of the prudential code but nonetheless reduces future revenue costs by reducing borrowing.

3.2.4 The proposals in relation to capital spending for 2009/10 and beyond are outlined in **Part 6** of this report and summarised at **Appendix C**. Details of the proposed funding arrangements for the planned capital schemes are also included together with the required indicators with regard to the use of the prudential code.

3.3 Revised Base Budget 2009/10

3.3.1 The base budget is updated each year to reflect changes that have occurred during the year and represents a starting point before any proposed developments and/or savings are made. Items included to update the base budget are:-

- the impact of pay and price changes;
- committed growth in spending and income as a result of items approved during the year;
- committed growth or savings arising from changes in projected and actual capital spending;
- adjustments to cover movements in specific grants; and
- the impact of tax base changes.

3.3.2 Many of these projected changes were highlighted as part of the budget document last year, or have been reported to Members of the Resources and Strategy Committee throughout the year in budget update papers. The changes have been summarised in **Table 7** below. This table highlights the budget position based on the announced grant increases and assumes a 5% uplift in the council tax precept.

Table 7: Summary Base Budget 2009/10 with 5% precept increase

	£m	£m
Revised Base Budget	349.832	
Inflation	9.270	
Net Committed Savings		
- Structures & Ratios Savings	(0.900)	
- Capital Financing Savings	(0.479)	
- FYE of approved 2008/09 Developments	1.271	
Revised Base Budget 2009/10		358.994
Government Grants		
General Police Grant	(134.323)	
Revenue Support Grant	(24.959)	
Business Rate Income	(108.136)	
Specific Grants	(30.481)	
Total Government Grants		(297.899)
Collection Fund Deficit		0.556
Contribution from Balances & Reserves		(2.535)
Contribution to Estate Strategy Reserve		0.849
Precept including 5% uplift		(59.259)
Budget Deficit		0.706

- 3.3.3 The Base Budget shown above is based upon the current committed level of service. The policing plan targets for 2009/10 have been constructed based upon this level of available funding. It should be noted that the budget deficit identified in **Table 7** above is based upon the 5% precept increase as set out in the Medium Term Financial Strategy.
- 3.3.4 In relation to adjustments for the Collection Fund and the Tax Base, these are notified to the Authority by each of the Local Authorities within Merseyside and are detailed below.
- 3.3.5 The Collection Fund deficit for the Authority is £0.556m. As this is a one-off adjustment, the Treasurer proposes that this be funded from General Balances, thus alleviating the impact on the revenue budget.
- 3.3.6 The Tax Base across Merseyside is showing a reduction of 1,810 properties. The impact on the Authority of this equates to a reduction of £0.254m. This is a recurring cost and consequently has to be adjusted within the precept income in the base budget calculation and requires funding via a permanent revenue reduction.
- 3.3.7 Details of the District Collection Fund positions, their Tax Bases and the implications for the Authority are contained in **Table 8** below:-

Table 8: Collection Fund and Tax Base

District	Actual Council Collection Fund Deficit/ (Surplus) £m	Authority's Share (%)	Authority's Collection Fund Deficit /(Surplus) £m	Movement in Council Tax Base (reduction) /surplus	Loss to Authority as a result of movement in tax base £m
Liverpool CC	4.555	9.26	0.422	(1,836)	0.258
Knowsley MBC	NA	NA	0.000	(208)	0.029
Sefton MBC	(0.295)	9.52	(0.028)	(33)	0.005
St Helens MBC	0.849	9.97	0.084	0	0.000
Wirral MBC	0.800	9.71	0.078	267	(0.038)
Total			0.556	(1,810)	0.254

- 3.3.8 The Base Budget calculation shown in **Table 7** includes a contribution from the PCSO Reserve to meet the costs of PCSOs in 2009/10. This will allow for the retention of PCSO numbers at current levels as approved by the Authority on 20th November 2008.

- 3.3.9 It is now estimated that additional savings will be achieved in 2009/10 in charges for capital as a result of the delays in the Estate Strategy capital spend. This has reduced the Base Budget requirement for 2009/10. It is proposed by the Treasurer and recommended to Members that as with the 2008/09 savings these be applied to the Estate Strategy Reserve and be utilised as schemes start to come on stream during 2009/10.
- 3.3.10 In **Part 4** below, the Chief Constable, in consultation with the Treasurer, has put forward proposals to achieve efficiency savings, including budget savings, that will address the underlying budget deficit, will allow existing budget pressures to be alleviated and will allow for some service developments in accordance with the aspirations of the Authority and the Strategic Policing Plan.
- 3.3.11 Once the Authority has approved the budget and determined the appropriate precept requirements, this will be translated into individual cash limits for each budget holder. Budget holders will then prepare detailed budgets against which their financial performance will be measured throughout the year. This ensures that appropriate financial control and monitoring systems are in place throughout the year. Any savings and or developments agreed as part of the budget will be incorporated into these individual cash limits.

3.4 Staffing

- 3.4.1 As part of the Authority's long-standing commitment to increase Police Officer numbers in Merseyside, a further 100 officers were recruited during 2008/09. This is on top of growth in recent years that included 250 additional neighbourhood officers in 2004/05, and 60 officers in 2006/07. This is a real increase in front line resources of 410 officers in recent years.
- 3.4.2 The anticipated movement in police officer numbers for 2008/09 and 2009/10 prior to any service developments contained within this report is shown in **Table 9** below. As is regularly reported to the Authority's Resources and Strategy Committee a number of officers included in the Force establishment are funded by external partners. There is always a risk that funding for these posts could be withdrawn and this risk may increase as Local Authority budgets tighten; indeed funding for 14 posts in Sefton was withdrawn in June 2008. For this reason these posts have been highlighted separately in the table below. The total financial risk in respect of these 78 police officer posts that are funded externally is £3.562m. All of the above are incorporated within the base budget requirement detailed in **Table 7** above.

Table 9: Anticipated movements in police officer numbers before Development Proposals

	2008/09	2009/10
Police officer numbers at start of year	4,477	4,557
Movement in Post Numbers:		
Additional Police Officers (plus 20 in 2007/08)	80	0
Estimated movement externally funded posts	0	0
Estimated Wastage:		
Retirements	(174)	(175)
Resignations	(55)	(55)
Others (e.g. dismissals, deaths)	(5)	(5)
Recruitment:		
Transfers from other forces	34	35
Recruitment of probationers	200	200
Police Officer numbers at end of year	4,557	4,557
<i>Of which Externally Funded</i>	<i>78</i>	<i>78</i>

Police Community Support Officers

- 3.4.3 Police Community Support Officers (PCSOs) are additional front-line neighbourhood resources and provide a uniformed presence on the streets of Merseyside. The funding of these posts has been uncertain since their inception and remains so, with reliance to a large extent on grant and partner funding. As a result of this uncertainty the majority of these posts have been offered on fixed term contracts. The most recent report to Members on funding of PCSO posts was presented at the Resources and Strategy Committee on the 30th October 2008. In this report it was highlighted that the Authority could continue to fund PCSO numbers throughout 2009/10 but there would be a potential cost of £0.396m in 2009/10 and £2.013m in 2010/11. The 2009/10 requirement was met through a contribution of £0.4m from the 2007/08 underspend into the PCSO reserve. The proposals on savings and developments in **Part 4** of this report have recognised and taken account of this £2.013m funding gap emerging in 2010/11. Existing budgeted numbers of PCSOs and the respective funding streams are shown in **Table 10** below.

Table 10: PCSOs Staffing Numbers and Funding Streams 2009/10

Posts	Number	Total Cost £m	HO Funding £m	MPA Funding £m	Partner Funding £m	PCSO Reserve £m
Permanent	191	13.724	(9.626)	(1.313)	(0.806)	(1.979)
Fixed Term	275					
	466	13.724	(9.626)	(1.313)	(0.806)	(1.979)

Police Staff

- 3.4.4 In respect of Police Staff there are currently 2,739 full-time equivalent posts budgeted in 2009/10 including the 466 PCSOs shown above. Of these posts, excluding PCSOs, a total of 54 police staff posts are externally funded with a financial contribution of £2.081m.
- 3.4.5 During 2009/10 the implications of the Structures and Ratios reviews will begin to impact upon the number of Police Staff posts. It is anticipated that the net establishment will be reduced by a total of 42.8 full-time equivalents as a result of this exercise.

Pensions

- 3.4.6 Both Police Officers and Police Staff are eligible to join a final salary pension scheme into which the Authority is required to make employer contributions. These contribution rates will remain unchanged for 2009/10 at 24.2% of pensionable pay for Police Officers and 13.7% for Police Staff. There is a risk that these rates, particularly for Police Staff, will come under upwards pressure over the next few years if the impact of the turmoil in financial markets continues and has to be built into actuarial assumptions at the next triennial review to take place before the start of 2011/12. Members should be mindful of this, particularly if the current low investment returns do not recover in the medium term.
- 3.4.7 With regard to Police Pensions, the Authority is required to maintain a Pensions Account into which all contributions are paid and all pension entitlements are paid from. The balance on this account, after all payments and receipts, is met by a top-up grant or if in surplus a repayment. The transactions on pensions contained within the revenue budget itself are shown in the Operating Account and the overall Pensions Account transactions are shown in **Appendix K**. It can be seen from this that the Authority will receive estimated pensions top-up grant of £33.483m in 2008/09 and £34.172m in 2009/10.

PART 4. BUDGET SAVINGS AND DEVELOPMENTS

4.1 Budget Considerations

- 4.1.1 The introduction of a three-year grant settlement allowed the Authority to consider a longer-term position with regard to the use of resources. This includes a longer term view of savings and developments. The integration of performance and risk as considerations when making resource decisions and the closer links to the Policing Plan also allows Members to make more informed decisions in these areas. As the Authority enters this budget round it continues to be in a much more stable financial position than in recent years. This is very much predicated upon the 2008/09 budget which set out a prudent and resilient financial strategy, which still allowed the Authority the potential for the further development of services.
- 4.1.2 The overall budget deficit in 2009/10, inclusive of the reduction in the tax base amounts to £0.706m. Clearly, it is imperative that the Authority continues the drive for efficiencies and savings, to enable it to set a balanced budget and release resources to further develop the service and mitigate risk. Of more concern to Members will be the projected £1.612m underlying deficit in 2010/11, due primarily to the need to fund the current level of PCSOs as grant monies are reduced and the earmarked reserve is fully utilised. The Treasurer is mindful that financial resilience needs to be maintained going into 2011/12 given the projected deficit of £2.030m, along with the uncertainties around the future of public sector funding and expenditure. Given this financial context, the Treasurer and Chief Constable are proposing a number of measures for savings and investments within this budget, which meet both existing budget pressures and smooth out the savings requirements over the next two years. These are detailed later in this section.
- 4.1.3 In accordance with the assumptions in the 2008/09 Medium Term Financial Strategy, the 2009/10 budget proposals and the continuation of the Medium Term Financial Strategy assume a precept increase of 5% over the period. As in previous years there has been no formal Government announcement of the rules that will apply to the use of capping powers for 2009/10; however the Home Office settlement letter to the Police Authority indicated that there is no excuse for “excessive rises in precepts”. During 2008/09 the Government did use capping powers against a number of Police Authorities and the various sanctions are set out in **Table 11** below. The methodology used by the Government was that an Authority would face capping if both its precept increase and budgetary requirement increased by more than 5%. This Authority’s budget requirement increased by 3.1% in 2008/09, inclusive of a 5% rise in its precept. A similar precept rise in 2009/10, along with the budget proposals within this report would equate again to an increase in budgetary requirement of 3.1%, i.e. well within the Government’s capping criteria used in 2008/09. Early indications from the Police Authorities Treasurers’ Society are suggesting that the majority of Police Authorities are planning for an increase in budget requirement of 5% or below,

requiring precept increases of between 3% and 10%, with a National Average of 4.7% and an average of 5.11% for Metropolitan Authorities. Given this position, and particularly the number of Authorities likely to set precept increases around the 5% level, it is unlikely that a precept increase of this magnitude, allied to an increased budget requirement well below 5% would attract capping powers, although there is no guarantee that this would be the case.

Table 11: Capping Action taken against Police Authorities 2008/09

Police Authority	2008/09 proposed increase %	Action taken
Lincolnshire	78.9%	Forced to re-bill at rate of 26% increase.
Cheshire Leicestershire Warwickshire	17% 15.4% 12.9%	Authorities 'designated' whilst they did not have to re-bill the precept increase for 2009/10 is restricted to 3%
Bedfordshire Norfolk Surrey	9.6% 8.3% 9.6%	Authorities 'nominated' did not have to re-bill but a notional budget for 2008/09 was calculated assuming a 5% increase and this will be used when evaluating their precept increase for 2009/10 and whether they should again be capped.

4.2 Proposed Budget Savings

- 4.2.1 The Authority, together with the Chief Constable, is keen to see the further development of front-line operational services within Merseyside. This can be achieved by increasing the number of Police Officers overall, by redeployment of Police Officers to front-line duties or by utilising the services of the extended Police family such as PCSOs. However the Authority is also aware of the need for a responsible budget strategy that will ensure plans are robust and affordable in the medium to longer term. With this in mind this budget has identified a number of savings that will not only address existing budget pressures but will allow investment in new Police Officer posts, redeploy Police Officers back to front-line duties and address the future funding gap with regard to PCSO positions.
- 4.2.2 The Medium Term Financial Strategy Report, as presented to Members of the Resources and Strategy Committee on the 18th December 2008 showed a shortfall of £2.164m in 2010/11 arising from the decision to retain PCSO numbers at existing levels. Whilst this position has been refined since this time the PCSO funding gap remains at £2.013m. As this situation will start to materialise the year after next, the Treasurer intends, where possible, to begin to address this issue within the 2009/10 budget by identifying recurring savings, whilst releasing only a proportion for recurring developments. Thus retaining an element of savings to smooth out the financial impact of the retention of PCSO numbers over two next years. Consequently, an element of savings identified in 2009/10 would

not be required until the 2010/11 and is therefore available for one-off re-investment during 2009/10.

- 4.2.3 Aside from these savings to address the future PCSO funding liabilities, the Chief Constable is also keen to expand the number of operational officers and is proposing a number of additional savings that will allow for further investment in operational policing. This will result in a further increase in police officer numbers.
- 4.2.4 In line with recent years, an Efficiency Plan has been prepared in order to identify the steps taken by the Force to make better use of resources. Front-line policing will be enhanced not only by the proposed developments but also by greater efficiency in the use of our existing resources. These improvements are identified as part of the Efficiency Plan. The plan shows the actual savings made together with the additional benefits obtained in the use of officer time. The plan for 2009/10, attached at **Appendix F** has identified savings of £11.974m against the annual efficiency target saving of 3.1%. This is in line with the three-year efficiency target of 9.3% set in last year's budget.
- 4.2.5 The savings proposals identified as part of this budget will address known budget issues, allow further investment in front-line services and contribute to the future PCSO funding gap whilst allowing a one-off investment in services during 2009/10. The proposals in this regard are set out in **Table 12** below with an explanation as to the background to the proposed savings being attached at **Appendix D**. Members should note that this saving target of £3.250m is in addition to the £0.900m emanating from the Structures and Ratio's project, which has already been incorporated into the base budget amounting to a full year saving of £4.150m.

Table 12: Proposed New Budget Savings/Income Targets 2009/10

Description	2009/10 £m
New Savings/Income Proposals	
Forensics Budget	0.400
Pensions – Ill health retirements	0.400
Overtime	0.300
FME savings from use of Nurse Practitioners	0.150
Value for Money Reviews	0.400
Budget savings applied to discretionary budgets	0.700
Income Generation Target	0.500
Other Targeted savings	0.400
Total New Savings Proposals 2009/10	3.250

4.3 Proposed Budget Developments

- 4.3.1 The Chief Constable and the Treasurer have considered how best the savings identified can be used to strike the best balance between developing operational policing, funding the existing budget pressures and making a contribution towards the future PCSO funding gap. The proposals put to Members are designed to address each of these areas and as such allow development of services whilst further strengthening the Authority's financial stability.
- 4.3.2 The proposals are set out in **Table 13** below. Where the proposal is for development of services, details of how these meet performance and risk priorities is attached at **Appendix E**. The proposals include the potential for deployment of a further 67 Police Officers into operational policing duties. Of these, 32 will be growth posts and a further 35 will be redeployed from current duties in the Crime Recording Bureau.
- 4.3.3 Members should note that the proposals will also address a number of known pressures within the existing budget and do not rely on any contributions from balances or reserves to support the revenue budget, other than the previously planned contributions to the costs of PCSOs. In this respect the proposals are fully funded and sustainable.

Table 13: Proposed Developments/Utilisation of Savings

Proposal	2009/10 £m	2010/11 £m	Increase in Police Officers
One-off Investments 2009/10, PCSO funding 2010/11 onwards			
Create Taser Reserve	0.300	0.000	0
PND Implementation	0.250	0.000	0
TRUE Seminars	0.250	0.000	0
Covert Equipment	0.100	0.000	0
Confidence Surveys	0.100	0.000	0
Available for PCSO funding pressures	0.000	1.000	0
Total One-off Investments	1.000	1.000	0
Contributions to Budget Pressures			
Budget Shortfall from MTFS	0.452	0.452	0
Reduction in Tax Base	0.254	0.254	0
Estate Strategy Team	0.350	0.350	0
IMPACT/MOPI Team	0.200	0.200	0
Total Cont. to Budget Pressures	1.256	1.256	0
Proposals for Growth			
Matrix Firearms	0.526	0.526	13
Covert Technical Support	0.383	0.383	8
Schools Officers	0.183	0.203	6
Additional BCU Response Officers	1.325	1.451	40
Total Growth Proposals	2.417	2.563	67
Redeployment of CRB Officers	(1.423)	(1.423)	(35)
Total Net Growth Proposals	0.994	1.140	32
TOTAL COST OF PROPOSALS	3.250	3.396	32
Savings Identified 2009/10	(3.250)	(3.250)	0
TOTAL NET COST OF PROPOSALS	0.000	0.146	32

4.3.4 Proposed costs have been applied to these developments assuming that posts can be filled from the start of the financial year thus the full year effect is felt for the whole of 2009/10. In practice this will be the aim, i.e. to appoint these officers as soon as possible, however 35 of these posts are conditional on the timing of release of posts from the Crime Recording Bureau and this will be managed to ensure posts are released and new posts taken up simultaneously. Budgets will be adjusted to mirror the timing of this process.

4.3.5 The additional costs shown in 2010/11 for the schools officers and BCU officers are attributed to the cost of increments as these officers have been determined to be young in service or in the case of growth posts, probationers. These additional costs have been incorporated into the Medium Term Financial Strategy set out in **Part 7**.

- 4.3.6 Along with the 67 additional operational Police Officers, a further 12 will be released for other duties once the Structures and Ratios changes have been fully implemented. This will result in a total additional operational strength of 79 Police Officers. The decision regarding the deployment of these Police Officers, other than for the 13 deployed to Matrix Firearms, the eight to Covert Technical Support and the six School Officers, have not yet been taken by the Chief Constable. A report will be available to Members during the year, following the Chief Constable's decision on deployment.
- 4.3.7 If approved these developments will increase the total establishment of Police Officers by 32 over and above the numbers shown in **Table 9**. This will bring the total establishment of Police Officers to 4,589. The revised establishment of Police Officers would thus be as shown in **Table 14** below.

Table 14: Anticipated Police Officer numbers after development proposals

	2008/09	2009/10
Police officer numbers at start of year	4,477	4,557
Movement in Post Numbers:		
Additional Police Officers (plus 20 in 2007/08)	80	0
Additional Police Officer Posts 2009/10	0	32
Estimated movement externally funded posts	0	0
Estimated Wastage:		
Retirements	(174)	(175)
Resignations	(55)	(55)
Others (e.g. dismissals, deaths)	(5)	(5)
Recruitment:		
Transfers from other forces	34	35
Recruitment of probationers	200	200
Police Officer numbers at end of year	4,557	4,589
<i>Of which Externally Funded</i>	<i>78</i>	<i>78</i>

4.4 Impact of Budget Proposals on Precept

- 4.4.1 The impact of the 5% precept increase on Band A properties i.e. the majority of Council Tax payers on Merseyside, and on Band D properties is as shown in **Table 15** below.

Table 15: Impact of Budget Proposals on Council Tax

	Band A £ pa	Band D £ pa
2008/09 Precept Level	89.27	133.91
2009/10 Level including 5% increase	93.74	140.61
Increase on previous year	4.47	6.70
Increase per week	0.09	0.13

4.5 Linkage between the 2009/10 Budget and the Policing Plan Targets

- 4.5.1 A summary of the links between the Efficiency Plan contained in these budget proposals and the Policing Plan is included at **Appendix E**. More detailed information on the breakdown of the reinvestment is provided in the Policing Plan.
- 4.5.2 2007/08 was the final year of the Home Office's three-year efficiency target guidelines where Authorities were required to deliver efficiency savings of 3% of net Revenue Expenditure per annum, half of which should be cashable.
- 4.5.3 From 2008/09, Efficiency Targets formed part of the Efficiency and Productivity Strategy for the Police Service and as such, Efficiency Plans were replaced by coverage of efficiency and productivity as an integral part of the Local Policing Plan. The targets for the period 2008/09 to 2010/11 are equivalent to 9.3% of Gross Revenue Expenditure. The Efficiency Plan based on this criteria is attached at **Appendix F**.

PART 5. BALANCES, PROVISIONS AND RESERVES

5.1 Overall Strategy

- 5.1.1 The Authority retains a number of reserves in order to ensure that adequate financial resilience is maintained over the longer term. The amounts retained in these balances, provisions and reserves are shown in the sections below, together with an explanation as to their use and necessity.
- 5.1.2 The Treasurer and the Chief Constable have adopted a risk based approach to determine the appropriateness of the Authority's levels of balances, reserves and provisions. As a consequence, all balances, reserves and provisions are reviewed annually.

5.2 General Balances

- 5.2.1 The Police Service, as one of the major emergency services, is required to respond to incidents of an unexpected nature over which it has little or no control. A major incident or a series of events, could put extraordinary pressure on the budget in a particular year. As a result, financial prudence dictates that a level of General Balances should be retained to provide resilience against the effect of such a situation. This area is explored further in the Treasurer's accompanying report on the adequacy of financial reserves.
- 5.2.2 The HMIC and the Audit Commission continue to expect that a robust and prudent approach be taken to the level of balances held. Consequently, the Treasurer and the Chief Constable undertake an annual review of the level of these balances taking into account the risks included on the Authority and Force Risk Registers. A breakdown of this analysis is included at **Appendix G**. This risk based review has concluded that by the end of 2009/10 the level of General Balances should be £6.515m. It is forecast that General Balances will be some £0.226m at variance with the risk profile once the planned contributions in 2009/10 are taken into account. This equates to approximately 3.5% below the risk assessed level, and the Treasurer deems this level of contingency to be a satisfactory and appropriate position.
- 5.2.3 The District Auditor recommended that the opportunity costs of holding General Balances should be highlighted within the budget report. The opportunity costs of holding £6.289m in General Balances can be described in two ways. Firstly, the General Balances could be utilised to reduce the precept requirement by £6.289m which would equate to a one off reduction of some 11.1%. Alternatively, the Authority could utilise the £6.289m on service developments, although given the one off nature of such resources would severely limit any investment incurring on-going financial support e.g. Police Officer numbers.

5.2.4 The Treasurer would strongly advise against either of the above courses of action for the following reasons:-

- the use of General Balances to artificially reduce the precept in one year would require a drastic increase in future years to balance the base budget whilst maintaining the current service levels, and which could ultimately fall foul of the capping regime;
- any spending proposals using General Balances can only be of a one-off nature, otherwise severe financial pressures will be brought to bear in subsequent years; and
- the Authority would in effect be ignoring its identified risks thus severely undermining its financial position for many years if any of these risks materialised.

5.2.5 The anticipated level of General Balances for 2008/09 and 2009/10 are shown in **Table 16** below:-

Table 16: General Balances

	2008/09	2009/10
	£m	£m
Balance at beginning of year:	8.552	7.679
Contribution to Revenue (Collection Fund Deficit)	(0.142)	(0.556)
Reversal of 2007/08 Net Carry Over	(0.934)	0.000
Contribution to Estate Strategy Reserve	(0.350)	0.000
Contribution to PCSO Reserve	(0.400)	0.000
Contribution to Revenue	(0.784)	0.000
Transfer from Additional Police Officers Reserve	0.072	0.000
Estimated Net Carry Over	0.834	(0.834)
Contribution from Revenue	0.831	0.000
Balance at end of year:	7.679	6.289

5.3 Insurance Fund

5.3.1 The Authority has historically held an Insurance Fund to finance internal insurance claims. This self-insurance policy currently substantially assumes the risk in respect of public, employer and motor liabilities.

5.3.2 The Insurance Fund consists of an Insurance Provision and an Insurance Reserve. During 2008/09 a review of the Fund has taken place to ensure the Provision and the Reserve are still required and are at an appropriate level.

5.3.3 The nature of police activities is such that there can be potentially large claims from time to time. This is predominantly why there are few insurers willing to offer cover and the reason why the Authority arranges its

insurance programme with large excesses. The excess for liability (Public and Employer's), and motor claims is currently £0.250m and £0.120m respectively. This balance of internal and external funded insurance provides the most economic advantage to the Authority.

5.3.4 The size of these excesses means that all but very large claims are paid by the Authority. Therefore, annual assessments are made of potential liabilities and the level of fund contributions required to meet these liabilities. Due to both late reporting and the length of time it takes to settle claims, it can be a number of years before the final costs are known. However, the fund review makes allowance for these factors and at the 30th April 2008 liabilities were estimated to be in the region of £5.678m (see Appendix H).

5.3.5 This amount consists of two elements; firstly an amount of £3.964m of known obligations based on the Insurance companies' reserved amounts, inclusive of a win ratio of 25%. This amount is held in the Insurance Provision, as per Table 17 below. Secondly, a contingency has been set aside amounting to £1.714m which is an estimate of claim events which have occurred but have not yet been reported to the Authority resulting from the long life cycle of claims as referred to in paragraph 5.3.4. This amount is held within the Insurance Reserve as highlighted in Table 18 below. The Treasurer will continue to review this position and report back to the Authority during the year.

Table 17: Insurance Provision

	2008/09	2009/10
	£m	£m
Balance at beginning of year:	3.964	3.964
Contribution from Revenue (including interest)	2.422	2.486
Expenditure	(2.422)	(2.486)
Balance at end of year:	3.964	3.964

Table 18: Insurance Reserve

	2008/09	2009/10
	£m	£m
Balance at beginning of year:	1.714	1.714
Balance at end of year:	1.714	1.714

5.4 Restructure Reserve

5.4.1 The Authority established a Restructure Reserve to be utilised to fund the potential redundancy or redeployment protection costs associated with the work of the Structures and Ratios project. Consequently, £2.0m was set aside into the reserve during 2007/08 and is highlighted in Table 19 below. The size of this reserve reflects the balance between affordability with regard to the overall position on reserves and balances and an early

estimate of the likely requirements within the roll-out of the Structures and Ratios project.

- 5.4.2 The utilisation of this reserve will allow for the immediate release of savings into the Revenue Account. This has proved a successful strategy in reducing the estimated base budget savings requirement, thus ensuring continued financial resilience.
- 5.4.3 The release of funding from the reserve will depend upon the phasing of the Structures and Ratios roll-out. The Force has undertaken an initial exercise assessing the likely impact of Voluntary Early Retirement and Voluntary Redundancy, with an assessment of the potential costs of salary protection. It is envisaged that these costs can be contained within the £2.0m reserve and that the resources will be fully released during 2009/10 as and when required. The anticipated movement within the Restructure Reserve is detailed in **Table 19** below.

Table 19: Restructure Reserve

	2008/09 £m	2009/10 £m
Balance at beginning of year:	2.000	2.000
Contribution to Revenue	0.000	(2.000)
Available Balance at end of year:	2.000	0.000

5.5 PCSO Reserve

- 5.5.1 The PCSO Reserve was established at the end of 2006/07 due to the fact that in 2005/06 and 2006/07 the Authority did not utilise the entire grant it received from the Home Office due to the profile/timing of recruitment. It was confirmed with the Home Office that the Authority would not be required to repay these monies back to the Home Office, and that the Authority could roll forward these surplus resources to continue to fund the existing PCSOs.
- 5.5.2 Members will recall that on the 30th October 2008 a report was submitted to the Resources and Strategy Committee regarding the financing of PCSOs. At the meeting it was resolved that the Authority would retain/recruit PCSOs up to the current budgeted level of 466 in 2009/10, with the budgeted number of fixed term contracts extended to 31st March 2010. In addition, the Authority approved a contribution of £0.400m from the underspend recorded in 2007/08 be transferred to the PCSO Reserve, in order to bridge the estimate funding gap in 2009/10. As a consequence, the Authority approved the utilisation of £1.979m from the PCSO reserve to finance the identified funding gap in 2009/10. **Table 20** below shows the anticipated position of the reserve at the end of 2008/09, along with the utilisation of the estimated available balance in 2009/10.

Table 20: PCSO Reserve

	2008/09	2009/10
	£m	£m
Balance at beginning of the Year	2.745	1.979
Planned Contribution from Reserve	(1.166)	(1.979)
Contribution from General Balances	0.400	0.000
Balance at year end	1.979	0.000

5.6 Estate Strategy Reserve

5.6.1 Members will recall that during 2008/09 the Authority created an Estate Strategy Reserve to assist towards the capital financing of implementing the Estate Strategy, and so help cushion the impact on the Revenue Account during 2009/10 and beyond. **Table 21** shows that to date £0.350m has been set aside. As referred to in **paragraph 2.4.6** above, the Treasurer is proposing to earmark £1.150m of the underspend in 2008/09, relating to capital financing interest, into the Estate Strategy Reserve. This would give an opening balance in 2009/10 of £1.500m.

5.6.2 In respect of 2009/10 it is envisaged that the land for the Wirral Area Command Centre will be purchased from Wirral MBC at a cost of £1.00m, which can be financed from the reserve. The Treasurer will seek the Authority's approval to finance this from the reserve at an appropriate time during 2009/10.

5.6.3 As a consequence of the Estate Strategy not proceeding as quickly as anticipated within the 2008/09 budget, the capital financing costs have been reviewed within the Medium Term Financial Strategy and this has identified that the projected costs can be re-phased into later years. This has ultimately led to savings in capital financing charges being identified of £0.849m and £0.161m in 2009/10 and 2010/11 respectively, of which the Treasurer is seeking approval to transfer into this reserve.

5.6.4 The above movements in the Estate Strategy Reserve are detailed in **Table 21** below.

Table 21: Estate Strategy Reserve

	2008/09	2009/10	2010/11
	£m	£m	£m
Balance at beginning of the year:	0.000	1.500	1.349
Contribution from General Balances	0.350	0.000	0.000
Planned Contribution from Revenue	1.150	0.849	0.161
Contribution to Capital	0.000	(1.000)	0.000
Balance at year end:	1.500	1.349	1.510

5.7 Pensions Reserve

- 5.7.1 Up until the end of the 2005/06 financial year, the Authority earmarked a reserve to cover the impact of officers opting to take a commutation payment in lieu, as part of their pension on retirement. However, with effect from the 1st April 2006 commutation payments in relation to normal retirements are met from the Pensions Account and do not impact upon the Authority's Revenue Account. However, ill-health and injury commutation payments remain a potential risk in that should such payments exceed budgeted levels there will be an additional charge to the Revenue Account. For this reason the Treasurer recommends that a balance on the existing Pension Reserve is retained to provide resilience against such an eventuality.
- 5.7.2 The anticipated balance in the Pensions Reserve is shown in **Table 22**. A risk assessment was undertaken during 2008/09 which assessed this level as appropriate for this reserve. The application of interest to the reserve will broadly cover any inflationary pressure in 2009/10 and beyond.

Table 22: Pensions Reserve

	2008/09	2009/10
	£m	£m
Balance at beginning of year:	0.789	0.821
Planned Contribution to Revenue	0.000	0.000
Estimated Interest	0.032	0.021
Balance at end of year:	0.821	0.842

5.8 Additional Police Officers Reserve

- 5.8.1 During 2007/08 the Authority approved the release of £0.626m from General Balances to finance the cost of recruiting and deploying 20 additional Police Officers for twelve months in response to Gun Crime. These monies were transferred from General Balances into an 'earmarked' reserve called 'Additional Police Officers Reserve'. The resources were to be utilised to finance the additional Police Officer costs when they arise. The anticipated balance in the Reserve is shown in **Table 23** below.

Table 23: Additional Police Officers Reserve

	2008/09
	£m
Balance at beginning of year:	0.385
Contribution to Revenue	(0.313)
Transfer to General Balances	(0.072)
Balance at end of year:	0.000

5.8.2 It is noted that it is estimated that there will be a residual balance in the reserve of £0.072m in 2008/09, this is due to the profiling and timing of recruitment. If this estimated residual balance materialises then this amount will be returned to General Balances.

5.9 Taser Reserve

5.9.1 As referred to in **Table 13** above, the Treasurer recommends that the £0.300m of one-off resources required to support any agreed rollout of Taser devices should be earmarked pending the outcome of this decision by the Authority. Should the Authority decide against such a course of action, alternative proposals for these one-off resources will be reported to the Authority. The anticipated balance in the Reserve is shown in **Table 24** below.

Table 24: Taser Reserve

	2009/10
	£m
Balance at beginning of year:	0.000
Contribution from Revenue	0.300
Contribution to Revenue	(0.300)
Balance at end of year:	0.000

5.10 Other Funds, Balances and Reserves

5.10.1 A table of the amounts retained in other funds, balances and reserves is included at **Appendix I**. These balances will be reviewed throughout the year to ensure their appropriateness.

PART 6. CAPITAL PROGRAMME AND PRUDENTIAL CODE

6.1 Capital Outturn 2008/09

The Capital Plan for 2008/09 was set out as part of the Authority's budget document last year. Changes and variations in spending patterns on the Capital Plan are more likely than with the Revenue Account as projects have long development lives that cross over financial years. This means that spending can occur sooner than anticipated or be deferred to later years. The main changes to the plans for 2008/09 are as follows:-

- The original IT Strategy budget was £3.920m, and the current revised estimate is £5.821m. However, the revised estimate includes £0.529m that was re-phased from the 2007/08 financial year, and £0.993m for the Phase 2 rollout of the Mobile Information Programme. This will provide Blackberry devices for frontline staff and delivery is expected for completion by March 2009. This project is fully funded by the National Police Improvement Agency (NPIA).
- Accelerated spending on Phase 1 of the Serious Offender records management system of £0.350m. It is now necessary to re-phase this from 2009/10, due to the fact that technology has been available earlier than originally envisaged.
- Spending has been re-phased for the replacement and upgrade of Airwave devices, including GPS technology, into 2008/09. This expenditure of £0.700m is to take advantage of favourable current prices and the early availability of technology.
- The Estate Strategy project continued to progress during 2008/09 and it is now estimated that the major cost elements of the proposed schemes (i.e. site acquisition and construction costs) will be phased over the 2009/10 to 2011/12 financial years. Purchase of the site in Wirral is anticipated for early 2009/10.
- The vehicle replacement revised estimate of £4.615m includes £1.125m re-phased from 2007/08. The vehicle replacement programme is expected to underspend by £0.110m due to more rigorous processes being adopted for new vehicle requests from Areas and Departments. There is not expected to be any re-phasing to 2009/10 on the Vehicle Replacement Programme.

These changes have been included in the revised capital plan attached at **Appendix C**.

6.2 Capital Plan 2009/10 to 2011/12

- 6.2.1 For 2009/10 the Authority will receive a capital grant for new capital expenditure of £4.224m. The Department for Communities and Local Government have provisionally indicated that this will be maintained for at least 2010/11. The balance of funding for capital schemes can be met by

borrowing within the terms of the Prudential Code, capital receipts received from the sale of assets and capital reserves. The capital financing plan at **Appendix C** utilises £1.000m capital receipts in 2009/10. Capital financing costs of the Estate Strategy programme will be funded from the Estate Strategy Reserve, prior to borrowing.

6.2.2 For the sake of these calculations it has been assumed that the Prudential Code will be used for funding all capital expenditure over and above the capital grant, the use of capital receipts and the utilisation of the Estate Strategy Reserve. However, the use of capital grant, capital receipts and the utilisation of the Estate Strategy Reserve will reduce borrowing and the costs of capital financing.

6.2.3 The Capital plan attached at **Appendix C** shows the plans for capital spending for the next three financial years. Figures have been included in **Appendix C** for the current forecasted implementation of the Estate Strategy and sums have been included to accommodate likely estate capital schemes over the next three years. Projects included in the revised Estate Strategy will be the subject of further reports for approval by the Authority. The alterations and adaptations budget of £0.455m provides for improved access for the disabled, security of buildings, plant replacement and energy conservation measures.

6.2.4 The investment in the IT Strategy is in line with plans approved by Members and is as monitored and scrutinised by the Force IT Strategy Committee. This ensures that spending is prioritised in key areas. The planned strategy includes development of the Force Information System, development of the Personnel System and replacing Control Room call recording equipment.

6.2.5 The Vehicle Replacement Programme budget is utilised to purchase vehicles across the force fleet. Replacements are undertaken according to age and mileage and in accordance with a vehicle replacement policy. Vehicles are purchased using a national framework agreement assuring best value in procurement is obtained. The Vehicle Replacement Capital budget has been maintained at £3.600m for 2009/10.

6.3 **The Prudential Code**

6.3.1 The Local Government Bill 2003 introduced a new system of capital financing and control. This system allows the Authority to set its own overall level of borrowing to finance capital schemes, and is governed by a set of regulations known as the Prudential Code.

6.3.2 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 came into force on 31st March 2008. These regulations changed the previous requirements for the calculation of the Minimum Revenue Provision in that the borrowing for the acquisition of assets should now be made over a period bearing some relation to the life of the asset. Previous calculations for the Minimum

Revenue Provision were based on borrowing over 25 years. Consequently, the Treasurer is now proposing that the policy is now based on borrowing over 60 years for buildings and 4 years for equipment and vehicles. The calculations for the capital financing costs shown in **Table 26** have been calculated on this basis.

- 6.3.3 The standards to be applied to this process 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.

Affordability and Associated Indicators

- 6.3.4 The first indicators look at affordability and address the impact on the Revenue Account and budgets of the Authority's Capital Strategy.

Capital expenditure

- 6.3.5 The first indicator is an estimate of capital expenditure for 2008/09 to 2011/12 and actual capital expenditure in 2007/08. This is set out in **Table 25** below. Details of the schemes making up these estimates are set out in the Capital Plan at **Appendix C**.

Table 25: Actual and Estimated Capital Expenditure 2007/08 to 2011/12

2007/08 £m Actual	2008/09 £m Estimate	2009/10 £m Estimate	2010/11 £m Estimate	2011/12 £m Estimate
8.666	12.714	11.737	25.800	20.195

Revenue Costs

- 6.3.6 To give an indication as to 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

- 6.3.7 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 Minimum Revenue Provision (a sum to reflect the capital repayment element of any borrowing), premiums in respect of prematurely repaid debt, less any interest and investment income. The Minimum Revenue Provision has been calculated with regard to the new guidance referred to at **paragraph 6.3.2**. An estimate of the total financing costs

has been included within the budget. This is applied as a ratio to the net revenue stream, an estimate of the amount met from Revenue Support Grant, Business Rate Income and the Precept.

- 6.3.8 Estimates of the ratio of financing costs to net revenue stream for the current and future years and the actual figures for 2007/08 are set out in **Table 26** below.

Table 26: Ratio of financing costs to net revenue stream

	2007/08 Actual £m	2008/09 Estimate £m	2009/10 Estimate £m	2010/11 Estimate £m	2011/12 Estimate £m
Financing costs	1.099	0.866	1.572	2.378	3.564
Net Revenue Stream	307.320	317.100	326.119	336.525	346.494
Ratio (%)	0.36%	0.27%	0.48%	0.70%	1.03%

- 6.3.9 The estimates of the incremental impact on the precept of the expected capital borrowing are shown in **Table 27**. However, it is anticipated that savings in running costs and capital receipts can be made to support the Estate Strategy, which will offset this impact.

Table 27: Impact of borrowing on Precept

	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate
Actual Increase (£m)	0.047	0.560	1.106
% Precept Increase	0.08%	0.99%	1.95%
Impact £ on Band D property	0.11	1.33	2.61

Capital Financing Requirement

- 6.3.10 In order to measure the Authority's underlying need to borrow to finance capital expenditure a measure known as the Capital Financing Requirement is used. A number of financing options are available by which to fund capital investment:-

- Use of capital receipts;
- Direct revenue financing;
- Capital grants; and
- Utilisation of General Balances and Reserves, particularly the Estate Strategy Reserve.

- 6.3.11 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 will reduce the amount of borrowing required 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.

6.3.12 Estimates of the end of year Capital Financing Requirement for the current year and future years together with the actual Capital Financing Requirement at 31st March 2008 are detailed in **Table 28** below. The Capital Financing Requirement 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 28: Capital Financing Requirements 2007/08 to 2011/12

2007/08 Actual £m	2008/09 Estimate £m	2009/10 Estimate £m	2010/11 Estimate £m	2011/12 Estimate £m
35.469	39.803	44.705	64.594	78.258

6.3.13 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 two financial years.

Authorised Borrowing Limit

6.3.14 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.

6.3.15 The proposed authorised limits for the Authority's total external debt are set out in **Table 29** below.

Table 29: Authorised Borrowing Limits 2008/09 to 2011/12

2008/09 Estimate £m	2009/10 Estimate £m	2010/11 Estimate £m	2011/12 Estimate £m
47.000	52.500	71.500	85.000

6.3.16 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

- 6.3.17 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.
- 6.3.18 The following are the proposed operational boundaries for the authority's total external debt.

Table 30: Proposed Operational Boundary 2008/09 to 2011/12

2008/09 Estimate £m	2009/10 Estimate £m	2010/11 Estimate £m	2011/12 Estimate £m
45.000	50.500	69.500	83.000

Affordability

- 6.3.19 In considering the programme for capital investment the Authority should have regard to a measure of affordability.

Prudence and Associated Indicators

- 6.3.20 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.
- 6.3.21 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.
- 6.3.22 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 are in place to ensure this requirement is complied with.

6.3.23 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 to limit and monitor exposure to interest rate risks. These are set out below.

Upper limits for fixed rate exposure

6.3.24 The authority to borrow under the Prudential Code commenced in 2004/05 and to date there has been no need to undertake long term borrowing for capital expenditure as this was absorbed by the offsetting of balances held within existing funds and reserves. It is anticipated that this position will switch to a net borrowing position shortly and as a result the Authority needs to set upper limits for borrowing for 2009/10 and 2010/11 of 100% of its net outstanding principal sums. This will enable the Authority to take out 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

6.3.25 It is recommended that the Authority also sets an upper limit on its variable interest rate exposures for 2009/10 and 2010/11 of 40% of its net outstanding principal sums.

6.3.26 The Director of Resources, in conjunction with the Treasurer, will thus manage fixed interest rate exposures within the range 60% to 100% and variable rate exposures within the range 0% to 40%.

Maturity Structure

6.3.27 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. These limits are unchanged from last year.

Table 31: 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%

PART 7. MEDIUM TERM FINANCIAL STRATEGY

7.1 Medium Term Financial Strategy

7.1.1 The budget proposals for 2009/10 form part of the three year financial strategy of the Authority, which now covers the period 2009/10 to 2011/12 (**Appendix J refers**). The strategy is based on the following assumptions:-

- Pay and Prices equating to an average increase of 2.65% pa over the period;
- Within the above it is assumed that pay inflation will be 2.6% in 2009/10 and 2.55% in 2010/11 for Police Officers, 2.6% pa for Police Staff and price inflation representing a balance within the contingency;
- Grant increase of 2.6% in 2009/10 and 2010/11, and 2.5% in 2011/12;
- A rolling forward of the base budget, inclusive of all committed savings and investments;
- Retention and recruitment of 466 PCSOs during the period, including the contribution of £1.979m from the PCSO reserve and from 2010/11 from the revenue budget (savings to be identified). It also assumes that Partnership funding for PCSOs remains at current levels, i.e. £0.806m;
- Employer's National Insurance contributions increase by 0.5% in 2011/12; and
- Precept increases of 5% per annum.

Table 32: Summary of Medium Term Financial Strategy

	2009/10	2010/11	2011/12
	£m	£m	£m
Income			
Government Grants	(267.418)	(274.303)	(281.161)
Specific Grants	(30.481)	(30.889)	(31.307)
Precept	(59.259)	(62.222)	(65.332)
Reserves and Balances	(2.535)	0.000	0.000
Total Income	(359.693)	(367.414)	(377.800)
Expenditure	359.693	369.026	379.830
(Surplus) / Deficit	0.000	1.612	2.030
Application of Recurring Base Budget savings from 2009/10	0.000	(1.000)	0.000
Underlying Total (Surplus)/ Deficit	0.000	0.612	2.030

- 7.1.2 As can be seen from the **Table 32** above, it is forecast that the Authority will face a budget deficit in both 2010/11 and 2011/12. However, in comparison to projected deficits in previous years the Authority has broadly bridged the underlying imbalance between its revenue and expenditure to such an extent that the majority of savings and efficiencies can be reinvested directly into the service rather than to constantly balance the budget.
- 7.1.3 The Treasurer and the Chief Constable will bring forward proposals during the period to ensure a balanced budget, along with measures to further address the policy aspirations of the Authority, in accordance with the Strategic Policing Plan.
- 7.1.4 As in previous years, this strategy will need to be kept under review to reflect the actual financial circumstances pertaining to the time.

PART 8 – KEY RISKS AFFECTING THE FINANCIAL POSITION

8.1 Key Risks

8.1.1 Whilst every eventuality is considered when compiling the budget report, there remain a number of issues which may represent risks and/or budget pressures. Some of these items are outside the control of the Authority or Force whereas others are issues that may need to be addressed, but there is uncertainty as to the level or source of funding required. These underlying factors have to be considered when determining the budget and precept as they have the potential to impact upon the Force's ability to meet the agreed budget and strategy. The risks have been considered in setting out these budget proposals but Members need to be aware of these risks when making their decisions.

The Global Economy

8.1.2 The Global economy is currently in an economic recession following the credit crunch, and this is seriously affecting the British Economy. As a consequence of this the Authority may face a number of financial and operational issues, these include:-

- the availability of credit to allow the Authority to borrow to invest in its Capital Programme, in particular the Estate Strategy. In addition, the Authority is likely to receive less interest from its investments, thus reducing income;
- often in times of economic downturn the last bill to be paid by the householder is their Council Tax. This is likely to have an impact on the District Councils' tax collection rates and could result in further Collection Fund Deficits being declared by the Districts. This effect has already been evident from 2008/09. Also, a recession is likely to have a negative effect on the occupation of property which in turn affects the Council's Tax Bases. Again this picture is also emerging during 2008/09. The financial impact of these issues is clearly evident from this budget document and is a clear risk to the Authority's financial stability, and indeed the opportunity to invest further in front line services;
- a great deal of uncertainty exists over whether the impact of the decline in the economy has the potential to put pressure on operational policing demands. There is research on the links between unemployment and crime but the results are inconclusive. However as unemployment is likely to increase over the coming year, coupled with individuals suffering from the increasing financial pressures, it would seem logical to assume that there will be pressure on acquisitive crime trends. This would, in particular, result in pressure on volume crime statistics and is a potential risk for as long as the economic outlook remains gloomy. Any such

emerging trends will be reported to the Performance Scrutiny and Review Committee;

- the Government have yet to indicate when they plan to announce the next CSR, i.e. 2011/12 to 2013/14. It is anticipated that the next CSR period will see tight financial settlements, with little growth opportunities;
- the funding formula is currently under review and any changes to the current formula could offer risks or opportunities to the Authority. However, as long as the 'Floor' damping mechanism remains in place the impact of any changes to the funding formula will be mitigated; and
- the inbuilt pressure within the Grant Regime still exists. A number of grants have remained unchanged over recent years and this is set to continue; in particular grants for the Crime Fighting Fund and Rule 2 grants are not uplifted annually to take account of inflation. The impact of this in 2009/10 alone is some £0.42m, and since their inception some £2m over the period.

Pension Contributions

- 8.1.3 Members will recall that in 2008/09 the Authority benefited from the Government's triennial review of the employers' pension contribution rate for Police Officers and the triennial actuarial review of the Merseyside Pension Fund, of which Merseyside Police Staff are members. These two triennial reviews are due to take place again during 2010/11 and it is likely that given the current economic climate, employer contribution rates will increase from 2011/12.

Emerging Budgetary Pressures

- 8.1.4 Over recent years emphasis has been keenly focussed on making budget savings in order to fund both budget deficits and facilitate new developments. This policy has undoubtedly had the impact of enabling better use of resources and allowing development of priority services. However, it has put pressure on the budgets where these savings have been made. The inevitable consequence is that budgets are less likely to be able to respond to unusual or unexpected demands as financial resilience in these budgets has been reduced. Whilst the policy has no doubt proved worthwhile, the risk to budgets overall is that any significant incidents will in future rely on contingencies and balances at a stage sooner than would have been likely in previous years.
- 8.1.5 Whilst the level of emerging budget pressures is substantially less than last year, any emerging issues will be tracked throughout the year and accommodated wherever possible. Reports will be submitted to the Resources and Strategy Committee throughout the year, particularly where the containment of budgetary pressure is more difficult.

PART 9. CONCLUSIONS AND RECOMMENDATIONS

9.1 Conclusions

- 9.1.1 At the conclusion of the 2008/09 budget document, the Treasurer and Chief Constable reiterated their commitment to continue the drive for further efficiencies and savings to ensure both a balanced budget and allow for investment in strategic priorities. This budget seeks to do just that, but in so doing, keeps a clear focus not only on 2009/10 but on 2010/11 and beyond.
- 9.1.2 At the heart of this budget are a number of elements which will enable the Authority to balance its budget in 2009/10, make a significant contribution towards the forecast 2010/11 deficit, allow for a significant investment in strategic priorities and set aside sums to meet the challenges of 21st century policing on Merseyside, within a precept increase of 5%. In the main, these elements are:-
- the identification of significant, ongoing revenue savings which have been targeted in such a way as to minimise their impact on front line services;
 - the utilisation of these savings to address the 2009/10 budget deficit whilst investing in strategic priorities and carrying forward £1m towards balancing the 2010/11 projected deficit; and
 - a further development in the Authority's earmarking and utilisation of reserves, provisions and balances to allow for both the cushioning of revenue reductions and the investment in the future of policing on Merseyside, particularly with regard to the Estate.
- 9.1.3 The Medium Term Financial Strategy contained in this budget document is projecting deficits in both 2010/11 and 2011/12. The underlying deficit in 2010/11 of £1.612m is due primarily to the retention of the current level of PCSOs and this budget is ensuring that £1m is carried forward to help towards balancing the 2010/11 budget. The position in 2011/12 however, is far less certain given that it will be the first year of the next Comprehensive Spending Review along with the potential risk factors facing the Authority as highlighted in **Part 8**.

9.2 Recommendations

9.2.1 The Authority is recommended to:-

- (a) approve the Revenue Budget for 2009/10 at a level it thinks most appropriate, having taken account of the advice and information set out in this report;
- (b) note the Revised Estimate for 2008/09 as set out in **Table 3**;
- (c) approve the earmarking of the underspend in 2008/09 relating to capital financing interest into the Estate Strategy Reserve, as referred to in **paragraph 2.4.6**;
- (d) approve the utilisation of £0.556m from General Balances in 2009/10 to fund the declared 2008/09 Collection Fund Deficit by the Local Authorities, as set out in **paragraph 3.3.5**;
- (e) approve the transfer of the savings in capital financing charges identified in the Medium Term Financial Strategy of £0.849m and £0.161m, in 2009/10 and 2010/11 respectively, into the Estate Strategy Reserve as referred to in **paragraph 5.6.3**;
- (f) approve the creation of an earmarked Taser Reserve as set out in **Section 5.9**;
- (g) approve the policy for the calculation of the Minimum Revenue Provision, in that it should now relate to borrowing over the life of the asset as outlined in **paragraph 6.3.2**;
- (h) approve the Capital Programme and financing arrangements as set out in **Appendix C** and the prudential indicators outlined in **Section 6.3** of this report;
- (i) approve in broad terms the Medium Term Financial Strategy as set out in **Appendix J**; and
- (j) 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 2009 and ending 31st March 2010.

PAUL JOHNSON,
Treasurer to the Authority

BERNARD HOGAN HOWE,
Chief Constable

**MERSEYSIDE POLICE
2009/10 BUDGET**

ILLUSTRATIVE SUMMARY BUDGET 2009/10 ASSUMING 5% PRECEPT INCREASE

ORIGINAL ESTIMATE 2008/09 (1)	PROBABLE OUTTURN 2008/09 (2)	LINE No. (3)	FINANCIALLY ACCOUNTABLE UNITS (4)	ORIGINAL ESTIMATE 2009/10 (5)
£	£			£
			STRATEGIC DEVELOPMENT	
16,879,164	19,205,790	1	Strategic Development	19,947,619
			CITIZEN FOCUS	
7,930,146	8,324,541	2	Citizen Focus	7,975,853
7,174,540	7,064,637	3	Call Handling	7,336,109
			ADMINISTRATIVE SUPPORT	
13,096,595	10,568,083	4	Personnel and Development	10,188,983
27,479,607	28,527,241	5	Resources Directorate	27,859,196
			OPERATIONS	
153,626,111	157,257,784	6	Basic Area Operations	157,024,171
2,702,390	3,836,890	7	Area Co-ordination	3,885,028
178,307	180,087	8	Special Constabulary	182,366
815,386	584,119	9	Community Relations	659,199
			OPERATIONAL SUPPORT	
32,597,741	33,664,725	10	Operational Support	33,475,219
18,883,150	18,093,057	11	Crime and Intelligence	18,942,684
15,081,555	15,993,350	12	Force Crime Operations	16,746,291
			OPERATIONAL CONTINGENCY FUND	
576,635	574,645	13	Operational Contingency Fund	579,467
			POLICE SUPPORT SERVICES UNIT	
1,411,571	1,416,640	14	PSSU Administration	1,408,115
710,878	748,997	15	PSSU Finance	770,579
			NON RECHARGEABLE FINANCING ITEMS AND LEVIES	
42,703,000	42,833,000	16	Police Pensions	44,227,638
229,756	455,123	17	Attachments	232,050
1,925,090	2,282,710	18	Forcewide Services	2,480,052
204,858	216,740	19	Underwater Search Unit	215,927
(388,589)	3,465,404	20	Capital Charges	3,142,722
(2,066,453)	(4,214,916)	21	Income	(2,086,499)
826,613	867,820	22	PNC Charges	867,820
(1,400,000)	-		Savings from Pensions and National Insurance Contributions	
(2,582,000)	-	23	New Savings schedule agreed by Chief Constable	(3,250,000)
3,132,000	-	24	New Developments	2,544,000
341,728,051	351,946,467	25	NET COST OF SERVICES	355,354,590

**MERSEYSIDE POLICE
2009/10 BUDGET**

ILLUSTRATIVE SUMMARY BUDGET 2009/10 ASSUMING 5% PRECEPT INCREASE

ORIGINAL ESTIMATE 2008/09 (1)	PROBABLE OUTTURN 2008/09 (2)	LINE No. (3)	FINANCIALLY ACCOUNTABLE UNITS (4)	ORIGINAL ESTIMATE 2009/10 (5)
£	£			£
341,728,051	351,946,467	26	Net Cost of Services	355,354,590
7,083,089	2,007,257	27	Contingency for Pay and Price Increases	6,606,611
2,843,664	2,650,664	28	Provision for Police Reform Pay and Conditions	2,843,664
<hr/> 351,654,804	<hr/> 356,604,388	29	Net Cost of Services at Outturn Prices	<hr/> 364,804,865
(3,133,433)	(6,987,425)	30	Capital Appropriations	(6,679,257)
701,900	381,900	31	Interest Payable	443,000
(75,100)	(875,667)	32	Interest and Investment Income	(280,821)
<hr/> 349,148,171	<hr/> 349,123,196	33	Net Operating Expenditure	<hr/> 358,287,787
	(934,365)	34	<u>Appropriations</u> Net Carry Over from 2007/08	
	834,129	35	Net Carry Over to 2009/10	
(142,085)	831,022	36	Contribution (from)/to the General Balances	
		37	Contribution from General Balances (Deficit on Collection Fund)	(556,239)
	1,150,000	38	Contribution to Estate Strategy Reserve	849,000
	(784,498)	39	Contribution (from)/to Pensions Reserve	
(313,000)	(313,000)	40	Contribution from General Balances (underspend)	
(1,508,000)	(1,166,000)	41	Contribution from Additional Officers Reserve	
		42	Contribution (from)/to PCSO Reserve	(1,979,000)
<hr/> 347,185,086	<hr/> 348,740,484	43	TOTAL NET EXPENDITURE TO BE MET FROM GOVERNMENT GRANTS AND TAXATION	<hr/> 356,601,548
		44	Less : Specific Home Office Revenue Grants :	
(131,347,322)	(131,347,322)	45	General Grant	(134,323,437)
(30,084,825)	(31,640,223)	46	Government Specific Grants	(30,481,000)
(15,790,038)	(15,790,038)	47	Revenue Support Grant	(24,959,097)
(113,427,556)	(113,427,556)	48	Business Rate Income	(108,135,623)
142,085	142,085	49	Deficit/(Surplus) on Collection Fund	556,239
<hr/> 56,677,430	<hr/> 56,677,430	50	PRECEPT REQUIREMENT	<hr/> 59,258,630
423,250	423,250	51	Council Tax Base (Number of Band D Properties)	421,440
£133.91	£133.91	52	Council Tax - Band D	£140.61
5.00%	5.00%	53	Increase on Previous Year (£6.70)	5.00%

APPENDIX B : PROJECTED OUTTURN 2008/09 VARIANCE ANALYSIS

FINANCIALLY ACCOUNTABLE UNITS	ORIGINAL ESTIMATE 2008/09	PROJECTED OUTTURN 2008/09	EXPLANATION OF THE VARIANCE
	£	£	
<u>STRATEGIC DEVELOPMENT</u>			
Strategic Development	16,879,164	19,205,790	Police pay award, price inflation transfer of Professional Standards Department from Personnel Directorate offset by underspend on PCSOs.
<u>CITIZEN FOCUS</u>			
Citizen Focus	7,930,146	8,324,541	Police pay award, price inflation, carry over from 2007/08,
Call Handling	7,174,540	7,064,637	Police pay award, price inflation, transfer of Niche Project Team to Information Systems
<u>ADMINISTRATIVE SUPPORT</u>			
Personnel and Development	13,096,595	10,568,083	Police pay award, price inflation and reduction from transfer of Professional Standards to Strategic Development portfolio.
Resources	27,479,607	28,527,241	Price inflation, carry over from 2007/08
<u>OPERATIONS</u>			
Basic Area Operations	153,626,111	157,257,784	<i>Items reducing Expenditure:</i> centralisation of SOLO officers, transfer of officers to Lightning Suite, vacancy targets, reduction in overtime. <i>Items increasing expenditure:</i> Additional Neighbourhood/Schools officers, Police pay award and price inflation, budget allocation for Special Priority Payments, increase in Specific Grants.
Area Co-ordination	2,702,390	3,836,890	Police Pay award, price inflation, transfer of Youth Issues team from Community Relations. and additional officers in ASB Taskforce.
Special Constabulary	178,307	180,087	Pay and price inflation.
Community Relations	815,386	584,119	Pay and price inflation, transfer of Youth Issues Team to ASB Taskforce.

OPERATIONAL SUPPORT

Operational Support	32,597,741	33,664,725	Impact of Police Pay award and price inflation.
Crime and Intelligence	18,883,150	18,093,057	Budget savings on Forensic costs, carry over from 2007/08.
Force Crime Operations	15,081,555	15,993,350	Police pay award and price inflation, additional Gun Crime Syndicate, centralisation of SOLO officers.

OPERATIONAL CONTINGENCY FUND

Operational Contingency Fund	576,635	574,645	Police pay award and price inflation
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POLICE AUTHORITY SUPPORT UNIT

PASU Administration	1,411,571	1,416,640	Inflationary Increase, carry over from 2007/08
PASU Finance	710,878	748,997	Inflationary Increase and carry over from 2007/08

NON RECHARGEABLE FINANCING ITEMS AND LEVIES

Police Pensions	42,703,000	42,833,000	Increase in budget allocation to reflect additional officers and reduction in projected ill-health retirements
Attachments	229,756	455,123	Additional costs of Police Officers seconded to SOCA
Forcewide Services	1,925,090	2,282,710	Additional central costs
Underwater Search Unit	204,858	216,740	Inflationary increase
Capital Charges	(388,589)	3,465,404	Capital Expenditure on Estates Strategy later than anticipated
Income	(2,066,453)	(4,214,916)	Greater than anticipated income from Proceeds of Crime Act.
PNC Charges	826,613	867,820	Inflationary Increase and usage charges
Savings from Pensions and National Insurance Contributions	(1,400,000)		
Savings schedule agreed by Chief Constable	(2,582,000)		
New developments	3,132,000		

Net Cost of Services

341,728,051
351,946,467

Appendix C - Capital Programme

	2008/09 Revised £m	2009/10 £m	2010/11 £m	2011/12 £m
IT STRATEGY				
Applications Projects				
Trainers/Contractors for NICHE	0.314	0.000	0.000	0.000
Utilise CJX Exchange to CPS & Courts	0.262	0.050	0.000	0.000
Replace C&C for access/updating	0.235	0.700	0.130	0.000
Replace Force Intelligence System	0.000	0.050	0.900	0.000
Forensics IT Systems	0.000	0.200	0.050	0.000
Personnel Data and hierarchy, and Cedar Origins	0.000	0.150	0.150	0.000
Nominal Search across all systems	0.000	0.000	0.300	0.200
Other Applications Projects	0.811	0.680	0.740	1.345
Total Applications Projects	1.622	1.830	2.270	1.545
Technical Projects				
Roll out of 2nd Generation Mobile Data	0.914	0.000	0.000	0.000
Replace Control Room call-recording equipment	0.000	0.250	0.000	0.000
Video Management System	0.000	0.100	0.150	0.000
Card Access for Buildings	0.000	0.100	0.150	0.050
Develop G3 of MDT's	0.000	0.000	0.100	0.000
Funding for IT Innovations	0.115	0.050	0.100	0.100
Implement IAM	0.000	0.000	0.250	0.000
Other Technical Projects	1.178	0.535	0.200	0.425
Serious Offenders Project	0.350	0.000	0.000	0.000
Mobile Data Terminals in Vehicles	0.000	0.750	0.750	0.750
Total Technical Projects	2.557	1.785	1.700	1.325
Information Management Projects	0.649	0.620	0.075	0.180
Mobile Information Project - Phase 2 Capital	0.993	0.000	0.000	0.000
TOTAL IT STRATEGY	5.821	4.235	4.045	3.050
TECHNICAL				
ISB Technical Equipment	0.108	0.120	0.120	0.120
Replace Airwave Terminals	0.700	0.200	0.000	0.000
Airwave Grosvenor Development	0.301	0.000	0.000	0.000
Body Worn Video Devices	0.130	0.000	0.000	0.000
Other Technical Equipment	0.076	0.000	0.000	0.000
Proposed New Developments	0.645	0.000	0.000	0.000
TOTAL TECHNICAL	1.960	0.320	0.120	0.120

Appendix C - Capital Programme (Cont)

	2008/09 Revised	2009/10	2010/11	2011/12
	£m	£m	£m	£m
ESTATE				
Energy Conservation	0.066	0.106	0.109	0.111
Other Estate Management Projects	0.182	0.349	0.356	0.362
TOTAL ESTATE	0.248	0.455	0.465	0.473
Estate Strategy				
Optimum Space Strategy	0.070	0.100	0.100	0.100
Estate Strategy	0.000	3.027	17.470	12.852
Total Estate Strategy	0.070	3.127	17.570	12.952
Vehicles	4.615	3.600	3.600	3.600
TOTAL EXPENDITURE	12.714	11.737	25.800	20.195
CAPITAL PROGRAMME - FUNDING				
	2008/09 Revised	2009/10	2010/11	2011/12
	£m	£m	£m	£m
Home Office Allocations				
Government Grant General	4.224	4.224	4.224	4.224
Government Grant - Other	0.130	0.000	0.000	0.000
Total Home Office Allocations	4.354	4.224	4.224	4.224
Other Allocations				
Other Allocations - NPIA	0.993	0.000	0.000	0.000
Total Other Allocations	0.993	0.000	0.000	0.000
Borrowing				
Supported Capital Expenditure	2.319	2.319	2.319	2.319
Unsupported Borrowing	2.648	3.140	19.257	13.652
Total Borrowing	4.967	5.459	21.576	15.971
Funding from Capital Reserves				
Airwave	0.700	0.054	0.000	0.000
General Capital Reserve	1.700	0.000	0.000	0.000
Estate Strategy Reserve	0.000	1.000	0.000	0.000
Total Funding from Capital Reserves	2.400	1.054	0.000	0.000
Capital Receipts	0.000	1.000	0.000	0.000
TOTAL FUNDING	12.714	11.737	25.800	20.195

Appendix D – Analysis of Savings/Income Generation for 2009/10

Description	£m
<p>Forensics Procurement – As part of the budget for 2008/09 the budget for forensic services was reduced by £0.350m to reflect savings from the introduction of the consortium purchasing contract. This, together with management of submissions and technology such as the approved TERF has resulted in the further potential for savings. It is proposed a further saving of £0.400m can be achieved in this budget whilst still giving potential for further invest to save opportunities.</p>	0.400
<p>Pensions – The budget for ill-health retirements in pensions is based upon 23 cases per annum. It is anticipated that actual ill-health retirements will be 18 in 2008/09. This trend has been brought about by robust management of ill-health retirements and it is now possible to reduce the assumptions and target savings of £0.400m in this budget for 2009/10.</p>	0.400
<p>Overtime – The use of overtime is inevitable in an emergency service called upon to meet unpredictable demands. Over recent years the Force has successfully reduced overtime spending, meeting not only the 15% reduction target agreed by the Home Office as part of the Police Reform agenda but also achieving a further £0.600m in the last two years. The Chief Constable believes that there is still potential in this area given the expansion in Police Officer numbers and will target another £0.300m for 2009/10.</p>	0.300
<p>FME/FNP in Custody – Forensic Nurse Practitioners started work within the central custody suites during October 2008. The process is still under evaluation, but initial conclusions show that their introduction has reduced significantly the charges paid to Forensic Medical Examiners and resulted in savings. These savings will reduce the pressure on this central budget and it is anticipated will contribute a further saving in 2009/10.</p>	0.150
<p>Value for Money Reviews – A number of programmes including those managed under the Home Office QUEST methodology are planned for 2009/10 and are anticipated to quickly identify savings. The savings for 2009/10 are anticipated to come from review of local administration and criminal justice processes.</p>	0.400
<p>Discretionary Budget Savings – Chief Officers are keen to ensure that the use of resources is subject of a process of continuous review and improvement. In order to promote this process a target saving of 0.25% will be applied to discretionary budgets within each Chief Officer portfolio. This will be allocated to devolved budgets as determined by the respective Chief Officer.</p>	0.700

Appendix D – Analysis of Savings/Income Generation for 2009/10 (cont)

Targeted Savings – As budgets are taken into central control a process of review known as “zero-basing” will take place. This will rebuild budgets based on need, questioning all spending in the process. In addition, as part of the central management of budgets, a rolling programme of cost reviews will take place designed to ensure best practice is applied across the Force.	0.400
Income Generation – The Director of Resources will commence reviews aimed at achieving new and expanding upon existing income opportunities. These reviews will include income charged for policing of sporting and other events and charges for vehicle recovery.	0.500
Total	3.250

Appendix E - Chief Constable's Proposed Developments & Reinvestment Of Efficiency Savings

Proposal	Cost 2009/10 £'m	Full Year Equivalent Cost £'m	Increase In Police Officers	Policing Plan Priority	Policing Plan Indicators Impacted (NIS, SPI, KDI, LPI)	Incremental Impact Of Development (2009/10)
DEVELOPMENT EXPENDITURE RELATED TO GROWTH IN POLICE OFFICER ESTABLISHMENT						
BCU Response & Schools Officers						
40 additional response officers provided to BCU's	1.325	1.451	40	Deliver N'hood Policing Pledge ASB	SPI 2.3 % of public who think the police are doing a good job MI ASB Incidents (8 Incident Categories)	Directional Deliver CDRP drive for additional 3% stretch target improvement
6 additional schools officers working within BCU's	0.183	0.203	6			
A detailed paper regarding deployment of additional officers will be brought to the Police Authority early in the new financial year.	1.508	1.654	46			
Covert Technical Support						
Additional officers working within the Force and with the Serious & Organised Crime Agency on covert technical operations	0.383	0.383	8	Reduce Gun Crime Deliver Protective Services	SPI 5.1 & NI 15 Most Serious Violent Crime Rate (per 1000 pop.) SPI 5.5 & NI 29 Gun Crime Rate (per 1000 pop.) LPI Firearm Discharges (per 1000 pop.)	Achieve 3 year gun crime reduction target, currently underperforming, as part of investment strategy over medium term financial plan
Matrix Firearms						
Additional specialist firearms officers to increase resilience of this function, limiting the amount of additional on-call duties performed and increasing the operational resource available to the Force during duty and training time	0.526	0.526	13	Reduce Gun Crime Deliver Protective Services	SPI 5.5 & NI 29 Gun Crime Rate (per 1000 pop.) LPI Firearm Discharges (per 1000 pop.)	Achieve 3 year gun crime reduction target, currently underperforming, as part of investment strategy over medium term financial plan
DEVELOPMENT EXPENDITURE NOT RELATED TO POLICE OFFICER GROWTH ONE-OFF SPEND 2009/10						
Creation of Taser Reserve						
Application has been made to Home Office/NPIA for funding for the further roll-out of Taser to non-firearms officers. The bid process has not yet been concluded and discussions still remain to be finalised between the Force and MPA regarding this roll-out. However, this establishes a provision for the initial costs of such a roll-out should the outcome be favourable to the Force. Otherwise this provision will be subject to further proposals from the Force for one-off expenditure in 2009/10.	0.300	0.000	0	Policing Plan and Performance Indicator impacts will be determined when the full outcome of the funding bid is known and when decisions regarding potential for deployment (or alternative uses of the expenditure provision) are finalised by the Force and agreed with the Merseyside Police Authority.		
PND Implementation						
The Force has estimated the implementation costs for the new Police National Database project. These will impact revenue budgets in 2009/10 and 2010/11. The actual total costs will not be known until the adoption of PND is more imminent however the bulk of the costs are provided for in 2009/10 by way of this one-off expenditure with the balance planned to be met from core IT budgets in the following year.	0.250	0.000	0	Deliver Protective Services	This is a nationally mandated programme delivering the key recommendations of the Bichard report that followed the tragic murders in Soham. This provision will ensure that the Force able to comply with its obligations to adopt the new Police National Database system in 2009/10.	

Appendix E - Chief Constable's Proposed Developments & Reinvestment Of Efficiency Savings

Proposal	Cost 2009/10 £'m	Full Year Equivalent Cost £'m	Increase In Police Officers	Policing Plan Priority	Policing Plan Indicators Impacted (NIS, SPI, KDI, LPI)	Incremental Impact Of Development (2009/10)
TRUE Seminars The Force commenced a programme of events under the TRUE banner in 2007 to ensure the Force represents the diverse community it serves and to equip staff to manage diversity and challenge inappropriate behaviour. Should the Force consider it appropriate to mainstream these events beyond 2009/10 then a proposal for incorporation into core budgets will be made at the appropriate time.	0.250	0.000	0	Deliver N'hood Policing Pledge Improve Satisfaction of victims and witnesses	SPI 1.1 % Victim Satisfaction with Overall Service SPI 2.3 % of public who think the police are doing a good job SPI 2.2 & NI 21 Dealing with Local Concerns	Directional Directional Directional
Covert Equipment Purchase of covert technical equipment supporting the expansion of capabilities in line with the staffing increase referred to above.	0.100	0.000	0	Reduce Gun Crime Deliver Protective Services	SPI 5.1 & NI 15 Most Serious Violent Crime Rate (per 1000 pop.) SPI 5.5 & NI 29 Gun Crime Rate (per 1000 pop.) LPI Firearm Discharges (per 1000 pop.)	Achieve 3 year gun crime reduction target, currently underperforming, as part of investment strategy over medium term financial plan
Confidence Surveys The Government Green Paper on policing proposes changes to the way in which public confidence is measured and to promote it as a primary performance indicator for the police service. This investment will ensure we are able to respond to this change and monitor our performance against an appropriate baseline position.	0.100	0.000	0	Deliver N'hood Policing Pledge Improve Satisfaction of victims and witnesses	SPI 1.1 % Victim Satisfaction with Overall Service SPI 2.3 % of public who think the police are doing a good job SPI 2.2 & NI 21 Dealing with Local Concerns	Directional Directional Directional
TOTAL BUDGET DEVELOPMENTS 2009/10	3.417	2.563	67			
Contribution to Budget Pressures (Table 13)	1.256	2.256				
Redeployment of CRB Officers	(1.423)	(1.423)				
TOTAL NET COST OF DEVELOPMENTS	3.250	3.396				

Appendix F – Proposed Efficiency Plan 2009/10 – 20011/12

Introduction

As part of its drive for performance improvement, the Home Office require Police Authorities to demonstrate increasing efficiency in the services they provide. Prior to 2008/09 the level of saving required was the equivalent of 3% of net revenue expenditure, split between cashable and non-cashable savings. From 2008/09 Efficiency Targets came to form part of the Efficiency and Productivity Strategy for the Police Service and as such, efficiency plans have been replaced by measures of Efficiency and Productivity as an integral part of the Local Policing Plan. The 2008/09 target was finalised as:-

- Savings of 9.3% of the 2007/08 Gross Revenue Expenditure (GRE) over the 3 year period to the end of 2011. This is a net GRE adjusted for any exceptional items such as mutual aid funding and secondments on which savings could not realistically be expected to be made.

The distinction between cashable and non-cashable savings has been removed and instead, all gains in Efficiency and Productivity must demonstrate that they release resources, either people or money, to sustainably boost outputs or help balance the budget. There are no discrete, annual targets within the overall three-year target although the 9.3% saving must be achieved over the three year period ending in 2011. Only surplus cashable savings balances from 2007-08 were eligible for carry forward into 2008/09, any non-cashable balances being lost.

The draft plan for 2008/09 to 2010/11 was addressed within the Policing Plan and contained within the Budget for 2008-09. Using an estimated GRE, a three-year savings target of **£33.077m** was calculated and allocated on a straight-line basis across the three-year period to give a draft target of £11.026m for each year including 2009-10. Using Actual rather than estimated GRE figures, the revised target for the three year period increased to **£35.858m**, which when split on a straight line basis across the three years, gives a target for each year of **£11.953m**.

The “Efficiency and Productivity Strategy for the Police Service 2008/2011” sets out change to how efficiency gains will be targeted. Rather than rely on the 9.3% target over three years, Police Authorities are now free to agree their own ‘ambitious local targets’. For the sake of this budget it is assumed this will remain the 9.3% target agreed on part of last year’s budget document.

Performance on the 2008/09 Efficiency Plan

The forecast outturn for 2008/09, detailed in **Appendix 1**, shows a total saving of £12.040m compared with a plan of £12.002m. This outturn represents a full year saving of 3.1% of the 2007/08 Gross Revenue Expenditure (GRE) and 33.5% of the overall savings target (£35.858m).

The additional savings compared with the original plan have been achieved from a number of initiatives where efficiencies have proved higher than anticipated. Specifically the roll out of Blackberries generated savings of £2.666m against a plan of £1.456m. A higher than forecasted reduction in recuperative and restricted duties led to additional productivity valued at £2.085m, £0.755m above target. These additional efficiencies offset shortfalls in respect of those not achieved in other areas such as reduction in sickness and Structures and Ratios. New targets are in place for these initiatives in the 2009/10 plan.

In addition, to the £12.040m, excess savings of £2.570m were brought forward from the 2007/08 Efficiency Planning program.

Efficiency Plan 2009/10 – 2010/11

The table below summarises the progress against the three-year target of £35.858m. The 2009/10 plan aims to achieve **£11.974m**

Summary of Efficiency Plan 2008/09 – 2010/11

	Revised Three Year target	2007/08 Brought forward	2008/09 Achieved	2009/10 Target	2010/11 Target
	£m	£m	£m	£m	£m
Final GRE 2007/08	385.574				
9.3% Total Three Year Target	35.858	2.570	12.040	11.974	11.844

Some of the more significant initiatives contained within the 2009/10 Efficiency Plan are as follows:

- Further savings from roll out of Blackberries
- Structures and Ratios
- Reducing sickness levels across the Force
- Review of the CRB
- Establishment of SOLO team

Re-investment of Efficiency Savings 2008/9 – 2010/11

All the realised Efficiency and Productivity gains have been reinvested in additional officers to support the force and in other initiatives directed at achieving the forces overall performance targets as laid out within the Policing Plan 2009/10.

Details of the proposed Efficiency plan for 2009/10 are contained in **Appendix 2**.

EFFICIENCY AND PRODUCTIVITY GAINS 2008-09

Appendix 1

	Original Three Year Target £m	Revised Three Year Target £m	2008/09 Target £m	2009/10 Target £m	2010/11 Target £m
Estimated GRE 2007/08	355.662	385.574	11.953	11.953	11.952
9.3% Total Three year Target	33.077	35.858			

SAVINGS/GAINS

Reduction in Overtime
 Forensic Procurement
 Structures and Ratios
 Release from pay and prices contingency
 Reduction in insurance costs
 Other budget savings
 Reduction in mobile phone costs
 Savings from Trace Evidence Recovery Facility (TERF)
 Night closure of CRB
 Improvements in surveillance technology
 Use of Blackberries
 Centralisation of Dogs
 Tackling Bureaucracy
 Mabbu briefing software
 Other local initiatives
 Use of Lightning 3 Control Room
 Mobile data input
 Telecoms and IT support
 Call handling
 Reduction in sickness levels
 Customer service desks
 Reduction in restricted/recuperative duties

Total Savings achieved in year
Balance Brought Forward
Total Savings Available
Excess Savings over target c.fwd

* no longer available for carry forward under new rules

RE-INVESTMENT

	Plan 2008/09 £'m	Estimated Outturn £'m	Plan 2008/09 £'m	Actual Re- investment £'m
	0.300	0.300	0.138	0.138
	0.350	0.350	0.460	0.460
	0.300	0.109	0.687	0.687
	0.530	0.530	0.066	0.066
	0.500	0.500	0.127	0.127
	0.602	0.602	1.654	1.654
	0.136	0.136	8.870	8.908
	0.200	0.300		
	0.370	0.370		
	0.250	0.250		
	1.456	2.666		
	0.234	0.234		
	0.623	0.640		
	1.267	0.321		
	1.685	1.412		
	0.302	0.302		
	0.226	0.226		
	0.117	0.117		
	0.116	0.116		
	0.634	0.000		
	0.474	0.474		
	1.330	2.085		
	12.002	12.040	12.002	12.040
	2.570	2.570		
	14.572	14.610		
	2.570	2.607		

Hi-Tech Crime Unit - Additional Resources
 Regional Crime Unit
 Formation of Gun Crime Syndicate
 Central Ticket Office - Additional Resources
 Additional Officers - Roads Policing
 Additional Neighbourhood Officers
 Other Initiatives identified in the Policing Plan
 - Operations Against Gun & Other serious Violent
 - Improving Public Confidence & Satisfaction Through
 Victim Follow Up & Operations Against ASB
 - Driving Process Efficiency in Criminal Justice

EFFICIENCY PLAN 2009/10

Appendix 2

GRE 2007-08:	£m	2008/09 achieved £m	2009/10 target £m	2010/11 target £m
		14.610	11.953	9.295
9.3% Total Three year	35.858			

SAVINGS

Blackberry roll out
 CRB Review
 SOLO team
 Structures and Ratios
 Reduction in sickness
 Other initiatives
 Savings to be identified 2010/11 onwards
 Total savings achieved in year
Balance Brought Forward
Total Savings Available
Excess Savings over target c.fwd

	Plan	
	2009/10	2010/11
	£'m	£'m
	4.433	1.024
	1.000	0.400
	0.660	
	0.900	
	1.081	
	3.900	
	11.974	5.243
	2.607	6.667
	14.581	9.295
	2.628	

RE-INVESTMENT

One off investments including
 Additional 67 officers, including 40 for
 Other Initialives identified in the Policing
 Plan

Plan
2009/10
£m
1.000
2.250
8.724
11.974

Appendix G - Risk Based Calculation of Adequacy of General Balances as at the 31st March 2010.

Risk Register Ref No.	Brief Description	Residual Risk Score from Risk Register	Estimated mid-point Cost £m	Financial Requirement £m
1	Terrorism Threat	12	12.000	1.440
5	Serious/organised crime response	9	5.000	0.450
8	Vulnerable child or adult	9	2.500	0.225
9	Corporate Projects/Organisational Change	9	2.500	0.225
10	Strategic Performance	9	5.000	0.450
15	Retain/recruit right staff	9	2.500	0.225
16	Health and Safety	9	3.500	0.315
17	Forensic Capability	9	4.000	0.360
18	Custody Provision	9	4.000	0.360
20	Corporate Policy/Legislation	9	2.500	0.225
2	Force Data/IT Systems	8	6.000	0.480
4	Strategic/Local Partnerships	8	4.000	0.320
6	Protective Services	8	5.000	0.400
14	Force Estate	8	2.500	0.200
25	Financial Capability	8	5.000	0.400
28	Criminal Enterprises	8	3.000	0.240
31	Police Complaints	8	2.500	0.200
Level of General Balances Required to provide adequate financial resilience against Risks identified in Strategic Risk Register				6.515

The table takes all risks with a residual risk score greater than 8 from the Force Strategic Risk Register and measures this against an assessment of the financial impact of the risk. Based upon the level of residual risk and the likely financial impact a factor is included to provide a level of financial resilience should these risks occur.

Appendix H – Estimated Insurance Provision Requirement Summary

		£m	£m
1	Insurance Company estimates as at 30.04.08		
	- AIG	3.164	
	- Ensign	2.121	5.285
2	Less 25% win ratio		(1.321)
3	Contingency for late claims		1.714
4	Estimated Total Provision Requirement		5.678

Appendix I – Other Funds, Balances and Reserves

Description	Actual Balance end March 2008 £m	Estimated Balance end March 2009 £m
Capital Reserve – Used for capital re-phasing and capital creditors	2.123	0.423
Helicopter Fund – Used to provide a reserve for servicing and repair, based on flying hours	0.095	0.046
Police Property Act Fund – Funds from sales of property donated to good causes	0.115	0.465
Cleaning Contract Reserve – Accumulation of cleaning contract surplus	0.165	0.163
Vehicle Fleet Reserve – Surplus from Fleet Trading Account	0.048	0.048
Sponsorships – Sponsorship monies received and held by various BCUs	0.121	0.141
Airwave Reserve – Funds received in advance for purchase of Airwave equipment	0.754	0.054
Carry Over Reserve – Net Underspends on FAUs.	0.934	0.835
Vehicle Take Back Reserve	0.417	0.699
Safer Merseyside Partnership Reserve	0.112	0.131
Target Hardening Reserve	0.333	0.421
Other Balances and Funds – Various other small funds and balances	0.133	0.137
Totals	5.350	3.563

APPENDIX J - MEDIUM TERM FINANCIAL STRATEGY 2009/10 TO 2011/12

	2009/10 £m	2010/11 £m	2011/12 £m
EXPENDITURE			
Base Budget B/F	348.875	357.287	367.864
Specific Grant adjustment to Expenditure	0.957	0.147	0.151
Committed Growth/Recurring Savings	0.000	0.000	-0.612
Base Budget as per previous summary	349.832		
Revised Base Budget	349.832	357.434	367.403
Recurring Committed Growth/Reductions:			
Capital Financing	-0.479	0.741	1.186
Estimated Impact of Increase in National Insurance Rates	0.000	0.000	1.137
	-0.479	0.741	2.323
Recurring Savings			
Structures & Ratios	-0.900	-0.165	0.000
Additional Savings 2009/10	-3.250	0.000	0.000
	-4.150	-0.165	0.000
New Developments			
FYE of 2008/09 developments	1.271	0.211	0.189
Investment in new officers 2009/10 (net of redeployment)	0.994	0.146	0.109
Funding existing budget pressures	0.550	0.000	0.000
	0.000	0.000	0.000
	2.815	0.357	0.298
Total	348.018	358.367	370.024
Allowance for Inflation (2.65% 2009/10; 2.65% 2010/11; 2.65% 2011/12)	9.270	9.497	9.806
Base Budget Requirement C/F	357.288	367.864	379.830
Savings/Developments (One Off)			
One off spending in 2009/10	1.000	0.000	0.000
	1.000	0.000	0.000
One-Off Commitments			
Collection Fund Deficit	0.556	0.000	0.000
	0.556	0.000	0.000
Total Budget Requirement	358.844	367.864	379.830
FUNDING			
Funding Assumptions -			
General Grant (2.6% & 2.6% & 2.5%)	-267.418	-274.303	-281.161
Specific Grants	-30.481	-30.889	-31.307
Total Assumed Grant	-297.899	-305.192	-312.468
Brought Forward Precept Level	-56.677	-59.259	-62.221
Assumed Precept Increase of 5%	-2.836	-2.963	-3.111
Reduction in Tax Base	0.254	0.000	0.000
Total Assumed Precept	-59.259	-62.222	-65.332
Total Assumed Funding	-357.158	-367.414	-377.800
DEFICIT/(SURPLUS)	1.686	0.450	2.030
Contributions from/to Reserves and Balances			
Contribution from General Balances (Collection Fund)	-0.556	0.000	0.000
Transfer from PCSO Reserve	-1.979	0.000	0.000
Transfer to Estate Strategy Reserve	0.849	0.161	0.000
	-1.686	0.161	0.000
NET DEFICIT/(SURPLUS)	0.000	0.612	2.030
Savings Required	0.000	-0.612	-2.030
	0.000	-0.612	-2.030
Balanced Base Budget	0.000	0.000	0.000

Appendix K - Analysis of Pensions Transactions 2008/09 to 2010/11

Pension's transactions are split between those that reside within the Authority's Revenue Account, predominantly pension contributions and injury pensions and those that are contained within the Pensions Account, being the cost of pensioners and the income received from officer and employer contributions.

The probable outturn for 2008/09 together with estimates for the years 2009/10 and 2010/11 are shown below.

	2008/09	2009/10	2010/11
	Probable Outturn		
	£m	£m	£m
<u>Operating Account</u>			
Employer Contributions	36.101	37.183	37.735
Employer Contributions - Secondments	(0.181)	(0.179)	(0.182)
Injury Pensions	5.422	5.465	5.465
Injury Gratuities	0.098	0.052	0.052
Ill-Health Charges - Capital Equivalent Charges	1.094	1.552	1.592
Pensions for 30+ Officers	0.146	0.155	0.155
	<hr/>	<hr/>	<hr/>
Total Pensions Charges included in Revenue Account	42.680	44.228	44.816
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>Pensions Account</u>			
Income			
Officer Contributions	(16.264)	(16.770)	(17.019)
Employer Contributions	(36.045)	(37.361)	(37.917)
Incoming Transfers	(1.260)	(0.800)	(0.820)
Capital Equivalent charge for Ill-Health Retirements	(1.094)	(1.552)	(1.592)
Estimated Top Up Grant	(33.483)	(34.172)	(33.812)
	<hr/>	<hr/>	<hr/>
Total	(88.146)	(90.655)	(91.160)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Expenditure			
Pensions	65.199	68.237	68.237
OLAS Lancashire & Cheshire	0.598	0.548	0.498
Ill Health Commutations	1.095	1.615	1.656
Ordinary Commutations	19.716	19.120	19.612
Death In Service	0.181	0.205	0.210
Transfer Values Payable	1.054	0.650	0.667
Deferred Benefits - Ordinary	0.303	0.280	0.280
	<hr/>	<hr/>	<hr/>
Total	88.146	90.655	91.160
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

MERSEYSIDE POLICE AUTHORITY

**PO BOX101A WEST HOUSE MERCURY COURT
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