



BUDGET

2011/12

RESOLUTION OF THE MERSEYSIDE POLICE AUTHORITY

THE BUDGET 2011/12

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) approve a Revenue Budget for 2011/12 of **£350,197,890** as set out in **Appendix A**, incorporating a Council Tax precept freeze at the 2010/11 level;
- (b) approve the Treasurer applying for the Council Tax Freeze grant as outlined in **paragraph 5.2.1**;
- (c) note the Revised Estimate for 2010/11 as set out in **Table 1**;
- (d) approve the continuation of the suspension of the Authority's carry over rules as set out in **paragraph 2.2.11**;
- (e) approve the utilisation of £0.107m from General Balances in 2011/12 to fund the declared 2010/11 Collection Fund Deficit by the Local Authorities, as set out in **paragraph 3.3.5**;
- (f) approve in broad terms the Medium Term Financial Strategy as set out in **Appendix E**;
- (g) approve the transfer of £0.668m from the Insurance Reserve as set out in **paragraph 6.3.6**;
- (h) approve the transfer of £0.716m from the Strategic Options Reserve to the Restructure Reserve as set out in **paragraph 6.4.1**;
- (i) approve the transfer of £0.148m from the Safer Merseyside Partnership Reserve to the Restructure Reserve as set out in **paragraph 6.5.1**;
- (j) approve in principle the strategy in respect of reserves and provisions, with regard to the Insurance Fund, the Restructure and Estate Strategy reserves as set out in **Section 6**, pending the final outturn position to be reported to the Authority in June;
- (k) approve the Capital Programme and financing arrangements as set out in **Appendix C** and the prudential indicators outlined in **Appendix K** of this report;

- (l) approve the termination of the Area Command Centre programme and request that the Estate Strategy Committee undertake a review of the Estate Strategy going forward within the constraints of the approved Capital Programme as set out in **Appendix C**;
- (m) approve the policy detailed in **paragraph 7.4.4** on the Minimum Revenue Provision for 2011/12;
- (n) issue an appropriate precept requirement of **£61,503,600, equivalent to a nil increase in Band D**, (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 2011 and ending 31st March 2012.

a precept of **£97.49** for properties in Band A
£113.73 for properties in Band B
£129.98 for properties in Band C
£146.23 for properties in Band D
£178.73 for properties in Band E
£211.22 for properties in Band F
£243.72 for properties in Band G
£292.46 for properties in Band H; and

- (o) 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 2011
the 3rd day of June 2011
the 11th day of July 2011
the 16th day of August 2011
the 22nd day of September 2011
the 28th day of October 2011
the 5th day of December 2011
the 11th day of January 2012
the 14th day of February 2012
the 16th day of March 2012

PAUL JOHNSON,
Chief Executive / Treasurer

JON MURPHY,
Chief Constable

MERSEYSIDE POLICE AUTHORITY

BUDGET REPORT 2011/12

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TO: THE CHAIRMAN AND MEMBERS OF THE POLICE AUTHORITY

MEETING: 17th FEBRUARY 2011

JOINT REPORT OF THE TREASURER AND CHIEF CONSTABLE
BUDGET 2011/12 AND
MEDIUM TERM FINANCIAL STRATEGY 2011/12 TO 2014/15

PART 1. INTRODUCTION

1.1 Introduction

1.1.1 The purpose of this report is to:-

- provide an update on the Revised Estimate for 2010/11;
- seek approval for the Revenue Budget of the Authority for 2011/12;
- seek approval for the Capital Programme of the Authority for 2011/12 which incorporates a review of the Authority's Estate Strategy, IT Strategy and the Vehicle Replacement programme; and
- seek agreement on the Medium Term Financial Strategy (MTFS) for 2011/12 to 2014/15.

1.1.2 The Authority has been awarded a net reduction in general grants of 5.141%, i.e. £14.701m, in the Local Government Finance Settlement 2011/12. The level of the settlement awarded to this Authority equates to the same percentage reduction for all Police Authorities in England and Wales.

1.1.3 As part of the Financial Settlement, the Government has also provided details of the Police Grant up to 2012/13. The Police Grant reduces by 5.141% and 6.703% over this period. It is noted that the Home Office have announced a four year settlement, but the Department for Communities and Local Government (DCLG) have announced details for the first two years only, with the remaining two years being announced following the Local Government Resource Review due to be completed by July 2011. For planning purposes an assumption of these grant levels has been made based on the National Departmental increases published, which results in an estimated reduction in 2013/14 and 2014/15 of 1.9% and 2% respectively. Consequently, the Authority is required to make significant savings over the planning period which are significantly front loaded into 2011/12 and 2012/13.

- 1.1.4 Whilst in the past the 'Floor' has guaranteed minimum increases in grant, this announcement protects Authorities from grant reductions over and above a fixed percentage, which is funded by scaling back the grant to those Authorities which would have suffered reductions below this fixed percentage. Thus, whilst the funding formula applied to Authorities across England and Wales determines the level of Police Grant, Revenue Support Grant and National Non-Domestic Rates based on need, these sums are adjusted to guarantee the 'Floor' decrease. This 'Floor' was set at a grant reduction for the 5.141% for 2011/12. If this 'Floor' had not been in place, the net grant reduction for Merseyside would have been 7.76% for 2011/12 which would have resulted in a further grant loss of £7.494m, i.e. a total reduction of £22.195m. The 'Floor' has also been set for 2012/13 as highlighted in **paragraph 3.1.5** below.
- 1.1.5 The estimated financial out-turn position for 2010/11 looks healthy. 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 the application of strict financial constraints, particularly around the non automatic filling of vacancies and the reductions in associated on-costs. Whilst changes can occur in the remaining months of the year, the projected out-turn for 2010/11 should help to contribute towards an improved financial base line in readiness for the financial challenges ahead.
- 1.1.6 In 2011/12, the Authority is setting a budget to protect as far as possible front line services, while identifying significant levels of ongoing savings, mainly derived through the Strategic Options Project, which are required to meet the up front nature of the grant reductions published in the Settlement.
- 1.1.7 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. This gives Members confidence that resources during 2011/12 are being applied in such a way as to protect front line operations as far as possible.
- 1.1.8 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.
- 1.1.9 However, this budget represents year one in a four year planning period in which this Authority will face the most significant challenge in living memory. The real challenge is how to achieve the level of savings required, whilst protecting as much as possible the service delivered to the people of Merseyside. Undoubtedly, this challenge will become greater as cuts run deeper.

PART 2. REVISED ESTIMATE 2010/11

2.1. Introduction

- 2.1.1 The financial year 2010/11 signalled a change of emphasis for the budget and the financial direction of the Authority. The budget agreed by the Authority in February 2010 recognised that this being the last year of a three year grant settlement and the increasing pressure on public finances meant uncertainty for the years 2011/12 and onwards. It was clear that given the national economic situation and the impending General Election, future settlements were likely to be challenging. With this in mind a prudent budget was agreed whereby budget savings would be identified and set aside to meet potential funding cuts in subsequent years.
- 2.1.2 Consequently, the Authority set a budget for 2010/11 of £366.340m. This sum included adjustments to general balances, provisions and reserves of £1.336m. The budget document identified savings to be achieved during the year of £2.000m, with a full year effect of £3.000m.
- 2.1.3 Shortly after the formation of the Coalition Government in May 2010 it was announced that the settlements already agreed for 2010/11 would not be honoured in full. As a result, the Authority was required to identify and agree a programme of in-year cuts totalling £4.100m to meet its reduction in grant. These cuts included utilising the £2.000m already identified in the budget, which it had been proposed would be used to supplement the Strategic Options Reserve. A breakdown of the achievement in relation to these cuts is shown in **Table 3** later.
- 2.1.4 However, it was recognised that the Strategic Options Reserve had a vital part to play in enabling the Authority to make the changes necessary to meet the impending reduced funding regime. As a result it was agreed that carry-over rules with regard to under-spends on devolved budgets would be suspended for the year 2009/10. Thus, the £1.682m that would normally have been allowed as a carry forward under-spend in devolved budgets was transferred into the Strategic Options Reserve. Budgets were reduced by a total of £0.353m in respect of carry-over overspend. An additional £0.318m was transferred into the Strategic Options Reserve from under-spends in excess of carry-over limits, thus enabling the Authority to make its planned £2.000m contribution into the Strategic Options Reserve.
- 2.1.5 Against this backdrop of greater financial pressures and a need to adapt to a leaner financial climate, steps have been taken to strictly control spending. The imposition of a recruitment freeze has not only resulted in direct savings in salaries and other staff costs, but has also had a knock on effect on other budget lines such as uniform, training and IT. These factors have contributed to the significant under-spend out-turn position projected for the year-end detailed in this report.

2.1.6 When comparing the overall Authority budget out-turn position to the original budget there are a number of areas to consider. These are:-

- the level of specific grants received during the year;
- the impact of pay and prices against contingency;
- the take up of the special priority payments scheme;
- the overall performance of devolved and central budgets;
- the progress on agreed savings targets; and
- the overall operational performance and achievement of the Efficiency and Productivity plan during the year.

Each of these areas is covered in more detail in the following sections.

2.2 Projected Out-Turn Position 2010/11

2.2.1 The overall projected out-turn position is summarised in **Table 1** below. A breakdown of the various elements and further detail is given in the subsequent paragraphs.

Table 1: Analysis of Estimated Out-turn Position 2010/11

Description	£m	£m
Central Budget Under-spends		
Forensic Services	(0.698)	
Estate Management Premises	(0.270)	
Central Custody - FMEs	(0.159)	
Pensions	(0.144)	
Regional Units	(0.148)	
Other Central Budgets	<u>(0.030)</u>	(1.449)
Central Budget Over-spends		
Income – Proceeds of Crime	0.430	
Capital Charges	<u>0.798</u>	1.228
Contingencies		
Pay and Prices under-spend	(0.359)	
Special Priority Payments over-spend	<u>0.386</u>	0.027
Devolved Budgets		
Excess under-spend on devolved budgets		
- Force	(1.212)	
- Authority	<u>(0.063)</u>	
Suspension of carry over on under-spends		
- Force	(1.073)	
- Authority	<u>(0.050)</u>	(2.398)
Over Recovery against In Year Savings Targets		(3.272)
Total Estimated Under-Spend		(5.864)

2.2.2 As **Table 1** demonstrates, the overall estimated under-spend at the year-end is a total of £5.864m. Of this sum £3.300m relates to savings in excess of the £1.000m target in respect of the recruitment freeze, i.e. the vacancy recovery exercise (**see Table 3 below**), whilst a further £1.123m relates to under-spends on devolved budgets that would normally be carried over in these budgets. The overall under-spend is now available to support general balances, provisions and reserves and provide financial resilience for the major strategic challenges faced by the Authority.

2.2.3 Further analysis of the items included in **Table 1** above are detailed in the following sections. Included at **Appendix A** is an analysis of the revised estimate categorised across the Force operational areas. **Appendix B** provides a summary of variance to original budget with explanation of any movements.

Specific Grants

2.2.4 The 2010/11 budget included estimates for a number of specific grants, totalling £30.377m. This sum was significantly reduced following the announcement of the in-year grant cuts referred to above. As a result the Rule 2 grant was cut by £3.755m. The Authority has succeeded in attracting other grants and with other adjustments it is now anticipated the final total of specific grant funding to be £29.379m, a reduction of £0.998m.

2.2.5 This reduction in grants resulted in reduction of relevant budgets, though in the case of the Rule 2 grant reduction this applied to the agreed schedule of savings rather than being applied specifically to the areas ordinarily covered by the grant. **Table 2** provides a summary of the significant movements in specific grants based on the latest available data for 2010/11.

Table 2: Movement in Specific Grants 2010/11

Specific Grant	Movement	£m
Rule 2 Grant	Reduction	(3.755)
Dedicated Security Post Grant	Reduction	(0.383)
Drugs Intervention Programme Grant	Increase	1.038
National Ports Analysis Centre	Increase	1.156
Tackling Gangs and Knife Crime Programme	Increase	0.140
St Helens Working Neighbourhood	Increase	0.312
Local Criminal Justice Board Grants	Increase	0.271
Prevent	Increase	0.116
Other Movements	Increase	0.107
Total		(0.998)

The significant movements in grants are as follows:-

- **Rule 2 Grant** – The Government in-year cuts to budget were applied to the Rule 2 grant, though this was merely a mechanism for reducing grant rather than an indication that the services funded by this grant should be reduced;
- **Dedicated Security Post Grant** – This reduction in funding was anticipated in the Budget for 2010/11, though not confirmed at the time. The reduction resulted in the loss of 7 previously supported DSP police officer posts;
- **Drugs Intervention Programme Grant** – Continuation of the grant to enable individuals charged with offences to be tested for drugs and encouraged to take up treatment for addiction;

- **National Ports Analysis Centre (NPAC)** – Funding for the National Ports Unit within ISB. This funding was anticipated but had not been confirmed at the time of the last budget report;
- **Tackling Gangs and Knife Crime Programme** – Continuation of funding aimed at reducing serious violence perpetrated by young people and tackling gang related criminal activities;
- **St Helens Working Neighbourhood** – Grant to help the neighbourhood action team to reduce crime and ASB within targeted areas of St Helens;
- **Local Criminal Justice Board (LCJB) Grants** – Various smaller grants to enable facilitation of events and campaigns;
- **Prevent** – Funding to tackle the issue of and prevent militant extremism; and
- **Other Movements** – Various smaller grant movements, each being individually under £0.100m.

Provisions for Pay and Prices

2.2.6 A contingency to cover the impact of pay and price increases is included within the budget; this totalled £6.729m for 2010/11 and assumed an overall increase in pay and prices of 2.65%. This level was based on the already announced three-year pay settlement for officers and staff, the final year of which was applied in September 2010. Inflation on non-pay items proved difficult to predict and started to show signs of strain given the escalation in fuel costs and the resultant impact on other prices. It is clear that inflation is on an upward trend as the year unfolds with the official inflation rate hitting 3.7% for December 2010 and predictions of even higher rates in the coming months.

2.2.7 However, tight control has been exercised over the contingency for pay and price increases and factors such as the recruitment freeze have helped to contain rises. Increases have been applied to budgets only where justified and with the measures implemented the level of the contingency has been adequate to cover these items. This control has resulted in an anticipated under-spend on the contingency of £0.359m.

Special Priority Payments

2.2.8 In addition to the contingency for pay and prices, a provision of £2.844m is held to fund Special Priority Payments. This sum is supported by a specific grant, though being a Rule 2 grant this has not increased in line with inflation for several years. Once the payments have been calculated under this scheme relevant budgets are adjusted to take account of these costs. The scheme approved for 2010

widened eligibility for payments, though precise numbers of eligible officers is always difficult to predict in advance. Based on estimates of the outcome of the 2010 scheme and the estimates for the first quarter of the 2011 scheme, it is now anticipated that an over-spend of £0.386m will occur against this provision at year-end. The Chief Constable, in conjunction with the Treasurer, is undertaking a review of the Special Priority Payments Scheme in light of current financial constraints (**see paragraph 3.3.3**).

Devolved and Central Budgets

- 2.2.9 The position with regard to devolved and central budgets forms part of the overall Authority out-turn position. For devolved budgets the Authority approved carry-over scheme rules apply, whereby any overspend is carried forward into the next financial year in full, whilst any under-spend is allowed to be carried forward 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.
- 2.2.10 As already stated, as part of the measures taken to address the in year budget cuts, the Authority approved the suspension of the carry over rules with regard to treatment of under-spends. As a result no under-spends on devolved budgets were brought forward from 2009/10 into the new financial year, and the savings achieved from this suspension of the rules allowed a sum of £1.682m to be applied to the Strategic Options Reserve.
- 2.2.11 Bearing in mind the significant financial challenges that the Authority now faces it is proposed by the Treasurer and Chief Constable that this suspension of carry-over rules in relation to under-spends be extended to cover the 2010/11 out-turn position. Whilst the savings from this proposal are one-off in nature they will nonetheless give the Authority further resilience in terms of meeting the costs of restructure and the time to implement longer-term recurring savings.
- 2.2.12 It is anticipated that the overspend position on devolved budgets to be carried forward into 2011/12 is £0.090m, although it should be noted that this does not affect the Authority's overall revenue position as this sum is automatically deducted from the relevant Area/Department at the beginning of 2011/12. The position on under-spent devolved budgets estimates a position of £1.123m in respect of the sum that would normally have been allowed to be carried over, and £1.275m being the under-spend in excess of carry-over rules. Thus, it is estimated that an underspend totalling £2.398m will be returned to the Authority, provided that the Authority approves the Treasurer's and Chief Constable's proposals in relation to the suspension of the carry over rules.

2.2.13 The Authority's carry over rules do not apply to central budgets in the same way as devolved budgets, in that any over or under spend position is taken directly by the Authority. Central budgets and contingencies are expected to show a net overall under-spend of £0.194m.

2.2.14 The position with regard to the main central budget over and underspends is as follows:-

- **Capital Charges** - Capital charges are showing a net overspend of £0.798m. This sum arises as a result of the cessation of the Wirral Area Command Centre development. It is now considered prudent to write off costs already incurred in the design stage of the project assuming approval is given to the termination of the Area Command Centre programme, as highlighted in **paragraph 7.1.1** of this report and meaning that these costs are no longer eligible to be capitalised;
- **Forensic Costs** – Forensic costs have been falling gradually over recent years for a number of reasons. The Force have introduced stricter control on submissions, seen benefits from increased competition and invested in in-house services. This budget is potentially volatile due to the impact of major incidents and the continued uncertainty in the forensic supply market place, but is expected to show an under-spend of £0.698m at the year-end;
- **Force Medical Examiners (FMEs)** – The cost of medical examiners has reduced by £0.159m during the year as a result of the extension in the use of Nurse Practitioners together with the move to a single managed contract for the provision of doctors. These initiatives have resolved a long standing budget pressure;
- **Estate Management Premises** – As part of the 2010/11 budget reduction, the Estate Management Department was required to reduce expenditure by £0.500m in line with other Departments across the Force. The Department has exceeded this target by a further £0.270m;
- **Pensions** – Employer contributions have fallen due to the falling number of police officers arising from the recruitment freeze. Ill health retirements are broadly on budget for the year. The anticipated under-spend amounts to £0.144m;
- **Regional Units** – Contributions to regional units have been lower than anticipated mainly as a result of vacancies and reduced vehicle costs in both the Regional Intelligence and Regional Crime Units. It is anticipated that there will be an under-spend of £0.148m by year-end; and

- **Income** – Income received is anticipated to be lower than budget due to reduced levels of funding from Proceeds of Crime Act funds. This reduced level of recovery was recognised in the budget report last year when this trend of under-recovery was highlighted. Whilst this funding is difficult to predict it is becoming more difficult to secure these funds as criminals get more sophisticated at concealing assets and defending court proceedings. This reduced trend has now been recognised, and addressed, in the Medium Term Financial Strategy. The estimated overall shortfall against the budget of £1.310m is estimated at £0.430m.

2.3 Savings Targets 2010/11

2.3.1 Within the initial budget for 2010/11, savings targets of £2.000m were identified with the intention that this sum be set aside in the Strategic Options Reserve. As set out in **paragraph 2.1.3** above, these savings were subsequently utilised to meet part of the £4.100m grant cuts imposed during the year. A further set of savings were identified and approved by the Authority in order to meet the balance of these grant cuts. The anticipated full year position with regard to these savings targets is set out in **Table 3** below.

Table 3: Performance Against Savings Targets in 2010/11

Savings	Original Target £m	Estimated Out-turn £m	Variance £m	Basis of Recovery
Savings included in Budget 2010/11	2.000	2.188	0.188	Budget Reductions
Vacancy Recovery Exercise	1.000	4.300	3.300	Actual vacancies
Estate Maintenance	0.500	0.500	0.000	Budget Reductions
First Class Travel	0.100	0.039	(0.061)	Budget Reductions
Capital Contribution	0.155	0.000	(0.155)	Budget Reductions
Total Revenue Savings	3.755	7.027	3.272	
Capital Reductions (Fleet)	0.345	0.345	0.000	Budget Reductions
Total Revenue and Capital	4.100	7.372	3.272	

2.3.2 As can be seen from **Table 3** above, the savings measures identified have achieved additional revenue saving of £3.272m over and above the reduction in grant, mainly due to the success of the vacancy recovery exercise, which was aided by the recruitment freeze. There was a small over recovery on the savings measures identified in the original budget, but first class travel recoveries were lower than anticipated as levels of travel, in all classes, saw reductions.

2.4 Operational Performance and the Efficiency Plan

2.4.1 The Force has maintained strong performance throughout 2010. It is envisaged that this performance will be maintained for the period to April 2011. Notable achievements to the end of December 2010 include:-

- overall crime decreased by 8%;
- most serious violent crime decreased by 22.6%;
- serious acquisitive crime decreased by 15.1%;
- serious knife crime decreased by 27.9%;
- anti social behaviour decreased by 12.9%;
- criminal damage decreased 18%;
- complaints against incivility decreased by 27.2%; and
- gun crime decreased by 0.7%.

Figures compare % change in performance April to December 2009 and April to December 2010

2.4.2 Performance is reported regularly and in detail against targets and the Policing Plan to the Authority's Performance Scrutiny and Review Committee.

2.4.3 Members will recall that over recent years the Authority has been required to produce an Efficiency and Productivity Plan showing the savings that have been achieved through improved use of resources and the areas in which these savings have been reinvested. The Authority has now reached the final year of the last three year plan and the estimated out-turn for 2010/11 is attached at **Appendix D**. This shows that the Authority is expected to achieve its targets for efficiency savings over the three year period with total forecast efficiencies estimated to be £36.673m which, with the surplus savings brought forward from the previous plan, represents 106.3% of the three year target. The financial out-turn position will be reported to the Authority once finalised.

2.4.4 There is no longer any requirement to produce an Efficiency and Productivity Plan and given the current funding climate any savings that are achieved will be required to balance the budget rather than be available for re-investment in services. Given this change in requirements and circumstances it is now proposed by the Treasurer and Chief Constable that the Authority does not produce a new Efficiency and Productivity Plan, but rather monitor any savings requirements and achievements through the budget monitoring process.

PART 3 – 2011/12 BASE BUDGET

3.1 Local Government Finance Settlement

3.1.1 The provisional Local Government Finance Settlement for 2011/12 was published on the 13th December 2010, with an unchanged final settlement published on 31st January 2011. The settlement covers a period of four years; however the third and fourth year of the settlement will only be confirmed following the Local Government Resource Review, being undertaken by the Department for Communities and Local Government and is due to be concluded by July 2011. Thus the figures included in the Medium Term Financial Strategy later in this report contain estimates for 2013/14 and 2014/15 based upon the overall national grant settlement contained within the provisional settlement. Details of the provisional settlement were presented to Members at the Authority meeting on the 16th December 2010.

3.1.2 The overall level of funding for all forces across the four years of the settlement, including the indicative figures for years three and four, are shown in **Table 4** below. This table shows an overall reduction of funding of 12% and the phasing of this reduction over the four years. It can be seen from this table that national reductions are heavily weighted towards the first two years, when 9% of the overall 12% reduction in funding will be implemented.

Table 4: Total Government Revenue Funding 2011/12 to 2014/15

	2011/12	2012/13	2013/14	2014/15
Total Government Funding	£9.341bn	£8.830bn	£8.660bn	£8.546bn
% cash change in Total Government Funding	-4%	-5%	-2%	-1%
Overall Reduction from 2010/11 level	-4%	-9%	-11%	-12%

3.1.3 Within this overall level of National funding, the Police Allocation Formula is used to determine the individual funding level, based on need, of each Authority. This formula takes into account a number of factors to determine need level. Several changes have been made to the formula for 2011/12, these being the consolidation of Rule 2 grant into the main funding formula, changes to the calculation based on bar density and the use of more up to date activity data based on a three year average of existing Activity Based Costing data.

3.1.4 In order to avoid significant individual police authority funding level changes year on year, a methodology known as “Floor Dampening” has again been applied. Whilst in the past the ‘Floor’ has guaranteed minimum increases in grant, this announcement protects Authorities from grant reductions over and above a fixed percentage, which is

funded by scaling back grant to those Authorities which would have suffered reductions below this fixed percentage.

- 3.1.5 In recent years the Authority has been a donor to this process and in 2010/11 this amounted to a total reduction in grant from that determined by the formula of £1.251m. However as the relative constituents of the Police Allocation Formula are changed so this position can alter. For the years 2011/12 and 2012/13 a single percentage reduction has been used and thus all police authorities will be allocated grant based upon a reduction in grant of 5.141%, for 2012/13 and 6.703% for 2012/13. As a result of this, the Authority now finds itself as a net beneficiary of the scheme, amounting to £7.494m and £9.561m for the next two years respectively. If this 'Floor' had not been in place, the net grant reduction for Merseyside would have been 7.76% for 2011/12 which would have resulted in a further grant loss of £7.494m, i.e. a total reduction of £22.195m. In respect of 2012/13 the net grant reduction for Merseyside would have been 10.23% which would have resulted in a further grant loss of £9.561m, i.e. a total reduction of £27.743m.
- 3.1.6 Without the adoption of the uniform rate of grant reduction across all police authorities, Merseyside would have lost a further £17.055m of grant over the next two years. This position is summarised in **Table 5** below.

Table 5: Impact of Damping on Merseyside Settlement

	2010/11	2011/12	2012/13
Grant increase/decrease (-) before damping	3.04%	-7.76%	-10.23%
Grant increase/decrease (-) after damping	2.58%	-5.14%	-6.70%
Impact of damping on grant received	(£1.251m)	£7.494m	£9.561m

- 3.1.7 Despite the relief brought about by the use of the damping methodology, it is clear that the reduction in funding now announced will still represent a significant challenge to the Authority over the next four years. The benefit of damping of grant movements to the levels shown in **Table 5** must be viewed against the additional concern that should the damping methodology be relaxed and settlements be allowed to realign closer to the Police Allocation Formula, the Authority would lose significantly more grant funding.
- 3.1.8 The application of a flat rate grant reduction also disproportionately impacts those Authorities with a higher dependency on grant, such as Merseyside, as this component represents a higher proportion of the overall budget. Furthermore the ability to make up any loss of grant through council tax is severely limited given that this forms a smaller proportion of the total income, notwithstanding the application of a

capping regime. This is demonstrated in **Table 6** below which shows the relative funding impact on a low grant dependent Authority (such as Dorset or Surrey) versus a high grant dependent Authority such as Merseyside and other Metropolitan forces. As can be seen from this table, over the first two years of the settlement the true impact of the cuts in grant on overall budget is 6.0% where dependence on grant is low and 9.4% where dependence is high and which, if recovered solely through the council tax precept, would require a percentage increase of 12.5% versus 52.4% respectively.

Table 6: Relative Impact of Grant Reductions on High Versus Low Grant Dependant Authorities

	High Grant Dependent Authority	Low Grant Dependent Authority
Assumed % of Financing from:-		
- Council Tax	18%	48%
- Grant	82%	52%
Year 1 - Overall impact on funding resulting from a 5.14% cut in grant	(4.2%)	(2.7%)
Year 2 – Further impact on funding resulting from a subsequent 6.7% cut in grant	(5.4%)	(3.4%)
Overall impact on total budget of the reduction in grant over the two years	(9.4%)	(6.0%)
% increase in Council Tax required to make up the reduction in grant	52.4%	12.5%

3.2 Specific Revenue and Capital Grants

3.2.1 The Authority receives a number of specific revenue grants in addition to the General Police Grant. For 2011/12 the number of such grants has been reduced with the former Rule 2 Grant, Crime Fighting Fund Grant and BCU Fund Grant being absorbed within the General Police Grant. This gives greater local flexibility over the use of these funds.

3.2.2 The specific grants that have been announced or are anticipated are:-

- **Neighbourhood Policing Fund** – This will continue as a specific grant until directly elected Police and Crime Commissioners are in place, at which point it will be consolidated into the General Police Grant. The grant is ring-

fenced for the provision of PCS&TOs during this two-year period but after this point the Police and Crime Commissioner will, according to the announcement, have “full discretion over this funding”;

- **Dedicated Security Post Grant** – The level of overall funding for dedicated security will be maintained and nationally the levels of grant remain relatively stable. The local positions have not yet been announced and so the figures shown are an estimate based on the grant received in 2010/11;
- **Drugs Intervention Programme (DIP) Grant** – The drug testing grant will continue into 2011/12 but will be at a reduced level. Changes have been made to the way in which the level of grant is calculated and reference to further changes have been made by the Home Office. In the meantime the level of grant has been cut by 10%; and
- **Council Tax Freeze Grant** – The funding announcement included provision for a specific grant should Authorities choose to put in place a council tax freeze for 2011/12. If this is the case then a grant equivalent to a 2.5% increase will be paid for at least the four years of the settlement.

3.2.3 New specific grant funding can sometimes 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 2011/12 is shown in **Table 7** below.

Table 7: Specific Revenue Grants 2011/12

Grant	£m	Details
Neighbourhood Policing Fund	9.884	Funding for continuation of PCS&TO posts. This funding covers a proportion of the total cost of PCS&TO and has been ring fenced until the end of 2012/13.
Dedicated Security Post (DSP) Grant	4.708	Funding for dedicated security and ports officer posts. Funding has not yet been confirmed.
Drugs Intervention Programme Grant	0.934	Continuation of grant funding for drug intervention programmes albeit at a reduced level.
Sub Total	15.526	
Council Tax Freeze Grant	1.536	Additional grant to be awarded on condition that the Authority approves no increase in council tax precept in 2011/12.
Total Specific Grants	17.062	

3.2.4 The Authority additionally receives a General Capital Grant to support capital schemes and expenditure. The grant for 2011/12 has been cut by 40% to £2.500m, before increasing to £3.700m in 2012/13 and then £3.400m for each of the subsequent two years.

3.2.5 The proposals in relation to capital spending for 2011/12 and beyond are outlined in **Part 7** 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 2011/12

3.3.1 The base budget is updated each year to reflect committed levels of service and changes that have occurred during the year. This represents a starting point and shows the position before any savings requirements. Items that are included to update the base budget are:-

- the impact of pay and price increases;
- committed growth and savings agreed during the year;
- the impact of changes to capital spending during the year;
- adjustments to cover movements in grants; and
- the impact of tax base changes.

3.3.2 Many of these projected changes were highlighted within the budget proposals presented last year or have been reported to Members in updates on budget performance throughout the year, including the paper presented to Members in December on the provisional settlement. The changes are summarised in **Table 8** below. This shows that, assuming the Authority decide to freeze the precept at 2010/11 levels, a savings requirement of £20.097m will need to be addressed in 2011/12.

3.3.3 In arriving at this figure a number of savings initiatives have already been assumed. The total impact of these initiatives amounts to a saving of £2.600m which has been incorporated into the revised base budget at **Table 8** below. The details of these savings are as follows:-

- **Full year effect of 2010/11 savings** – In the budget for 2010/11 savings of £3.000m were identified of which £2.000m was planned to be achieved in year with the further £1.000m to be achieved from the full year effect in the following year.
- **Special Priority Payments** – The Chief Constable, in conjunction with the Treasurer, is to look at the principles of the Special Priorities Payment scheme for 2011 with a view to considerably reducing the numbers of staff eligible to receive the payment and/or

the individual level of payments. The revised scheme will be presented to Members in due course and in the meantime it has been assumed that savings from this revised scheme will be approximately £1.400m per annum.

- **Collaborative Working** – It is recognised that further collaborative working with neighbouring Forces and other public sector bodies will result in savings. Several schemes are currently under consideration at a regional level with a view to achieving savings and this potential has been built into the budget with an estimate over the next four years of £1.700m of which £0.200m relates to 2011/12.

Table 8: Summary Base Budget 2011/12 Assuming Precept Freeze

	£m	£m
Revised Base Budget	365.255	
Inflation	5.273	
Net Committed Growth/Savings	2.372	
Savings Already Recognised	(2.600)	
Capital Financing Costs	(0.105)	
Revised Base Budget 2011/12		370.195
Government Grants		
General Police Grant	(137.764)	
Revenue Support Grant	(31.518)	
Business Rate Income	(101.966)	
Specific Grants	(15.526)	
Council Tax Freeze Grant	(1.536)	
Total Government Grants		(288.310)
Collection Fund Deficit (see para 3.3.5)		0.107
Additional Bank Holiday (one-off)		0.100
Contribution from General balances to fund Collection Fund Deficit		(0.107)
Contribution from PCS&TO Reserve		(0.384)
Precept (held at 2010/11 level)*		(61.504)
Budget Deficit to be addressed		20.097

*this total incorporates the published tax decreases of 66 band D equivalent properties equating to £0.010m (**see paragraph 3.3.6**).

Collection Fund and Tax Base

- 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 in **Table 9**.
- 3.3.5 The Collection Fund deficit being charged to the Authority is in 2011/12 £0.107m (£0.518m in 2010/11). As this is a one-off adjustment, the Treasurer proposes to continue to fund this from General Balances, thus alleviating the impact on the revenue budget. However, this funding arrangement will continue to be reviewed, particularly if the level of deficits increases significantly at which point consideration may need to be given to financing this from the revenue budget in future years.
- 3.3.6 The Tax Base across Merseyside is showing a reduction of 66 in Band D equivalent properties (compared with a reduction of 778 Band D equivalent properties in 2010/11). The impact on the Authority of this equates to a reduction in precept income of £0.010m. 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 9** below:-

Table 9: 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)/ increase properties	Loss to Authority as a result of movement in Tax Base (income) £
Liverpool CC	1.200	9.7	0.116	(963)	140,820
Knowsley MBC	(0.157)	10.0	(0.016)	272	(39,775)
Sefton MBC	0.505	9.7	0.049	26	(3,802)
St Helens MBC	(0.392)	10.7	(0.042)	410	(59,954)
Wirral MBC	0.000	10.0	0.000	189	(27,637)
Total			0.107	(66)	9,652

3.4 Staffing

Police Officers

- 3.4.1 The budget challenges facing the Authority and Force will mean that staffing levels are likely to show reductions over the next four years. This is particularly disappointing given the efforts made over recent years to invest in additional police officer numbers and the benefits that have been gained by way of a continual rise in performance. Not only will numbers come under pressure given the cuts to grant funding, but this may be exacerbated by the budget pressures being experienced by partner agencies. The reviews being undertaken by the Chief Constable are designed to minimise the staffing impact of these cuts on front-line services though some impact is inevitable given the scale of the financial challenge now faced.
- 3.4.2 The anticipated movement in budgeted and actual Police Officer numbers for 2010/11 and 2011/12 is shown in **Table 10** and **11** respectively below. The number of externally funded posts is highlighted in **Table 10** and the position with regard to these posts was reported to the Finance and Audit Committee on the 3rd February 2011. In this latest report to the Committee the decision was taken to expand the definition of externally funded posts to include those funded by central government under specific grant or by government agencies. The figures shown in this table reflect the latest position as set out in that report. The table also reflects the changes being undertaken under the Strategic Options Programme (SOP) detailed in **Section 5** later in this report.

Table 10: Anticipated Budgeted Police Officer Posts

	2010/11 FTE	2011/12 FTE
Budgeted Police Officer posts at start of year	4,594.5	4,588.0
Reduction in DSP posts	(7.0)	0.0
Reduction arising from SOP schemes	0.0	(325.7)
Adjustment for externally funded posts	0.5	0.0
Estimated Budgeted Police Officer posts at end of year	4,588.0	4,262.3
Including externally funded posts of:	161.0	161.0

Table 11: Actual Police Officer Strength

	2010/11 FTE	2011/12 FTE
Actual number of FTE Police Officers at start of year	4,558.8	4,348.8
Retirements	(163)	(130)
Resignations	(28)	(22)
Others Reductions (dismissals, deaths etc)	(19)	(18)
Recruitment during year	0	0
Anticipated Actual number of FTE Police Officers at end of year	4,348.8	4,178.8

3.4.3 One of the most important factors in considering the Police Officer establishment, is how the movement in budgeted posts compares to the movement in the actual number of officers filling those positions. The establishment, demonstrated by **Table 10**, will move in accordance with the changes delivered under the Strategic Options Project and the Excellent Policing Programme, as well as changes in external funding. By contrast, the actual number of officers in post, demonstrated by **Table 11**, moves in accordance with retirements, dismissals, resignations and other losses, along with any future decisions on recruitment. The effect of a continued moratorium on the recruitment of Police Officers is that actual losses to the end of 2011/12 (380 officers lost over two years as per **Table 11**) are expected to be higher than the number of posts deleted under the change programmes (325.7 FTE posts removed as per **Table 10**). As the Force will continue to claw-back funding of vacant posts from devolved budgets, this difference provides the Authority with an element of financial resilience in 2011/12, particularly against the potential loss of externally funded posts.

Police Community Support and Traffic Officers

3.4.4 Police Community Support and Traffic Officers (PCS&TOs) are additional front line neighbourhood resources. The funding of these posts is made up of a combination of grant funding (71%) (the Neighbourhood Policing Fund), external partner funding (9%) and the Authority's own budget provision (20%). As stated in **paragraph 3.2.2** earlier, the grant funding in respect of PCS&TOs has been confirmed for a period of two years (ring-fenced for PCS&TOs) after which the grant will be absorbed into the main grant. The position with regard to partner funding is unclear at present. However, the budget assumes that partner funding will remain at current levels, though this may be an optimistic scenario given the financial pressures on these agencies.

3.4.5 An element of resilience for PCS&TOs funding has been established in recent years through the use of the PCS&TOs funding reserve. This fund has taken savings arising from the PCS&TOs budget and set

these aside for future years when funding may begin to be withdrawn. The position with the fund is set out in **Section 6** of this report but the balance is sufficient to ensure the continuation of PCS&TO numbers within the current funding profiles. The position with regard to the status of PCS&TOs contracts and funding is as set out in **Table 12** below.

Table 12: PCS&TOs Staffing and Funding Streams 2011/12

Posts	No	Total Cost £m	HO Funding £m	MPA Funding £m	Partner Funding £m	PCS&TO Reserve £m
Permanent Posts	192	13.975	(9.884)	(2.407)	(1.301)	(0.383)
Fixed Term Posts	274					
Total	466	13.975	(9.884)	(2.407)	(1.301)	(0.383)

3.4.5 There are currently 446.26 FTE PCS&TOs in post, with vacancies of 19.74 FTE posts.

3.4.6 A full report on the current position of PCS&TOs was presented to the Finance and Audit Committee on the 3rd February 2011 and a further update will be provided to that Committee in six months time.

Police Staff

3.4.7 In respect of Police Staff there are currently 2,762 full time equivalent established posts, including the 466 PCS&TOs shown above. A total of 135 posts and 50 PCS&TOs posts included in this total are funded by external partners and were detailed in the report on externally funded posts to the Finance and Audit Committee earlier this month. The Strategic Options schemes being implemented during 2011/12, detailed in **Section 5** later in this report, will result in a net reduction of 163.3 police staff posts.

Table 13: Police Staff Establishment

	FTE
Establishment posts at 31 st December 2010	2,762
Externally funded posts included in above figures	185
Anticipated reduction in posts during 2011/12 (SOP)	(163.3)

Table 14: Actual Police Staff Numbers

	FTE
Actual employees at 31 st December 2010	2,604
Current vacancies *	158
Anticipated total leavers 2010/11	104

* Vacancies include fractions of posts where staff work reduced hours. These fractions of posts are not necessarily suitable for recruitment/redeployment. Some vacancies are being held open for redeployment/deletion under the SOP proposals.

Pensions

- 3.4.8 Both Police Officers and Police Staff are eligible to join a final salary pension scheme into which both the employee and the Authority contribute. These schemes are independent of each other and the funding arrangements and terms are different for each scheme. Whilst Police staff may join the Merseyside Pension Scheme, which is based upon the Local Government Pension Model, Police Officers join the Police Pension Scheme. The funding arrangements for these schemes also differ in that the Police Staff scheme is a funded scheme, i.e. the scheme is backed by a range of underlying investments, whilst the Police Officer Scheme is unfunded, i.e. not backed by investments but underwritten by the Government.
- 3.4.9 All public sector pension arrangements are currently the subject of a review under the lead of Lord Hutton of Furness. The interim report on this review was published in October 2010 with a final report due later in 2011. It is unclear as yet what the findings of this review will mean for the schemes to which officers, staff and the Authority contribute.
- 3.4.10 Of most significance to the budget is the rate of employer contributions to these schemes and this can change based upon an actuarial valuation of the scheme. The interim Hutton report has suggested that contributions should be rebalanced with greater proportions of the cost of these schemes falling on the employee, though no changes have been proposed as yet.
- 3.4.11 In relation to the Local Government Pension Scheme, which police staff are able to join, changes have been made to the make up of employer contributions for 2011/12. As a result of the latest triennial valuation of the fund at 31st March 2010 the employer contribution rate has been recalculated to take account of past and future liabilities. Currently a rate of contribution is set to take account of both these elements, whereas from 1st April 2011 these elements are being disaggregated. The effect of this is that the employer contribution rate as a percentage of salary will be set at 9.9% and a lump sum payment will be required annually to contribute to past service liabilities. This compares to a current combined contribution rate of 13.7%. The lump

sum contribution for 2011/12 amounts to £2.412m. It is estimated that the saving in the percentage contribution set against the lump sum contribution will result in no additional cost to the Authority in 2011/12.

3.4.12 Police Officer pensions are administered by the Authority but are underwritten by the Government, thus any surplus or deficit on the Pensions Account is settled one way or the other between the parties. The balance on the Merseyside Pensions Account is currently a deficit and thus the account is in receipt of a top up grant each year. The transactions with regard to Police Officer pensions that are included in the Authority's revenue account are contained in the Pensions Operating Account. The projected Operating Account and Pensions Account are detailed in **Appendix F**. It can be seen from this schedule that the estimated top-up grant for 2010/11 amounts to £35.727m and £46.282m for 2011/12.

PART 4. MEDIUM TERM FINANCIAL STRATEGY

4.1 Medium Term Financial Strategy (MTFS)

4.1.1 The budget proposals for 2011/12 form part of the four year financial strategy of the Authority, which covers the period 2011/12 to 2014/15 (**Appendix E**).

4.1.2 On the 16th December 2010 a report was submitted to the Authority updating the MTFS. Since then the elements of MTFS have been fine tuned as follows:-

- General Police Grant reduces by 5.1% and 6.7% during 2011/12 and 2012/13 respectively. It is noted that the Home Office have announced a four year settlement, but the DCLG have only announced details for the first two years, within the remaining two years being announced following the Local Government Resource review due to be completed by July 2011. For planning purposes the assumption has been based on the national departmental increases published, which results in an estimated reduction in 2013/14 and 2014/15 of 1.9% and 2% respectively;
- The Precept is frozen in 2011/12, with the Authority receiving a Council Tax Freeze grant of £1.536m pa over the period;
- The Precept increases from 2012/13 in line with the Office of Budget Responsibility estimated historic trend of 3.4%;
- Partnership funding continues at current levels;
- A two year Pay freeze from 2011/12, except for those earning less than £21,000 pa who will receive an annual increase of £250pa, after which pay inflation is 2.5% pa;
- General Price inflation is 3.5% over the period;
- the revenue impact of the revised capital programme as outlined in **Appendix E**; and
- the impact of committed growth and other anticipated cost pressures, e.g. insurance, and achievable savings, e.g. collaboration.

4.1.3 **Table 15** below highlights that the Authority and Force will be required to make savings in the region of £61.426m over the period in order to balance its budget.

Table 15: Summary of the Estimated Saving Requirement

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	Total £m
		Prior year + another	Prior years + another	Prior years + another	
Expenditure	370.402	352.657	340.315	341.750	
Income	(350.305)	(334.143)	(331.907)	(327.343)	
Savings Requirement	20.097	18.514	8.408	14.407	61.426

- 4.1.4 **Table 15** above highlights that it is now estimated the Authority and Force will need to save £61.426m over the next four years, which is some £4.763m less than the £66.189m previously forecast following the Provisional Local Government Finance Settlement announcement. These savings are ‘front loaded’ hence the requirement to save approximately £20.097m in 2011/12 alone.
- 4.1.5 Clearly, the savings required by this settlement will provide both the Authority and the Chief Constable with major policing challenges in the years ahead. In addition, the ability of the Authority to maintain a balanced budget going forward will depend on many factors, particularly the outcome of the Local Government Resource review, the need to identify and make significant savings, additional legislative requirements, the Hutton Review on Public Sector Pensions, the Winsor review on Police Officer and Staff pay and conditions, the ability to raise the precept, the financial implications of continued service improvements, along with the continuation or otherwise of Partnership Funding which now stands at some £12.298m.
- 4.1.6 During 2011/12, the Treasurer and Chief Constable will submit reports to the Service Improvement Committee, the Finance and Audit Committee and ultimately the Authority on the options to be considered to address the potential funding gap and to balance the budget.

PART 5 – BUDGETARY PROPOSALS AND SAVINGS

5.1 Budget Background and Context

5.1.1 The budget for 2010/11 represented a shift of emphasis from those of previous years. Rather than look to further developing services, a strategy was to put in place to build financial resilience for the budget cuts anticipated in future years. This prudent approach has undoubtedly helped as the significance of the financial challenges over the next four years has become clearer. However, as shown in **Section 4** in this report, the level of savings required over this period will be challenging and painful.

5.2 Precept Level

5.2.1 Whilst it is clear that the Authority and Force will have to develop ways of working with fewer resources, the flexibility afforded by precept determination has effectively been limited for the year 2011/12. The introduction of the Council Tax Freeze Grant, at a rate equivalent to a 2.5% precept increase, means that only a rise above this level would give any additional financial benefit. As in previous years no details have been published regarding the capping criteria. It seems likely that increases, marginal or otherwise, above this 2.5% level would run the risk of being captured in any subsequent decision on the capping criteria. For this reason the Treasurer and Chief Constable are proposing that the Authority freeze the precept in 2011/12 and apply for the council tax freeze grant for 2011/12 amounting to £1.536m. The Government have committed to retaining this grant within the base over the four year period, but omitted any longer term commitments. Consequently, there is a risk that in 2015/16 this grant could be withdrawn.

5.2.2 Should Members agree to freeze council tax, the levels of precept on Band A properties, i.e. the majority of Council Tax payers on Merseyside, and on Band D properties would be as shown in **Table 16** below.

Table 16: Proposed Council Tax Precept Levels

	Band A £ pa	Band D £ pa
2010/11 Precept Level	97.49	146.23
2011/12 Precept Level	97.49	146.23
Increase on Previous Year	0.00	0.00
Increase per week	0.00	0.00

5.3 Proposed Budget Savings

- 5.3.1 Given this background of a significantly reduced resource base the Authority is faced with a savings target of £20.097m in 2011/12, as shown in **Tables 8 and 15** above.
- 5.3.2 A tightening financial environment was anticipated and recognised by the Authority in the 2010/11 budget, although not on the scale and speed announced by the Coalition Government, and as a result a number of reviews were commenced looking at how the Authority could make savings to meet these future challenges. This work, under the Strategic Options Programme, developed into a number of schemes that are aimed at making savings. The first wave of these schemes is now reaching implementation and will start to accrue savings from the start of the new financial year.
- 5.3.3 Schemes within the Strategic Options Programme are being progressed and implemented in several 'waves' and have been reported to the Service Improvement Committee, Finance and Audit Committee and the Authority. At its meeting on the 7th October 2010, the Authority approved the Wave 1a proposals and on the 16th December 2010 it approved the Wave 1b proposals. These proposals, together with the estimated financial savings and impact on posts, are summarised in **Table 17** below. A detailed performance impact assessment of these Wave 1a and 1b schemes was presented to Members of the Authority at the time it considered the proposals. Further to this, Wave 2 schemes are being developed and while these have begun to be considered by the Committees they have yet to be approved by the Authority. The three tables below set out the following:-
- **Table 17** – the Full Year savings and FTE impact of Wave 1a and 1b Strategic Options Schemes;
 - **Table 18** – the indicative Full Year savings for Wave 2 Strategic Options Schemes; and
 - **Table 19** – the estimated timeline of these savings across 2011/12 and 2012/13.

Table 17: Summary of the Full Year Savings and FTE Impact of Wave 1a and 1b Strategic Options Schemes

Scheme	Full Year Saving £m	Officer Impact FTE	Staff Impact FTE
Wave 1a Schemes –			
Information Bureau	0.860	2.0	22.0
IT & Telecommunications	2.310	5.0	18.0
Warrant Liaison Officers	0.160	5.5	(2.5)
Inter Agency Liaison Officers	0.160	6.2	(4.0)
Academy	1.110	19.0	6.0
PSD and ACU	0.260	4.0	2.2
Criminal Justice Units	1.420	4.0	33.3
Citizen Focus Department	1.070	12.0	6.5
Area Control Rooms	0.710	8.0	4.0
Centralisation of Custody	0.510	12.0	(10.0)
Equipment Officers (Ops Support)	0.080	2.0	0.0
Equipment Officers (BCU)	0.140	2.0	1.8
Mounted Department	0.530	9.0	4.0
Partnership Development Officers	0.300	4.0	0.0
Community Engagement Officers	0.340	6.0	0.0
Crime Reduction Officers	0.440	11.0	(1.0)
ASB Taskforce	2.480	49.0	4.0
	12.880	160.7	84.3
Wave 1b Schemes –			
Serious Crime Review Unit	0.207	0.0	6.0
Conferences	0.175	0.0	0.0
Paperless Admin Systems	0.222	0.0	0.0
Procurement Control	1.000	0.0	0.0
Police Federation Office	0.064	1.0	0.0
Merseyside Police Band	0.013	0.0	0.0
	1.681	1.0	6.0
Total Wave 1a and 1b Schemes	14.561	161.7	90.3

5.3.4 In total the Wave 1a and 1b schemes will generate savings of £14.561m as detailed in **Table 17** above.

5.3.5 A number of further Strategic Options schemes are currently being developed. The Wave 2 projects will result in further significant savings being achieved in 2011/12 with the full year effect impacting on 2012/13. The first stage, Wave 2a, of these schemes has already been presented to the Service Improvement Committee and Finance and Audit Committee, as part of the approved governance arrangements.

5.3.6 Whilst these Wave 2 schemes are still being developed and have yet to be consulted upon or approved, only indicative savings are available. These savings are as shown in **Table 18** below:-

Table 18: Indicative Full Year Savings for Wave 2 Strategic Options Schemes

Wave	Full Year Saving £m	Officer Impact FTE	Staff Impact FTE
Wave 2a schemes	4.200	81.0	1.0
Wave 2b schemes	7.100	83.0	72.0
Total Wave 2 schemes	11.300	164.0	73.0
Police Authority Savings	0.100	0.0	0.0
Total Savings/FTE Reductions	11.400	164.0	73.0

5.3.7 **Table 18** also includes £0.100m of recurring savings identified by the Treasurer following a review of the Police Authority's budget that can be released in 2011/12.

5.3.8 It is fully anticipated that the savings in **Table 18** will be achieved in part during 2011/12, though precise details of timing will be dependant upon approval, consultation and implementation timescales. In the interim period the Authority will continue to recover savings arising from vacancies in devolved budgets and this will provide resilience should these projects be delayed. As projects are implemented these vacancy savings will reduce as posts are removed from the establishment during the restructure of services.

5.3.9 The current estimate of the timing of the savings that will accrue from the SOP Wave 1 and Wave 2 projects is as shown in **Table 19** below.

Table 19: Estimated Timeline of Savings Across 2011/12 and 2012/13

Wave	Full Year Saving £m	2011/12 £m	2012/13 £m
Wave 1a schemes	12.880	12.400	0.480
Wave 1b schemes	1.681	1.580	0.101
Wave 2a schemes	4.200	3.900	0.300
Wave 2b schemes	7.100	4.000	3.100
Total Wave 1 and 2 schemes	25.861	21.880	3.981
Police Authority Savings	0.100	0.100	0.0
Total Savings	25.961	21.980	3.981

5.3.10 As **Table 19** demonstrates, between the Wave 1 and Wave 2 Strategic Options schemes sufficient savings can be achieved to meet the budget savings required in 2011/12. This anticipated level of savings will meet the projected savings requirement and leave an element of resilience to deal with any variations in the scale and timing of the savings programme. This resilience may also help in cushioning the impact of any partnership funding withdrawals.

5.3.11 In 2012/13 there will be a requirement to make savings of £18.514m as shown in **Table 15**. Part of this will be achieved by carry over of the additional £3.981m due to the full year effect of the SOP savings.

5.3.12 To date frontline functions have been protected. These will now be looked at as part of the Excellent Policing Programme to ensure the Force structure is fit for purpose and delivers the Authority/Force's vision of 'excellent policing for the communities of Merseyside', as well as delivering the remaining savings required in 2012/13 and beyond to balance the budget. The Excellent Policing Programme commenced in January 2011, to realise the vision and identify potential savings. Reviews of Intelligence, Investigation and Local Policing and Partnerships are key elements of the programme. The Authority will be regularly updated with the progress of this work and proposals will be presented to Members in due course.

5.3.13 Whilst the balance of savings from the Strategic Options Project and the Excellent Policing Programme will contribute to future years savings targets there will still need to be a series of further savings if the Authority is to achieve a balanced budget in these years. With this in mind a number of possibilities for increased collaborative working will be explored with other forces and public sector bodies. These include current investigations into Air Support, Firearms, Public Order and

Forensics. These schemes should produce savings that together with other opportunities will help meet the future year's budget shortfall.

5.3.14 The proposals on savings as set out in this report will enable a balanced budget to be achieved in 2011/12 and provide a platform for the savings targets that will be required in 2012/13 and beyond. The Authority and Force will need to build on this work so that programmes are in place to enable the overall savings targets to be achieved over the next four years.

PART 6. BALANCES, RESERVES AND PROVISIONS

6.1 Overall Strategy

- 6.1.1 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, reserves and provisions are shown in the sections below, together with an explanation as to their use and necessity.
- 6.1.2 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.

6.2 General Balances

- 6.2.1 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.
- 6.2.2 The Treasurer and the Chief Constable undertake an annual review of the level of these balances taking into account the risks included within 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 2011/12 the level of General Balances should be £9.032m. It is forecast that General Balances will £9.217m, some £0.185m at variance with the risk profile once the planned contribution to revenue in 2011/12 is taken into account. This equates to approximately 2% above the risk assessed level, and the Treasurer deems this level of contingency to be a satisfactory and acceptable position.
- 6.2.3 The opportunity costs of holding £9.217m in General Balances can be described in two ways. Firstly, the General Balances could be utilised to reduce the precept requirement in 2011/12 and / or in subsequent years. However, it should be noted that the proposal within this budget is to maintain the precept at the 2010/11 level. Given the recommendations in the budget this would not be an option in 2011/12. Alternatively, the Authority could utilise the £9.217m to finance an element of the budget structural deficit in 2011/12. However, given the one off nature of such resources, this would only delay the need for the Authority to identify the savings required to balance the base budget. The Treasurer will however give consideration to the utilisation of such

balances to address expenditure requirements of a one-off nature that may occur during the year, e.g. proposals to fund the collection fund deficit.

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

- the use of General Balances to address the issue of the precept would severely limit an appropriate precept strategy going forward;
- 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.

6.2.5 The anticipated level of General Balances for 2010/11 and 2011/12 are shown in **Table 20** below:-

Table 20: General Balances

	2010/11 £m	2011/12 £m
Balance at beginning of year:	9.489	9.324
Contribution to Revenue (to fund the Collection Fund Deficit)	(0.518)	(0.107)
Reversal of 2009/10 Net Carry Over	0.353	0.000
Estimated Net Carry Over	0.000	0.000
Balance at end of year:	9.324	9.217

6.3 Insurance Fund

6.3.1 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.

6.3.2 The Insurance Fund consists of an Insurance Provision and an Insurance Reserve. During 2010/11 a review of the Fund has taken place to ensure the Provision and the Reserve are still required and are at an appropriate level.

6.3.3 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 externally funded insurance provides the most economic advantage to the Authority.

- 6.3.4 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 31st December 2010 liabilities were estimated to be in the region of £6.794m (**see Appendix H**).
- 6.3.5 This amount consists of two elements; firstly an amount of £5.794m of known obligations based on the insurance companies' reserved amounts, inclusive of a win/loss ratio. It is noted that this amount has increased by £0.671m, from £5.123m in 2010/11. The main reasons for this appear to be a significant increase in public liability claims, which appears to be on an upward trend. In addition, there has been an increase in costs, particularly relating to damages and legal costs. The Treasurer has requested that a report on the reasons for the increase, the likely trend and details of the actions being taken to reduce potential liabilities be submitted to the Finance and Audit Committee by the end of the municipal year.
- 6.3.6 Consequently, the Treasurer is proposing to transfer the £0.668m opening balance from the Insurance Reserve into the Provision. In addition, it is estimated that expenditure against the Provision will be some £3.000m by the end of the financial year exceeding the annual contribution of £2.552m into the provision. In order to address this overspend the Treasurer is proposing to increase the contribution from revenue by £0.425m for the 2010/11 financial year. The Treasurer then proposes an ongoing uplift in the annual contribution of £0.500m in 2011/12 to match the expected increase in annual expenditure. The result of these proposals is that the Insurance Provision will provide for the current estimated level of insurance company liabilities, inclusive of a win/loss ratio. These movements are highlighted in **Table 21** below.
- 6.3.7 Secondly, a contingency has been set aside, 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 6.3.4**, inclusive of a win loss ratio. The Treasurer is proposing to make a £1.000m contribution from revenue, from the anticipated under spend in 2010/11 detailed in **Table 1**, into the Insurance Reserve to cover these estimated liabilities. This amount is held within the Insurance Reserve as highlighted in **Table 22** below and provides additional resilience in meeting insurance liabilities.

Table 21: Insurance Provision

	2010/11 £m	2011/12 £m
Balance at beginning of year:	5.149	5.794
Approved Contribution from Revenue (including interest)	2.552	2.629
Contribution from Revenue	0.000	0.500
Expenditure	(3.000)	(3.129)
Contribution from Revenue	0.425	0.000
Transfer from Insurance Reserve	0.668	0.000
Balance at end of year:	5.794	5.794

Table 22: Insurance Reserve

	2010/11 £m	2011/12 £m
Balance at beginning of year:	0.668	1.000
Transfer to Insurance Provision	(0.668)	0.000
Contribution from Revenue	1.000	0.000
Balance at end of year:	1.000	1.000

6.4 Strategic Options Reserve

- 6.4.1 At the end of 2009/10 the Authority approved the establishment of a Strategic Options Reserve to be utilised to mitigate the anticipated budget deficit from 2011/12 and to finance initiatives designed to save resources in the medium term. The release of monies from the reserve is approved by the Authority and during 2010/11 the Authority approved the release of £1.284m from the reserve to fund redundancy payments and capital costs resulting from implementation of SOP Wave 1a. It is now proposed to transfer the current balance to the Restructure Reserve.

Table 23: Strategic Options Reserve

	2010/11 £m
Balance at beginning of year:	2.000
Contribution to Revenue	(1.284)
Transfer to Restructure Reserve	(0.716)
Balance at end of year:	0.000

6.5 Safer Merseyside Partnership Reserve

6.5.1 The Authority was the accountable body for the Safer Merseyside Partnership. As a consequence the financial affairs of the Partnership were administered through the Authority. The Partnership ceased to operate from the 31st March 2005 and as a consequence the Authority has been responsible for the finalisation and closure of the Partnership's accounts. At the time that the Partnership ceased it held a large amount of stock. This stock has gradually been sold with the receipts from the sales being placed into the Reserve. It has now been confirmed that there is no further stock to be sold and the total balance on this reserve amounts to £0.148m. It is proposed to transfer this amount into the Restructure Reserve. This now brings closure to the accounting requirements in respect of the legacy of the Safer Merseyside Partnership.

Table 24: Safer Merseyside Partnership Reserve

	2010/11 £m
Balance at beginning of year:	0.148
Transfer to Restructure Reserve	(0.148)
Balance at end of year:	0.000

6.6 Restructure Reserve

6.6.1 Members will recall that the Authority established a Restructure Reserve that was to be utilised to fund the potential redundancy or other costs associated with the work of the Structures and Ratios project. Consequently, £2.000m was set aside into the reserve in 2007/08 and during 2009/10 £1.972m of the reserve was utilised. This left a balance of £0.028m in the Reserve. The Treasurer is now proposing that both the Strategic Options and the Safer Merseyside Partnership Reserves be merged into the Restructure Reserve. In addition, the Treasurer is proposing to make a £3.000m contribution from revenue, from the anticipated under spend in 2010/11 detailed in **Table 1**, into the Restructure Reserve. As a consequence of these movements the balance at the end of 2010/11 will be £3.892m as highlighted in **Table 25** below.

6.6.2 This balance can then be utilised to fund the potential redundancy or other costs associated with the work to address the budget deficit over the MTFs period. The utilisation of this reserve allows for the immediate release of savings into the Revenue Account. This has proved a successful strategy in reducing the estimated base budget savings requirement.

Table 25: Restructure Reserve

	2010/11 £m	2011/12 £m
Balance at beginning of year:	0.028	3.892
Transfer from Strategic Options Reserve	0.716	0.000
Transfer from SMP Reserve	0.148	0.000
Contribution from Revenue	3.000	0.000
Available Balance at end of year:	3.892	3.892

6.7 PCS&TO Reserve

6.7.1 The PCS&TO 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. This was 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, and that the Authority could roll forward these surplus resources to continue to fund the existing PCS&TOs.

6.7.2 In order to maintain the current budgeted level of PCS&TO's at 466 in 2011/12, with the budgeted number of fixed term contracts extended to 31st March 2012, it is estimated that a contribution of £0.384m will be required from the PCS&TO Reserve. **Table 26** below shows the anticipated position of the reserve at the end of 2010/11, along with the utilisation of the estimated available balance in 2011/12 and beyond.

Table 26: PCS&TO Reserve

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
Balance at beginning of the Year	2.368	2.563	2.179	1.709
Contribution from Revenue	0.195	0.000	0.000	0.000
Contribution to Revenue	0.000	(0.384)	(0.470)	(1.709)
Balance at year end	2.563	2.179	1.709	0.000

6.8 Estate Strategy Reserve

6.8.1 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. **Table 27** shows that the reserve has an opening balance in 2010/11 of £2.632m.

6.8.2 It is proposed that a revenue contribution of £1.439m be put aside in the reserve from the anticipated underspend in 2010/11. Consequently, the balance at the start of 2011/12 amounts to some £4.071m and it is proposed to utilise part of this Reserve to finance the capital programme during 2011/12 and 2012/13. The movements in the Estate Strategy Reserve are detailed in **Table 27** below.

Table 27: Estate Strategy Reserve

	2010/11 £m	2011/12 £m	2012/13 £m
Balance at beginning of the year:	2.632	4.071	2.301
Contribution from Revenue	1.439	0.000	0.000
Contribution to Capital	0.000	(1.770)	(2.301)
Balance at year end:	4.071	2.301	0.000

6.9 Pensions Reserve

6.9.1 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 of 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.

6.9.2 The anticipated balance in the Pensions Reserve is shown in **Table 28**. A risk assessment was undertaken during 2010/11 which assessed this level as appropriate for this reserve.

Table 28: Pensions Reserve

	2010/11 £m	2011/12 £m
Balance at beginning of year:	0.823	0.827
Planned Contribution to Revenue	0.000	0.000
Estimated Interest	0.004	0.004
Balance at end of year:	0.827	0.831

6.10 Capital Receipts Unapplied

6.10.1 Capital receipts are income from the sale of capital assets, such as police houses, police property and vehicles. Such income can only be used to repay loan debt or to finance new capital expenditure. Capital expenditure is sums paid for the acquisition of fixed assets or expenditure, which adds to and does not merely maintain the value of existing fixed assets. However, there is a de-minimis level of £10,000; capital receipts below this level are credited to the revenue account.

6.10.2 As at the 31st March 2010 the Authority held £2.624m in unapplied capital receipts. The Authority also applied £2.123m of those receipts to finance the 2010/11 capital programme leaving a balance of £0.501m. It is anticipated that the Authority will generate a further £0.250m from the sale of vehicles per annum. Together with the balance brought forward this gives the Authority a potential £1.001m in capital receipts to finance capital expenditure in 2011/12. **Table 29** below shows the movement in capital receipts to finance the capital programme.

Table 29: Current and Anticipated Level of Useable Capital Receipts

	2010/11 £m	2011/12 £m
Balance at beginning of year:	2.624	0.751
Capital Receipts received during the year	0.250	0.250
Capital Receipts applied during the year	(2.123)	(1.001)
Balance at end of year:	0.751	0.000

6.11 Other Funds, Balances and Reserves

6.11.1 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 7 – CAPITAL PROGRAMME AND PRUDENTIAL CODE

7.1 Capital Out-turn 2010/11

7.1.1 The Capital Plan for 2010/11 was set out as part of the Authority's budget 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 2010/11 are as follows:-

- the original IT Strategy budget was £4.280m and £0.935m was rephased from the 2009/10 financial year making a total budget for the 2010/11 financial year of £5.215m. The current revised estimate is £4.199m. It is proposed that £0.498m of the 2010/11 budget is rephased into the 2011/12 financial year and the department is anticipating making savings against budget of £0.518m largely as a result of amendments made to the IT capital programme in the light of the Strategic Options Project. Details of the Schemes now included are shown in **Appendix C**;
- the original Estate Strategy budget of £14.821m assumed that the purchase of the site for the Area Command Centre in Wirral would take place in early 2010/11 and that the major cost elements of the proposed scheme would be phased over the 2010/11 and 2011/12 financial years. This budget also assumed £2.000m of capital expenditure on the Knowsley Command Centre. Given the financial constraints now placed on the Authority, along with the related organisational and structural changes, the Chief Constable and Treasurer are recommending that the Area Command Centre projects are terminated and that the Estate Strategy Committee be requested to develop an alternative Estate Strategy addressing the balance between corporate and neighbourhood priorities. As a result the revised estimate for the Estate Strategy is now £0.331m;
- the original vehicle replacements budget was set at £3.600m however during 2010/11 this budget was reduced to £3.100m to take account of grant reductions imposed in the year;
- the anticipated use of the Estate Strategy Reserve in 2010/11 has been rephased into 2011/12. The reduced spend on Estate Strategy meant these funds were not required in the year. This spend would have been financed by capital receipts and therefore the level of unapplied capital receipts available to fund 2010/11 spending is higher than originally anticipated; and
- During 2010/11 the Home Office reduced the capital grant receivable from £4.224m to £3.898m.

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

7.2 Capital Plan 2011/12 to 2014/15

7.2.1 For the purpose of these calculations, it has been assumed that borrowing under the terms of the Prudential Code will fund all capital expenditure that cannot be delivered from the capital grant, the use of capital receipts or the utilisation of reserves. It is assumed that capital receipts received in each financial year will be fully utilised to reduce any borrowing requirements as quickly as possible. The capital outlay in the initial stages of the roll out of the Estate Strategy can be funded via the utilisation of the Estate Strategy Reserve prior to any borrowing on these projects, which will cushion the revenue impact of the capital financing costs.

7.2.2 The Home Office have significantly reduced the level of capital grant to £2.500m in 2011/12 (from £3.898m in 2010/11) to fund National priorities. However this will be compensated through an increase in capital funding in the following financial year. The Authority will therefore receive a capital grant of £2.500m in 2011/12 which increases to £3.700m in 2012/13 and then reduces to £3.400m in 2013/14 and 2014/15. It is noted that these levels of capital grants are still less than the £4.224m that was originally awarded in 2010/11. The capital financing plan at **Appendix C** utilises £1.001m of unapplied capital receipts in 2011/12 as set out in **Table 29**.

7.2.3 The capital plan attached at **Appendix C** shows the plans for capital spending for the next four financial years. Figures have been included in **Appendix C** to accommodate likely estate capital schemes over the next four years. The budget takes account of the Operational Command Centre project, with land purchased for the Operational Command Centre in 2012/13 and the programme of building works commencing in 2014/15. Projects included in the revised Estate Strategy will be the subject of further reports for approval by the Authority.

7.2.4 The investment in IT is in line with plans approved by the Authority and is as formulated by the Force IT Strategy Committee. This ensures that spending is prioritised in key areas. The budgeted expenditure of £2.608m in 2011/12 includes the planned rephase of £0.498m (**see paragraph 7.1.1**) from 2010/11. The planned strategy includes upgrading central network components in computer centres, integrated intelligence systems and implementing nominal search across all systems.

7.2.5 The vehicle replacement 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 £3.100m for the next four financial years.

7.3 Prudential and Treasury Management Indicators 2011/12

7.3.1 The Local Government Act 2003 introduced the current system of capital financing and control. The basic principle of this system is that the Authority is free to invest provided that the capital spending plans are affordable, prudent and sustainable. This system allows the Authority to set its own overall level of borrowing and this is governed by a set of regulations known as the Prudential Code for Capital Finance in Local Authorities (the Code).

7.3.2 The Code provides a framework of decision making to support the system of capital investment to ensure that:-

- capital expenditure plans are **affordable**;
- all external borrowing and other long term liabilities are within **prudent** and **sustainable** limits;
- treasury management decisions are taken in accordance with **good practice**; and
- the Authority is **accountable** by providing a clear and transparent framework which highlights the risks involved in capital projects.

7.3.3 To demonstrate that the Authority has fulfilled these objectives, the Code specifies arrangements for Authorities to set and monitor prudential indicators and impose limits for the current and next two financial years covering:-

- capital expenditure, external debt and treasury management (**see paragraph 7.3.5**);
- prudence (**see paragraphs 7.3.6 – 7.3.9**); and
- affordability (**see paragraph 7.3.10**).

7.3.4 The Code stresses that these indicators are designed to support local decision-making and are not designed to be comparative performance indicators.

Prudential Indicators for Capital Expenditure, External Debt and Treasury Management

- 7.3.5 The purpose and method of calculation for the prudential indicators for capital expenditure, external debt and treasury management is described in more detail in **Appendix J** and these prudential indicators are detailed in **Appendix K**. They are based on the capital programme and the assumptions are consistent with the Medium Term Financial Strategy.

Prudential Indicators for Prudence 2011/12

- 7.3.6 The Code has a broad overarching requirement for prudence specified as the Net Borrowing and Capital Financing Requirement.
- 7.3.7 It is possible that whilst the Authority's financial strategy may be affordable in the short term, it is imprudent and unsustainable because in the medium term it would, if pursued, be dependent on the use of borrowing to fund revenue expenditure.
- 7.3.8 The Authority should ensure that over the medium term net borrowing (gross borrowing less investments) is only for capital purposes. The requirement is that (except in the short term), net borrowing does not exceed the total Capital Financing Requirement for the current and next two years. This allows some flexibility to borrow earlier than required to take advantage of favourable interest rates.
- 7.3.9 The Treasurer reports that the Authority had no difficulty meeting this requirement in 2010/11, nor are there any difficulties envisaged for 2011/12 and future years.

Prudential Indicators for Affordability 2011/12

- 7.3.10 These measures are calculated to give an indication as to whether the proposed borrowings to fund the estimated capital expenditure and the associated revenue costs are affordable. Their purpose and method of calculation is described in more detail in **Appendix J** and the prudential indicators for affordability for each financial year are detailed in **Appendix K**. They are based on the capital programme and the assumptions are consistent with the Medium Term Financial Strategy.

7.4 The Minimum Revenue Provision

- 7.4.1 The Minimum Revenue Provision (MRP) is a statutory charge relating to the repayment of debt. Until 2007/08 the basis of the calculation was 4% of the Capital Financing Requirement (**Appendix K**). The Local Authorities (Capital Finance and Accounting) (England) Regulations 2008 came into force on 31st March 2008 and replaced the

above statutory calculation with a more general duty for the Authority to make an amount of MRP which the Authority considers 'prudent'.

7.4.2 Prudent provision is not defined within the Regulations but the guidance sets out several options which could be considered, although the overriding principle is that the charge to revenue should be linked to the lives of the assets funded by borrowing.

7.4.3 MRP commences in the year following the one in which the capital expenditure is incurred.

7.4.4 In accordance with the guidance, the MRP policy recommended for 2011/12 is as follows:-

- for capital expenditure incurred before 1st April 2008, MRP will be based on 4% of the Capital Financing Requirement;
- for capital expenditure incurred after 1st April 2008, for which borrowing is undertaken and supported by the Government through the Revenue Support Grant (RSG) system, the MRP is calculated as 4% of the Capital Financing Requirement (this is allowable under the new Regulations since the RSG is calculated on this basis); and
- for capital expenditure incurred after 1st April 2008, for which borrowing is undertaken, MRP will be calculated based on equal annual instalments over the estimated life of the asset (which is estimated as 60 years for buildings and 4 years for equipment and vehicles).

7.4.5 The calculations for capital financing costs shown in **Appendix E** have been based on these assumptions.

PART 8: KEY RISKS AFFECTING THE FINANCIAL POSITION

8.1 Key Risks

8.1.1 Whilst every endeavour is made to accommodate all known cost pressures within the budget, some issues remain, which could in the future represent a risk to the Authority and / or create 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.

8.1.2 Issues and risks are reported and monitored within the Authority and Force Risk Registers. They are also measured against the level of General Balances that the Authority maintains so as to afford a degree of resilience against these eventualities. However, Members should be aware of the risks that could materially affect the future financial position when considering the overall budget and precept setting process. It is with this in mind that the following issues have been set out for the attention of Members of the Authority.

The UK Economy

8.1.3 The Coalition Government has stated a commitment to reduce public borrowing over the short term and this is beginning to be felt across the public sector and the Police Service is far from immune from this commitment.

8.1.4 Clearly, this budget is driven by the announced grant settlements for 2011/12 and 2012/13, and a best estimate of the likely funding in 2013/14 and 2014/15. However, there are a number of other issues which will no doubt impact upon the financial position of this Authority over the period. These issues include:-

- **Interest Rates** – the Bank of England has kept the base rate at a record low of 0.5% for some time, with the objective of maintaining financial stimulus to the economy. This strategy is coming under increased pressure and calls for increased rates are being heard from some parts of the economy. The Authority is still a net investor of funds rather than a borrower, i.e. overall the Authority tends to have a higher average value of funds invested than borrowed over the year. Thus, the low interest rates and the cautious investment strategy required following the banking crisis have impacted upon net interest receipts.

However, the Authority is in the situation where it is likely to tip into a net borrowing situation as a revised Estate Strategy programme evolves and will be able to take advantage of this low interest environment. The down side is of course, that interest rates are likely to begin to rise and the Authority may be exposed to rising borrowing costs. The Treasurer will monitor this situation and where possible and appropriate, utilise longer-term borrowing vehicles for longer-term capital spending, to avoid the potential exposure to borrowing costs as interest rates rise.

- **Inflation** – the impact of the Government's quantitative easing policies, along with its low interest policy highlighted above, appears to be placing increasing pressure on the level of inflation, which has consistently remained above the Government's target for many months. Whilst some of these inflationary pressures are one off nature, e.g. VAT increases, the Bank of England will no doubt use monetary measures to contain these pressures, mainly through use of interest rates. However, the potential impact of inflation in a fixed grant environment will undoubtedly increase the pressure on the Authority's funding in real terms. The Government pronouncements on Public Sector pay restraint may alleviate some of these pressures.
- **Partnership Funding** – the Local Government Settlement has had a major impact on the Authority's partners who are likely to radically examine their spending programmes. Bearing in mind that the Authority relies on partnership funding to enhance a number of the Authority's services, including funding for Police Officers, PCS&TOs and other Police Staff, there is a risk to these services if this source of funding is reduced. Set out in **Section 3.4** are the numbers of posts supported by partnership funding and if this funding were to be withdrawn the Authority, in conjunction with the Chief Constable, will need to review the services provided under these arrangements.
- **Changes in Governance Arrangements** – this budget sets out the framework for a four year financial strategy, encompassing significant revenue budget reductions linked to service reviews, significant reductions in Police Officers and Police Staff, the continuation of PCS&TOs supported by partnership and central Government funding and an achievable and sustainable capital funding programme. However, the proposed change in governance arrangements to come into effect from May 2012 (after the setting of the 2012/13 budget) and the proposed powers of the new Police and Crime Commissioner could ultimately leave this strategy subject to significant change. Whilst this situation remains very unclear at this stage, the position may be somewhat clearer this time next year.

Other Issues

- 8.1.5 **Council Tax Arrears** – the Authority has seen in recent years a trend for the Merseyside Local Authorities to record an overall annual collection fund deficit. The cost to the Authority has exceeded over £0.500m in each of the last two years. However, during the current year this has reduced to £0.107m. This issue is certainly related to the state of the economy and reflects the pressure that is being put on household budgets. It seems likely that given the impact of public sector cuts in Merseyside over the coming years this pressure is likely to significantly grow. As in previous years, the Treasurer is proposing to fund the collection fund deficit from general balances. This situation will need to be clearly monitored with the ongoing funding of such being reviewed again as part of the next budget setting process.
- 8.1.6 **Labour Party Conference** – the Labour Party has announced that their Annual Conference will be held in Liverpool in July 2011. This event involves a large policing operation and will require significant advance planning, this work having already commenced. The costs of policing this event are traditionally funded by a special grant.
- 8.1.7 **The Olympic Games** - the Olympic Games will be held in London in 2012 and this will be a very large scale policing operation. Resources are likely to be drawn from across the country and the Force has Assistant Chief Constable representation on the national co-ordination meetings. Indications at the moment suggest that resources will be drawn predominantly from southern-based forces and that any requirements from Merseyside will be limited and/or restricted to specialist teams. The situation remains under regular review.
- 8.1.8 **National Policing Improvement Agency (NPIA)** - the proposed closure of the NPIA has now been delayed by at least 12 months as the Government makes plans for a number of its functions and services to be transitioned to other bodies; these include significant aspects of the national police infrastructure including the Airwave radio system and the Police National Computer (PNC). The NPIA has been tasked to make significant budget cuts during its transitional period and these are already impacting on Forces in the form of discontinued services and/or the introduction of charges. The Force and Authority submitted a joint response to NPIA proposals for such service alterations in January 2011, the most significant of which is a charge of £0.177m for the operation of the new Police National Database (PND). The transitional arrangements for the NPIA will be kept under continual review.

8.1.9 **National Crime Agency** - the creation of a new National Crime Agency was a key proposal of the new Government. To date, the exact structure and remit of the new body remains undecided and it is therefore difficult to assess the likely impact on Force resources or operational activity. However, a number of Chief Officers of the Force are playing key roles in helping to shape the future of the National Crime Agency and this will afford good visibility to the Authority as and when plans become more certain.

8.1.10 **Review of the Prison Service** - the Government has, through the Ministry of Justice, announced a comprehensive review of the prison estate and prison service. This is likely to result in a reduction in the prison population and changes to sentencing policy; citing in January 2011 an over capacity of c.5,000 spaces for a total population of 83,000. Of significance locally was a decision not to build a new 600 place prison at Maghull. As change continues to take place within the prison service, and indeed within the courts service, the Force and Authority will monitor developments, assess resulting risks and ensure that operational and financial resources are appropriately deployed.

PART 9. CONCLUSIONS AND RECOMMENDATIONS

9.1 Conclusions

- 9.1.1 During the formulation of the 2010/11 budget, the Authority prudently and wisely set a budget of consolidation given the uncertainties of the upcoming CSR announcement. This has at least allowed the Authority to face 2011/12 and beyond in a financially resilient position, that at any other time, would have provided a sound foundation for future investment in priority services.
- 9.1.2 However, the Local Government Finance Settlement has presented the Authority with two very significant financial challenges, i.e. the enormity of the likely savings over 4 years (£61.4m) and the “front loading” of the savings requiring £38.5m to be saved over the initial 2 year period.
- 9.1.3 Consequently this budget sets out a strategy for implementing the quickest and deepest cuts in living memory, whilst, by “back loading” the impact on front line services seeks to mitigate, as much as possible the timing of the impact on operational policing. However, it is inevitable that this impact will grow over the 4 year period.
- 9.1.4 On a more positive note, the approach of the Authority in financial planning for the longer term along with the commendable effort and support from all staff in extreme budgetary management has at least provided the financial resilience to re-engineer services without further impacting upon the revenue position of the Authority. All this achieved within a Council Tax precept freeze, and a financial commitment to investing in the Estate, albeit more modestly over the next four years.

9.2 Recommendations

- 9.2.1 The Authority is recommended to:-
- (p) approve the Revenue Budget for 2011/12 as set out in **Appendix A** incorporating a Council Tax precept freeze at the 2010/11 level;
 - (q) approve the Treasurer applying for the Council Tax Freeze grant as outlined in **paragraph 5.2.1**;
 - (r) note the Revised Estimate for 2010/11 as set out in **Table 1**;
 - (s) approve the continuation of the suspension of the Authority’s carry over rules as set out in **paragraph 2.2.11**;

- (t) approve the utilisation of £0.107m from General Balances in 2011/12 to fund the declared 2010/11 Collection Fund Deficit by the Local Authorities, as set out in **paragraph 3.3.5**;
- (u) approve in broad terms the Medium Term Financial Strategy as set out in **Appendix E**;
- (v) approve the transfer of £0.668m from the Insurance Reserve as set out in **paragraph 6.3.6**;
- (w) approve the transfer of £0.716m from the Strategic Options Reserve to the Restructure Reserve as set out in **paragraph 6.4.1**;
- (x) approve the transfer of £0.148m from the Safer Merseyside Partnership Reserve to the Restructure Reserve as set out in **paragraph 6.5.1**;
- (y) approve in principle the strategy in respect of reserves and provisions, with regard to the Insurance Fund, the Restructure and Estate Strategy reserves as set out in **Section 6**, pending the final outturn position to be reported to the Authority in June;
- (z) approve the Capital Programme and financing arrangements as set out in **Appendix C** and the prudential indicators outlined in **Appendix K** of this report;
- (aa) approve the termination of the Area Command Centre programme and request that the Estate Strategy Committee undertake a review of the Estate Strategy going forward within the constraints of the approved Capital Programme as set out in **Appendix C**;
- (bb) approve the policy detailed in **paragraph 7.4.4** on the Minimum Revenue Provision for 2011/12; and
- (cc) 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 2011 and ending 31st March 2012.

PAUL JOHNSON,
Chief Executive / Treasurer

JON MURPHY,
Chief Constable

Appendix A – Illustrative Summary Budget 2011/12 Assuming a Precept Freeze

ORIGINAL ESTIMATE 2010/11 £	PROBABLE OUTTURN 2010/11 £	FINANCIALLY ACCOUNTABLE UNITS	ORIGINAL ESTIMATE 2011/12 £
22,386,006	20,951,648	STRATEGIC DEVELOPMENT Strategic Development	21,648,432
8,548,198	8,745,151	CITIZEN FOCUS Citizen Focus	8,866,013
5,774,746	5,216,495	Call Handling	5,585,076
11,478,578	11,478,671	ADMINISTRATIVE SUPPORT Personnel and Development	11,728,467
28,774,683	28,246,112	Resources Directorate	29,738,291
159,674,075	159,876,053	OPERATIONS Basic Area Operations	159,383,627
4,008,287	3,245,981	Area Co-ordination	3,392,661
91,071	88,925	Special Constabulary	91,950
38,428,429	39,674,123	OPERATIONAL SUPPORT Operational Support	38,888,815
18,429,258	19,720,079	Crime and Intelligence	22,540,526
13,310,152	13,159,093	Force Crime Operations	13,343,876
586,152	588,392	OPERATIONAL CONTINGENCY FUND	592,905
2,226,694	2,093,793	POLICE AUTHORITY	2,218,531
44,187,884	44,828,741	NON RECHARGEABLE FINANCING ITEMS AND LEVIES Police Pensions	44,973,161
407,063	559,095	Attachments	444,117
2,732,334	2,453,982	Forcewide Services	7,009,284
222,518	217,584	Underwater Search Unit	234,504
2,626,533	1,966,992	Capital Charges	1,208,668
(2,091,344)	(1,625,915)	Income	(1,691,344)
880,837	906,705	PNC Charges (now included in Forcewide Services)	-
(2,000,000)	-	Savings included in 2010/11 budget report	-
(593,130)	-	Savings included in 2010/11 budget report	-
-	-	Savings anticipated from Strategic Options Project	(20,097,000)
-	(1,553,000)	Further savings from recruitment freeze	-
-	-	Savings from collaborative working	(200,000)
-	1,284,708	Costs incurred in respect of Strategic Options Project	-
360,089,023	362,123,408	NET COST OF SERVICES	349,900,561

Appendix A – Illustrative Summary Budget 2011/12 Assuming a Precept Freeze (cont)

ORIGINAL ESTIMATE 2010/11 £	PROBABLE OUTTURN 2010/11 £	FINANCIALLY ACCOUNTABLE UNITS	ORIGINAL ESTIMATE 2011/12 £
360,089,023	362,123,408	Net Cost of Services	349,900,561
6,729,296	827,175	Contingency for Pay and Price Increases	2,863,390
2,843,664	362,000	Provision for Police Reform Pay and Conditions	1,443,664
369,661,983	363,312,583	Net Cost of Services at Outturn Prices	354,207,615
(5,874,503)	(3,866,331)	Capital Appropriations	(4,413,828)
651,098	323,000	Interest Payable	504,103
(98,764)	(100,000)	Interest and Investment Income	(100,000)
364,339,814	359,669,252	Net Operating Expenditure	350,197,890
-	353,000	<u>Appropriations</u> Net Carry Over from 2009/10	-
-	(89,975)	Net Carry Over to 2011/12	-
(518,055)	(518,055)	Contribution from General Balances (Deficit on Collection Fund)	(107,285)
2,000,000	3,000,000	Contribution to Restructure Reserve	-
-	(1,284,708)	Contribution from Strategic Options Reserve	-
221,530	1,439,473	Contribution to Estate Strategy Reserve	-
-	1,000,000	Contribution to Insurance Reserve	-
-	425,000	Contribution to Insurance Provision	-
(367,572)	194,482	Contribution (from)/to PCSO Reserve	(383,514)
365,675,717	364,188,469	TOTAL NET EXPENDITURE TO BE MET FROM GOVERNMENT GRANTS AND TAXATION	349,707,091
(137,377,512)	(137,377,512)	Less : Specific Home Office Revenue Grants :	(137,764,657)
(30,377,254)	(28,890,006)	General Grant	(15,526,436)
(17,361,791)	(17,361,791)	Government Specific Grants	(31,517,895)
(119,563,915)	(119,563,915)	Revenue Support Grant	(101,965,707)
518,055	518,055	Business Rate Income	(1,536,081)
		Council Tax Freeze Grant	107,285
		Deficit/(Surplus) on Collection Fund	
61,513,300	61,513,300	PRECEPT REQUIREMENT	61,503,600
420,661	420,661	Council Tax Base (Number of Band D Properties)	420,595
£146.23	£146.23	Council Tax - Band D	£146.23
4.00%	4.00%	Increase on Previous Year	0.00%

Appendix B – Projected Out-turn 2010/11, Variance Analysis

FINANCIALLY ACCOUNTABLE UNITS	ORIGINAL ESTIMATE 2010/11	PROJECTED OUTTURN 2010/11	EXPLANATION OF VARIANCE
	£	£	
<u>STRATEGIC DEVELOPMENT</u>			
Strategic Development	22,386,006	20,951,648	Underspend on vacancies, in particular PCS&TOs, together with pay and price changes.
<u>CITIZEN FOCUS</u>			
Citizen Focus	8,548,198	8,745,151	Police pay award, price inflation and vacancy savings to meet in-year funding cuts.
Call Handling	5,774,746	5,216,495	Police pay award, price inflation, redeployment of CRB Officers as part of budget developments.
<u>ADMINISTRATIVE SUPPORT</u>			
Personnel and Development	11,478,578	11,478,671	Pay and price inflation offset by vacancy savings
Resources	28,774,683	28,246,112	Reduction of budget for Estate improvement due to in-year budget cuts, plus vacancy savings
<u>OPERATIONS</u>			
Basic Area Operations	159,674,075	159,876,053	Pay and price inflation offset by vacancy savings
Area Coordination	4,008,287	3,245,981	Transfer of ANPR team to Crime and Intelligence
Special Constabulary	91,071	88,925	Pay and price inflation offset by vacancy savings

Appendix B – Projected Out-turn 2010/11, Variance Analysis (cont)

FINANCIALLY ACCOUNTABLE UNITS	ORIGINAL ESTIMATE 2010/11	PROJECTED OUTTURN 2010/11	EXPLANATION OF VARIANCE
	£	£	
<u>OPERATIONAL SUPPORT</u>			
Operational Support	38,428,429	39,674,123	Pay and price inflation offset by vacancy savings
Crime and Intelligence	18,429,258	19,720,079	Budget savings on Forensic costs and vacancy savings offset by centralisation of CSIs and transfer of ANPR team from Area Coordination.
Force Crime Operations	13,310,152	13,159,093	Pay and price inflation offset by vacancy savings
<u>OPERATIONAL CONTINGENCY FUND</u>			
Operational Contingency Fund	586,152	588,392	Pay and price inflation
<u>POLICE AUTHORITY</u>			
Police Authority	2,226,694	2,093,793	Underspend on employee costs due to vacancies, together with savings on office expenses, subscriptions, conference fees and travel arrangements.

Appendix B – Projected Out-turn 2010/11, Variance Analysis (cont)

FINANCIALLY ACCOUNTABLE UNITS	ORIGINAL ESTIMATE 2010/11	PROJECTED OUTTURN 2010/11	EXPLANATION OF VARIANCE
NON RECHARGEABLE FINANCING ITEMS AND LEVIES	£	£	
Police Pensions	44,187,884	44,828,741	Increase in budget allocation due to pay award offset by vacancies and Home Office review of injury pensions.
Attachments	407,063	559,095	Increase in budget allocation due to pay award offset by continuing pressure of secondments to SOCA
Forcewide Services	2,732,334	2,453,982	Underspends on supernumeraries and regional units
Underwater Search Unit	222,518	217,584	Small underspend across all budget headings
Capital Charges	2,626,533	1,966,992	Capital Expenditure on planned Estate Strategy suspended
Income	(2,091,344)	(1,625,915)	Less than anticipated income from Proceeds of Crime Act.
PNC Charges	880,837	906,705	Inflationary Increase and usage charges
Savings schedule agreed by Chief Constable	(2,000,000)	-	Savings from 2010/11 budget report
Additional Savings required	(593,130)	-	Savings from 2010/11 budget report
Further savings from recruitment freeze		(1,553,000)	Additional savings to be taken from vacancies
Costs incurred in respect of Strategic Options		1,284,708	Costs of implementation of SOP changes, to be taken from the Strategic Options Reserve
Net Cost of Services	360,089,023	362,123,408	

Appendix C - Capital Programme

	2010/11 Revised £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
IT STRATEGY					
Applications Projects					
Replace Force Intelligence System	1.017	0.000	0.000	0.000	0.000
Cedar Origins (HR) and Replace Duty Rostering (CARMS)	0.940	0.337	0.000	0.000	0.000
Phone Record Analysis System	0.000	0.000	0.160	0.000	0.000
Implement Nominal Search across all systems	0.000	0.000	0.200	0.163	0.000
Video/Audio digital interviews	0.000	0.135	0.000	0.000	0.000
Mobile CSIs	0.091	0.000	0.000	0.000	0.000
Replace Mobile Data Terminals in vehicles with Netbooks	0.104	0.000	0.000	0.000	0.000
Integrated Intelligence Systems	0.000	0.067	0.120	0.163	0.000
Exhibit Property Continuity Management	0.000	0.000	0.000	0.163	0.000
Mapping of CCTV Cameras	0.000	0.135	0.000	0.000	0.000
Other Applications Projects	0.480	0.196	0.056	0.033	0.225
	2.632	0.870	0.535	0.520	0.225
Technical Projects					
Replace Control Room call-recording equipment	0.150	0.000	0.000	0.000	0.000
Replace BT Transcomm Service	0.080	0.120	0.000	0.000	0.000
Extend Holmes 2 licences once existing framework expires	0.000	0.100	0.000	0.000	0.000
Review Websense internet protection	0.000	0.000	0.000	0.120	0.000
Upgrade central network components in computer centres	0.000	0.000	0.250	0.250	0.000
Upgrade the Integrated Communications Control System	0.120	0.000	0.000	0.000	0.000
Mobile Data Terminals in vehicles - Raptor	0.575	0.600	0.650	0.700	0.750
Upgrade Telephone Switch Software	0.000	0.120	0.000	0.000	0.000
Other Technical Projects	0.477	0.493	0.145	0.040	0.000
	1.402	1.433	1.045	1.110	0.750

Appendix C - Capital Programme (cont)

	2010/11 Revised £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Information Management Projects					
Other Information Management Projects	0.165	0.255	0.130	0.050	0.050
	0.165	0.255	0.130	0.050	0.050
Developments	0.000	0.050	0.150	0.300	1.000
TOTAL IT STRATEGY	4.199	2.608	1.860	1.980	2.025
TECHNICAL					
Technical Equipment	0.175	0.170	0.195	0.195	0.145
TOTAL TECHNICAL	0.175	0.170	0.195	0.195	0.145
ESTATE					
Estate Management					
Energy Conservation	0.227	0.110	0.110	0.110	0.110
Plant Replacement	0.183	0.120	0.120	0.120	0.120
Security of Buildings	0.000	0.120	0.120	0.120	0.120
Other Estate Management Projects	0.205	0.120	0.120	0.120	0.120
	0.615	0.470	0.470	0.470	0.470
Estate Strategy					
Optimum Space Strategy	0.023	0.100	0.100	0.100	0.100
Estate Strategy	0.308	1.200	13.300	10.000	10.000
Operational Command Centre	0.000	0.000	2.450	1.000	10.000
	0.331	1.300	15.850	11.100	20.100
TOTAL ESTATE	0.946	1.770	16.320	11.570	20.570
TOTAL VEHICLES	3.100	3.100	3.100	3.100	3.100
TOTAL CAPITAL EXPENDITURE	8.420	7.648	21.475	16.845	25.840

Appendix C - Capital Programme (cont)

CAPITAL PROGRAMME - FUNDING

	2010/11 Revised £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Home Office Allocations					
Government Grant General	3.898	2.500	3.700	3.400	3.400
Total Home Office Allocations	3.898	2.500	3.700	3.400	3.400
Other Allocations					
Other Allocations	0.080	0.000	0.000	0.000	0.000
Total Other Allocations	0.080	0.000	0.000	0.000	0.000
Borrowing					
Supported Capital Expenditure	2.319	2.319	2.319	2.319	2.319
Unsupported Borrowing	0.000	0.034	12.963	10.876	19.871
Total Borrowing	2.319	2.353	15.282	13.195	22.190
Funding from Capital Reserves					
General Capital Reserve	0.000	0.024	0.000	0.000	0.000
Estate Strategy Reserve	0.000	1.770	2.301	0.000	0.000
Total Funding from Capital Reserves	0.000	1.794	2.301	0.000	0.000
Capital Receipts	2.123	1.001	0.192	0.250	0.250
TOTAL FUNDING	8.420	7.648	21.475	16.845	25.840

Appendix D - Efficiency and Productivity Plan 2008/09 to 2010/11

Introduction

The Efficiency Plan has been a regular part of the reporting of efficiency and productivity in the Authority for several years. The last plan covered the years 2008/09 to 2010/11 and reflected a more relaxed regime that had been introduced whereby the Authority could set their own savings targets and the distinction between cashable and non-cashable savings was removed. The target set by the Authority in the 2008/09 budget amounted to a total of 9.3% of the 2007/08 Gross Revenue Expenditure over a three-year period. The year 2010/11 represents the third and final year of this plan and this report now shows the overall projected out-turn position for the year 2010/11 and the three years of the plan.

The requirement to complete an efficiency plan has now been removed and the Authority has discretion on whether to continue measuring efficiency in this way. Given that the emphasis over the next four years will be on making cashable savings to meet the budget shortfall, the opportunity for re-investment of savings is going to be very limited. The emphasis will be to make sure the budget shortfall is addressed in each year and a programme of cashable savings will be required in order to achieve this. These savings proposals and progress will be reported to Members on a regular basis and it is now recommended that this process replace the requirement to prepare a formal efficiency plan.

Performance on the 2010/11 Plan

The projected out-turn for 2010/11, summarised in Table 1 below, shows that estimated savings of £13.909m should be achieved against a target of £11.952m. This surplus of £1.957m will be added to the balance of excess savings from previous years to make a total of £3.385m savings in excess of target for the three years.

Table 1 - Summary of Performance

	£m
2010/11 Performance	
Target Savings 2010/11	11.952
Projected Savings Achieved	13.909
Surplus savings 2010/11	1.957
Surplus savings from prior years	1.428
Surplus savings over 3 year plan	3.385
3 Year Plan Totals	
Total savings achieved in 3 years	36.673
Total savings achieved (Incl. brought forward)	38.101
Target savings	35.858
Three Year Plan Totals	
	%
% of 3 year plan achieved	102.3%
% of 3 year plan including savings b/f	106.3%

As can be seen from the Table, the Force has achieved efficiencies of £36.673m in the three years of the plan. With the surplus savings brought forward from previous years these savings amount to 106.3% of the three-year target.

The projected out-turn by scheme for 2010/11 and against the annual target of £11.952m, is summarised in Table 2 below.

Table 2 - Summary of Efficiency Gains 2010/11

Ref No.	Efficiency Initiative	Plan 2010/11 £m	Outturn 2010/11 £m
	Staff Deployment		
1	CSI Deployment and Processes	1.000	0.377
2	STORM Command and Control	0.150	0.066
3	IT/Technology efficiencies	0.580	0.889
4	Ill health/ Reduction in Recuperative duties	0.778	0.941
5	Sickness rates	0.000	1.626
	Sub-Total	2.508	3.899
	Overtime		
6	Management Control of Overtime	0.500	0.500
	Sub-Total	0.500	0.500
	Process Improvements		
7	Value for money reviews including QUEST	1.498	0.253
8	Forensic processes	0.600	0.347
9	Estates Service Review Improvements	0.250	0.000
10	Forensic Nurse Practitioners	0.450	0.450
11	Uniform issue and storage	0.500	0.410
12	Unity (RIT) savings	0.500	0.500
	Sub-Total	3.798	1.960
	Bureaucracy		
13	CRB- Officer self recording of crime	0.585	0.696
14	HR systems review	0.130	0.000
15	Custody assistants- portable data recording	0.080	0.000
15	Use of Blackberries	0.000	0.285
	Sub-Total	0.795	0.981
	Procurement		
16	Centralised Subscriber Billing invoicing	0.100	0.025
17	Regional procurement of hire vehicles	0.000	0.097
	Sub-Total	0.100	0.122
	Support Services		
18	2010/11 Additional budget savings targets	0.000	5.027
	Sub-Total	0.000	5.027

Ref No.	Efficiency Initiative	Plan	Outturn
		2010/11 £m	2010/11 £m
	Overhead Expenses		
19	Rebased Budgets	0.100	0.100
20	Review of Awards and Allowances	0.300	0.300
21	Fuel (vehicles and Air Support) and Vehicle repairs	0.270	0.200
22	Office Consumables	0.200	0.200
23	Police Authority Savings	0.070	0.070
24	Reduced Abstraction to courses and conferences	0.370	0.550
25	Target areas not initially identified	2.941	0.000
	Total Savings in Year	11.952	13.909

The significant variations from Plan in 2010/11 are as follows:

- **Sickness** – Significant reductions in staff sickness levels have been achieved during the year through the ongoing attendance management programme.
- **VFM Reviews including QUEST**– The implementation of the Quest programme has now been realigned with the Strategic Options Project and the balance of these savings will be achieved in future years.
- **CSI Deployment, Forensic Processes, Estates Service Review, HR Systems Review, Custody Assistants–mobile data** – The implementation date of these initiatives will be later than originally envisaged. The savings will be achieved in future years.
- **Use of Blackberries** – These savings relate to further savings from the rollout of blackberries originally recognised in the 2009/10 Efficiency Plan.
- **2010/11 Extra budget savings**- As part of the Home Office requirement to make budget savings Merseyside Police are anticipating savings of £5.027m.

The savings achieved in 2010/11 have been re-invested in services throughout the year. In some cases this has been through the development of services as planned in the budget whilst in others it allows re-investment of officer time into other duties. This re-investment is shown in Table 3 below.

Table 3 – Reinvestment of 2010/11 Efficiency Gains

Re-investment	Plan 2010/11 £m	Outturn 2010/11 £m
Re-investment in Police officer time	3.631	3.510
Other initiatives identified in Policing Plan	6.321	3.372
Savings utilised to address budget pressures	2.000	7.027
Total Re-investment	11.952	13.909

Overall, £13.909m of efficiency gains has been re-invested in services in 2010/11 to support the Force in achieving its Policing Plan objectives within the constraints imposed through a reduction in budget.

Appendix E – Medium Term Financial Strategy 2011/12 to 2014/15

	2011/12	2012/13	2013/14	2014/15
	£m	£m	£m	£m
EXPENDITURE				
Base Budget B/F	364.340	370.195	352.557	340.315
Specific Grant adjustment to Expenditure - DSP	-0.019	0.000	0.000	0.000
Specific Grant adjustment to Expenditure	0.934	0.000	0.000	0.000
Committed Growth/Recurring Savings	0.000	-20.097	-18.514	-8.408
Revised Base Budget	365.255	350.098	334.043	331.907
Recurring Committed Growth/Reductions:				
Capital Financing	-0.105	0.610	0.707	1.240
Impact of increase in National Insurance Rates	0.608	0.000	0.000	0.000
Additional funding for insurance	0.500	0.000	0.000	0.000
Funding of Regional Task Force	0.256	0.000	0.000	0.000
Reduction in carbon credit rebate	0.000	0.108	0.000	0.000
Introduction of PND	0.177	0.000	0.000	0.000
Pay award for staff earning less than £21k	0.233	0.400	0.167	0.000
Committed growth from previous years	0.298	0.000	0.000	0.000
Reduction in income from Proceeds of Crime Act	0.300	0.000	0.000	0.000
	2.267	1.118	0.874	1.240
Recurring Savings				
Additional Savings from 2010/11	-1.000	0.000	0.000	0.000
Reduction in Special Priority Payments	-1.400	0.000	0.000	0.000
Savings from Collaborative working	-0.200	-0.500	-0.500	-0.500
	-2.600	-0.500	-0.500	-0.500
Total	364.922	350.716	334.417	332.647
Allowance for Inflation	5.273	1.841	5.898	8.821
Base Budget Requirement C/F	370.195	352.557	340.315	341.468
Savings/Developments (One Off)				
Replace CBRN equipment	0.000	0.000	0.000	0.282
Additional Public Holidays 2011/12 & 2012/13	0.100	0.100	0.000	0.000
	0.100	0.100	0.000	0.282
One-Off Commitments				
Collection Fund Deficit	0.107	0.000	0.000	0.000
	0.107	0.000	0.000	0.000
Total Budget Requirement	370.402	352.657	340.315	341.750

Appendix E – Medium Term Financial Strategy 2011/12 to 2014/15 (cont)

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
FUNDING				
Funding Assumptions -				
General Grant	-271.248	-253.100	-258.197	-253.107
Council Tax Freeze Grant	-1.536	-1.536	-1.536	-1.536
Specific Grants	-15.526	-15.442	-4.708	-4.708
Total Assumed Grant	-288.310	-270.078	-264.441	-259.351
Brought Forward Precept Level	-61.513	-61.504	-63.595	-65.757
Assumed Precept Increase	0.000	-2.091	-2.162	-2.236
Reduction in Tax Base	0.009	0.000	0.000	0.000
Total Assumed Precept	-61.504	-63.595	-65.757	-67.993
Total Assumed Funding	-349.814	-333.673	-330.198	-327.343
DEFICIT/(SURPLUS)	20.588	18.984	10.117	14.407
Contribution from General Balances (Collection Fund)	-0.107	0.000	0.000	0.000
Transfer from PCS&TO Reserve	-0.384	-0.470	-1.709	0.000
	-0.491	-0.470	-1.709	0.000
NET DEFICIT/(SURPLUS)	20.097	18.514	8.408	14.407
Savings Required	-20.097	-18.514	-8.408	-14.407
	-20.097	-18.514	-8.408	-14.407
Balanced Base Budget	0.000	0.000	0.000	0.000
Total Savings Required	-61.426			

Assumptions				
Pay and prices	2.55%	0.00%	2.50%	2.50%
Non-pay inflation	3.50%	3.50%	3.50%	3.50%
Precept	0.00%	3.40%	3.40%	3.40%
Tax Base	£0.070	£0.000	£0.000	£0.000

Appendix F - Analysis of Pensions Transactions 2010/11 to 2012/13

	2010/11 Probable Outturn £m	2011/12 £m	2012/13 £m
<u>Operating Account</u>			
Employer Contributions	37.524	37.572	37.572
Employer Contributions - Secondments	(0.110)	(0.097)	(0.097)
Injury Pensions	6.033	6.085	6.399
Injury Gratuities	0.105	0.100	0.103
Ill Health Charges - Capital Equivalent Charges	1.113	1.125	1.163
Pensions 30+ Officers	0.163	0.188	0.193
Total Pensions charges included in Revenue Account	44.828	44.973	45.333
<u>Pensions Account</u>			
Income			
Officer Contributions	(16.676)	(16.697)	(16.697)
Employer Contributions	(37.710)	(37.572)	(37.572)
Incoming Transfers	(1.320)	(0.750)	(0.750)
Capital Equivalent Charge for Ill Health Retirements	(1.113)	(1.125)	(1.163)
Estimated Top Up Grant	(35.727)	(46.282)	(48.980)
Total	(92.546)	(102.426)	(105.162)
Expenditure			
Pensions	74.472	78.545	80.821
OLAS Lancashire & Cheshire	0.534	0.478	0.448
Ill Health Commutations	1.467	1.500	1.575
Ordinary Commutations	15.625	21.038	21.450
Death In Service	0.240	0.250	0.250
Transfer Values Payable	0.068	0.476	0.476
Deferred Benefits - Ordinary	0.140	0.139	0.142
Total	92.546	102.426	105.162

Appendix G - Risk Based Calculation of Adequacy of General Balances

Risk Register Ref No.	Brief Description	Residual Risk Score from Risk Register	Estimated Exposure £m	Financial Requirement £m
1	Financial Capability/Economic Climate	9	40.000	3.600
2	Terrorism Threat	9	12.000	1.080
4	Manage Organisational Change	9	15.000	1.350
11	Force Estate	8	5.000	0.400
14	Strategic/Local Partnerships	8	5.000	0.400
15	ACPO Pursuit management	8	4.500	0.360
16	Data/IT systems	8	7.500	0.600
3	POCA Recoveries	6	0.700	0.042
6	Party Conferences	6	4.000	0.240
7	Custody Provision	6	4.500	0.270
8	Property Offices	6	1.500	0.090
9	Criminal Enterprises	6	5.000	0.300
10	Calls Handling	6	3.500	0.210
12	Sanction Detections	6	1.500	0.090
Level of General Balances Required to provide adequate financial resilience against Risks identified in Strategic Risk Register				9.032

The table takes all risks with a residual risk score of 6 or greater 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

	Insurance Fund Risk Assessment End of Year	£m	£m
1	Insurance Company estimates as at 31.12.10		
	- Chartis	6.634	
	- Ensign/QBE	1.091	7.725
2	Less 25% win ratio		-1.931
			5.794
3	Contingency for late claims		1.000
4	Estimated Total Fund Requirement		6.794

Appendix I – Other Funds, Balances and Reserves

Description	Actual Balance end March 2010 £m	Estimated Balance end March 2011 £m
Capital Reserve - Used for capital re-phasing and capital creditors	0.024	0.024
Helicopter Fund - Used to provide a reserve for servicing and repair, based on flying hours	0.067	0.344
Police Property Act Fund - Funds from sales of property donated to good causes	0.651	0.293
Cleaning Contract Reserve - Accumulation of cleaning contract surplus	0.128	0.128
Vehicle Fleet Reserve - Surplus from Fleet Trading Account	0.048	0.048
Sponsorships - Sponsorship monies received and held by BCU's	0.125	0.107
Vehicle Take Back Reserve	0.890	1.041
Target Hardening Reserve	0.509	0.600
TASER Reserve	0.251	0.251
HQ Security Reserve	0.000	0.090
Other Balances and Funds - Various other small funds and balances	0.196	0.135
Totals	2.889	3.061

Appendix J - Prudential Code Indicator Descriptions

Prudential Indicators for Capital Expenditure 2011/12

Prudential Indicator	Calculation	Purpose	Result
Capital Expenditure	Requires that a capital expenditure plan is prepared and approved.	Details the proposed capital programme on which all prudential indicators are calculated.	Capital Plan is presented at Appendix C ; this includes the current forecasted implementation of the Estate Strategy from 2012/13. This increases capital expenditure and capital financing costs from current levels.
Capital Financing Requirement (CFR)	The CFR consolidates tangible and intangible fixed assets, the revaluation reserve, the government grants deferred account and the capital adjustment account from the balance sheet at 31 st March 2010. It then increases each year as capital expenditure is incurred and is reduced when other financing methods are used or funds are set aside to repay debt.	Details the Authority's underlying need to borrow for capital purposes only, i.e. the amount not yet funded by other sources such as grants, capital receipts or internal funds. ¹	The CFR does not increase significantly in 2011/12 as full use is made of capital receipts and reserves to fund capital expenditure and the Estate Strategy is not anticipated to begin until 2012/13. The CFR increases from 2012/13 onwards as the Estate Strategy progresses, however the indicators for affordability (paragraph 7.3.10) provide comfort that the resulting increases in financing costs are manageable.

¹ It is important to understand that there is no direct relationship between this sum and the actual external borrowing undertaken. The integrated Treasury Management Strategy takes account of overall planned cash flow and this will reduce the amount of borrowing required to fund capital expenditure.

Appendix J – Prudential Code Indicator Descriptions (cont)

Prudential Indicators for External Debt 2011/12

Prudential Indicator	Calculation	Purpose	Result
Authorised Limit	The Authorised Limit for external borrowing takes into account all borrowing, not just that for capital purposes. It is based on an estimate of the most likely, prudent scenario with sufficient headroom for operational management matters for example unexpected cash flow movements.	Sets a maximum level for external borrowing. The Authorised Borrowing limit reflects the level of borrowing which the Authority deems suitable given the estimated capital plans and affordability.	The proposed Authorised limit for 2011/12 is £40m. This is considered sufficient to cover day-to-day cash flow movements and also long-term borrowing undertaken to fund capital expenditure in the year. A headroom of £5m is given for unexpected cash flow movements.
Operational Boundary	The Operational Boundary is calculated in the same manner as the Authorised Borrowing Limit but without the additional headroom included to allow for unusual cash movements.	Alerts the Authority to any imminent breach of the Authorised limit. It will probably not be significant if the Operational Boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular breach is significant and should lead to investigation and action.	The Operational Boundary for 2011/12 has been set at £35m, £5m below the Authorised Limit.

Appendix J – Prudential Code Indicator Descriptions (cont)

Prudential Indicators for Treasury Management 2011/12

Prudential Indicator	Calculation	Purpose	Result
Adoption of the CIPFA Treasury Management in the Public Services Code of Practise	Not Applicable	To ensure that treasury management is led by a clear and integrated forward treasury management strategy.	The Authority has adopted this Code which is contained within Financial Regulation 6.3.2.
Interest Rate Exposures	Principal sums outstanding in respect of borrowing at fixed or variable rates, expressed as a percentage of total net outstanding principal sums.	Creates a range within which the Authority will limit its exposure to both fixed and variable interest rate movements.	The upper limit on fixed rate exposure is set at 100% of the net outstanding principal sums. This will enable the Authority to take out any 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%. The upper limit on variable interest rate exposures has been set at 40%.
Maturity Structure of Borrowing	Amount of projected (fixed rate) borrowing undertaken in 2011/12 maturing in each period, expressed as a percentage of total projected (fixed rate) borrowing.	To assist the Authority in avoiding large concentrations of fixed rate debt which has the same maturity structure which needs to be replaced at the same time.	The proposed maturity structures are unchanged from last year. This structure is considered sufficient to reduce the exposure of the Authority to refinancing at times of volatile or high interest rates.

Appendix J – Prudential Code Indicator Descriptions (cont)

Prudential Indicators for Affordability 2011/12

Prudential Indicator	Calculation	Purpose	Result
Ratio of Financing Costs to Net Revenue Stream	Financing costs ² expressed as a percentage of net revenue stream. ³	This indicator enables the Authority to ensure that the capital programme is not resulting in excessive charges against revenue.	With a reduction in the net revenue stream and an increase in capital financing costs arising from the Estate Strategy, the ratio is increasing from 0.64% in 2010/11 to 0.70% in 2011/12. It is considered however that this ratio is still within acceptable limits and the Authority is not planning to commit an excessive proportion of net revenue to capital financing costs.
Incremental Impact of the Capital Programme on the Precept	An estimate of the increase in budgetary requirements arising from the proposed changes to the capital programme is calculated for each financial year. This is then converted into the increase to the precept ⁴ which would be necessary to meet the additional capital financing costs.	This indicator enables the Authority to form a judgement about acceptable council tax levels, which is considered by the Code as the ultimate determination of affordability.	The impact on the 2011/12 precept is calculated as an increase of £0.44. However it is anticipated that savings in running costs can be made to support the Estate Strategy which will offset this impact.

² Total interest payable for short and long term borrowing, the Minimum Revenue Provision (Section 7.4) less any interest and investment income.

³ Amount to be met from Government Grants and local tax payers i.e. the Home Office Specific Grant, Revenue Support Grant, Business Rate Income and the Precept.

⁴ This indicator assumes that additional financing costs are funded fully from the precept.

Appendix K – Prudential Code Indicators 2011/12

Indicator		2009/10 Actual	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Capital Expenditure	£m	9.568	8.420	7.648	21.475	16.845	25.840
Financing Costs	£m	2.071	2.162	2.347	2.957	3.664	4.904
Net Revenue Stream	£m	326.117	335.298	334.180	317.696	323.713	322.566
Ratio of Financing Costs to Net Revenue Stream	%	0.64%	0.64%	0.70%	0.93%	1.13%	1.52%
Incremental Increase in Financing Costs ¹	£m	-	-	0.185	0.610	0.707	1.240
Incremental Impact of the Capital Programme on the Precept (on Band D property) ¹	£	-	-	0.438	1.451	1.682	2.947
	%	-	-	0.30%	0.99%	1.15%	2.02%
Capital Financing Requirement	£m	38.836	39.264	39.674	56.117	67.483	87.667
Authorised Borrowing Limit ²	£m	50.000	38.000	40.000	57.000	70.000	92.000
Operational Boundary ²	£m	45.000	33.000	35.000	52.000	65.000	87.000
Upper Limit for Fixed Rate Exposure	%	100%	100%	100%	100%	100%	100%
Upper Limit for Variable Rate Exposure	%	40%	40%	40%	40%	40%	40%

Indicator		Under 12 months	1 – 2 years	2 – 5 years	5 – 10 years	10 years and above
Upper Limit for Maturity Structure of Borrowing	%	10%	10%	20%	35%	100%
Lower Limit for Maturity Structure of Borrowing	%	0%	0%	5%	10%	30%

¹ A fundamental indicator of affordability for members to consider in setting its forward plans is the impact on the precept that will result. The Prudential Code therefore requires that estimates of the incremental impact of capital investment decisions on the precept is calculated for the forthcoming year and the following two years only. There is no requirement to produce these calculations for the current and previous financial year.

² The authorised borrowing limit and operational boundary for each financial year are reviewed and updated annually to take into account changes in the level of borrowing required to undertake the updated capital programme.

MERSEYSIDE POLICE AUTHORITY

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