

MERSEYSIDE POLICE AUTHORITY
BUDGET REPORT 2006/07
CONTENTS

RESOLUTION OF THE MERSEYSIDE POLICE AUTHORITY.....	3
PART 1. INTRODUCTION.....	5
PART 2. REVISED ESTIMATE 2005/06.....	7
PART 3. BUDGET 2006/07 and 2007/08.....	10
3.1 Local Government Finance Settlement.....	10
3.2 Specific Revenue and Capital Grants.....	12
3.3 Chief Constable's Budget Initiatives.....	13
3.4 Budget Options.....	15
3.5 Revised Base Budget.....	16
3.6 Staffing.....	17
3.7 Pensions.....	20
PART 4. BUDGETARY SAVINGS AND FINANCING MEASURES.....	23
PART 5. BALANCES, PROVISIONS AND RESERVES.....	26
5.1 Reserve Strategy.....	26
5.2 General Balances.....	26
5.3 Pensions Reserve.....	27
5.4 Compensatory Grant Provision.....	28
5.5 Insurance Fund.....	28
5.6 Other funds, Balances and Reserves.....	29
PART 6. CAPITAL PROGRAMME AND PRUDENTIAL CODE.....	30
6.1 Capital Outturn 2005/06.....	30
6.2 Capital Plan 2006/07 to 2007/08.....	30
6.3 The Prudential Code.....	31
PART 7. KEY RISKS AFFECTING THE FINANCIAL POSITION.....	37
7.2 Future Funding Settlements.....	37
7.3 Use of One-off Funding.....	37
7.4 Investment in additional officers.....	37
7.5 Contingencies.....	38
7.6 Force Re-Structure.....	38
PART 8. RECOMMENDATIONS.....	39

APPENDICES

APPENDIX A – Illustrative Summary Budget 2006/07.....	40
APPENDIX B – Projected Outturn 2005/06 Variance Analysis.....	42
APPENDIX C – Capital Programme.....	43
APPENDIX D – Efficiency Plan 2006/07 – 2008/09.....	44
APPENDIX E – Medium Term Financial Plan for 2006/07 to 2008/09.....	48
APPENDIX F – Other Funds, Balances & Reserves.....	49

RESOLUTION OF THE MERSEYSIDE POLICE AUTHORITY

THE BUDGET 2006/07

1. That following detailed consideration of the Joint Report on the Budget by the Treasurer and the Chief Constable, and in accordance with Sections 43-48 of the Local Government Finance Act, 1992 the Authority:-
 - (a) note the Revised Estimate for 2005/06 as set out in **paragraph 2.1.15**;
 - (b) approve the Capital Programme and financing arrangements as set out in **Appendix C** and the prudential indicators outlined in **section 6.3** of this report, subject to Authority approval of the Estates Strategy and the business case for the proposed Academy, as discussed in **paragraph 6.2.4**;
 - (c) approve the Medium Term Financial Plan as set out in **Appendix E**;
 - (d) approve a Revenue Budget for 2006/07 of **£324,585,606**;
 - (e) issue an appropriate precept requirement of **£51,478,780** an increase of £2,583,300 equivalent to **5%**, (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 2006 and ending 31st March 2007.

a precept of **£80.97** for properties in Band A
£94.47 for properties in Band B
£107.96 for properties in Band C
£121.46 for properties in Band D
£148.45 for properties in Band E
£175.44 for properties in Band F
£202.43 for properties in Band G
£242.92 for properties in Band H;

(f) 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 18th day of April 2006
the 25th day of May 2006
the 3rd day of July 2006
the 8th day of August 2006
the 14th day of September 2006
the 20th day of October 2006
the 27th day of November 2006
the 5th day of January 2007
the 9th day of February 2007
the 16th day of March 2007

**TO: THE CHAIRMAN AND MEMBERS OF THE POLICE
AUTHORITY**

MEETING: 16th FEBRUARY 2006

JOINT REPORT OF THE TREASURER AND CHIEF CONSTABLE

BUDGET 2006/07

Part 1. INTRODUCTION

1.1.1 The purpose of this report is to:-

- Provide an updated report on the Revised Estimate for 2005/06;
- Seek agreement on the Medium Term Financial Plan (MTFP) for 2006/07 to 2008/09; and
- Seek approval for the Revenue and Capital budgets of the Authority for 2006/07.

1.1.2 The Authority has been awarded a net increase in general grants of 3.14% in the Local Authority Finance Settlement 2006/07, plus an amount which represents an amendment to the levels of grant received in 2004/05 and 2005/06 of a further 0.45%. In itself, this falls significantly short of the resource requirements to balance the base budget and provide the committed service levels incorporated within the 2006/07 policing plan.

1.1.3 As part of the Settlement, the Government introduced a new funding formula for Police Authorities. The new formula is used to determine the Police Grant and the Relative Needs Amount of the grants from the Office of the Deputy Prime Minister (ODPM), i.e. the Revenue Support Grant and National Non-Domestic Rates. However, the settlement again uses the concept of floors to help smooth out the effects of the changes to the funding formula. If the "Floor" had not been in place, the Authority's grant would have been £3.125m higher, i.e. a general grant increase of 4.45%.

1.1.4 This has left the Authority's finances in deficit to the tune of £5.481m at a 5% precept increase. The budget has been prepared and illustrated using the 5% precept level throughout this report. However, other Force's did set budgets above the implied capping level in 2005/06 without penalty, and the extent to which precept rises of 5% can be maintained in future years in the light of the many challenges facing the organisation will be kept under review, in the light of addressing budget shortfalls of £12.7m in 2005/06, and £5.4m in 2006/07. The savings and efficiencies realised by the service, without affecting performance become more difficult over time.

- 1.1.5 This financial position has been discussed previously at the Resources and Strategy Committee and the Financial Planning Sub-committee. In order to balance the budget in the medium term the report suggests that it would be necessary to introduce a package of savings, cost reductions and financing measures. The report further suggests that the impact of these measures on performance can be minimised, although it is likely that there will have to be significant changes in the way in which administrative and support services are organised to achieve the level of savings required.
- 1.1.6 In order to develop the service and improve performance the Chief Constable has put forward proposals to recruit an additional 180 Police Officers, in line with the Authority's policy of increasing Police Officer numbers. The report suggests that the cost of these additional Police Officers will be funded through additional savings to be identified by the Chief Constable. The Chief Constable has worked in partnership with the Treasurer to bring forward a potential financial plan that would support the Authority's long term policy of increasing police officer strength.
- 1.1.7 However, in considering the proposed budget and MTFP, Members will need to take account, in particular, of the extent and timing of the use of 'one-off' funding. In this regard, Members will recall that the balancing of the 2005/06 budget at a precept level of 5% relied upon one-off funding of £4.9m, which has rolled forward to 2006/07.
- 1.1.8 In order to address these policy aspirations and service requirements, the Chief Constable has formulated spending proposals, and the Treasurer has constructed a proposed resourcing plan; which are detailed in the report. It should be noted that the Authority's ability to implement its policy of providing more police officers from 2006/07 onwards, and deliver the stated aim of being the best performing Force in the country, will be dependent upon a significant level of savings being achieved.
- 1.1.9 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 considerations regarding the precept and the medium to longer term financial position.

PART 2. REVISED ESTIMATE 2005/06

2.1. Revised Estimate 2005/06

- 2.1.1 The Original Budget for 2005/06 totalled £330.621m after adjusting for the planned contributions from General Balances, provisions and reserves of £4.607m. Overall devolved budgets for 2005/06 were also decreased by £0.333m being the net carry over by budget holders from 2004/05. As a result, a number of budgets, including the majority of Areas, started the year with a carried forward overspend which put additional pressure on these budget holders, especially given the level of savings included in the 2005/06 budget.
- 2.1.2 The 2005/06 budget included a number of specific grants, totalling £18.883m. This amount subsequently increased to £21.519m as a result of new grants being announced and increases in the levels of existing grants. This is an overall increase of £2.636m. Where specific grants are increased during the year, budgets in the particular area or department are increased to take account of the anticipated sums, conversely budgets are reduced where grants are reduced or removed. **Table 1** provides a summary of the significant movements in specific grants in 2005/06.

Table 1: Movement in Specific Grants

Specific Grant	Movement	£m
Drug Testing on Charge	Increase	0.956
Local Criminal Justice Board	Increase	0.248
No Witness No Justice	Increase	0.120
Initial Police Learning & Development	New	0.178
Reflex Grant	Increase	0.157
Healthy Workforce	Increase	0.142
DNA	Increase	0.122
IMPACT	Increase	0.117
Crime Fighting Fund	Decrease	(0.285)
Other	Increase	0.881
TOTAL		2.636

- 2.1.3 A number of the above relate to additional grants received in respect of criminal justice. The Drug Testing on Charge grant is aimed at identifying problematic drug users and encouraging them to enter treatment. The Local Criminal Justice Board provides funding for a support team to assist in the delivery of criminal justice targets, the analysis of offenders and provision for CCTV evidence. The No Witness No Justice Grant provides for Witness care Units.
- 2.1.4 The Initial Police Learning and Development grant provides funding for the local training of probationers following the closure of the Centrex training centre at Bruche. A further grant of £0.285m for capital costs has also been received for building work at Lea Green.

- 2.1.5 The Reflex grant provides funding for investigating illegal immigration and the Healthy Workforce fund provides for physiotherapy and psychotherapy services to assist in reducing sickness levels. The additional DNA grant represents the approval of the utilisation of a rebate received in 2004/05. The IMPACT grant is to assist with the costs of improving information management capability data on domestic violence and child protection issues.
- 2.1.6 The reduction in the Crime Fighting Fund reflects the fact that no increase for inflation for this grant has been received although it had been originally budgeted for.
- 2.1.7 There are also a number of other grants where additional funding has been received for a variety of crime reduction initiatives in Areas.
- 2.1.8 A Contingency for Pay and Prices was included in the original budget and totalled £11.009m. The major pay and pension settlements during the year amounted to 3% for the Police Pay award and 3% for the Support Staff pay award. Other price changes were applied broadly within the range of inflationary pressures seen nationally. After all these allowances have been applied to budgets to cover the additional costs it is anticipated that a saving of £0.260m will be achieved in this provision.
- 2.1.9 In addition to the contingency for pay and prices, a provision of £2.843m was held to cover the additional costs arising from Police Pay Reform. After adjustments have been made to budgets to cover these costs it is anticipated that a saving of £0.420m will be achieved on this budget. Overall the anticipated savings on the Pay and Prices and Police Reform provisions amount to £0.680m.
- 2.1.10 It is anticipated that a net overspend position will be carried forward by budget holders to 2006/07 under the Authority approved scheme which will amount to £0.199m. After account is taken of this carry-over, the remaining underspend on individual budget allocations, plus the variations in central budgets, excluding Pensions, are expected to generate a saving of £0.602m. Account has been taken in these calculations of the targeted savings of £0.600m in staff phasing included in the budget. In addition, a review of the earmarked reserves has identified trading surpluses of £0.667m which have been utilised to offset the overspend.
- 2.1.11 Following the terrorist strikes in London during July 2005, the Force responded by increasing high visibility presence at key strategic locations throughout Merseyside. This reaction not only increased resilience should incidents arise in the area but also served to reassure the public. The cost of this response was not part of the 2005/06 budget but was reported to the Authority as soon as practicable. The total cost of this response amounted to £0.526m. It was originally suggested that the costs of this response could be met from the contingency afforded by General Balances, however it is now possible to meet these costs from the above underspends without recourse to balances.

- 2.1.12 2005/06 represents the final year of the existing police pension funding arrangements. The current scheme has placed a degree of volatility on the budget arising from the uncertainty over the number of officers that will retire in any one year. The new funding arrangements are detailed later in this report.
- 2.1.13 For 2005/06 it is now estimated that there will be 144 normal retirements, this exceeds the original estimate of 125 by 19 officers. In contrast the number of ill-health retirements is expected to be lower than the original estimate, 23 as opposed to the 27 officers originally anticipated. A further factor in the cost of pension commutation payments during 2005/06 has been the higher average value of payments. The average commutation payment for normal retirement has risen to £86,885, an increase of £3,755 over the previous year. Ill-health commutation payments now average £74,338.
- 2.1.14 Given the increased normal retirements an overall overspend on pensions in 2005/06 of £1.403m is forecast. The major elements in this overspend are the increased number and value of normal commutations and the increased cost of ongoing retirement pensions, although these are partially offset by the reduced number of ill-health retirements and improved level of transfer values. While it would be possible to utilise the pension reserve to meet these additional costs it is proposed that they can be met by utilising underspends in other areas and trading surpluses.
- 2.1.15 The total anticipated net underspend position for 2005/06 is shown in **Table 2** below:

Table 2: Estimated Net Budget Out-turn Position 2005/06

	£m
Contingency for Pay and Prices/Police Reform	(0.680)
Devolved and Central Budgets – Net Underspend	(0.602)
Utilisation of Reserves (trading surpluses – see Appendix F)	(0.667)
Response to Terrorist Incidents	0.526
Additional Pension Costs	1.403
Total Net Underspend	(0.020)

- 2.1.16 **Appendix A** provides an analysis of the revised estimate for 2005/06, whilst **Appendix B** provides a commentary on the variances from original budget across the various units.
- 2.1.17 Any net underspend will be carried forward into the Authority's General Balances account.

PART 3. BUDGET 2006/07 and 2007/08

3.1 Local Government Finance Settlement

3.1.1 The provisional Local Government Finance Settlement for 2006/07 was announced on the 5th December 2005, with the final figures announced on 31 January 2006. The Settlement introduced a number of changes from previous years including:

- For the first time the settlement covered more than one year. In this case a two-year period, 2006/07 and 2007/08, but with the intention that in future, settlement announcements will move to a three-year timeframe. This is in line with the financing arrangements for local government as a whole, and should enable improved financial planning.
- A new Local Government formula grant distribution mechanism has been introduced comprising four funding blocks. These are relative needs, relative resource amount, central allocation amount and floor damping.
- A new funding formula has been introduced for the calculation of the police grant included within the settlement. The main determinant of the formula is population but with top up for categories of crime, based upon Police Performance Assessment Framework (PPAF) data.
- Adjustments to the formula have been made to accommodate the new funding arrangements for police pensions.
- The establishment of the Counter Terrorism Fund, with funds being drawn from a number of existing grants including the funding for Dedicated Security Posts (DSPs) that was previously included in the general grant provision.

3.1.2 The overall headline increases in government funding for policing are 5% in 2006/07 and 4.5% in 2007/08. The settlement also incorporates a floor damping methodology whereby Authorities potentially receiving increases below the pre-determined floor level, as a result of the formula calculations, are brought up to this minimum level. This is funded by scaling back increases for those Authorities that find themselves above the floor after the application of the model. These floor levels have been set at 3.1% for 2006/07 and 3.6% for 2007/08.

3.1.3 This damping has in effect restricted increases to police authorities to a very narrow range, described in the Home Office announcement letter as “a broadly flat rate increase for all police authorities for 2006/07 and 2007/08. This will be 3.1% and 3.6%.” The impact of this is to negate the impact of the changes brought about by the replacement of the Police

Grant Formula; the existing formula had been in place since 1995 and relied on data from the early 1990s.

3.1.4 To calculate the impact of the settlement, year on year adjustments have been made for changes to the police pensions funding regime and the removal of the general grant related to dedicated security posts. These changes have been accounted for by adjusting the 2005/06 formula grant base, including an adjustment for the amending reports received in that year. This gives a revised comparator base from which increases can be calculated, these are shown in **Table 3** below.

3.1.5 After restatement of the 2005/06 formula grant base for the Authority the funding increase for 2006/07 amounts to **3.14%**. The use of the floor damping methodology has resulted in a reduction in the total grant received of £3.125m. Without damping, the increase would have amounted to 4.45%. For 2007/08 the increase is at the pre-determined floor level of 3.6%, the damping methodology having reduced the allocation by £1.841m. Without damping the increase would have been 4.37%. These increases are illustrated in **Table 3** below.

Table 3: Analysis of general grant increase 2006/07 and 2007/08 for Merseyside Police Authority

	£m	%	Effect of Damping £m
2005/06 Formula Grant	257.717		
Transfers for pensions and Dedicated Security Posts	(20.722)		
Adjustment for Amending Report 2005/06	0.540		
Amended 2005/06 Formula Grant	237.535		
Allocation 2006/07 (before floor damping)	248.116	4.45	
Allocation 2006/07 (after floor damping)	244.991	3.14	(3.125)
Provisional allocation 2007/08 (before floor damping)	255.690	4.37	
Provisional allocation 2007/08 (after floor damping)	253.849	3.62	(1.841)

3.1.6 As in previous years, amending reports have been used to compensate, or penalise, authorities where changes in data received from the Office of National Statistics or other bodies have resulted in material changes to allocations from previous years. For 2006/07 these amending reports benefit Merseyside by an additional £1.061m, being £0.521m in respect of 2004/05 and £0.540m in respect of 2005/06. These grants have mainly been a result of changes in population statistics. This funding should be treated as a one off windfall. However, when these additional sums are

included in the overall general formula grant increase this gives an overall increase for 2006/07 of 3.59%.

3.1.7 Whilst the level of the overall grant settlement is slightly above the levels anticipated in the Authority's medium term financial plan, it still leaves a shortfall in funding of £5.481m, even after assuming a 5% precept increase. This is primarily the shortfall created by the use of one-off funding in recent years to support the budget, pending the introduction of the new funding formula and pension arrangements. However, this fundamental 'funding gap' is reducing year on year, as last year it amounted to some £8.6m.

3.2 Specific Revenue and Capital Grants

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

3.2.2 New specific grant funding can be made available throughout the year. The detail of the position, as at the time of writing the report and therefore included in the budget for 2006/07, is shown in **Table 4** below.

Table 4: Specific Revenue Grants 2006/07

Grant	£m	Details
Crime Fighting Fund	9.499	Funding based on maintaining police officers numbers recruited between 2000/01 and 2002/03
Counter Terrorism Fund	4.744	New grant replacing funding for dedicated security posts formerly part of general grant.
PCSO's (Rounds 1 to 3)	1.447	Continued funding for PCSOs recruited under rounds 1 to 3.
Neighbourhood Policing Fund (Fund 1 & 2)	2.762	Anticipated funding of PCSO posts in 2006/07
Special Priority Payments	2.321	Grant to meet cost of Special Priority Payments arising from police reform agenda.
BCU Fund	1.393	Grant directed at BCUs to deliver crime reduction initiatives
Forensic Grant	1.751	Grant replacing former DNA expansion scheme and to be used for forensic services.
Total Specific Grants	23.917	

3.2.3 The Authority also receives a General Capital Grant to support capital schemes. This amounts to £3.506m for 2006/07 a decrease of £0.433m

on the £3.939m received in 2005/06. The impact of capital grant is now less pronounced on the revenue budget given the introduction of the prudential code but helps nonetheless to reduce future costs by reducing the need to borrow to finance capital schemes. The proposed capital grant for 2007/08 shows a further reduction of £0.722m to £2.784m, a total reduction over the two years of £1.155m.

- 3.2.4 The proposals in relation to capital spending for 2006/07 and beyond are included at **Appendix C**, and this schedule also contains details of the proposed funding of these proposals. The required indicators with regard to the use of the prudential code are included later in the report.

3.3 Chief Constable's Budget Initiatives

- 3.3.1 The Chief Constable recognises the difficulties faced by the Authority in ensuring that the budget shortfall is met and that the overall budget remains sustainable in the longer term. During the preparation of the budget for 2005/06 the Chief Constable agreed to withhold requests for additional funds for new developments, given the similar budget pressures. As part of the 2005/06 budget, the Chief Constable also agreed to make savings in a number of areas, totalling £3.620m. Nonetheless, significant progress will be made during 2005/06 on a number of initiatives within the "Blueprint for Service".
- 3.3.2 In recognising the need for the Authority to consider the longer-term sustainability of the budget the Chief Constable is also committed to driving through efficiency gains in services and the re-investment of these savings in front-line policing. These initiatives form part of the force efficiency plan detailed at **Appendix D** and once again the Force has presented plans for efficiencies that exceed the required 3% savings target.
- 3.3.3 As part of a commitment to closing the budget shortfall over the medium term the Chief Constable has agreed to make further budgetary savings during 2006/07 of £2.500m, with a further savings of £1.250m to be identified during 2007/08, and an additional £0.625m in 2008/09, i.e. a cumulative saving of £4.375m per annum to be achieved over three years, to deliver a sustainable medium term financial plan. It is proposed that this will be achieved through a combination of measures including a targeted deletion of vacant Police Staff posts, efficiencies to be achieved by reviewing and reorganising the administrative and support services structures and the use of tighter cash limits to drive through greater efficiency.

- 3.3.4 The Chief Constable, whilst recognising the need to close the budget shortfall is also committed to supporting the ambitions of the Police Authority to increase police officer numbers and become the best performing Metropolitan Force. During 2006/07 the Chief Constable proposes to initiate service reviews with the objective of identifying further savings that can be re-invested into front line police officer numbers. These reviews have the potential to impact upon existing service delivery and performance but the over-riding principle will be that the improvements resulting from the re-investment in additional police officers will more than make up for any reduction in performance in the areas under review. The Chief Constable has set a target of identifying savings sufficient to allow reinvestment in up to 180 new front line police officers within the next three years. This is expected to provide a major boost, alongside the introduction of Total Policing's new Neighbourhood Model, to the achievement of the challenging targets within the policing plan. In particular, it is expected to spearhead the formation of a new Anti-Social Behaviour Task Force which can target, disrupt and eradicate particular hotspots for anti-social behaviour.
- 3.3.5 A team, chaired by the Deputy Chief Constable, will manage these service reviews and the potential budget savings. The objective will be to seek out efficiencies in services through scrutiny of performance, resource utilisation and alternative ways of achieving the same or improved results. As a first step, budget-holders will be asked for suggestions as to how savings of 5%, 10% and 15% could be made on their budgets and the impact such savings would have on performance. The team will report back regularly to the Chief Officer team and provide updates on achievement to the Authority through the Resources and Strategy Committee, and officer involvement. Once savings have been quantified and demonstrated, these will be reinvested into new front line police officers, across 2006/07 with the intention that the target of up to 180 is fully funded by the end of 2007/08, with the savings having actually been realised. It is important to emphasise that additional police officers will only be recruited once the requisite savings have been clearly identified, approved by the Authority and action plans put in place to ensure their achievement. Furthermore, to the extent that the savings required to balance the current service level spending plan (**paragraph 3.3.3** above) are not achieved in full, that plan would have 'first call' on savings generated from the reviews discussed in this paragraph, before they were made available to be used to fund the additional police officers.

3.4 Budget Options

- 3.4.1 The options available to address any budget shortfall and identify the new resources required to support initiatives are limited to:
- Increasing precept levels
 - Reducing net operating costs
 - Use of one-off funding from balances and reserves
- 3.4.2 It is likely that any solution will involve a combination of these measures, though it must be noted that the ability to use one-off funding is not sustainable in the longer term, and the proposals set out below illustrate this. It is important, therefore, that any contributions from reserves/balances in the short term are matched by ongoing savings in the medium to longer term.
- 3.4.3 With regard to precept levels, clear indications have again been given by the Government that they do not consider it necessary for Authorities to introduce large precept increases. The threat of capping should increases exceed 5% remains and Members of the Authority will need to consider this risk against the longer term implications of agreeing a budget which again relies on one-off funding or imposes significant cost reductions. At a 5% precept increase the budget shortfall that needs to be addressed by other measures is £5.481m.
- 3.4.4 If the Authority deems that a 5% precept increase is the maximum option available, given the threat of capping, then it is proposed that this budget shortfall will be met in the short to medium term from a combination of reduced net operating costs and further reliance on one off funding. As stated above, the Chief Constable is committed to make recurring savings of £2.500m during 2006/07.
- 3.4.5 An illustrative budget has been prepared and is presented later in this report that would address the shortfall, together with a medium term financial plan aimed at reducing and removing the reliance on contributions from reserves over the next three years. The proposed budget is designed to protect the investment in police officer numbers made during 2004/05, move towards a more sustainable position in future years and allow for reinvestment of additional savings into extra front line police officers. Whilst the proposals continue to rely on one-off funding for the next three years they move in the direction set last year of closing the funding gap within the medium term.

3.5 Revised Base Budget 2006/07

3.5.1 The revised base budget includes a number of changes that have occurred during the year including:

- The effects of inflation.
- Police reform and national agreements.
- Committed growth in spending and income on items agreed during the year e.g. payments to special constables and income from private duty charges.
- Committed growth on decisions from previous years e.g. capital funding charges.
- Adjustments to cover variations in the level of specific grant funded schemes.
- Removal of the cost of police pension payments and replacement with the estimated cost of the new employer contribution rate and the allowance for ill-health capital payments.

3.5.2 These issues have been reported to the Members of the Financial Planning Sub-Committee and the Resources and Strategy Committee throughout the year.

3.5.3 **Table 5** provides a summary of the revised base budget and the movements from 2005/06. This table shows the extent of the budget shortfall to be addressed assuming 5% increase in the precept.

Table 5: Summary Base Budget including a 5% precept increase

Description	£m	£m
Approved Base Budget	318.003	
Inflation	8.726	
Net Committed Growth	0.657	
Approved Contribution from the Insurance Fund	(0.500)	
Revised Base Budget 2006/07		326.886
Government Grants		
General Police Grant	(125.467)	
Revenue Support Grant	(19.339)	
National Non-Domestic Rate Income	(100.185)	
Amending Reports	(1.061)	
Specific Grants	(23.917)	(269.969)
Collection fund deficit		0.043
Precept Including 5% uplift		(51.479)
Budget Shortfall		5.481

- 3.5.4 As Members can see, the resources available to the Authority fall £5.481m short of the base budget requirement. (It is worth noting that if the level of grant resulting from the new funding formula had been made available in full, the shortfall would be only £2.7m). To fund this £5.481m shortfall from the precept alone would require an additional increase of 11.5%, resulting in a total increase of 16.5%. For Members information a 1% increase in the precept equates to £0.489m. Attached at **Appendix E** is the three year MTFP which highlights the base budget deficit over the three years, i.e. £5.481m in 2006/07, £5.742m in 2007/08 and £5.159m in 2008/09.
- 3.5.5 This report includes a proposal to address this budget shortfall and assumes that a precept increase is agreed at 5%. Should the Authority approve this budget and the precept requirement this will be translated into individual provisional cash limits for each budget holder. Budget holders will then be required to prepare detailed budgets against which their performance will be measured throughout the year. This ensures that proper budget management and monitoring is possible throughout the year. The cash limits agreed with budget holders will incorporate the savings agreed by the Authority and the Chief Constable.
- 3.5.6 The base budget above reflects the current level of service. In addition, the policing plan targets for 2006/07 are being constructed based on the above budget. Therefore, in considering the options to finance the shortfall in the base budget Members need to take account of any potential impact upon policing plan targets.

3.6 Staffing

- 3.6.1 The Police Authority established a policy, as part of the 2004/05 budget process, to increase police officer numbers by 600. The first phase of this expansion was implemented in 2004/05 and resulted in an extra 250 officers working in the neighbourhoods. The budget for 2005/06 protected these additional officers and worked towards building a platform for future expansion of numbers.
- 3.6.2 As part of the budget for 2006/07 the Chief Constable has set out proposals for the further expansion of police officer numbers, by an additional 180 officers. It is intended that this will be achieved using savings made throughout the Force, as discussed in **paragraph 3.3.5** above. If agreed, these additional posts will be subject to phasing and will be recruited on as the savings are identified and implemented. The following **Table 6** provides a summary of the anticipated movements in officer numbers in 2005/06 and 2006/07.

Table 6 : Anticipated movements on police officer numbers

	2005/06	2006/07
Police officer numbers at start of year	4,416	4,421
Estimated Wastage:		
Retirements	-152	-150
Resignations	-40	-40
Recruitment:		
Transfers from other forces	10	10
Recruitment levels	182	175
Sefton Housing Renewal Initiative	5	5
Numbers net of additional posts financed from savings	4,421	4,421
Number of officers proposed to be funded by force savings (180 over three years)	0	60
Police officer numbers at end of year	4,421	4,481

- 3.6.3 The Government continue to support police officer posts through the provision of the Crime Fighting Fund. This funding, in place since 2000/01, has paid for a total of 332 recruits from that date and remains in place. There is a risk that if police officer numbers start to fall this funding would be withdrawn. However this is not seen as a significant risk given the commitment of the Authority and the Chief Constable to, at the very least, maintaining police officer numbers. This funding for 2006/07 will amount to £9.499m but significantly did not rise in line with inflation for 2005/06 and is not anticipated to rise in future years.
- 3.6.4 Police Community Support Officers (PCSOs) are additional front-line resources and numbers have grown over recent years. An additional 85 posts were approved and appointed during 2004/05, bringing the 'permanent' PCSO establishment up to 191, and a further 117 temporary posts for 2006/07 only were agreed by Members at the meeting of the Police Authority on 17 November 2005. This decision to further expand numbers was based upon the assumption that specific grant funding would be in place for these posts at the rate of 100% for the first year. Subsequent to this meeting further guidance was received from the Home Office dated the 6 December 2005 indicating that the expectation was that recruitment would be phased throughout the year. As a consequence

funding will only be provided for 3½ months of the year with full costs being picked up by the Authority after this period.

- 3.6.5 As the initial decision by Members was based upon the assumption that these posts would be 12 month fixed term contracts and would be fully funded by the grant, the Authority will need to consider whether it wishes to recruit to these posts during 2006/07. For 2007/08 the funding of these posts would be at the rate of 75%, with the Authority being required to find funding cover for the remaining 25%. This is estimated at £0.769m during 2007/08.
- 3.6.6 The position with regard to overall numbers of PCSOs and the various funding arrangements is shown in **Table 7** below.

Table 7 : Estimated Numbers and funding of PCSO posts

Description	Number of Approved posts	Total Cost 2006/07 £m	Authority Funding 2006/07 £m	Other Funding 2006/07 £m
CSO Round 1	40	1.090	0.545	0.545
CSO Round 2	60	1.640	0.000	1.640
CSO Round 3	6	0.164	0.000	0.164
Neighbourhood Policing Fund 1	85	2.103	0.526	1.577
Total	191	4.997	1.071	3.926
Neighbourhood Policing Fund 2 (subject to further approval)	117	1.186	0.000	1.186 (Home Office)
Analysis of Other Funding CSO Round 1 to NPF1				
CSO Round 1 – Home Office				0.545
CSO Round 2 Home Office				0.820
Wirral MBC				0.137
Sefton MBC				0.068
Sefton NRF				0.068
Knowsley MBC				0.219
St Helens NRF				0.164
Merseytravel				0.164
CSO Round 3 Home Office				0.082
St Helens MBC				0.082
NPF 1 – Home Office				1.577
Total CSO External Funding – CSO1 to NPF1				3.926

3.7 Pensions

3.7.1 From April 2006 new financial arrangements will be introduced for the administration of police officer pensions. These changes introduce a standard employer contribution rate for serving officers and replace the existing arrangements whereby pensions are met from the Police Authority revenue budget. The reasons for the changes to the system can be summarised as follows:

- The existing system was prone to volatility as a result of significant fluctuations in the number of officers retiring each year. The impact of pension lump sum payments being fed into the revenue budget in the given year had to be funded directly from the revenue budget, with a potentially damaging impact upon operational policing if there were large variances.
- The lack of transparency, with a high proportion of costs relating to pension payments, led to the true position with regards to resources available for service delivery being obscured. The proportion of total costs attributable to pensions differed between authorities and the burden was set to rise given increasing numbers of pensioners.

3.7.2 The details of the change have been discussed previously by the Resources and Strategy Committee, and the Financial Planning Sub Committee. The new arrangements require the establishment of a separate pension's account into which funds will be transferred and from which payments will be made as follows:

Income:

Officer Contributions
Employer Contributions
Incoming transfers from other schemes
Inter- Authority adjustments (for previous reorganisations)
Re-instatement of pensions from mis-selling
Capital equivalent charges for ill-health retirements
30+ scheme reimbursements
Other authorised income

Expenditure:

Pension payments to retired officers and other beneficiaries
Inter- Authority adjustments (for previous reorganisations)
Outgoing transfers to other pension schemes
Other authorised expenditure

3.7.3 The extent to which the pension account shows a surplus or deficit will determine a top-up grant or payment that will be made by Central Government. The pensions account will appear as a separate income and expenditure statement in the Authority's Statement of Accounts.

3.7.4 The extent to which the Authority's revenue account is impacted upon by pension costs with effect from 1 April 2006 will be as follows:

- Employer contributions – As opposed to meeting all the costs arising from pension commitments, the charge to the revenue account will be calculated as a % of police officer pensionable pay. This contribution rate is determined by review of future liabilities and is set for the first two years at 24.6%.
- Ill-health retirements – In order to ensure equity between authorities, a capital charge will apply to ill-health retirements to reflect the additional cost of such arrangements. Within the police grant, funding has been maintained to allow such retirements at a national target level of 6.5 retirements per 1000 officers. Any level of ill-health retirements above this level will incur additional cost and will directly impact on the Revenue Account.

3.7.5 The estimate of the amounts to be included in the pension account for 2006/07 are set out in **Table 8** below.

Table 8 : Estimate of income and expenditure within the pensions account 2006/07 (Out-turn Prices)

Description	£m	£m
Income		
Employer Contributions	34.142	
Employee Contributions	15.267	
Incoming Transfers	0.258	
Capital equivalent charge for ill-health retirements	1.706	
Total income before top up grant		51.373
Less: Expenditure		
Pensions to retired officers and other beneficiaries	-55.889	
Inter authority payments	-0.653	
Ill health commutations	-1.944	
Ordinary commutations	-13.178	
Other authorised expenditure	-0.482	
Total expenditure		-72.146
Estimated Government Top-up Grant		20.773

3.7.6 The above figures are based upon a level of 150 normal retirements during the year and 25 ill-health retirements. The risk associated with the extent to which normal retirements exceed or fall short of this estimate will

be borne within the pensions account and the grant will rise or fall accordingly. However should the level of ill-health retirements exceed the assumed level the additional cost will be borne by the Authority's revenue account, though the pensions reserve could be used as a means to mitigate this risk.

- 3.7.7 After taking account of the estimated employer contributions to the pension account and the assumed capital equivalent charge for ill-health retirements, it is anticipated that the cost of police pensions, after allowance for inflation, will reduce over the previous year by £0.539m. This will be a recurring saving to the revenue account.
- 3.7.8 Had the new funding arrangements for pensions not been put in place the authority would have been facing an increase in pensions costs for 2006/07 in excess of £5m, this primarily being a result of the year on year increase in the number of retirement commutation payments and the growing number and cost of ordinary pension payments. The growth in potential retirements is shown in the following table reproduced from the 2005/06 budget document. Whilst this does not have a financial impact from 2006/07, the problem remains strategic, as the Force needs to manage its training and development to counter the potential loss of experienced Police Officers.

Table 9: Estimated Police Officer Retirements

Year	Officers reaching 30 years pensionable service	Estimate of required budget provision for retirements
2005/06	144	125
2006/07	155	150
2007/08	143	160
2008/09	208	170
2009/10	221	170
2010/11	147	170

PART 4. BUDGETARY SAVINGS AND FINANCING MEASURES

4.1.1 As stated in **Section 3** the options for financing the budget shortfall and any agreed new developments include a combination of:

- Increased precept levels, though flexibility in this regard is restricted given the potential for capping.
- Efficiency savings and other service reductions. Again this option presents difficulties given the fact that savings identified in the efficiency plan need be demonstrably reinvested in services and the fact that there have been sizeable reductions in spending as part of the budget setting exercises in 2005/06 and previous years.
- Use of one-off savings including the use of balances, reserves and other financing measures. By their very nature these savings are not sustainable over the longer term and will need to be replaced by other measures if the budget is to remain viable.

4.1.2 It is worth noting again that the impact of the floor damping methodology used in the 2006/07 grant distribution has resulted in a reduction in the grant received by Merseyside of £3.125m. This contrasts sharply with the position in 2005/06 whereby the floor damping methodology actually protected Merseyside to the extent of £2.021m.

4.1.3 The funding settlement for 2007/08 provides some small relief in that the provisional settlement is fixed at a national level of 3.6%. However this still leaves a significant shortfall of £5.742m, again assuming a 5% precept increase, without the benefit of any further new developments. It is proposed in the provisional settlement for 2007/08 that the floor damping methodology will again be in place and this will be at a cost of £1.841m to Merseyside.

4.1.4 There are factors that will mitigate the impact of this shortfall including:

- Improvements in the tax base. As the general prosperity of Merseyside improves so the base on which council tax is levied increases. This has given a recurring increase in 2006/07 of £0.140m and it likely that this will continue to grow in future years.
- Savings achieved during 2005/06. As indicated in **Section 2**, savings on the provision for pay and prices and police reform are anticipated during 2005/06. However, these savings are currently anticipated to mitigate the requirement to draw funding for the response for terrorist incidents from balances.

- 4.1.5 Beyond these items there is a need to fund the remaining shortfall from savings and service reductions. Given the underlying nature of the shortfall there is also a need to identify recurrent savings that will make the budget sustainable in the longer term.
- 4.1.6 Measures have already been taken to address the committed growth within the budget, as shown in **Table 5** above. These measures include making a planned contribution from the Insurance Fund and increasing private duty charges in line with ACPO charging policy. **Table 10** highlights the remaining shortfall. Each of the service reduction measures presented is designed to limit the impact on staff. In particular the overall number of police officers will not be reduced by these measures.

Table 10 : Proposed Financing of Base Budget Deficit in 2006/07

	£m	£m
Budget Deficit assuming 5% precept increase (as per Table 5)		5.481
Chief Constable's Proposed Savings:-		
Targeted Income Generation	(0.300)	
Targeted deletion of vacant posts	(1.300)	
Force Medical Examiners	(0.100)	
Police Payroll	(0.050)	
Capital Charges	(0.050)	
Targeted cuts to other supplies and services	(0.700)	(2.500)
Proposed Contribution from the Pension Reserve		(2.981)
Balanced Base Budget		0.000

- 4.1.7 As discussed in paragraph **3.3.3** above the proposals for 2006/07 need to be seen as part of a three year financial plan which aims to achieve a financially sustainable position and provide additional Police Officers by 2008/09 through the achievement of significant reductions in spending, supported by the utilisation of the Pension Reserve. The Medium Term Financial plan is illustrated in the **Table 11** below.

Table 11: Medium Term Financial Plan

	2006/07	2007/08	2008/09
	£m	£m	£m
Base Budget Deficit	5.481	5.742	5.159
Savings to Balance Base Budget	(2.500)	(3.750)	(4.375)
Proposed Contributions from the Pensions Reserve	(2.981)	(1.992)	(0.784)
Balanced Base Budget	0.000	0.000	0.000
Cost of Additional Police Officers (based on recruiting 60 in 2006/07 and 120 in 2007/08)	0.801*	3.073	4.417
Additional Savings Requirement to fund additional Police Officers	(0.801)	(3.073)	(4.417)
Balanced Base Budget	0.000	0.000	0.000

* It is proposed that the cost of the additional Police Officers in 2006/07 be met from savings in the Force Modernisation Team and reductions in police overtime. It is noted that the detail regarding the savings to be achieved in 2007/08 and 2008/09 will be subject to further reports to the Authority.

- 4.1.8 The impact of a 5% precept increase on Band A, i.e. the majority of Council Taxpayers on Merseyside, and on Band D Council Tax payers is shown in **Table 12** below.

Table 12 : Impact of precept increase on Council Taxpayers

	Band A £ (pa)	Band D £ (pa)
2005/06 precept level	77.12	115.68
2006/07 level after 5% increase	80.97	121.46
Additional Increase at 5%	3.85	5.78

- 4.1.9 The precept, which provides the balance of funding not covered by Government Grant, is set at £51.479m equivalent to £80.97 at Band A and £121.46 at Band D, an increase of 5% (£3.85p.a. at Band A or equivalent to £0.08 per week; £5.78p.a. at Band D or equivalent to £0.11 per week) over the current year's level.

Part 5. BALANCES, PROVISIONS AND RESERVES

5.1 Reserve Strategy

5.1.1 The Authority has a number of reserves for the purposes outlined below. In the light of the Authority's first two year financial settlement the overall strategy proposed to utilise the pension reserve to underpin a review and realignment of the revenue budget. The aim is to realise recurrent savings and align the budget by the end of a three year planning period. This is a strategic and prudent use of the pension reserve, as it will facilitate sufficient time to achieve savings to balance the budget and the opportunity to introduce efficiencies and savings and invest in the front line service, protect and maximise performance and ensure value for money for the taxpayer. The Medium Term Financial Plan as illustrated in **Table 11** above, highlights this approach.

5.2 General Balances

5.2.1 The police service, as one of the major emergency services, is required to respond to incidents of an unexpected nature and over which it may have 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, the Treasurer recommends that an appropriate level of General Balances be retained to provide resilience against the effect of such a situation. This is discussed further in his accompanying report on the adequacy of financial reserves. The HMIC and Audit Commission would also expect a robust and prudent approach to the level of balances held. The level of such balances recommended by the Treasurer is a sum broadly equivalent to 2% of the Net Budget Requirement. During 2005/06 such a response was called upon following the London terrorist attacks. The eventual additional cost of the response to these incidents in Merseyside amounted to over £0.500m and as stated in part 2 of the report was able to be accommodated within the revenue budget, but had this not been the case General Balances would have been called upon as the alternative source of funding.

5.2.2 The budget for 2005/06 envisaged a contribution from General Balances of £3.907m. The level of balances proposed during 2006/07 would remain at around 2% of the Net Budget Requirement. The Treasurer believes that this is the minimum level necessary to provide sufficient resilience to adequately respond to any emergencies that may arise. It is therefore recommended that this level of General Balances be set over the three year plan.

Table 13 : General Balances

	2005/06 £m	2006/07 £m
Balance at beginning of year	9.721	5.834
Budget Contribution to Revenue	(3.907)	0.000
Contribution from Revenue (see Table 2)	0.020	0.000
Balance at end of year	5.834	5.834

5.3 Pensions Reserve

5.3.1 Up until the end of the 2005/06 financial year the Authority has prudently set aside a reserve for the impact of officers opting to take a commutation payment in lieu of part of their pension. This reserve has provided resilience for the eventuality that a significant number of officers choose to retire in any one year and put a strain on the revenue budget. As mentioned in **paragraph 2.1.13** above, the number of retirements during 2005/06 is now expected to significantly exceed the original budget provision, though this is partially offset by lower numbers of ill-health retirements. The resultant overspend has been accommodated by the offset of other underspends, thus leaving the pension reserve available for other uses as proposed earlier in the report.

5.3.2 With effect from 1 April 2006 commutation payments in relation to normal retirements will be met by the Pensions Account and not impact upon the Authority's Revenue Account. With regard to ill-health and injury commutation payments there remains a risk that should such payments exceed budgeted levels there will be an additional charge to the revenue account. For this reason it is proposed that £0.75m of the existing pension reserve be retained to provide resilience against such an eventuality. It is proposed that the remainder of the balance be used to finance the budget strategy set out in this report and to gradually remove the dependence of the budget on one-off financing measures. The balance in the pensions reserve is anticipated to be as shown in **Table 14**.

Table 14 : Pensions Reserve

	2005/06 £m	2006/07 £m	2007/08 £m	2008/09 £m
Balance at beginning of year	6.489	6.179	3.388	1.486
Contribution from/(to) revenue	(0.500)	(2.981)	(1.992)	(0.784)
Interest	0.190	0.190	0.090	0.045
Balance at end of year	6.179	3.388	1.486	0.747

5.4 Compensatory Grant Provision

5.4.1 The provision for compensatory grant in respect of transitional rent allowances was first established during 2002/03. The allowance is to meet the individual's tax liabilities introduced on rent allowances. The sum required reduces each year as officers entitled to the allowance leave the Force. The sum is paid each April and in April 2005 amounted to £2.074m. The provision is increased each year in line with the agreed strategy to provide for this sum fully within 5 years. **Table 15** below shows that there should be sufficient funds in the provision to fully provide for the liability by the end of 2008/09.

Table 15 : Compensatory Grant Provision

	2005/06 £m	2006/07 £m	2007/08 £m	2008/09 £m
Balance at beginning of year	1.000	1.300	1.600	1.900
Contribution from revenue	0.300	0.300	0.300	0.300
Balance at end of year	1.300	1.600	1.900	2.200

5.5 Insurance Fund

5.5.1 The Authority has historically held an insurance fund to finance internal insurance claims. The self insurance substantially assumes the risk in respect of public, employer and motor liabilities. The Authority continually reviews the level of the Insurance Provision to ensure it is at an appropriate level. During 2004/05 the Authority identified that due to its risk management strategies and improved claims experience, the provision was in excess of the anticipated level of obligations. Consequently, the Authority agreed to the release of £0.5m from the Insurance Fund in 2005/06 and a further releases of £0.5m per annum over the next three years in line with the strategy endorsed by the Financial Planning Sub Committee in 2005/06.

Table 16 : Insurance Fund Estimated Balances

	2005/06 £m	2006/07 £m	2007/08 £m	2008/09 £m
Insurance Provision	£m	£m	£m	£m
Balance at beginning of year:	6.959	6.679	6.399	6.119
Contribution from Revenue	2.601	2.679	2.759	2.842
Interest	0.220	0.220	0.220	0.220
Expenditure	(2.601)	(2.679)	(2.759)	(2.842)
Release of provision	(0.500)	(0.500)	(0.500)	(0.500)
Balance at end of year:	6.679	6.399	6.119	5.839

5.6 Other Funds, Balances and Reserves

- 5.6.1 A table of the amounts retained in other funds, balances and reserves is included at **Appendix F**. During 2005/06 these balances were reviewed and a number of trading surpluses were used to support the revised estimate. In addition, as part of the MTFP these balances will be continually reviewed and any further surpluses will be used to support the revenue account.

PART 6. CAPITAL PROGRAMME AND PRUDENTIAL CODE

6.1 Capital Outturn 2005/06

6.1.1 The Capital Plan for 2005/06 was set out as part of the Authority's 2005/06 budget document. Changes in the spending patterns of the Capital Plan are more likely than with the revenue account as projects have long development lives crossing over financial years. The main changes to the plans for 2005/06 are as follows:

- Re-phasing of £1m Information Technology expenditure into 2006/07. The majority of this relates to the second phase of the new records management system (NICHE).
- A delay in Airwave expenditure with re-phasing into 2006/07 relating to covert terminals. These terminals, estimated at £1.1m, will not be purchased until the result of national trials are satisfactory.
- Expenditure on the Estates Strategy has been reviewed and it is expected that £5m will be re-phased into 2006/07 as a result of delays in schemes. The requirements for future years have now been re-assessed and the capital programme adjusted accordingly.

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

6.2 Capital Plan 2006/07 to 2007/08

6.2.1 For 2006/07 the Authority will receive a capital grant of £3.506m, this is £0.433m less than the previous year as set out in **paragraph 3.2.3**. The balance of funding for capital schemes can be met by borrowing within the terms of the Prudential Code and Capital receipts from the sales of assets such as the Bridewell and Hope Street. For the purpose of this report the use of the Prudential Code for funding all expenditure has been assumed; the use of capital receipts would reduce costs accordingly.

6.2.2 The capital plan attached at **Appendix C** shows the plans for capital spending for the next three financial years. The plan is designed to support the initiatives included in the Force blueprint, the major item being the estates requirements for the Force Academy. All projects included within the Estates Strategy will only proceed once they have been reported and approved by the Authority. The Estates Management budget, i.e. £0.425m for Alterations and Adaptations, provides for improved access for the disabled, security of buildings, plant replacement and energy conservation.

- 6.2.3 The investment in IT is in line with the plans previously presented to members. It provides for the completion of the Niche case and custody system and mobile data facilities. It also provides for essential work on the upgrade of the data network and replacement of Finance and Personnel systems.
- 6.2.4 **Appendix C** identifies the potential costs and financing of the Academy. However, at this stage the most appropriate means of financing the costs of such a major and unique development have not been identified. Consequently, the capital financing costs have not been identified in the MTFP. As Members will be aware, it is intended that the Estates Strategy will generate revenue savings which could be used to meet such capital financing costs. In addition, it may be possible to attract other forms of capital funding for the Academy, e.g. PFI, capital receipts and capital grants. A further report will be presented to the Authority outlining the business case for the Academy.

6.3 The Prudential Code

- 6.3.1 The Local Government Bill 2003 introduced a new system of capital financing and control. This system allows the Authority to set its own overall level of borrowing to finance capital schemes, this is governed by a set of regulations known as the Prudential Code.
- 6.3.2 The standards for adopting the new system are contained within the CIPFA Prudential Code for Capital Finance. This Code sets out a number of indicators that have to be calculated and approved by the Authority. The Code stresses that these indicators are designed to support local decision making and are not designed to be comparative performance indicators.

Affordability and Associated Indicators

- 6.3.3 The first measures in considering use of the Prudential Code look at affordability and address the impact on the revenue account and budgets of the Authority's capital strategy.

Capital expenditure

- 6.3.4 The first indicator is an estimate of capital expenditure for 2005/06 to 2008/09 and actual capital expenditure in 2004/05. This is set out in **Table 17** below. Details of the schemes making up these figures are set out in the Capital Plan at **Appendix C**.

Table 17: Actual and Estimated Capital Expenditure 2004/05 to 2008/09

	2004/05 £m Actual	2005/06 £m Estimate	2006/07 £m Estimate	2007/08 £m Estimate	2008/09 £m Estimate
Total	14.247	11.945	23.979	32.227	24.498

Revenue Costs

6.3.5 To give an indication as to whether the proposed borrowings and the associated revenue costs are affordable the following indicators are also calculated for consideration by the Authority:-

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

6.3.6 For the purpose of these indicators, financing costs are calculated on a prudent basis and defined as total interest payable for short and long term borrowing, the Minimum Revenue Provision (a sum to reflect the capital repayment element of any borrowing), premiums in respect of prematurely repaid debt, less any interest and investment income. An estimate of the financing costs has been included in the budget. This is applied as a ratio to the net revenue stream which is an estimate of the amount met from Revenue Support Grant, Business Rate Income and the Precept.

6.3.7 Estimates of the ratio of financing costs to net revenue stream for the current and future years and the actual figures for 2004/05 are as follows:

Table 18: Ratio of financing costs to net revenue stream

	2004/05 Actual £m	2005/06 Estimate £m	2006/07 Estimate £m	2007/08 Estimate £m	2008/09 Estimate £m
Financing costs	0.607	1.146	1.442	1.955	2.468
Net Revenue Stream	294.8	306.6	296.7	308.3	318.7
Ratio (%)	0.21%	0.37%	0.49%	0.63%	0.77%

6.3.8 The estimates of the incremental impact on the precept of the expected capital borrowing are shown in **Table 19**. However, it is anticipated that some savings in running costs can be made to support the Estates Strategy, which will offset this impact.

Table 19: Impact of borrowing on Precept

	2006/07 Estimate	2007/08 Estimate	2008/09 Estimate
Actual Increase (£m)	0.154	0.513	0.513
% Precept Increase	0.31%	1.05%	1.05%
Impact £ on Band D property	0.36	1.27	1.27

Capital Financing Requirement

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

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

6.3.10 Capital expenditure not financed by one of the above will increase the capital financing requirement of the Authority. It is important to understand that there is no direct relationship between this sum and the actual external borrowing undertaken. The Authority, through the integrated treasury management strategy takes account of overall planned cash flow and this may negate or reduce the borrowing to fund capital investment. The Capital Financing Requirement is thus a reflection on the underlying sums required to finance the capital programme rather than the actual borrowings. Prior to the introduction of the Prudential Code, the Authority received supplementary credit approval. These approvals to borrow to finance capital expenditure were held, but the Authority did not borrow for capital purposes by using an integrated Treasury Management Policy.

6.3.11 Estimates of the end of year Capital Financing Requirement for the current year and future years together with the actual Capital Financing Requirement at 31 March 2005 are detailed in **Table 20** below. The Capital Financing Requirement at 2004/05 can be considered to be the net amount of long term borrowing which would be required to finance capital spend to date if the Authority did not have sufficient cash reserves.

Table 20: Capital Financing Requirements 2004/05 to 2008/09

2004/05 Actual £m	2005/06 Estimate £m	2006/07 Estimate £m	2007/08 Estimate £m	2008/09 Estimate £m
28.531	33.337	46.421	56.871	67.495

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

Authorised Borrowing Limit

6.3.13 The authorised borrowing limit reflects the level of borrowing which the Authority deem's suitable, given the estimated capital plans and affordability. It is not an upper limit for borrowing for capital purposes alone, since it must also encompass temporary borrowing for cash flow purposes. Any unanticipated revision to this limit would be considered an exceptional event and would trigger a review of the affordability indicators.

6.3.14 The proposed authorised limits for the Authority's total external debt are as follows.

Table 21 : Authorised Borrowing Limits 2005/06 to 2008/09

2005/06 Estimate £m	2006/07 Estimate £m	2007/08 Estimate £m	2008/09 Estimate £m
31.452	44.452	54.452	65.452

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

Operational Boundary

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

6.3.17 The following are the proposed operational boundaries for the Authority's total external debt.

Table 22 : Proposed Operational Boundary 2005/06 to 2008/09

2005/06 Estimate £m	2006/07 Estimate £m	2007/08 Estimate £m	2008/09 Estimate £m
29.452	42.452	52.452	63.452

Affordability

- 6.3.18 In considering the programme for capital investment the Authority should have regard to a measure of affordability. As a rough indication the full year interest cost of borrowing an additional £1m to invest in the programme would be approximately £50k. This rises in the subsequent year as the Minimum Revenue Provision applies and becomes a total of £90k per £1m borrowed.

Prudence and Associated Indicators

- 6.3.19 There are a number of prudential indicators in respect of Treasury Management, the first of which is that the Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Authority has already adopted this code and this is enshrined in its own Financial Regulations, i.e. Financial Regulation 6.3.2.
- 6.3.20 In addition, there are a number of treasury management indicators designed to ensure that external debt is kept within sustainable limits and is addressed year on year. It is possible that, while the financial strategy may be affordable in the short term, it is unsustainable in the medium term because it relies on borrowing to fund revenue expenditure.
- 6.3.21 In order to monitor this, except in the short term, net borrowing should not exceed the total Capital Financing Requirement in the previous year plus the estimates of any additional Capital Financing Requirements for the current and next two financial years. Monitoring procedures are in place to ensure this requirement is complied with.
- 6.3.22 A number of measures are also required for treasury management, to recognise the key implications of the borrowing and investment strategies. The Prudential Code identifies a number of indicators to monitor these risks and limit and monitor exposure to interest rate risks. These are set out below.

Upper limits for fixed rate exposure

- 6.3.23 As 2004/05 was the first year the Authority could potentially undertake long term borrowing for capital, the requirement to borrow has been absorbed by the holding of existing funds and reserves. This position will soon be exhausted and it is therefore recommended that the Authority sets an upper limit for 2006/07, 2007/08 and 2008/09 of 100% of its net outstanding principal sums. This will enable the Authority to take out any required initial long term borrowing at a fixed rate if this is the most favourable option. It is thought that over time this indicator will reduce to 95%.

Upper limits for variable rate exposure

- 6.3.24 It is recommended that the Authority sets an upper limit on its variable interest rate exposures for 2006/07, 2007/08 and 2008/09 of 40% of its net outstanding principal sums.
- 6.3.25 The Director of Resources, in conjunction with the Treasurer, will consequently manage fixed interest rate exposures within the range 60% to 100% and variable rate exposures within the range 0% to 40%.

Maturity Structure

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

Table 23 : Maturity Structure Limits for Borrowing

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

PART 7. KEY RISKS AFFECTING THE FINANCIAL POSITION

7.1 There are a number of underlying factors that have been taken into account in preparing this financial plan and which have the potential to impact upon the Force's ability to meet the budget and strategy.

7.2 Future Funding Settlements

7.2.1 The level of government funding for 2007/08 has been provisionally announced as part of the 2006/07 settlement. This gives a clearer indication of the budget position for the two years and enables a more strategic approach to be adopted to financial planning. Whilst there are no indications as to the settlement for the following year, 2008/09, the strategy included in this budget works towards reducing the budget shortfall to manageable levels of under £1m within this timescale. Some reassurance as to the level of funding in future years can be drawn from the fact that Merseyside, for each of the next two years remains above the floor in terms of government settlements. Should the consequences of the funding formula be more accurately reflected in the settlements in future years then, other things being equal, Merseyside would receive a greater than average level of grant increases.

7.3 Use of One-off Funding

7.3.1 The financial strategy outlined is designed to utilise one-off funding as a short-term investment to allow savings to be identified within the Force. These savings will eliminate the dependence upon one-off funding within the medium term.

7.3.2 The risk that these savings will not be achievable in the medium term, which would put at risk the strategy as a whole and the aspirations for expanding police officer numbers will be managed by the establishment of the Savings and Investment Panel within the Force. The Force has successfully delivered over £3.6m of savings in 2005/06 and believes, given the time, can further add to this sum in the timescales planned.

7.4 Investment in additional officers

7.4.1 The Chief Constable is committed to making Merseyside the best performing Metropolitan Force in England and Wales. The strategy and targets set out in the local policing plan are aimed at achieving this objective. While the financial position of the Authority did not allow the recruitment of further Police Officers during 2005/06, the Chief Constable has set out an ambitious plan to fund a further 180 posts from savings within the Force.

- 7.4.2 This strategy relies upon the savings being identified and achieved, with the risks and impact on performance being more than matched by the re-investment in new police officers.

7.5 Contingencies

- 7.5.1 Following budget cuts in previous years the level of Force contingency has been reduced and the ability to respond to operational pressures diminished. In recent years the rapid growth in DNA and forensic expenditure has put pressure on these contingencies and as a result there remains the increasing risk that General Balances would need to be called upon given a major incident.
- 7.5.2 The response to the terrorist attacks in London during 2005 was accommodated by the Force from inflationary savings, but similar savings cannot be guaranteed in future. For this reason the Authority maintains a level of general balances of 2% of the overall budget. This is in line with the recommendation of good financial practice set out by the Audit Commission and HMIC.

7.6 Force Re-Structure

- 7.6.1 The budget sets out a strategy to address the budget shortfall and reduce reliance on one-off funding in the medium term. However the position with regard to force re-structure cannot be incorporated into any such plans at this time. It is recognised that any re-structure will involve substantial set up costs and at the moment there are no clear indications as to how these would be funded. In the absence of any clear guidance, the budget strategy has been drawn up on the basis that, in any event, the Authority would want to achieve financial stability and sustainability in the medium term.

Part 8 RECOMMENDATIONS

8.1 Recommendations

8.1.1 The Authority is recommended to:-

- (f) note the Revised Estimate for 2005/06 as set out in **paragraph 2.1.15**;
- (g) approve the Capital Programme and financing arrangements as set out in **Appendix C** and the prudential indicators outlined in **section 6.3** of this report, subject to Authority approval of the Estates Strategy and the business case for the proposed Academy, as discussed in **paragraph 6.2.4**;
- (h) approve the Medium Term Financial Plan as set out in **Appendix E**;
- (i) approve the Revenue Budget for 2006/07 at a level it thinks most appropriate, having taken account of the advice and information set out in this report, in particular in respect of:-
 - the precept level;
 - the measures needed to balance the base budget at service levels proposed within the Policing Plan;
 - the proposed recruitment of additional police officers and required savings.
- (j) issue an appropriate precept requirement (after deduction of specific revenue grants, revenue support grant and business rate income) on the five Billing Authorities in the Merseyside area, to be levied as part of the Council Tax for the purposes of Police Authority expenses for the financial year beginning 1 April 2006 and ending 31 March 2007.

STEVE HOUSTON,
Treasurer to the Authority

BERNARD HOGAN HOWE,
Chief Constable

MERSEYSIDE POLICE
2006/07 BUDGET

APPENDIX A

ILLUSTRATIVE SUMMARY BUDGET 2006/07 ASSUMING 5% PRECEPT INCREASE

ORIGINAL ESTIMATE 2005/06 (1)	PROBABLE OUTTURN 2005/06 (2)	LINE No. (3)	FINANCIALLY ACCOUNTABLE UNITS (4)	ORIGINAL ESTIMATE 2006/07 (5)
£	£			£
			STRATEGIC DEVELOPMENT	
7,939,695	13,889,502	1	Strategic Development	16,063,183
			ADMINISTRATIVE SUPPORT	
8,351,749	8,963,585	2	Personnel and Development	8,514,374
10,606,242	23,062,706	3	Resources Directorate	23,366,887
37,228,903	-	4	Corporate Services	-
			OPERATIONS	
130,320,679	155,870,374	5	Basic Area Operations	159,305,850
19,360,243	12,598,978	6	Call Management and Response	7,607,566
1,307,172	1,523,695	7	Area Co-ordination	1,279,514
350,000	381,072	8	Street Crime Initiative	-
1,270,000	-	9	Middle Market Drugs Unit	-
124,718	189,748	10	Special Constabulary	323,534
660,435	810,725	11	Community Relations	795,054
			OPERATIONAL SUPPORT	
21,169,119	25,655,580	12	Operational Support	25,634,846
12,813,278	18,814,271	13	Crime and Intelligence	17,043,858
15,184,010	14,361,655	14	Force Crime Operations	14,635,395
			OPERATIONAL CONTINGENCY FUND	
623,092	673,768	15	Operational Contingency Fund	611,937
1,865,750	1,917,108	16	POLICE AUTHORITY SUPPORT UNIT	1,933,985
		17	NON RECHARGEABLE FINANCING ITEMS AND LEVIES	
68,500,000	71,840,104	18	Police Pensions	40,306,000
172,165	80,374	19	Attachments	148,159
1,720,774	2,391,097	20	Forcewide Services	1,718,980
189,989	175,233	21	Underwater Search Unit	176,623
9,059,250	8,564,762	22	Capital Charges	9,585,680
(15,339,541)	(15,943,862)	23	Income	(646,453)
644,010	663,492	24	PNC Charges	666,550
(3,620,000)	-	25	Savings schedule agreed by Chief Constable	(2,500,000)
330,501,732	346,483,967	26	NET COST OF SERVICES	326,571,522

ILLUSTRATIVE SUMMARY BUDGET 2006/07 ASSUMING 5% PRECEPT INCREASE

ORIGINAL ESTIMATE 2005/06	PROBABLE OUTTURN 2005/06	LINE No.	FINANCIALLY ACCOUNTABLE UNITS	ORIGINAL ESTIMATE 2006/07
(1)	(2)	(3)	(4)	(5)
£	£			£
330,501,732	346,483,967	27	Net Cost of Services	326,571,522
11,009,447	-	28	Contingency for Pay and Price Increases	8,017,156
2,842,915	-	29	Provision for Police Reform Pay and Conditions	2,843,664
344,354,094	346,483,967	30	Net Cost of Services at Outturn Prices	337,432,342
(7,998,530)	(8,952,621)	31	Transfer from Asset Management Revenue Account	(9,440,396)
(224,000)	(224,000)	32	Interest and Investment Income	(208,966)
336,131,564	337,307,346	33	Net Operating Expenditure	327,782,980
			Appropriations	
	332,607	34	Net Carry Over from 2004/05	
	(199,278)	35	Net Carry Over to 2006/07	
	20,729	36	Forecast surplus	
			Contribution to/(from) Capital Reserves	
		37	-Financing of Capital Expenditure	
(4,260,820)	(2,833,259)	38	-Adj. to provision for repayment of external loans	(3,197,374)
		39	Contribution from the Robbery Initiative Reserve	
(3,907,000)	(3,907,000)	40	Contribution (from)/to the General Balances	
300,000	300,000	41	Contribution (from)/to Compensatory Grant Provision	300,000
(500,000)	(500,000)	42	Contribution (from)/to Pensions Reserve	(2,981,000)
(500,000)	(500,000)	43	Contribution (from)/to Insurance Provision	(500,000)
	(120,000)	44	Contribution (from)/to Property Act Fund	
		45	Essential Developments	
		46	Savings to be identified (Budget Summary)	
(1,250,000)	(1,250,000)	47	Additional Capitalisation of Estates/IT	
326,013,744	328,651,145	48	TOTAL NET EXPENDITURE TO BE MET FROM GOVERNMENT GRANTS AND TAXATION	321,404,606
			Less : Specific Home Office Revenue Grants :	
(139,876,000)	(139,560,696)	49	General Grant	(125,466,447)
(18,883,000)	(21,519,044)	50	Specific Grants	(19,173,259)
(503,000)	(819,485)	51	Amending Adjustment	(1,060,974)
		52	Counter Terrorism Grant	(4,744,000)
(95,677,000)	(95,676,994)	53	Revenue Support Grant	(19,339,252)
(22,164,000)	(22,164,182)	54	Business Rate Income	(100,184,894)
(15,264)	(15,264)	55	(Surplus)/Deficit on Collection Fund	43,000
48,895,480	48,895,480	56	PRECEPT REQUIREMENT	51,478,780
422,679	422,679	57	Council Tax Base (Number of Band D Properties)	423,833
£115.68	£115.68	58	Council Tax - Band D	£121.46
5.00%	5.00%	59	Increase on Previous Year (£5.78)	5.00%

APPENDIX B : PROJECTED OUTTURN 2005/06 VARIANCE ANALYSIS

FINANCIALLY ACCOUNTABLE UNITS	ORIGINAL ESTIMATE 2005/06	PROJECTED OUTTURN 2005/06	EXPLANATION OF THE VARIANCE
	£	£	
<u>STRATEGIC DEVELOPMENT</u>			
Strategic Development	7,939,695	13,889,502	Carry over from 2004/05, Increase in Community Support Officers, Pay awards and price inflation, re-organisation of Chief Officer Directorates
<u>ADMINISTRATIVE SUPPORT</u>			
Personnel and Development	8,351,749	8,963,585	Carry over from 2004/05, Pay award and price inflation, Grant funding for Initial Police Learning and Development
Resources	10,606,242	23,062,706	Carry over from 2004/05, Pay awards and price inflation and re-organisation of Chief Officer Directorates
Corporate Services	37,228,903	-	Re-organisation of Chief Officers Directorates
<u>OPERATIONS</u>			
Basic Area Operations	130,320,679	155,870,374	Carry over from 2004/05, Devolvement of Custody Suites, CJUs and Dispatch Functions, Increase in Specific Grants, Pay award and price inflation, Re-organisation of Chief officer Directorates
Call Management and Response	19,360,243	12,598,978	Devolvement of Dispatch function to BCUs off set by Carry over from 2004/05, Pay award and price inflation.
Area Co-ordination	1,307,172	1,523,695	Carry over from 2004/05, Pay award and price inflation, Re-organisation of Chief Officer Directorates
Street Crime Initiative	350,000	381,072	Carry over of grant funding from 2004/05
Middle Market Drugs Unit	1,270,000	-	Middle Market Drugs Unit incorporated into Matrix and Operational Support
Special Constabulary	124,718	189,748	Additional Grant Funding, Carry Over from 2004/05 and price inflation
Community Relations	660,435	810,725	Carry Over from 2004/05, Pay award, price inflation and Re-organisation of Chief officer Directorates
<u>OPERATIONAL SUPPORT</u>			
Operational Support	21,169,119	25,655,580	Carry over from 2004/05, Pay award and price inflation, Incorporation of Matrix
Crime and Intelligence	12,813,278	18,814,271	Carry over from 2004/05, Additional grant funding, Pay award and price inflation and increased cost of Forensic Investigation.
Force Crime Operations	15,184,010	14,361,655	Carry over from 2004/05, Pay award and price inflation, offset by forecasted underspend on vacant posts
<u>OPERATIONAL CONTINGENCY FUND</u>			
Operational Contingency Fund	623,092	673,768	Increase due to Pay award and price inflation
<u>POLICE SUPPORT SERVICES UNIT</u>			
POLICE SUPPORT SERVICES UNIT	1,865,750	1,917,108	Inflationary Increase
<u>NON RECHARGEABLE FINANCING ITEMS AND LEVIES</u>			
Police Pensions	68,500,000	71,840,104	Increase due to Pension Inflation and the number of ordinary retirements
Attachments	172,165	80,374	Reduction in the number of Attached Police Officers
Forcewide Services	1,720,774	2,391,097	Additional costs incurred in respect of Terrorism and price inflation
Underwater Search Unit	189,989	175,233	Budgetary variations are compensated for in the year end from Cheshire Constabulary
Capital Charges	9,059,250	8,564,762	Reduction in expected depreciation due to slippage in Capital Programme
Income	(15,339,541)	(15,943,862)	Additional income on price increase and additional income for providing Mutual Aid to the G8 Conference
PNC Charges	644,010	663,492	Budget on line with forecast
Savings to be identified by Chief Officers	(3,620,000)	-	Savings allocated to Budget Holders in April 2005.
Net Cost of Services	330,501,732	346,483,967	

APPENDIX C - Capital Programme

	2005/06	2006/07	2007/08	2008/09		2005/06	2006/07	2007/08	2008/09
	Revised					Revised			
	£m	£m	£m	£m		£m	£m	£m	£m
CAPITAL FINANCING					CAPITAL EXPENDITURE				
					Existing Schemes and Payments				
Home Office Allocations					Minor Works				
Government Grant - General	3.939	3.506	2.784	2.784	Alterations & Adaptations	0.425	0.000	0.000	0.000
- Technology	1.300	0.000	0.000	0.000	Vehicle Replacements	2.050	0.000	0.000	0.000
- IPLDP	0.285	0.000	0.000	0.000	IT Strategy	5.029	2.108	0.142	0.000
Total Home Office Allocations	5.524	3.506	2.784	2.784	ANPR	0.300	0.000	0.000	0.000
					Airwave	0.311	1.100	0.000	0.000
Internal Financing					Estates Strategy	2.580	0.000	0.000	0.000
Earmarked Capital Reserves:-					Total Existing Schemes	10.695	3.208	0.142	0.000
- Airwave	0.311	1.100	0.000	0.000					
- Rephased Schemes	0.000	0.000	0.000	0.000	Current Programme				
Total Internal Financing	0.311	1.100	0.000	0.000	Alterations & Adaptations	0.000	0.425	0.435	0.445
					Vehicle Replacements	0.000	2.100	2.150	2.200
Academy Financing *	0.000	5.000	17.000	8.000					
					ANPR/Mobile Data	0.000	0.750	0.750	0.750
Borrowing	6.110	14.373	12.443	13.714	IT Strategy	0.000	5.496	2.850	3.103
					Estates Strategy	0.000	7.000	8.900	10.000
					Academy	0.000	5.000	17.000	8.000
					Total Current Proposals	0.000	20.771	32.085	24.498
					Estates/IT to be Capitalised	1.250	0.000	0.000	0.000
Total Capital Financing	11.945	23.979	32.227	24.498	Total	11.945	23.979	32.227	24.498

* See paragraph 6.2.4

APPENDIX D - Efficiency Plan 2006/07 – 2008/09

Introduction

The Home Office currently require police authorities to demonstrate increasing efficiency in the services they provide. Gains can be either **cashable**, where the same or better output is achieved for less financial cost, or **non-cashable** where better output, quality or quantity, is achieved for the same cost.

From 2005/06, there has been a requirement to create annual efficiency savings equivalent to **3%** of net revenue expenditure (NRE), half of which (**1.5%**) must be cashable.

Efficiency plans are prepared on a three year rolling basis with any shortfall/excess from one year being carried into the next. Plans for future years, in this case 2007/08 and 2008/09, need not be provided in detail – only initiatives already identified for future years need be included.

For gains in excess of £0.100m that are not linked to the FLP measure, authorities are required to identify **risks** to performance arising from the initiative.

Performance on the 2005/06 Efficiency Plan

The forecast outturn for 2005/06 shows a total saving of **£11.824m** compared with a plan of **£10.854m**. This outturn represents an overall saving of over 3.7% of NRE, ahead of the target figure of £9.464m.

The additional savings have largely resulted from Bureaucracy Task Force initiatives, including Fixed Penalty Notices and the use of Livescan fingerprinting.

The projected outturn of the 2005/06 Efficiency Plan would produce a saving of £2.360m in excess of the 3% target. This will be added to the £1.293m brought forward from 2005/06 to give a total carry forward to the 2006-07 plan of £3.653m. Of this total available for carry forward, £1.987m is cashable and £1.666m non-cashable

Efficiency Plan 2006/07 – 2008/09

The three-year plan for 2006/07 – 2008/09 indicates that the authority will be required to demonstrate efficiency savings of around **£30.300m** over the next three years including £15.150m cashable gains.

For 2006/07, a level of savings at 3% of planned NRE equate to £9.848m of which half, £4.924m, must be cashable savings. The plan for 2006/07 is to deliver savings of **£9.947m** which will create a surplus for the year of £0.099m to be added to the forecast

brought forward balance of £3.719m from the 2005/06 plan to be carried forward into subsequent years.

Summary of Efficiency Plan 2006/07 - 2008/09

	Plan 2005/06	Plan 2006/07	Estimate 2007/08	Estimate 2008/09
	(£m)	(£m)	(£m)	(£m)
NRE (estimated)	313.287	328.244	340.861	340.861
Efficiency Target	9.398	9.848	10.226	10.226
Projected Outturn	11.824	9.947	10.226	10.226

For 2006/07, the plan includes a number of initiatives including the following:

Reduction in Vacant Posts

A review of budgets holding vacant posts will be carried out and posts which have been held vacant for over a certain time will be deleted. Allowance will be made for grant aided posts and posts that can be justified in other ways. Estimated cashable savings resulting from this review are around £1.300m.

Reduction in use of Force Medical Examiners

Savings of £0.100m are estimated from the use of suitably qualified nursing staff in custody suites in place of force medical examiners where appropriate. This may be achieved by either the recruitment of nursing staff or the use of external agencies.

Other Local initiatives

Cashable savings identified by Budget Holders in Areas and Departments include reduced costs of telecommunications including mobile phones, reduced travel costs resulting from the opening of the new custody suite and savings on vehicle purchase costs through the introduction of the new National Framework agreement.

Neighbourhood policing

The re-classification of non operational posts resulting from the introduction of the new neighbourhood policing model should increase the forces level of front line policing. Estimated non-cashable savings of £2.800m have been included in the efficiency plan in this respect.

Crime Fighters

Groups of restricted duties officers are to be used to target specific tasks within Areas to improve performance, reduce bureaucracy and release fully operational officers to front line policing duties. Savings of £1.355m from this initiative have been included in the plan.

Re-Investment of Efficiency Savings 2006/07 – 2008/09

Of the £4.990m cashable savings identified in the 2006/07 efficiency plan, £3.790m will be used to fund Force Modernisation projects including increasing the availability and use of Mobile Data within the force and £1.200m will be invested in new officers. Non-cashable savings of £4.953m will be re-invested in neighbourhood policing.

EFFICIENCY PLAN 2006/07 - 2008/09

	2006/07 Plan	2007/08 Est	2008/09 Est
	£m	£m	£m
NRE:	328.244	340.861	340.861
1.5% Cashable Target:	4.924	5.113	5.113
1.5% Non-Cashable Target:	4.924	5.113	5.113
Plan:	9943	10,226	10,226

SAVINGS

Cashable Savings

	2006/07 £'m	2007/08 £'m	2008/09 £'m
Reduction in number of vacant posts	1.300		
Savings from Service Review to fund investment in New Officers	1.200		
Cuts Targeted at Supplies and Services Budgets	0.700		
Reduction in use of Force Medical Examiners	0.100		
Other Local Initiatives	1.690		
Savings to be identified 2007/08 onwards		0.000	0.000
Total savings achieved in year	4.990	0.000	0.000
<i>Cashable Balance Brought Forward</i>	<i>1.987</i>	<i>6.977</i>	<i>6.977</i>
Total Cashable Savings Available	6.977	6.977	6.977
<i>Excess Savings over 1.5% target c.fwd</i>	<i>6.977</i>	<i>6.977</i>	<i>6.977</i>

Non Cashable Savings

	2006/07 £'m	2007/08 £'m	2008/09 £'m
Mobile Data	0.300		
ANPR	0.383		
Crime Fighters	1.355		
Additional Volunteers	0.115		
Neighbourhood Policing Model	2.800		
Planned Schemes 2007/08 onwards including Mobile data and Procurement Savings		0.000	0.000
Total Non-Cashable Savings achieved in year	4.953	0.000	0.000
<i>Cashable Balance Brought Forward</i>	<i>1.666</i>	<i>6.619</i>	<i>6.619</i>
Total Non-Cashable Savings Available	6.619	6.619	6.619
<i>Excess Savings over 1.5% target c.fwd</i>	<i>6.619</i>	<i>6.619</i>	<i>6.619</i>
Total Savings achieved in year	9.943	0.000	0.000
<i>Total Excess Savings over 3% target c.fwd</i>	<i>13.596</i>	<i>13.596</i>	<i>13.596</i>

RE-INVESTMENT

Use of Cashable Savings

	2006/07 £'m	2007/08 £'m	2008/09 £'m
Investment in Technology including Niche, Mobile Data and ANPR	3.790		
Investment in New Officers	1.200		
Cashable Savings 2006/07 onwards		0.000	0.000
Total	4.990	0.000	0.000

Use of Non Cashable Gains

	2006/07 £'m	2007/08 £'m	2008/09 £'m
Increase in Front Line Policing and other Baseline Measures	4.953	0.000	0.000
Total	4.953	0.000	0.000

Total **9.943** **0.000** **0.000**

APPENDIX E - MEDIUM TERM FINANCIAL PLAN for 2006/07 to 2008/09

	2006/07			2007/08			2008/09		
	£m	£m	% Precept Increase	£m	£m	% Precept Increase	£m	£m	% Precept Increase
Base Budget	277.697			286.162			295.353		
Police Pensions 2006/07	40.306			41.128			41.128		
Provision for Inflation	8.726			9.218			9.855		
Total Base Budget Requirement		326.729			336.508			346.336	
Funding -									
General Grant increased 3.236%	-244.991			-253.849			-261.464		
Amending Report for 2004/05 and 2005/06	-1.061			0.000			0.000		
Specific Grants	-19.173			-18.239			-18.239		
Counter Terrorism Grant	-4.744			-4.744			-4.744		
Assumed Pension Grant	0.000			0.000			0.000		
Total assumed Government Grants		-269.969			-276.832			-284.447	
Net Base Budget Requirement		56.760			59.676			61.889	
Brought Forward Precept Level	-48.895			-51.340			-53.907		
Additional Base Budget Funding Requirement		7.865	16.1%		8.336	16.2%		7.982	14.8%
Committed Growth/Savings									
Pensions	0.000			0.000			0.000		
Reduction in terrorism grant	0.161			0.000			0.000		
Capital Financing	0.163			0.513			0.513		
Payment to Special Constables	0.200			0.100			0.000		
PCSCs NPF1 funding reduction (85)	0.424			0.000			0.000		
Additional NPF2 PCSCs (117)	0.000			0.000			0.000		
Contribution from Insurance Reserve	-0.500			-0.500			-0.500		
Additional Special Duty Income	-0.290			0.000			0.000		
Shortfall after Base and Committed Growth		0.158	16.4%		0.113	16.5%		0.013	14.8%
Recurring Savings		8.023			8.449			7.995	
Increase in Tax Base	-0.140			-0.140			-0.140		
One off Savings		-0.140			-0.140			-0.140	
Collection fund surpluses	0.043			0.000			0.000		
Underspend in 2005/06 Pay and Prices/Police Reform	-0.500			0.000			0.000		
Cost b/f of Terrorism response 2005/06	0.500			0.000			0.000		
Net additional Precept Requirement		7.926	16.2%		8.309	16.2%		7.855	14.6%
Precept increase of 5%		-2.445			-2.567			-2.695	
		5.481			5.742			5.159	
Force Savings									
Force Savings towards base in 2006/07	-2.500			-2.500			-2.500		
Force Savings towards base in 2007/08				-1.250			-1.250		
Force Savings towards base in 2008/09							-0.625		
		2.981			1.992			0.784	

180 additional Police Officers taken on in the following profile:-	2006/07 £m	2007/08 £m	2008/09 £m									
<table border="1"> <thead> <tr> <th>2006/07</th> <th>2007/08</th> <th>2008/09</th> </tr> <tr> <th>FTE</th> <th>FTE</th> <th>FTE</th> </tr> </thead> <tbody> <tr> <td>60</td> <td>120</td> <td>0</td> </tr> </tbody> </table>	2006/07	2007/08	2008/09	FTE	FTE	FTE	60	120	0	0.801	3.073	4.417
2006/07	2007/08	2008/09										
FTE	FTE	FTE										
60	120	0										
Savings to be achieved by Force to fund additional Police Officers	-0.801	-3.073	-4.417									

APPENDIX F - OTHER FUNDS, BALANCES & RESERVES:

	Balance at 31 March 2005 £	Anticipated Bal 31 March 2006 £	Description
Capital Reserve	2,217,660	1,500,000	To be used for rephased schemes and financing of capital creditors
Helicopter Fund	81,130	100,000	Reserve for Repair & Maintenance of Helicopter. Contribution based on flying hours
Police Property Act Fund	329,919	60,000	Sales of Crime Property. Grants made out of this money to worthy causes
Cleaning Contract Reserve	216,082	16,082	Accumulation of Cleaning Surplus
Vehicle Fleet Reserve	296,390	96,390	Surplus from Trading Account
Sponsorships	71,217	74,600	Sponsorship monies held by individual FAU's
Catering	70,648	0	Accumulation of Catering Surplus
Airwave Reserve	1,538,837	1,100,000	To be used for Airwave
Other Balances and Funds	120,273	64,273	Various other funds
	4,942,155	3,011,345	