



Item No. 7d on Agenda

Report to the Police Fire and Crime Panel

10th February 2020

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**Police Capital Strategy and Capital Programme 2020/21 to 2023/24
(Incl. Minimum Revenue Provision Policy)**

Report of the Staffordshire Commissioner

INTRODUCTION

As part of the overall financial strategy for the Staffordshire Commissioner a four year Capital Programme has been prepared. This report schedules the proposed investment programme for 2020/21 to 2023/24 and presents the indicators required within the updated Prudential Code. This all forms part of the Capital Strategy for the Staffordshire Commissioner, covering the Policing requirements for the next four years.

The Prudential Code requires local authorities to determine that capital expenditure and investment decisions are affordable, prudent and sustainable, and to set limits on the amount they can afford to borrow in the context of wider capital planning. The Capital Strategy is part of the Staffordshire Commissioner's sound medium term financial planning process, ensuring there is a clear strategy supporting the next four years of capital investment.

The Capital Strategy sets out how the long-term context in which capital investment and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes in line with the current Staffordshire Policing Plan. It also demonstrates that the Staffordshire Commissioner takes capital and investment decisions in line with the objectives and properly takes account of stewardship, value for money, prudence, sustainability and importantly affordability.

This report should also be considered alongside the Treasury Management Strategy, with both reports covering the reporting requirements of CIFPA's Prudential Code and Treasury Management in the Public Sector.

This report is scheduled to be presented to the Ethics, Transparency and Audit Panel (ETAP) on 5th February 2020.

RECOMMENDATIONS

That the Police Fire and Crime Panel note:

- a) the four year Capital Programme for 2020/21 to 2023/24 as set out in Appendix 1,
- b) the Capital Strategy for 2020/21
- c) the Prudential Indicators that are set out within Appendix 2 including the Capital Financing Requirement for the four year period
- d) that the funding of capital expenditure from Reserves for the period 2020/21 to 2023/24 is in line with the updated Reserves Strategy
- e) note the Minimum Revenue Provision (MRP) policy statement incorporated within this report

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1. Background

- 1.1 The Capital Strategy forms a key part of the Staffordshire Commissioner's overall Corporate Planning Framework. It provides a mechanism by which the Commissioner's capital investment and financing decisions can be aligned over the medium term planning horizon.
- 1.2 The Strategy sets the framework for all aspects of the Commissioner's Police capital and investment expenditure; including planning, outcomes, prioritisation, management, funding and repayment.
- 1.3 There are four main areas of spend which feature within the Capital Programme;
 - Estates and Facilities
 - Transport
 - Equipment
 - Information systems and technology

2. Objectives

- 2.1 The key aims of the Capital Strategy are to:
 - provide a clear set of objectives and a framework within statutory legislation that proposes new capital expenditure to be evaluated to ensure that all new capital investment is targeted to meet the vision, aims and priorities of the Commissioner and Staffordshire Police;
 - set out how the Commissioner and Staffordshire Police identify and prioritise capital requirements and proposals;
 - consider options available for funding capital expenditure and how resources may be maximised to generate investment in the area and to determine an affordable and sustainable funding policy framework, whilst minimising the ongoing revenue implications of any such investment;
 - identify the resources available for capital investment over the MTFS planning period;
 - ensure the strategy has an overall balance of risk on a range of investments over timespan, type of investment and rate of return;
 - establish effective arrangements for the management of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, value for money and security of investment;
 - deliver projects that focus on delivering the long term benefits to the communities served within Staffordshire.

3. Governance of the Capital Programme

- 3.1 A governance process is clearly established within the Force and will continue to be adhered to, will follow standing orders and financial regulations to ensure that available resources are allocated optimally and deliver value for money, and that capital programme planning is determined in parallel with the revenue budget planning process within the framework of the MTFS. These include:
- The Strategic Governance Board (SGB) which is ultimately responsible for approving the Capital Strategy for investment and the Capital Programme for approving changes to the programme within financial regulations and for the approval of business case submissions.
 - The Ethics, Transparency and Audit Panel (ETAP) which is responsible for scrutiny of the MTFS documents and the Capital budget monitoring reports and can make recommendations to the Strategic Governance Board (SGB).
 - The Force Strategy Board (FSB) which has overall responsibility for management and monitoring of the capital programme and ensuring the impact on service delivery is well managed and ensures value for money.
 - The Enabling Board which has overall responsibility for the capital funding and monitoring of the capital programme, within the financial regulations and for sign off of Outline Business Cases after legal and finance approval.
- 3.2 The capital monitoring report is within the monthly management accounts which is reviewed by the Finance Panel, which is a sub group of the Ethics, Transparency and Audit Panel (ETAP). The Chief Accountant regularly meets with each capital lead to discuss the capital monitoring position and to scrutinise capital spend.

4. Capital Priorities

- 4.1 The capital strategy must recognise that the financial resources available to meet the requirements of the current Staffordshire Policing Plan and the five key priority areas:
- Modern Policing
 - Early Intervention
 - Supporting Victims and Witnesses
 - Managing Offenders
 - Public Confidence
- 4.2 The bringing together of blue light services under a single governance route to the Staffordshire Commissioner provides opportunities to co-locate and share assets to the good of the community, delivering efficiencies and savings.
- 4.3 The Staffordshire Commissioner will seek to prioritise investment in order to deliver economy and efficiency within the organisation. This prioritisation will be achieved though the robust governance arrangements discussed above.

5. Funding Approach

5.1 The Staffordshire Commissioner for Police's capital investment falls within, and needs to comply with, the "Prudential Code for Capital Finance in Local Authorities" (The Code). Under The Code local authorities have greater discretion over the funding of capital expenditure especially with the freedom to determine, within the regulatory framework of the Code, the level of borrowing they wish to undertake to deliver their capital plans and programmes.

5.2 The main sources of capital funding are summarised below:

- **Central Government Funding Grants**

The Home Office provide an annual general capital grant in addition to any ring-fenced grants. This capital grant has been significantly reduced as part of the settlement for 2020/21 which has created additional upward pressure on capital financing costs.

- **The use of internal cash balances**

Interest rates on cash balances, over recent years, have remained low which has resulted in this being a more efficient use of cash to invest in the capital programme rather than taking additional external debt. The use of internal cash is an approach that has been undertaken successfully during the last few financial years.

- **The use of Earmarked Reserves**

The Staffordshire Commissioner has a Reserves Strategy which includes the Earmarking of Reserves to support the capital programme. Funding into the medium term has been identified though this approach and remains a key funding strategy.

- **The use of Capital Receipts**

Disposing of surplus assets is a good way to reinvest in the capital programme. Receipts will be targeted at the shortest life assets and then their use considered widely within any flexibility allowed by the appropriate government authority. In accordance with statutory instruments capital receipts may also be used for the repayment of debt.

- **Direct revenue funding**

Capital expenditure may be funded directly from revenue (CERA – capital expenditure charged to revenue account). In addition to specific revenue funds previously set aside, such as repairs and renewal funds, capital expenditure may be funded by specific revenue budget provision.

- **Borrowing and Leasing**

Under the Prudential Code the Staffordshire Commissioner has discretion to undertake borrowing to fund capital projects with the full cost of that borrowing being funded from the project returns or upon agreement to include in the MTFs estimates.

This discretion is subject to complying with The Code's regulatory framework which essentially requires any such borrowing to be prudent, affordable and sustainable (Local Government Act 2003). Prudential borrowing does provide an option for funding additional capital development but one which has to be funded each year from within the revenue budget or from generating additional ongoing longer term income streams.

The Staffordshire Commissioner will test the prudence of the borrowing predictions against the prudential indicators set under The Code every year as part of the MTFs process and report on progress against those indicators half yearly (see Appendix 2), in line with the Treasury Management Strategy.

This prudent approach to borrowing will continue into the medium term. However, should borrowing be required the Commissioner will continue to consider on a cautious and prudent basis as informed by a specialist team contracted from Staffordshire County Council in relation to Treasury Management who work closely with the finance team.

The organisation will utilise operational leases where possible for the purchase of minor equipment, IT and vehicles as supported by an appropriate business case.

6. Risk Management

- 6.1 Risk is the threat that an event or action will adversely affect the ability to achieve a desired outcomes or execute strategies successfully.
- 6.2 To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.
- 6.3 The Commissioner will require the Chief Constable to put in place a mechanism to manage risk. The Commissioner and Staffordshire Police considers its appetite to risk to be low. Risks are assessed continually from both an operational and financial perspective.
- 6.4 In carrying out due diligence, potential project risk are identified and relevant mitigation measures documented prior to approval.
- 6.5 All risks are then managed in line with the Force's Risk Management Policy which includes documenting risks on a risk register, assigning owners, regular review of risks and Red Amber Green (RAG) rating.
- 6.6 The Director of Finance will report on the deliverability, affordability and risk associated with this Capital Strategy and the associated capital programme. Where appropriate they will have access to specialised advice to enable them to reach their conclusions.

6.7 There are many categories of risk to be mindful of; these are detailed in **Appendix 3:**

- Credit Risk
- Liquidity Risk
- Interest Rate Risk
- Exchange Rate Risk
- Inflation Risk
- Legal and Regulatory Risk
- Fraud, Error and Corruption

7. **Capital Programme 2020/21 to 2023/24**

7.1 The proposed Capital Programme for 2020/21 to 2023/24 is contained within **Appendix 1** of this report. The total Capital Programme for 2020/21 has been estimated at £16.4m, for 2021/22 £16.9m, for 2022/23 £5.4m and £5.2m for 2023/24.

7.2 The Staffordshire Commissioner is required to set estimates, impose limits and to report and publish actuals in line with The Prudential Code. The indicators for adoption by the Authority for 2020/21, 2021/22 and 2022/23 are set out in **Appendix 2**.

7.3 There are four main areas of spend which feature within the capital programme; estates and facilities which includes building and infrastructure work, transport, equipment and finally information systems and technology.

The four areas are discussed in more detail below.

- **Information Systems and Technology**

Digital Technology investment is proposed to maintain the significant improvements in capability seen due to previous investments, to improve core infrastructure and for improvements in digital capabilities to be leveraged.

The main proposed investments in the four year programme are:

- £6.0m in 2020/21 for the completion of the Forces new records management system, replacing 13 systems with one (Niche). A number of these legacy systems are over 20 years old.
- £1.7m for improvements and upgrades to the Forces control room (an additional £1.5m is provisioned for in 2021/22). This work is required to both improve resilience as well as enable the Force to operate with the Emergency Service Network (ESN). The ESN business case is awaiting sign off by the Home Office

- £0.6m for the completion of the roll out of Samsung note 9 devices to all Officers and PCSO's. This device allows for Officers to be truly mobile, work from and access data from any location across the county, leveraging the significant investment in Niche.
- £10m for the upgrade and replacement of systems and infrastructure across areas as broad as Forensics, Origin (ERP system) and to fund the third phase of the national enabling programme.

- **Property and Estates Work**

All buildings are owned by the Staffordshire Commissioner. The PCC's office retain responsibility for key decisions around the purchase and disposals of buildings, maintaining close oversight of our estates management and planning in order to fulfil this role. The day to day management of the estate is undertaken by the Constabulary's estates department, within the People and Resources Directorate.

The budget proposal for 2020/21 includes a total capital requirement of £3.1m, the detail of which is set out in the Estates Strategy.

The estates programme focusses on the costs of maintaining the current estate. Whilst a joint Estates strategy is being developed with Staffordshire Fire and Rescue Service, it is envisaged that this strategy will see a number of projects within this four year maintenance programme not being undertaken due to Staffordshire Police taking advantage of the modern PFI facilities offered by the Fire service under this joint estates strategy. However, for prudence whilst the strategy is being developed provision has been made for these projects.

- **Vehicles**

All vehicles are maintained through our Joint Transport and Engineering Service. All fleet assets are maintained and managed through a fleet management system which provides information to enables effective and optimisation of fleet usage as well as planning around replacement activity.

The budget proposal for 2020/21 includes a total capital requirement of £1.8m. The programme includes the replacement of 80 vehicles. This represents around 7% of the fleet and is in line with the fleet management replacement programme.

An additional amount of £0.4m has been added to the capital programme for the costs of the uplift in Officer Numbers. This is to be funded via revenue contributions from the ring-fenced uplift grant

- **Operational Equipment**

The budget proposal for 2020/21 includes a total capital requirement of £0.2m. Included in the programme are Conducted Energy Devices (tasers) and Personal Protective Equipment for Police staff.

8. Funding the Programme

- 8.1 **Appendix 1** also details the proposed funding strategy for the 2020/21 programme together with indications for the funding of the following three years.
- 8.2 During the four year programme a combination of Capital Receipts (previous and future), Earmarked Reserves, capital grant and the use of Internal Cash and short term borrowing requirement (see Appendix 1). This is also reviewed within the Treasury Management Strategy Report.
- 8.3 It will remain a key priority to fund as much of the programme as possible through direct revenue contribution should additional savings be available in year.

9. Minimum Revenue Provision (MRP) Policy Statement

- 9.1 The Staffordshire Commissioner for Police is required each year to set aside some of its revenues as provision for debt repayment. This MRP provision essentially allows the Authority to “pay off” an element of the Capital Financing Requirement annually through a revenue charge known as the Minimum Revenue Provision (MRP).
- 9.2 The MRP was previously defined by statute with regulations providing for MRP as a 4% charge in respect of the amount of the Capital Financing Requirement (CFR). Under current regulations, the rules have been replaced with a general duty for a local authority to make an MRP charge to revenue which it considers prudent. The new regulation does not itself define “prudent provision”. However, guidance has been issued specifying methods for MRP calculation, which the Secretary of State considers prudent thereby effectively determining prudent provision.

9.3 The Commissioner's MRP Policy is as follows:

- For capital expenditure incurred before 1st April 2008, MRP will be determined as 2% of the Capital Financing Requirement in respect of that expenditure
- For unsupported capital expenditure incurred after 31st March 2008 and before 1st April 2018, MRP will be determined by charging the expenditure over a standard 40 years
- For unsupported capital expenditure incurred after 1st April 2018, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational.

Vehicles	5 years
Equipment	10 years
IT	10 years
Estates	40 years
Freehold Land	50 years

- MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charges over 20 years
- For assets acquired by finance lease or the Private Finance Initiative and for the transferred debt from Staffordshire County Council, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

9.4 This MRP Policy option is supported by the Commissioners treasury management advisors, Arlingclose, as a prudent provision to repay borrowing.

9.5 Regulations require the Authority to approve an MRP Statement in advance of each year. It is recommended that the Authority continue to apply a MRP to capital expenditure funded by borrowing under the 'Asset Life Method': which calculates the MRP charge based on the estimated life of the asset for which the borrowing is undertaken.

9.6 The total level of debt for the Staffordshire Commissioner as at 31 March 2020 is forecast to be around £93.7m, and is forecast to decrease slightly to £90.5m by March 2024 based upon the capital investment requirements outlined within this paper.

Appendix 1

Staffordshire Commissioner Police

Summary Proposed Capital Programme 2020/21 to 2023/24

Capital Investment Area	2020/21 Budget £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
IT	10,932	4,000	2,500	2,500
Estates	3,065	11,250	1,250	1,050
Vehicles	1,820	1,150	1,150	1,150
Vehicles - Uplift	400	400	400	400
Operational Equipment	150	150	150	150
OPCC	0	0	0	0
Capital Programme	16,367	16,950	5,450	5,250

Funding				
Capital Receipts	(2,667)	(3,354)	(1,020)	0
Capital Grants	(174)	(174)	(174)	(174)
Capital Specific Grants	0	0	(331)	0
Revenue Contribution to Capital	(1,673)	(1,673)	(1,673)	(1,673)
Revenue Contribution to Capital - Uplift	(400)	(400)	(400)	(400)
NPAS (deferred capital receipt)	(99)	(99)	(59)	(20)
Capital Receipts Reserve	(774)	0	0	0
Earmarked Reserves	(473)	0	(471)	0
Borrowing Requirement	(10,107)	(11,250)	(1,322)	(2,983)
Total Funding	(16,367)	(16,950)	(5,450)	(5,250)

Staffordshire Commissioner for Police Prudential Indicators

1. Ratio of Financing Costs to Net Revenue Stream

Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
%	%	%	%
3.4	4.1	4.0	4.1

This shows the capital financing costs (interest charges/receipts and repayment of loans) as a proportion of government grant (revenue) and Council Tax. This allows the Authority to track how much of its annual income is needed to pay for its capital investment plans proportionate to its day to day running costs.

2. Estimates of Capital Expenditure

Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
£m	£m	£m	£m
16.367	16.950	5.450	5.250

Expressed in absolute terms rather than as a ratio, this shows the overall level of capital investment irrespective of how it is being funded.

3. Capital Financing Requirement / Gross Debt

Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
£m	£m	£m	£m
93.7	99.6	94.6	90.5

This indicator effectively shows the level of the Authority's underlying need to borrow for capital purposes.

Net borrowing is not expected to exceed the total of the capital financing requirement (except in the short term)

It is a key indicator of prudence that, over the medium term, net borrowing is only for capital purposes.

B. Indicators for Treasury Management

1. Treasury Management Code of Practice

The Authority has adopted the CIPFA Code of Practice on Treasury Management

2. External Debt

	2020/21	2021/22	2022/23
	£m	£m	£m
a. Authorised Limit	119.7	115.2	110.1
b. Operational Boundary	109.7	105.2	100.1

The Authorised Limit is the maximum level of external borrowing which should not be exceeded. The limit is linked to the estimated level of borrowing assumed in the Capital Programme.

In addition an Operational Boundary is required which represents the Director of Finance's estimate of the day to day limit for the treasury management activity based on the most likely i.e. prudent but not worst-case scenario.

Appendix 3

Glossary of Risk Management Categories

Credit Risk is the risk that the organisation with which we have invested capital monies becomes insolvent and cannot complete the agreed contract. Accordingly we will ensure that robust due diligence procedures covers all external capital investment. Where possible contingency plans will be identified at the outset and enacted when appropriate.

Liquidity Risk is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. This is also the risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. The exposure to this risk will be monitored via the revenue and capital budget monitoring processes. Appropriate interventions will occur as early as possible.

Interest Rate Risk is the risk that interest rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Interest rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

Exchange Rate Risk is the risk that exchange rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Where relevant, exchange rates will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

Inflation Risk is the risk that rates of inflation will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates of inflation will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible any exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

Legal and Regulatory Risk is the risk that changes in laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, we will understand the powers under which the investment is made. Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.

Fraud, Error and Corruption is the risk that financial losses will occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the agreed Code of Corporate Governance. This is supported by the national Code of Ethics and detailed policies such as Counter-Fraud and Corruption and Declaration of Interests.

Capital Schemes must comply with legislation, such as the Disability Discrimination Act, the General Data Protection Regulations (GDPR), building regulations etc.