CAPITAL STRATEGY

INTRODUCTION

The Capital strategy is part of the Police and Crime Commissioner (PCC)'s Corporate Planning Strategy. It provides a mechanism by which the capital investment and financing decisions can be aligned over the short, medium and long term. The strategy will be updated and approved annually by the PCC.

The strategy sets the framework for all aspects of the PCC's capital and investment expenditure. This includes planning, outcomes, prioritisation, management, funding and repayment. This strategy has direct links to the other plans of the PCC such as the Force Management Statement, Estates Strategy and Digital Policing Strategy and forms a key part of the Long-Term Financial Plan (LTFP) and the Treasury Management Policy. This strategy should be read in conjunction with the Treasury Management Policy and Annual Investment Strategy. The operation of all these strategies and plans is underpinned by the Code of Corporate Governance which includes the Financial Regulations and Standing Orders.

OBJECTIVES

The key aims of the Capital Strategy are;

1. To provide a clear set of objectives and a framework within statutory legislation that requires new capital expenditure to be evaluated to ensure that all new capital investment is targeted at meeting the priorities that the PCC has set out in the Police and Crime Plan and has reference to environmental impact and sustainability.
2. Set out how the PCC identifies, programmes and prioritises capital requirements and proposals.
3. Consider the options available for funding of 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 revenue implications of such schemes.
4. Identify the resources available for capital investment over the planning period of the LTFP.
5. 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.
6. Deliver projects that focus on delivering the long-term benefits of Policing as detailed in the Police and Crime Commissioners 10-point plan and which are;
    1. Bringing offenders to justice;
    2. Getting tough on drugs and gangs;
    3. Tackling anti-social behaviour head-on;
    4. Helping to provide an effective police and criminal justice system;
    5. Preventing, reducing and tackling serious violence;
    6. Putting more police on the streets;
    7. Tackling violence against women and girls;
    8. Building confidence in Cleveland's communities;
    9. Providing effective, quality support for victims and witnesses;

10. Using technology to combat crime.

GOVERNANCE OF THE CAPITAL PROGRAMME

Governance processes are in place and follow Financial Regulations and Standing Orders to ensure that the resources are allocated optimally and deliver value for money.

The capital programme is determined from consultation with stakeholders and in parallel with the revenue budget planning process and the development of the LTFP. These processes include:

- The approval of the Capital Strategy, Capital Plan, Annual Investment Strategy and Treasury Management Policy by the PCC.
- These policies, plans and strategies being published on the PCC website as Decision Notices.
- Scrutiny of the Decision Notices by the Police and Crime Panel.

Any new capital project is subject to thorough evaluation which includes:

- A business case, resources and finance request submitted to the Corporate Services Team which includes the details of the scheme, estimated costs and income, staffing implications, benefits of change and other impacts. These will be appraised by the Business Case triage team, Finance Business Case Team, Digital Policing Group and recommendations made to the Executive Management Board.
- Subject to the proposal being approved by the Executive Management Board, the business case will be reported to the PCC as needed and a decision notice signed and published by the PCC if applicable.
- Monthly monitoring reports will be submitted to the PCC CFO and shared regularly by the PCC CFO with the PCC. These reports will show spending to date and compare projected expenditure to approved budgets. The reports will identify the changes to the capital programme to reflect:
    - New resource allocations
    - Slippage in programme delivery
    - Programmes reduced or removed
    - Virements between schemes and programmes to maximise delivery
    - Revisions to spending profiles and funding to ensure ongoing revenue costs are minimised.

Depending on the size of the project, a programme board may be set up with the key stakeholders to manage and take the project forward and to identify any risks which may affect the project or the organisation. Any risks deemed high for the organisation will be taken to the Risk and Governance Board. All projects are required to follow contract standing order requirements and procurement processes.

CAPITAL PRIORITIES

The capital strategy recognises that the financial resources that are available to the PCC are constrained. The PCC must therefore seek ways to ensure that investment decisions meet the objectives of the Police and Crime Plan and are within the limited resources available. The strategy is required to deliver policing in line with the PCC's visions and the capital plan is built on the emerging themes arising from the Force's Estates, Digital Policing and Fleet strategies and the Force Management Statement.

The assets owned by the PCC are vital for the delivery of the Police and Crime Plan and the capital priorities are for sufficient funding to renew the asset base of the organisation, informed by condition deficiency surveys, 'fit for purpose' reviews, equipment replacement programmes, business continuity requirements and invest to save decisions. The capital investment will be only for service delivery and not for commercial investment.

FUNDING APPROACH

The PCC's capital investment falls within and is required to comply with 'The Prudential Code for Capital Finance in Local Authorities 2021' (the Code). Under the Code, the PCC has 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 the capital plans and programme.

There are a range of potential funding sources which can be generated locally either by the PCC or in partnership with others. The PCC continues to seek new levels of investment to match against the capital programme and may include additional receipts from land sales, developer opportunities and joint funding opportunities.

This strategy which informs the LTFP is intended to maximise the financial resources available for investment in service provision and improvement within the framework of the LTFP whilst ensuring that each business case has a robust self-sustaining financial model that delivers on the wider outcome of the strategy.

The main sources of capital funding are:

1. Central government
    a. Specific grant allocations- grants are allocated in relation to specific programmes or projects and the PCC will seek to maximise this to address priority needs in policing
    b. The PCC will continue to bid for future resource allocations as they become available.
2. Internal Balances
    a. Interest rates over recent years had remained low and therefore external borrowing has been prudent. Interest rates have begun to rise and are likely to increase further. Internal borrowing can be used to support the capital programme when the financial position of the PCC allows for this.
3. Capital receipts

   a. Receipts that have been obtained from the sale of property, plant and equipment and are available only for the funding of capital schemes. There is no de minimis level for capital receipts.
4. Reserves
   a. Any funding that has been allocated in a specific year but is not required until future years will be carried forward in an earmarked reserve. These reserves will vary from year to year depending upon the level of funding available and the timing of projects.
   b. Reserves can be created from most funding sources (Direct Revenue Funding, Grants, Receipts and Insurance receipts and reserves).
   c. Working with other public sector bodies and partners may bring additional opportunities for securing additional funding and this should be undertaken whenever possible.
5. Investment
   a. The PCC will continue to work to utilise redundant assets and vacant land to bring them to a useful economic purpose. Capital receipts from the disposal of assets represent a finite source of funding and it is important that a planned and structured manner of disposals is created to support the priorities of the PCC. Cash receipts from the disposal of surplus assets are to be used to fund new capital investment or to offset future debt or transitional costs.
   b. The PCC will continue to work with other partners and agencies to consider projects that are mutually beneficial to the development of policing in Cleveland.
   c. Various mechanisms provide opportunities to enhance the PCC's investment potential with support and contributions from other third parties and local strategic partners. They may range from commissioning/facilitating others to develop services in policing.
6. Revenue
   a. Capital expenditure may be funded directly from revenue (Direct Revenue Funding). In addition to specific revenue funds that have previously been set aside as earmarked reserves, capital expenditure may be funded by specific revenue budget provision. However, given the pressures on the PCC's revenue budget, the extent to which this may be utilised is very limited. The approved deminimis limit for expenditure to be capitalised is £5,000.

BORROWING AND LEASING

Under the Prudential Code, the PCC has discretion to undertake borrowing to fund capital projects with the full cost of the borrowing being funded from project returns or from revenue.

This discretion is subject to the PCC complying with the Code's framework which requires any such borrowing to be prudent, affordable and sustainable. Prudential borrowing does provide an option for funding additional capital projects, but this must be funded each year from within the revenue budget or from generating additional ongoing longer-term income streams.

The PCC will test the Prudential Indicators annually as part of the LTFP process and report upon the progress when setting the future Prudential Indicators. The Prudential Indicators will be monitored on a quarterly basis.

Given the pressure on the PCC's revenue budget, prudent use has been made of this discretion in cases where there was clear financial benefit. Where prudential borrowing is proposed, a full and robust business case is required to be approved by the PCC which includes option appraisal and detailed financing options.

The PCC utilises leases for land and buildings where appropriate and the only equipment leases are for photocopiers. Leases are accounted for under IAS17 until leasing standard IFRS16 is required to be in place. There is a separate policy document in relation to leases. The financial implications are included in the relevant capital and revenue plans.

Existing PFI schemes are accounted for under IFRIC12 and all finance implications are included in the relevant capital programme. The PFI schemes will take account of the changes required by IFRS16 once adopted.

BALANCED PORTFOLIO APROACH

Resources will be allocated to programmes based upon asset values to manage the long-term yield and revenue implications. Capital receipts will be focussed on those assets with a short-term life span and the unsupported borrowing on long term assets. Surplus receipts will be assigned to finance the capital programme in the most economical way to ensure the minimum impact on the revenue budget in relation to the Minimum Revenue Provision (MRP) as informed by the LTFP.

All capital schemes need to reflect the full development purchase costs including property taxes and fees. Business cases will include all lifetime costs (both revenue and capital) and income proposals. Where necessary, specialist advice is to be taken, particularly around VAT and other taxes.

The capital programme will include financing detail and an appropriate cash flow.

Debt funding can range from short term cash flow support through to longer term funding linked to assets. Interest rates will be sought which are the best available and are required to reflect the appropriate legislation.

MINIMUM REVENUE PROVISION (MRP) POLICY

Minimum Revenue Provision (MRP) is the annual revenue provision that authorities which are not debt free, must make in respect of their debts and credit liabilities. MRP aims to provide transparency as to the cost to the PCC of taking on new borrowing. The requirement to make MRP has existed since 1990.

Under the Local Authorities (Capital Financing and Accounting) (Amendment) (England) regulations 2007, the current arrangements for calculating MRP as specified in the 2003 regulations have been superseded. The 2007 regulations now place a duty on local authorities to make MRP which is considered to be prudent, with the responsibility being placed on the PCC to approve the Annual MRP strategy.

The 2007 regulations require that an annual MRP strategy be adopted by the PCC prior to the start of the financial year to which it applies. The PCC can change the method of calculating the MRP on an annual basis in line with guidance. Once a method has been approved for a particular year, any assets purchased through borrowing that year must continue to have MRP charged in the same way.

For borrowing at 1 April 2008 and supported borrowing after this date, the regulatory method is to be applied. This is calculated at 4% of the total Capital Financing Requirement less Adjustment A. For unsupported borrowing after 1 April 2008, the depreciation method is applied. The MRP for each asset acquired through unsupported borrowing is calculated by taking the unsupported borrowing on the asset less the MRP already made against the asset less the residual value of the asset and then divided by the remaining useful life of the asset.