



The Nottinghamshire Office of the Police & Crime Commissioner

Capital Strategy

2019-20

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Capital Strategy 2019-20

Section A Introduction

1. Purpose

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with desired outcomes and take account of stewardship, value for money, prudence, sustainability and affordability.

The Capital Strategy is a key document for the Police and Crime Commissioner (PCC) and Nottinghamshire Police and forms part of the authority's integrated revenue, capital and balance sheet planning. It provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the delivery of desired outcomes. It also provides an overview of how associated risk is managed and the implications for future financial sustainability. It includes an overview of the governance processes for approval and monitoring of capital expenditure.

Throughout this document the term Group is used to refer to the activities of both the PCC and the Force.

2. Scope

This Capital Strategy includes all capital expenditure and capital investment decisions for the Group. It sets out the long term context in which decisions are made with reference to the life of projects/assets.

Although the Group has its own Capital Strategy and Medium Term Capital Plan, the natural drivers that encourage national, local and regional forces to collaborate, such as cost and resource sharing, along with structured collaborations and national plans, can have a significant influence on local decision making.

One of the focal points therefore of the Capital Strategy is to acknowledge regional and national partnership working, both with other Forces and in a the wider context of engagement with other Emergency Services, Local Authorities and the Crown Prosecution Service, to improve overall service to the public.

Wherever possible and subject to the usual risk assessment process, the Group will look to expand the number of capital schemes, which are completed

on a partnership basis, and continually look for areas where joint projects can be implemented, in support of this initiative:

3. Capital Expenditure

Capital expenditure is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing fixed asset. Fixed assets are tangible or intangible assets that yield benefits to the Group generally for a period of more than one year, (e.g. land and buildings, IT, business change programmes, equipment and vehicles). This is in contrast to revenue expenditure, which is spending on the day to day running costs of services, such as employee costs and supplies and services.

The capital programme is the Group's plan of capital works for future years, including details on the funding of the schemes.

Capital expenditure is a major cost and as a result it is necessary to ensure that key programmes of work requiring capital expenditure have been properly identified, evaluated and prioritised.

4. Capital vs Treasury Management Investments

Treasury Management investment activity covers those investments, which arise from the organisation's cash flows and debt management activity, and ultimately represent balances, which need to be invested until the cash is required for use in the course of business.

For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Annual Treasury Management Strategy.

The CIPFA Treasury Management Code recognises that some local authorities are entitled to make investments for policy reasons outside of normal treasury management activity. These may include service and commercial investments. However, like all police forces, the Group does not have a General Power of Competence, which gives councils the 'power' to do anything an individual can do provided it is not prohibited by other legislation. As such, the Group is prevented from entering into commercial investment activities.

5. Links to other corporate strategies and plans

The PCC produces his Police and Crime Plan every four years, which is refreshed annually and the Chief Constable produces a Force Management Statement.

To support these overarching documents a number of interrelated strategies and plans are in place, such as the Medium Term Financial Strategy, Capital Strategy, Medium Term Capital Plan, Asset Management Plan, Treasury Management and Annual Investment Strategy, People Strategy/Workforce Plan and the Environmental Strategy.

The operation of these strategies and plans is underpinned by the Code of Corporate Governance which includes Contract Procedure Rules and Financial Regulations. Procedure manuals are considered best practice at Force level.

Procurement is the purchase of goods and services. The Group has a Procurement Department that ensures that all contracts, including those of a capital nature, are legally compliant and best value for money.

It is essential that all procurement activities comply with prevailing regulations and best practice as set out in the Code of Corporate Governance, which includes Contract and Financial Regulations. Guidance on this can be sought from the Procurement team.

The main aim is to hold 'value for money' as a key goal in all procurement activity to optimise the combination of cost and quality.

Capital resources should be directed to those programmes and projects that optimise the achievement of these outcomes. The following processes are designed to ensure this happens.

Section B Governance

6. Asset Management

Good asset management is based upon having detailed condition records for all assets. This enables

- Whole Life Appraisal (WLA) to be undertaken for each asset – liaise with OPCC Treasury Management Accountant on Estate assets with a value over £0.600m to ensure component elements are clearly identified
- Compilation of Capital Programme and Plan
- Identification of long term risks

The need for a capital scheme will typically be identified through one or more of the following processes and be submitted on standardised forms.

- Senior Stakeholders will submit business cases that support delivery of local, Force, Regional or National Objectives. These plans must be sponsored by a member of the Chief Constables Management Team (CCMT) and must identify the requirement, rationale, deliverables, benefits, links to Force and/or PCC Priorities, and costs in terms of both Capital investment and on-going revenue consequences.
- Reviews of existing capital projects will identify that budget variances are likely to occur and that either more or less funding is likely to be required. Full rationales are required to justify variances and are submitted as per service delivery bids above.
- The other key strategies will inform the capital strategy and a capital scheme bid may arise from that, for example the Force Asset Management Plan, which rationalises and develops the operational buildings and estates, and may require, either sale or purchase or redevelopment of an element of the estate.

Where investment needs are identified these are reported in a business case.

See **Appendix A** for a diagram of process

7. Business Case

A standard template should be used for all business cases. This should be completed in detail for projects with a duration of less than 1 year as well as initial year of multi-year schemes. Start dates, project duration and revenue implications should be clearly identified.

Payments for capital schemes often occur over many years, depending on the size and complexity of the project. Therefore, estimated payment patterns are calculated for each project so that the expected capital expenditure per month/year is known. This is called a cash flow projection or budget profiling.

The approval of a rolling multi-year capital programme assists the Group stakeholders in a number of ways:

- It allows the development of longer term capital plans for service delivery.
- It allows greater flexibility in planning workloads and more certainty for preparation work for future schemes.
- It allows greater integration of the revenue budget and capital programme.
- It also matches the time requirement for scheme planning and implementation since capital schemes can have a considerable initial development phase.

8. Capital Programme – 1 to 5 years

The Capital programme will summarise the capital expenditure of projects over a five year period. This will be less accurate in the later years where only outline information may be currently available. All projects will be supported through business cases.

Business cases should be as detailed as possible for each project over the life of the project.

Where projects are being identified early in the programme, an outline business case with estimated costs, needs to be compiled for the programme beyond year one.

9. Capital Plan – 5 to 10 years

The Asset Management Plan and condition surveys should detail what expenditure will be required on existing assets over the longer term. This should be identified in the longer term plan, with more detail being provided as these items progress in the Capital Strategy and programme.

10. Long term Risks – over 10 years

Again the Asset Management Plan and condition surveys should identify long term requirements for capital expenditure. This should also link to other key strategies, such as the Police and Crime Plan and people strategy. The main objective would be to identify long term risks (e.g. Clasp building with a life of 25 years). This should be revised and kept up to date.

11. Force Internal Application Process

At any given time the Force is committed to rolling medium term revenue & capital plans, that usually extend for 4 years and beyond. The plans are drawn up, reassessed and extended annually. If required these are re-prioritised to enable the Force to achieve the aims and objectives, established in the PCC's Police and Crime Plan and commitment to support national drivers, such as the National Policing Vision for 2025.

Key focuses of the Capital Programme:

- To ensure the property estate remains fit for purpose, identifying opportunities to streamline assets and develop the estate infrastructure; maintaining core sites, improving core training facilities and progressing the Asset Management Plan.
- To ensure provision is made for IT & Business Change Technology to maintain and develop the existing infrastructure and invest in the core technologies required to provide innovative digital policing services.

The maintenance and replacement of other core assets where necessary, (e.g. vehicles and communication infrastructure).

- The plans acknowledge the constrained financial position of the Force and maximise both the available financial resources and the capacity that the Force has to manage change projects.

The Capital Plan provides the Force infrastructure and major assets through capital investment, enabling the Force to strengthen and streamline core assets and systems, and provides the framework for delivering innovative policing with a lower resource profile.

For any particular budget setting year, the process for the Group starts during the summer of the preceding year with the Force Corporate Development Department and other key Stakeholder Groups. The Group other Collaborative Forces commence earlier on an agreed time table and Communication Strategy to be adopted to secure investment requirements and ideas from the Stakeholder Groups covering the key criteria such as:

- Achievement of high level agreed Local, Regional or National outcomes;
- Maintenance of the essential infrastructure;
- Development of improved capability
- Adjustments to existing prioritised plans/projects.
- Rationalisation & modernisation of estates
- Carbon management & Health and Safety
- Invest to save schemes.

Based on an agreed timetable, Business Cases for consideration will be submitted into Force Corporate Development Department for both the Group and collaborations in order that a joined up approach is made to capital investment.

A deminimis level of £0.02m is currently in place and must be adhered to.

Vehicle purchases must be made in bulk. One-off purchases of new or second-hand vehicles will be a cost to revenue.

Capital will fund new IT systems over £0.1m (below this amount will be considered if grant funded). All system upgrades will be funded by revenue.

Over the autumn, the business Cases will be subjected to the Forces Prioritisation Matrix, this provides a score for the project that considers key factors (eg statutory need, police and crime plan, risk) in assessing the importance of the bid. The bids will then be presented to and extensively reviewed by the Futures Board, before being scrutinised and recommended by the Chief Officer Team.

Business case prioritisation is achieved by initially applying an agreed Force Prioritisation Matrix to the bid. The matrix reflects the Chiefs Constables force commitment, operational priorities, risk profile, benefits and costs and provides an indicative score for each business case.

The Matrix will be adjusted, if required, prior to submission of business cases to reflect any changes to force prioritisation.

The Prioritisation Matrix score is subject to extensive review by Chief Officers and senior staff over the course of the budget process, to ensure prioritisation is effective and that any appeals are given due consideration.

Typically, a costed draft Capital Plan will then be presented to the PCC late autumn, providing views on affordability and potential funding issues and options. It is imperative that the Head of Finance updates the CFO on all changes made prior to the final version.

A final version of the Capital Plan and Programme will be presented to the PCC in the following February for approval, reflecting the known funding position and any further developmental work on the plan.

The formal PCC approval, agrees the capital budget for the following year, and acknowledges the intention for planning purposes of the remaining years of the Capital Plan. Until this approval is given spending cannot commence.

12. Office of the Police and Crime Commissioner

12.1. Affordability and Financial Planning

Prior to submission of the draft Capital Programme in late autumn, a significant amount of financial work will have already been undertaken on Revenue budgets. This work will have identified potential financial position for the Force in respect of the coming medium term, taking into account core known information and stated assumptions.

The revenue financial position is influenced by inflation, committed growth requirements, forecast productivity and efficiency savings, assumptions around grant and council tax funding and any other information introduced during the budget process.

The Capital Programme and the Capital Plan will include forecasts on capital expenditure, revenue consequences of capital programmes and the requirement to financially support capital investment, either through direct financing or borrowing.

12.2. Capital Sustainability

The financial position of the Group has been changing. For many years the Group has benefitted from substantial capital receipt reserves, supported by the sale of operational buildings or from revenue reserves assigned to capital investment.

As we move forward through the next 4 years the picture moves away from funding of the capital programme through use of accumulated receipt reserves and into a position of funding through either direct revenue financing or borrowing for specific projects.

Beyond the next 4 years almost all capital investment will have to be funded from revenue contributions. This is expected to be during a continued period of revenue pressure and uncertainty.

The Group's Strategy is therefore to invest in core infrastructure now that will not only offer overall service improvements to the public, but also maximise revenue savings into the future through more efficient and mobile use of police personnel, enabled by improved Information Technology systems and other core infrastructure for example, connected vehicle fleet and building assets.

Its investment strategy will also be influenced by and take account of National visions for policing, Regional and Local priorities.

12.3. Approval Process

As indicated, the PCC receives the updated Capital Programme supported by a longer term capital plan, in February each year as part of the overall suite of budget reports.

The PCC approves the overall borrowing levels at the budget meeting in February each year as part of the Treasury Management Report. The taking of loans, if required, then becomes an operational decision for the CFO who will decide on the basis of the level of reserves, current and predicted cashflow, and the money market position whether borrowing should be met from internal or external sources.

Once the PCC has approved the capital programme, then expenditure can be committed against these approved schemes subject to the normal contract procedure rules and the terms and conditions of funding.

Whether capital projects are funded from grant, contributions, capital allocations or borrowing, the revenue costs must be able to be met from existing revenue budgets or identified (and underwritten) savings or income streams.

Following approval by PCC the capital programme expenditure is then monitored on a regular basis.

12.4. Funding Strategy and Capital Policies

This section sets out the Group policies and priorities in relation to funding capital expenditure and investment.

12.4.1. Government Grant

The Commissioner only receives limited financial support from the Home Office; annual capital grant is currently less than £0.8m per annum. This grant is not hypothecated and can be carried forward if not spent in the year of receipt.

Specific capital grants may be received for agreed capital works undertaken by those regional policing units for which the Group is the lead force or for themselves only.

12.4.2. Capital Receipts

A capital receipt is an amount of money which is received from the sale of an asset. This cannot be spent on revenue items.

These capital receipts, once received, are used to finance short life assets in future capital programmes. Unfortunately, the pool of assets available for sale is rapidly declining.

All sale receipts from assets originally purchased by capital funding are capital receipts even when below the £0.01m value set by statute.

12.4.3. Revenue Funding

Recognising that the pool of assets available for sale is declining, direct revenue funding (DRF) is seen as a sustainable funding alternative.

12.4.4. Prudential Borrowing

Local Authorities, including the Police, can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by the Government so the Group needs to ensure it can fund the repayment costs. The Group's Minimum Revenue Provision (MRP) Policy sets out a

prudent approach to the amount set aside for the repayment of debt.

Due to the on-going debt charges (i.e. MRP and external interest charges) the CFO will consider external borrowing and any potential alternative source for financing the capital programme.

12.4.5. Reserves and balances

Unspent capital grant and capital receipt monies can be carried forward in the Balance Sheet until they are required to fund the capital programme.

The Group also uses money held in earmarked revenue reserves to help fund capital expenditure, most notably the Asset Replacement Reserve.

12.4.6. Third party contributions

When working with others on a capital project, and the Group is the lead, total cost of expenditure will be recognised. Any contribution towards financing will be clearly identifiable.

12.4.7. Leasing

The Group may enter into finance leasing agreements to fund capital expenditure. However, a full option appraisal and comparison of other funding sources must be made and the Department must liaise with the Head of Finance to ensure that this is costed accurately. The CFO must be satisfied that leasing provides the best value for money method of funding the scheme, before a recommendation is made to the PCC.

Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.

Section C Management

The PCC owns all assets and has given legal consent for the Chief Constable to manage them on a day to day basis, on his behalf.

The Head of Finance collates the information for the capital plan. The capital programme is managed by the project managers and the Head of Finance monitors and reports on the expenditure regularly, to the Chief Constable's Management Team who, collectively maintain oversight of planned expenditure.

The Chief Finance Officer is responsible for developing and then implementing the Treasury Management Strategy, including the Annual Investment Strategy, along with the completion of all capital spend and funding related returns completed for central government and other regulatory bodies.

During the budget preparation process the Chief Constable's Management Team take a strategic perspective to the use and allocation of the Group's capital assets in planning capital investment. They receive reports on proposed capital projects and make formal recommendations to the PCC during the development of the capital programme.

Having approved the capital plan and the capital programme in February each year the PCC formally holds the Chief Constable to account for delivery of capital projects.

Detailed discussions are held with Collaborative Partners to agree as far as possible Force prioritisation and understand affordability risks and issues on joint ventures.

Once the list of key capital priorities have been identified, in preparing capital project proposals, consideration should be given to the key criteria identified earlier in the year.

13. Individual Project Management

Capital Projects are subject to high levels of scrutiny. This varies dependant on the type of project and may be influenced by size or by the makeup of regional involvement. Each Project will have a Project Manager and potentially a team to implement the project.

Typically projects will have a dedicated Project Board, which, if part of a larger programme may sit under a Programme Board. Programme and Project Boards will have a Senior Responsible Officer or Chair Person.

For those business change programmes where a formal Board has been established, a detailed scheme monitoring report is presented to each Board meeting.

Detailed oversight is further provided through IT Project Management Office, Strategic Estate Groups and Futures Board.

Regional Projects or Programmes may also report into Regional Boards.

14. Monitoring

The Head of Finance will submit capital monitoring reports to both Chief Constable's Management Team and the PCC on a regular basis throughout the year. These reports will be based on the most recently available financial information. These monitoring reports will show spending to date and compare expenditure with the approved capital budget.

For proposed in-year amendments to the capital programme, the department in consultation with the Head of Finance will prepare a business case for submission to the Futures Board and then to the PCC for consideration and approval, including details on how the new scheme is to be funded: such as revenue, grants and/or savings from current capital programme. Additional capital funding will only be considered in exceptional circumstances approved by CFO and PCC.

Monitoring reports are presented to the PCC at either, the Strategic Resources and Performance meeting, or as part of the decision making process if timing of the meeting is not aligned.

15. Performance Management

Clear measurable outcomes should be developed for each capital scheme. After the scheme has been completed, the Chief Constable is required to check that outcomes have been achieved.

Post scheme evaluation reviews should be completed by the Group for all schemes over £0.5 million and for strategic capital projects.

Reviews should look at the effectiveness of the whole project in terms of service delivery outcomes, design and construction, timescales being met, expenditure etc. and identify good practice and lessons to be learnt in delivering future projects.

16. Risk Management

Risk is the threat that an event or action will adversely affect the Group's ability to achieve its desired outcomes and to execute its strategies successfully.

Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.

The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties.

Each project should maintain its own risk assessments and monitor these throughout the project term. Where significant risks arise these should be evaluated to see if they should be escalated to the corporate risk register.

To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.

It is important to identify the appetite for risk by each scheme, especially when investing in complex and costly business change programmes.

The corporate risk register sets out the key risks to the successful delivery of the Group's corporate aims and priorities and outlines the key controls and actions to mitigate and reduce risks, or maximise opportunities.

The Group accepts there will be a certain amount of risk inherent in delivering the desired outcomes of Police and Crime Plan and will seek to keep the risk of capital projects to a low level whilst making the most of opportunities for improvement. Where greater risks are identified as necessary to achieve desired outcomes, The Group will seek to mitigate or manage those risks to a tolerable level.

The Chief Finance Officer 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 conclusions to be reached.

- **Credit Risk**

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

- **Liquidity Risk**

This 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. Our 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**

This 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**

This 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**

This 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 our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

- **Legal and Regulatory Risk**

This 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, the Group 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**

This 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. The Group has a strong ethical culture which is evidenced through our values, principles and appropriate behaviour. This is supported by the national Code of Ethics and detailed policies such as Anti-Fraud and Corruption and Declaration of Interests.

17. Other Considerations

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

