STAFFORDSHIRE COMMISSIONER
Police | Fire and Rescue | Crime

Report to the Police Fire and Crime Panel – 28th January 2019

Capital Strategy and

Minimum Revenue Provision Policy

Report of the Staffordshire Commissioner

Introduction

In addition to his existing role overseeing Staffordshire Police, the Staffordshire Commissioner became responsible for the governance of the Staffordshire Fire and Rescue Service from August 2018. However both remain separate organisations, with separate budgets, staff and governance processes.

This report will detail the capital strategy for Staffordshire Police only; a separate report will follow for the Staffordshire Fire and Rescue Service. When reference is made to the Commissioner as part of this report, this represents his Staffordshire Police role only.

Recommendations

a) That the proposed capital strategy for the 2019/20 financial year is noted. The main features are: -

- to focus expenditure in the areas which best support the other strategies of the Force and the Commissioner;
- to adopt a balanced portfolio approach to funding the programme.

Matthew Ellis

Staffordshire Commissioner

Contact Officer: Jane Heppel

Telephone: 01785 232449

Email: jane.heppel@staffordshire-pfcc.pnn.gov.uk

1. Introduction

1.1 The Capital Strategy forms a key part of the Commissioner's overall Corporate Planning Framework. It provides a mechanism by which the Commissioner's capital investment and financing decisions can be aligned over a medium term (five year) 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. The Strategy has direct links to the other Commissioner Management Plans such as the Asset Management Plan and IT strategy and forms a key part of the Commissioner's Medium Term Financial Strategy (MTFS).

1.3 There are three main areas of spend which feature within the Capital Programme; Estates and Facilities, Transport and Information Systems and Technology. Business Services interlinks these areas, and develops processes to ensure procurement and value for money is enveloped in each area. There are independent strategies in place which demonstrate the requirements from each of these individual areas, and how they are linked into the procurement strategy, and how they relate to the Force and Commissioner policing plans.

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 at meeting the pledges and the Commissioner's Vision, Aims and Priorities;
- set out how the Commissioner identifies, programmes and prioritises capital requirements and proposals arising from business plans submitted through a stringent gateway appraisal mechanism comprising of Strategic Outline Cases (SOC) and Full Business Cases (FBC);
- 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 policing in Staffordshire listed below:

Modern Policing
"A police force that is fit for a changing future."

Early intervention
"Identifying and tackling root causes at the earliest opportunity."

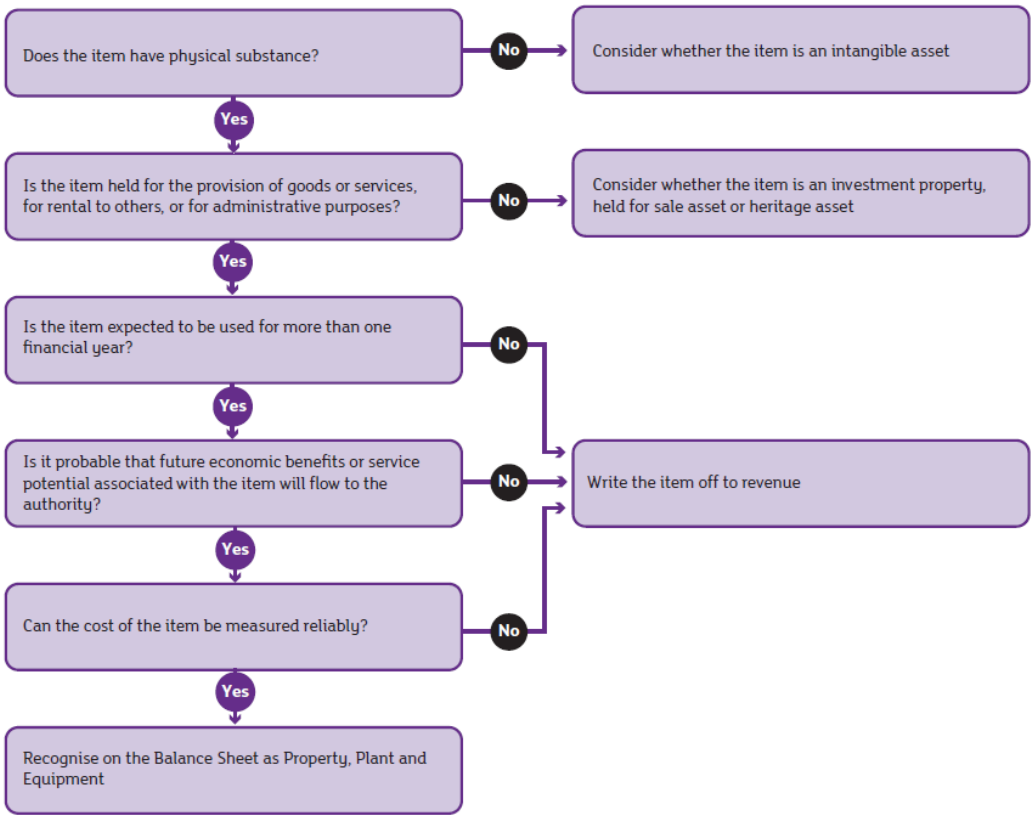
Supporting Victims and Witnesses
"Making it easier for victims and witnesses to get the support they need, when they need it."

Managing Offenders
"Preventing offending in the first place and reducing reoffending."

Public Confidence
"Creating opportunities for communities to shape policing, with greater transparency and openness to increase confidence in policing."

3. <u>Capital</u>

3.1 Only spend that meets the qualifying criteria as laid out in the Code of Practice are considered for capitalisation. The test is as follows:



3.2 Even if spend meets the test it must still be above the approved de minimis limit in order to be capitalised. The limit is £10,000 except for vehicles which are all classed as assets and included on the asset register.

4. Governance of the Capital Programme

4.1 Governance processes will be put in place and adhered to, following 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 service and 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 any Final Business Cases (FBC);
- The Ethics and Transparency Panel 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).

4.2 The Commissioner will require the Chief Constable to put in place mechanisms which will seek to ensure that there is an integrated approach to addressing cross-cutting issues and developing and improving service delivery through its capital investment in pursuance of the Commissioner's over-arching aims. These include: -

- The Force Strategy Board which has overall responsibility for the management and monitoring of the capital programme and ensuring the impact on service delivery is well-managed and ensures value for money;
- Corporate Resourcing and Planning Board which has overall responsibility for the financial management, funding and monitoring of the capital programme, approving virements within financial regulations and for sign off of Outline Business Cases (OBC) after legal and financial approval.
- Investment Board which has responsibility for ensuring the coherence, value for money and programme planning of the capital programme, agreeing virements within financial regulations and for providing information to the Force Strategy Board on service delivery impact.
- Special interest Boards that have the responsibility for overseeing and approving business cases for investments prior to sign off by Corporate Resourcing and Planning Board;
- Specific Project boards with wide ranging membership.

4.3 New programmes of expenditure will be appraised and grant allocation programmes follow a clearly defined gateway process.

- For new projects and programmes an Outline Business Case (OBC) will be submitted that needs to include capital investment, repayment mechanisms, revenue impacts and full lifetime costings. These will be scored against an agreed weighting and appropriate recommendations made to CRPB.
- Subject to the outline proposal being approved a detailed Full Business Case (FBC) be (which will be appropriate to the amount and/or complexity) submitted and appraised prior to being appended to a report to be approved by the Commissioner.
- Monthly reports will continue to be submitted to the Force Strategy Board that identify changes to this programme to reflect: -

    - New resource allocations
    - Slippage in programme delivery
    - Programmes reduced or removed
    - Virements between schemes and programmes to maximise delivery
    - Revisions to spend profile and funding to ensure ongoing revenue costs are minimised.

4.4 Depending on the size of the project a programme board may be set up with key stakeholders to manage and take the project forward, and identify any risks which could affect the project or the organisation. Any risks deemed high for the organisation as a whole will be taken to the Risk Management Group.

4.5 Regular reports will also be provided to Ethics and Transparency Panel on the proposals and returns from the investments made.

5. Capital Priorities

5.1 When the Commissioner came into office he made a pledge that the Staffordshire Force would become the most technologically advanced local force in the UK.

5.2 Underlying the capital strategy is the recognition that the financial resources available to meet the Commissioner's five priorities as laid out in his Safer, Fairer, and United Communities Strategy are constrained in the current economic and political climate. Therefore the Commissioner must seek ways in which investment decisions can be no less than self-sustaining or generate positive returns both in terms of meeting corporate objectives and producing revenue savings.

5.3 The AMP identifies significant backlog maintenance issues across the Commissioners property portfolio. It is anticipated that this can be mitigated through the strategic accommodation strategy. The AMP identifies the necessary investment needed to bring the remaining asset stock up to current standards which would require a level of investment that is currently unaffordable. Given the Commissioners priority is to dispose of any surplus assets then the limited capital resources available via grant, capital receipts and private sector are prioritised to maximise outputs with minimal ongoing future revenue costs.

5.4 The bringing together of blue light services under a single governance route to the Commissioner provides opportunities to co-locate and share assets to the good of the community and the services that serve those communities. Where partnership working offers an opportunity to develop good practices or leads to efficiencies within the Force the Commissioner will also consider co-locating and sharing. Every opportunity to share will be explored as a principle before single purchase of assets.

5.5 Subject to full or partial cost recovery business cases the Commissioner will: -

- measure proposed investment against the five priorities in his Safer, Fairer, United Communities Strategy and invest accordingly;
- reduce the backlog maintenance liability by rationalising office accommodation and other operational estate. The rationalisation will be in the form of moving out of leased / rented accommodation and sales of surplus assets;
- invest in energy saving initiatives which reduce future running costs and reduce CO_2 emissions;
- invest in opportunities to provide a future income stream to support revenue through the optimisation of resources;
- invest in ICT hardware and software on a case by case basis. The primary focus being channel shift into improved technologies on spend to save basis;
- support investment in joint virtual or physical delivery platforms which support data sharing, improved joint working and sharing of knowledge particularly where it is possible to secure significant third party contributions or grant funding.

6. Funding Approach

6.1 The Commissioner'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.

6.2 There are a range of potential funding sources which can be generated locally either by the Commissioner itself or in partnership with others. The Commissioner continues to seek new levels of private sector investment to match against its capital programme, this may be additional capital receipts from land sales, developer agreements, joint funding opportunities across the private sector or regional funds on a wide range of projects.

6.3 The strategy, the outcomes of which inform the Medium Term Financial Strategy, is intended to maximise the financial resources available for investment in service provision and improvement within the framework of the MTFP. Whilst at the same time ensuring that each business case has a robust self-sustaining financial model that delivers on the wider outcomes of the strategy.

6.4 The main sources of capital funding are summarised below: -

6.4.1 Central government and regional government

- Basic Formula Grant allocations – Policing bodies are anticipating that formula grants for capital projects will reduce to negligible levels by the end of the current MTFS period. This necessitates a different approach to funding.
- Specific Grant allocations – Grants are allocated in relation to specific programmes or projects and the Commissioner would seek to maximise such allocations, developing appropriate projects and programmes which reflect government and partnership led initiatives and agendas but address priority needs in policing in Staffordshire.
- The Commissioner will continue to bid for future resource allocations using innovative service delivery mechanisms if necessary. For example through the Police Transformation Fund, Enterprise Zones, Regional Growth Fund, Single Growth Fund etc.

6.4.2 Internal Balances

- Interest rates, over recent years, have remained low; therefore external borrowing has been prudent but with the recent potential increase of interest rates, internal borrowing could continue (if the force received surplus capital receipts) to help support the programme. This can help avoid further interest costs impacting the revenue budget to support the capital programme, however there are limitations to the amount of internal funds that can be used, and this is monitored on a regular basis by our Treasury management advisors (Staffordshire County Council) who will propose alternative action when necessary.
- External and Internal borrowing is only used once all other sources of funding has been utilised (excluding excess capital receipts which are used to fund future shorter life projects). Therefore borrowing tends to be used mainly for property and estates projects. However, in recent years, due to lack of other funds, internal borrowing has been required to fund some ISIT projects' spend.

6.4.3 Reserves

- Any funding which has been allocated in a specific year, but is not required until future years will be carried forward in earmarked capital reserves. These reserves will vary from year to year, depending on the level of funding available and the timing of their respective projects.
- Reserves can be created from most sources of funding; Direct Revenue Financing, Grants, receipts, and insurance receipts/reserves.

- Working with other authorities/partners there may be opportunities in securing other additional funding.

6.4.4 Private Sector

- Contributions will continue to be sought from developers towards the provision of public or private assets or facilities. In some cases contributions are to mitigate the impact of their development on communities and often referred to as Section 106. These contributions are usually earmarked for specific purposes in planning agreements and often related to infrastructure projects.

6.4.5 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
- The Commissioner will continue to work with the private sector to utilise redundant assets and vacant land to bring them into a useful economic purpose to facilitate regeneration and employment creation. Capital receipts from asset disposal represent a finite funding source and it is important that a planned and structured manner of disposals is created to support the priorities of the Commissioner. Cash receipts from the disposal of surplus assets are to be used to fund new capital investment or offset future debt or transitional costs, included within the new flexibilities.
- The Commissioner will also continue to work with the Connected Staffordshire Commission, CCGs, Health providers, Local Authorities, Higher Education providers and other public agencies to consider projects that are to the mutual benefit of all parties. The Commissioner is committed to working with partners in the development of policing in Staffordshire and its services.
- Various mechanisms provide opportunities to enhance the Commissioner's investment potential with support and contributions from other third party and local strategic partners. These may range from commissioning / facilitating others to develop services in policing in Staffordshire; funding for regeneration projects; and through match funding, joint funding of developments.

6.4.6 Revenue

- 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.
- However, the general pressures on the Commissioner's revenue budget and Commissioner Tax levels limit the extent to which this may be exercised as a source of capital funding.

7. <u>Borrowing and Leasing</u>

7.1 Under the Prudential Code the 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.

7.2 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.

7.3 The 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 1).

7.4 Given the pressure on the Commissioner's revenue budget in future years, prudent use has been made of this discretion in cases where there was a clear financial benefit, such as "invest to save", "spend to earn" or major regeneration schemes which provide a net return over and above the borrowing cost.

7.5 The Commissioner will continue to consider on a cautious and prudent basis and is informed by a specialist team contracted from Staffordshire County Council in relation to Treasury Management who work closely with the finance team the extent to which prudential borrowing may be undertaken to fund new capital investment, which generates returns over and above the revenue costs of the debt. A full capital repayment and there is a robust business case then the option of leasing may be considered. The financing of expenditure by lease needs to take into account;

- Value of expenditure
- Residual value

- Life span of equipment matches the funding proposed
- The equipment to be replaced is part of a rolling programme that covers the whole service area or by type of equipment.

7.6 The Commissioner will utilise operational leases where possible for purchase of minor equipment, IT and vehicles supported by an appropriate robust business case.

8. <u>Balanced Portfolio Approach</u>

8.1 Resources will be allocated to programmes based on asset values to manage the long term yield and revenue implications. Capital receipts will be focused on those assets with short term life span e.g. vehicles and IT investments and the unsupported borrowing on long term assets e.g. land and buildings surplus receipts in any one year will be assigned to finance the programme in the most economical way to safeguard minimum impact on the revenue budget in relation to the Minimum Revenue Provision (MRP) informed by the requirements from the MTFS.

8.2 All investments will need to reflect the full development purchase costs including property taxes and fees. Business cases will also need to include all lifetime costs (both revenue and capital) and income of the proposals. Where necessary, specialist advice is to be taken around the treatment of VAT and other related taxes such as Stamp Duty Land Tax (SDLT).

8.3 The programme will include a range of grant, debt, equity and asset investment that is robustly secured, in a legally binding manner with appropriate cash flow.

8.4 The Commissioner will seek grant funded projects that include appropriate clauses for repayment if the investment over-achieves its financial outcomes, although not so as to be so restrictive as to avoid future investments by the applicant.

8.5 Debt funding can range from short term cash flow support through to longer term funding linked to infrastructure assets. Interest rates will be sought which are the best on offer through independent appraisal but reflecting appropriate legislation, for example State Aid.

8.6 Equity investment may be made supported by full third party independent appraisal of risk and return.

8.7 Investment returns again will be balanced to size and returns. Smaller debt investment returns being the short term up to medium term of up to five years. Depending on security the interest rates will be applied accordingly.

8.8 Larger investments of debt and equity ranging from five years plus may be sought taking a particular reference to asset life time costing.

9. Risk Management

9.1 Risk is the threat that an event or action will adversely affect our ability to achieve our desired outcomes or execute our strategies successfully.

9.2 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.

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

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

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

9.6 There will be a certain amount of risk inherent in delivering the desired outcomes of the Police and Crime Plan and we 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, we will seek to mitigate or manage those risks to a tolerable level. All key risks identified as part of the capital planning process are considered for inclusion in the corporate risk register.

9.7 The Director of Finance and Chief Finance Officer will report jointly 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.

9.8 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.

9.9 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. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes. Where possible appropriate interventions will occur as early as possible.

9.10 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.

9.11 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.

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

9.13 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.

9.14 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 Anti-Fraud and Corruption and Declaration of Interests.

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

10. Minimum Revenue Policy

10.1 To the extent that the Commissioner needs to borrow in order to fund the capital programme this will be provided for through the revenue account in future years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008.

10.2 The Local Government Act 2003 requires the Commissioner to have regard to the Department for Housing, Communities and Local Government's Guidance on Minimum Revenue Provision, the DHCLG Guidance most recently issued in 2012. The broad aim of the Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

10.3 For capital expenditure incurred before 1st April 2008, MRP will be determined as 2% of the Capital Financing Requirement in respect of that expenditure.

10.4 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.

10.5 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
ICT	10 years
Estates	40 years
Freehold Land	50 years

10.6 MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

10.7 For assets acquired by finance leases 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.

10.8 For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.

Appendix 1

Policing Treasury Management Strategy Report 2019/20
Treasury Management Indicators

Indicator	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22
1. External debt			
a. Authorised limit	£102.5m	£97.9m	£102.3m
b. Operational boundary	£92.5m	£87.9m	£92.3m
c. External loans	£65.2m	£81.2m	£81.2m
The authorised limit is the maximum level of external borrowing which should not be exceeded. It is linked to the estimated level of borrowing assumed in the capital programme. *The operational boundary represents the Chief Finance Officer's estimate of the day to day limit for treasury management activity based on the most likely i.e. prudent but not worst case scenario.*			