Item No. on Agenda

Report to the Police Fire and Crime Panel – 5th February 2024

Police Capital Strategy and Capital Programme 2024/25 to 2027/28
(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 2024/25 to 2027/28 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 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. The Commissioner reports internally within the guidelines set out within the Prudential Code.

RECOMMENDATIONS

That the Police Fire and Crime Panel note:

a) The four-year Capital Programme for 2024/25 to 2027/28 as set out in ***Appendix 1,***

b) The Capital Strategy for 2024/25

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 2024/25 to 2027/28 is in line with the updated Reserves Strategy

e) Note the Minimum Revenue Provision (MRP) policy statement incorporated within this report

Ben Adams

Staffordshire Commissioner

Contact Officers:

Katharine Ross
Director of Finance / S151 Officer for the Staffordshire Commissioner's Office
Telephone: 07971 893294

John Bloomer
Director of Resources / S151 Officer for Staffordshire Police
Telephone: 07974 204774

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
- Transport
- Operational Equipment
- Information 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 following standing orders and financial regulations to ensure that available resources are allocated optimally and deliver value for money. 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 for large projects.

- 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 Financial Investment Review Board (FIRB) which has responsibility for ensuring a realistic, affordable and deliverable capital programme is prepared and included within the MTFS; monitoring of the capital programme; and for sign off of outline business cases within delegated limits after legal and finance approval.

3.2 The capital monitoring update is included within the quarterly reports which is reviewed by the Finance Panel, which is a sub group of the Ethics, Transparency and Audit Panel (ETAP). This detailed report, on a project by project basis, is formally recorded at SGB. The Head of Financial Accounting 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 its four key pillars.

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 as well as address backlog maintenance and health and safety issues.

4.4 As with the majority of public sector organisations backlog investment, particularly into estate, has been an area historically where difficult choices have been made to defer this. the capital strategy and programme aims to reduce the backlog investment, noting that the programme of investment stretches beyond the life of the MTFS.

5. Funding Approach

5.1 The Staffordshire Commissioner approach 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:

- **The use of internal cash balances**
  Internal borrowing occurs when the Commissioner uses its own cash resources to finance capital expenditure rather than new borrowing. This is more favourable when the cost of borrowing is higher than the returns on investment.

- **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. Where opportunity presents in year to increase revenue contributions these will be made to reduce long term borrowing requirements.

- **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 within 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.

6. Risk Management

6.1 Risk is the threat that an event or action will adversely affect the ability to achieve a desired outcome 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 risks 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 Section 151 Officers 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 2024/25 to 2027/28

7.1 The proposed capital programme for 2024/25 to 2027/28 is contained within **Appendix 1** of this report. The total capital programme for 2024/25 has been estimated at £29m, £32.4m for 2025/26, £13m for 2026/27 and £9m for 2027/28.

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 2024/25 to 2027/28 are set out in **Appendix 2**.

7.3 The revenue consequences of the proposed programme have been taken in to account in the development of the revenue budget and the required prudential indicators are set out in **Appendix 2** and also the accompanying Treasury Management Strategy.

7.4 Over recent years the force has seen investment through the capital programme into digital technology. The capital programme for 2024/25 to 2027/28 will continue to focus investment on the shared priority of digital technology, as well as support the delivery of the key priorities for the estate.

7.5 The capital programme will see debt repayments, as a percentage of the net revenue budget, increase in the next four years. On this metric the affordability of the capital programme will continue to consume a greater percentage of revenue spend over the MTFS period. However, compared to other local public sector bodies these repayments remain low. The Commissioner is committed to maintaining revenue contributions to the capital programme, in particular for purchasing short life assets. This strikes a fair balance between the need for investment and the burden left to future taxpayers to service these investments.

7.6 A full review of the capital programme has been undertaken for the 2024/25 MTFS, which results in a considerable investment in Estates and IT across the period compared to the 2024/25 MTFS as shown in the table below:

	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
Capital Financing Costs MTFS 2024/25	6,091	8,682	10,246	11,880
Capital Financing Costs MTFS 2023/25	6,991	7,157	7,323	N/A
(Reduction)/ Increase	(900)	1,524	2,923	N/A

7.7 Digital Technology investment is proposed to maintain the improvements in capability seen due to previous investments, to improve core infrastructure, build on the benefits from insourcing Technology Services and for improvements in digital capabilities to be leveraged. The main proposed investments in the four year programme are:

- £0.760m on network infrastructure and storage to improve network resilience,

- £10.595m investment into operational systems which will help drive efficiency savings and enhance capabilities to support the objectives of the Policing Plan. This includes £1.750m on Robotic Process Automation capacity.

- £13.116m for device refresh including laptops, mobile technology, Body Worn Video, IT infrastructure over the life of the MTFS

- £4.410m for the assumed local costs of the Emergency Services Network within the capital programme. Whilst work is ongoing to ensure the costs passed to Forces and Commissioners is minimised this is included as a planning assumption based on the latest Home Office ESN funding model. The ESN reserve will be unwound in 2026/27 to part-fund the costs of the project.

- £3.300m investment into capitalisation of project management and staffing to support the delivery of the IT capital programme (this will be attributed to projects).

7.8 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 vehicle replacement programme investment of £2.050m 2024/25 will allow for the replacement of c.81 vehicles, with the vehicles proposed for replacement being on average 7 years old. The further proposed investment in the replacement programme from 2025/26 to 2027/28 will be £6.450m.

7.9 The estates programme focusses on the costs of maintaining the current estate as well as delivering major projects. The main proposed investments in the four year programme is:

- £5.184m rolling refurbishment programme on the current police estate on a county wide basis. This is developed through a process of practical asset management using both detailed stock condition data, reactive repair data and service/asset performance a defined set of investment requirements has been established for the MTFS period.

- £0.350m provision for the refurbishment of Lindum House and setting up the new central hub for the Public Protection Unit (PPU) and to provide a suitable environment and ensuring it meets the conditions of a modernised work place.

- £3.800m approved business case refurbishment of Longton Police station to provide suitable environment and ensuring it meets the conditions of a modernised police station.

- £3.700m provision for refurbishment of Northern area Police Custody is included for planning purposes only. Work is ongoing to refine this complex business case. It’s to ensure the custody is fit for purpose and meets industry standards.

- £4.070m provision for refurbishment of Stafford Police station to provide suitable environment and ensuring it meets the conditions of a modernised police station.

- £1.800m provision for refurbishment of Watling Police Custody is included for planning purposes only. Work is ongoing to refine this complex business case. It’s to ensure the custody is fit for purpose and meets industry standards.

- £1.000m provision for a joint public order training facility with regional forces.

- A budget of £16.8m for a fire arms training range. RIBA stages 1-3 has now been completed and planning permission was approved. We are now working through the RIBA stages and work is ongoing with Commercial Services on the next stages of developing a full business case.

- A budget of £1.500m for the development of Weston Road Headquarters so the working environment meets the conditions of a modernised work place, a prerequisite for the development of the Firing Range.

- £3.400m investment into sustainability initiatives which will help drive efficiency savings and enhance capabilities to support the objectives of the Policing Plan.

8. Funding the Programme

8.1 **Appendix 1** also details the proposed funding strategy for the 2024/25 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, direct funding of capital expenditure from revenue, capital grant and the use of internal cash and short term borrowing requirement. 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, with funding of short life assets the key priority to reduce future MRP requirements.

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, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- For assets acquired with a shorter life than the policy, MRP will be determined by the life span of the asset.

9.4 This MRP Policy option is supported by the Commissioner’s treasury management advisors, 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 2024 is forecast to be around £86.1m, and is forecast to increase to £132.6m by March 2028 based upon the capital investment requirements outlined within this paper.

Appendix 1

Staffordshire Commissioner Police

Summary Proposed Capital Programme 2024/25 to 2027/28

Capital Programme

Department	2024/25 Budget £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
IT	11,258	8,957	6,483	5,483
Estates and Facilities	14,313	21,131	4,370	1,290
Transport	2,075	2,100	2,150	2,200
Operational Equipment	1,378	220	50	50
Capital Programme	**29,024**	**32,408**	**13,053**	**9,023**

Capital Funding

Capital Receipts	0	(380)	0	0
Deferred Capital Receipts	0	0	0	0
Capital Grants	0	0	(331)	0
Revenue Contribution to Capital	(2,257)	(2,257)	(2,257)	(2,257)
Earmarked Reserves	(1,072)	0	(1,784)	0
Borrowing Requirement	(25,695)	(29,771)	(8,681)	(6,766)
Total Funding	**(29,024)**	**(32,408)**	**(13,053)**	**(9,023)**

Note : See Budget / MTFS report for further detail on the four year investment programme

Appendix 2

Staffordshire Commissioner
Prudential Indicators (Policing)

A. Indicators for Affordability, Prudence and Capital Expenditure

1. Ratio of Financing Costs to Net Revenue Stream

Estimate 2024/25 %	Estimate 2025/26 %	Estimate 2026/27 %	Estimate 2027/28 %
2.30%	3.20%	3.67%	4.14%

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 2024/25 £m	Estimate 2025/26 £m	Estimate 2026/27 £m	Estimate 2027/28 £m
29.0	32.4	13.1	9.0

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 2024/25 £m	Estimate 2025/26 £m	Estimate 2026/27 £m	Estimate 2027/28 £m
99.9	123.8	128.0	124.6

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

	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27
	£m	£m	£m
Authorised Limit	101.6	126.2	128.6
Operational Boundary	96.6	121.2	123.6

This indicator identifies two limits in relation to external debt, and excludes PFI.

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 Treasurer'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.