APPENDIX 3

CAPITAL STRATEGY 2024/25

Introduction

This capital strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of policing services along with an overview of how associated risk is managed and the implications for future financial sustainability.

Decisions made this year on capital and treasury management will have financial consequences for the Policing Body for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

Capital Expenditure and Financing

Capital expenditure is where the Police and Crime Commissioner (PCC) spends money on assets, such as property, IT or vehicles that will be used for more than one year.

In 2024/25, the Force is proposing capital expenditure of £6.7m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Estates	1.1	1.7	1.1	0.2	0.2
IT	2.4	7.0	3.1	1.9	2.4
Fleet	3.4	1.5	1.7	1.3	1.3
Operational Equipment	0.1	0.1			
Corporate Projects	-	0.3	1.2		
TOTAL	**7.0**	**10.6**	**7.1**	**3.4**	**3.9**

The capital projects included in the expenditure above are detailed later in this report on page 6.

Governance: The Estates, IT and Transport Departmental Heads in conjunction with the business, bid annually during November for projects to be included in the Force's capital programme. Bids are collated by Corporate Finance who calculate the financing cost (which can be nil if the project is fully funded from other resources). The proposed capital programme has been reviewed by Chief Officers and the PCC's office. The final capital programme is then presented to the Corporate Governance Board in January for approval.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the PCC's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
External sources	0.2	0.7	0.5	0.3	
Own resources	3.6	0.5	0.1	0.1	0.1
Debt	3.2	9.4	6.5	3.0	3.8
TOTAL	**7.0**	**10.6**	**7.1**	**3.4**	**3.9**

Where the commissioner finances capital expenditure through borrowing (debt) resources must be set aside to repay that debt from the revenue account. The amount charged to revenue account for the repayment of borrowing is known as the Minimum Revenue Provision (MRP). Planned MRP is as follows:

Table 3: Replacement of debt finance in £ millions

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Minimum Revenue Provision (MRP)	3.5	3.5	5.2	6.0	5.8

The Statutory Guidance issued by the DCLG sets out the 4 options for calculating the MRP. The recommended MRP policy is:

- For capital expenditure incurred before the 1st April 2008 (which was supported capital expenditure) the policy will be based on 4% of the Capital Financing requirement.

- From the 1st April 2008 for all unsupported borrowing the MRP policy will be the Asset Life Method (Equal instalment approach) – the MRP will be based on the estimated life of the assets.

The Commissioner's policy is to finance shorter life assets from capital receipts, grants and revenue contributions. Borrowing reserved generally for Land and Buildings with an expected life of 25 years and IT projects that cannot be financed from the PCC's own resources.

The PCC's cumulative outstanding 'debt finance' is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP repayments and capital receipts used to replace debt. The CFR is expected to increase by £1.4m during 2024/25. Based on the figures above for expenditure and financing, the PCC's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
TOTAL CFR	**33.6**	**39.5**	**40.8**	**38.1**	**36.1**

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. No capital receipts are expected to be received during 2024/25.

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the PCC's / Force's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The PCC is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, the PCC currently has £14.57m borrowing at an average interest rate of 4.46% and £11.0m treasury investments at an average rate of 5.3% (*as at 31st December 2024*)

Borrowing strategy: The PCC's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the PCC therefore seeks to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but higher.

The PCC does nor borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loan Board.

Projected levels of the PCC's total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown below, compared with the capital financing requirement (see above).

Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
Debt (incl. PFI & leases)	14.6	14.6	21.1	22.9	22.3
Capital Financing Requirement	33.6	39.5	40.8	38.1	36.1

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the PCC expects to comply with this in the medium term.

Liability benchmark: To compare the PCC's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end. This benchmark is currently £16.6m and is forecast to rise to £23.2m over the next three years.

Table 6: Borrowing and the Liability Benchmark in £ millions

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
Forecast borrowing	14.6	14.6	21.1	22.9	22.3
Liability benchmark	9.8	19.6	25.8	25.1	23.0

The table shows that the PCC expects to remain borrowed below its liability benchmark from 2023/24 onwards.

Affordable borrowing limit: The PCC is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2023/24 limit	2024/25 limit	2025/26 limit	2026/27 limit
Authorised limit – borrowing	31.8	26.1	33.7	36.6
Authorised limit – Long Term Liabilities	2.5	2.5	2.5	2.5
Authorised limit – total external debt	34.3	28.6	36.2	39.1
Operational boundary – borrowing	29.3	23.6	25.4	24.8
Operational boundary – Long Term Liabilities	1.5	1.5	1.5	1.5
Operational boundary – total external debt	30.8	25.1	26.9	26.3

Treasury Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The PCC's policy on treasury investments is to prioritise security and liquidity over yield. That is to focus on minimising risk rather than maximising returns. Surplus cash is invested securely, for example with the government, other local authorities, selected high-quality banks and pooled funds, to minimise the risk of loss.

Table 8: Treasury management investments in £millions

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
Near-term investments	14.87	10.0	10.0	10.0	10.0
Longer-term investments	-	-	-	-	-
TOTAL	**14.87**	**10.0**	**10.0**	**10.0**	**10.0**

Risk management: The effective management and control of risk are prime objectives of the PCC's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Force's ACO (Resources) and staff, who must act in line with the treasury management strategy approved by the PCC. Half yearly reports on treasury management activity are presented to the Strategic Assurance Board.

Investments for Service Purposes

The PCC does not make any investments directly into local public services i.e buying shares or investing in local businesses to promote economic growth.

Commercial Activities

The PCC does not invest in any commercial property / activities.

Other Liabilities

In addition to current debt of £14.6m (*figure as at December 2023)*, it has also set aside £0.8m to cover the risks of both the self insured public and employers liability claims where the PCC's claims handlers have advised there is a high probability of economic benefits being transferred.

The PCC has a Budget Equalisation Reserve of £13.8m (Balance as at 31/03/23) to support annual expenditure and manage the financial risks of major incidents (this is in addition to the General Fund Reserve of £5m).

Governance: The risk of liabilities crystallising and requiring payment is monitored by corporate finance and reported in the quarterly Budget Monitoring Report presented to the Corporate Governance Board (CGB), if appropriate.

- Further details on liabilities are on pages 46 and 47 of the 2022/23 statement of accounts.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax and core government grants.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Financing costs (£m)	4.1	4.2	6.1	7.0	6.9
Proportion of net revenue stream	1.82%	1.82%	2.52%	2.81%	2.68%

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 25 years into the future.

Proposed Capital Programme

A summary of the proposed Capital Programme for 2024/25 is shown in the table below. **Annex 1A** provides more detail regarding the individual schemes.

Proposed Capital Programme 2024/25

Expenditure	£000	Funding	£000
Property	1,141	Borrowing Requirement	6,519
Information Technology	3,069	Revenue Contributions	100
Vehicle Fleet	1,720	3rd Party Contributions	497
Corporate Projects	1,186		
Emergency Services Network			
Total	**7,116**	Total	**7,116**

Estates Programme

The ‘Estates’ programme is based on the approved Estates Strategy and includes:

- Work at the SARC and Road Policing Unit Store to meet accreditation standards
- Replacement of the Wigston Gates
- Replacement Loughborough and Hinckley Road boiler / pumps, improving environmental standards.

Specifically, Section 5 (page 19) in the Estates Strategy lists the proposed capital schemes for the next 10 years.

A number of estates strategy projects which commenced in 2023/24 will be completed in 2024/25 and include :

- Cooling upgrade to IT rooms at Euston Street.
- A review of the Contract Management Department at Force Headquarters.
- Installation of further solar panels.
- Replace gas heating with heat pump technology.
- Extend/alter the Firearms building at Force Headquarters.

Annex 1B provides more detail regarding the individual schemes.

IT programme

The ‘IT’ programme is based on the approved Digital, Data and Technology strategy which includes the following schemes :

- Investment in the data network including new circuits between FHQ and Euston street, and storage to ensure network performance and support new services.
- The purchase of additional oracle licenses to ensure compliance with the licensing requirements
- Replacement of 200 Body Worn Video cameras
- Investment in the Confidential Network
- The continuation of investment in the personal computer estate to support agile working.
- An upgrade to the ICCS to ensure that it is available and supported for the next 5 years
- A complete fleet replacement of vehicle airwave terminals to extend their use until the emergency services network is delivered.
- Continuation of the upgrade to the SmartStorm command and control software.
- The purchase of laptop lockers
- Replacement of the Dell Vmware virtual environment

Annex 1C provides more detail regarding each of the work streams.

Vehicle replacement

The fleet replacement programme is based on the approved Transport Strategy. A sum of £1.72m is included for 2024/25 vehicle replacements which will also deliver 5 Police Support Unit carriers. The cost of vehicle replacements below the insurance threshold as a result of accidents are also included.

Corporate Projects

Corporate Projects include:

- Refurbishment of Contact Management Department refurbishment (ergonomics), this has been delayed from 2023/24
- Provision for the rolling programme of Automatic Number Plate Recognition (ANPR) Camera replacements.
- Provision for the capital elements of the Digital Forensics technical solution.

Financing

From 2022/23 the Home Office capital grant ceased. After the application of revenue contributions and other funding sources, the 2024/25 borrowing requirement is **£6.6m**.

The Capital Programme assumes that the 2024/25 borrowing requirement of £6.6m is financed through loans from the Public Works Loan Board (PWLB). Revenue resources are set a side over the life of the asset to repay the borrowing.

Knowledge and Skills

The PCC / Force employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

Where staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The PCC currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the PCC / Force has access to knowledge and skills commensurate with its risk appetite.

Background Papers

Home Office Settlement Notification via the Home Office website.