CAPITAL STRATEGY 2025/26

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 2025/26, the Force is proposing capital expenditure of £5.6m as summarised below:

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

	2023/24 actual	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
Estates	1.1	1.4	0.7	2.5	0.2
IT	6.4	2.3	3.4	2.0	1.8
Fleet	1.4	1.4	1.0	1.3	1.3
Operational Equipment		0.1	0.1		
Corporate Projects	0.1	1.5	0.4		
TOTAL	**9.0**	**6.7**	**5.6**	**5.8**	**3.3**

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 October 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 December 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

	2023/24 actual	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
External sources	0.7	0.6	0.2	-	-
Own resources	1.1	2.2	0.1	0.1	0.1
Debt	7.2	3.9	5.3	5.7	3.2
TOTAL	**9.0**	**6.7**	**5.6**	**5.8**	**3.3**

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

	2023/24 actual	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
Minimum Revenue Provision (MRP)	3.5	5.0	5.3	5.4	5.4

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. However, these funds are now limited and borrowing is being utilised to fund Land and Buildings with an expected life of 25 years, IT projects with an expected life of between 3 – 10 years and the purchase of vehicles.

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 remain at a similar level during 2025/26. 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

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
TOTAL CFR	**37.3**	**36.2**	**36.2**	**36.5**	**34.3**

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 2025/26.

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 £17.2m treasury investments at an average rate of 4.32% (*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

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
Debt (incl. PFI & leases)	14.6	18.5	22.7	24.0	23.7
Capital Financing Requirement	37.3	36.2	36.2	36.5	34.3

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 £17.3m and is forecast to fall to £14.4m over the next four years.

Table 6: Borrowing and the Liability Benchmark in £ millions

	31.3.2024 actual	**31.3.2025 forecast**	**31.3.2026 budget**	**31.3.2027 budget**	**31.3.2028 budget**
Forecast borrowing	14.6	18.5	22.7	24.0	23.7
Liability benchmark	17.3	16.2	16.2	16.5	14.4

The table shows that there is an underlying need to borrow over the coming years.

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

	2024/25 limit	**20225/26 limit**	**2026/27 limit**	**2027/28 limit**
Authorised limit – borrowing	26.1	36.2	36.5	34.3
Authorised limit – Long Term Liabilities	2.5	2.5	2.5	2.5
Authorised limit – total external debt	28.6	38.7	39.0	36.8
Operational boundary – borrowing	23.6	33.2	33.5	31.3
Operational boundary – Long Term Liabilities	1.5	1.5	1.5	1.5
Operational boundary – total external debt	25.1	34.7	35.0	32.8

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

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
Near-term investments	14.0	10.0	10.0	10.0	10.0
Longer-term investments	-	-	-	-	-
TOTAL	**14.0**	**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 2024)*, it has also set aside £1.1m 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 £13.6m (Balance as at 31/03/24) to support annual expenditure and manage the financial risks of major incidents (this is in addition to the General Fund Reserve of £5.6m).

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 to 48 of 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

	2023/24 actual	**2024/25 forecast**	**2025/26 budget**	**2026/27 budget**	**2027/28 budget**
Financing costs (£m)	4.2	5.9	6.3	6.6	6.6
Proportion of net revenue stream	1.82%	2.45%	2.47%	2.51%	2.45%

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.

<u>Proposed Capital Programme</u>

A summary of the proposed Capital Programme for 2025/26 is shown in the table below.

Proposed Capital Programme 2025/26

Expenditure	**£000**	**Funding**	**£000**
Property	743	Borrowing Requirement	5,325
Information Technology	3,378	Revenue Contributions	100
Vehicle Fleet	1,000	Government Grant	50
Operational Equipment	100	3rd Party Contributions	136
Corporate Projects	390		
Total	**5,611**	Total	**5,611**

Estates Programme

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

- Refurbish and expand the electrical infrastructure at FHQ. The funding requested for 2025/26 is for the design stage. A provisional sum of £2m has been included for 2026/27 to complete the project. However, the actual costs will not be known until the design phase is complete.
- Refurbishment of the canteen servery
- Replacement of the Lift Communications

A number of estates strategy projects which were approved in 2024/25 will now be completed in 2025/26 and include :

- Spinney Hill Replacement Heating
- Road Policing Unit - Store
- Loughborough – Boiler and Pump
- Hinckley Road – Replace Heat Pump

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 to ensure network performance and support new services (an element of this expenditure will be rechargeable to other Forces’ but the amount is not yet known as it is dependant on the size of the circuits etc).
- An upgrade to the Regional Digital Interview Recording (DIR) software. The cost of the upgrade will be split with Northants although the split between the 2 Forces has not yet been agreed. For the purposes of the initial capital programme a 50:50 split has been assumed.
- Replacement of Body Worn Video cameras.
- The continuation of investment in the personal computer estate to support agile working.
- Provision to enhance the resilience of the Open Scape Contact Centre and OpenScape 4000 telephony system operated by Contact Management and the development of artificial intelligence (AI) on the software. The sums included are professional estimates whilst the detailed specification is developed.
- Replacement / upgrade of the portable ICCS operator positions.
- Provision for the replacement of airwave terminals that are beyond economic repair.
- Completion of the upgrade to the SmartStorm command and control software.
- the replacement of the Dell Vmware virtual environment, this is a significant upgrade for the Force and the options for implementation are still under consideration.
- Enhancement of the DEMS software capability to include other media sources, including drone footage, dashcams and CCTV.
- Provision for work required on the telephony system as BT commence phasing out of copper circuits.
- Replacement of the ‘Redbox’ call recording system following the withdrawal of the supplier from the Emergency Services control room environment. This is a key risk for the Force.

Vehicle replacement

The fleet replacement programme is based on the approved Transport Strategy. A sum of £1.0m is included for 2025/26 for 27 vehicle replacements. The cost of vehicle replacements below the insurance threshold as a result of accidents are also included.

Corporate Projects

Corporate Projects include:

- Provision for the rolling programme of Automatic Number Plate Recognition (ANPR) Camera replacements and new back office software.
- Provision for any remaining elements of the Digital Forensics technical solution that are still required.
- Provision for the replacement of 7 intoxilizer machines in custody, which are now end of life.

Financing

From 2022/23 the Home Office capital grant ceased. After the application of revenue contributions and other funding sources, the 2025/26 borrowing requirement is **£5.3m**.

The Capital Programme assumes that the 2025/26 borrowing requirement of £5.3m 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.