Northamptonshire Police Fire and Crime Commissioner

Policing Capital Strategy 2023/24 -2026/27

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Introduction

1. 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.

2. Decisions made this year on capital and treasury management will have financial consequences for the organisation 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.

3. The Capital Strategy supports the strategic direction set out within the Police, Fire and Crime Plan 2021-26 and the Chief Constable's Strategic Plan. These strategic documents are supported by other documents including the Treasury Management Strategy, Digital Strategy and a joint Police/Fire Estates Strategy. An estates masterplan has been prepared which is used to inform and update the Estates Strategy and covers all Police and Fire buildings.

Capital Expenditure

4. Capital expenditure is where the Police, Fire and Crime Commissioner (PFCC) spends money on assets, such as property, IT or vehicles that will be used for more than one year. The PFCC has some discretion on what counts as capital expenditure. The current policy sets out that assets costing less than £10k are not capitalised and are charged to revenue in-year.

5. The programme is regularly updated to reflect year end outturn, in year progress and changes to operational and strategic delivery requirements. The capital projects included in the expenditure above are detailed later in this strategy.

6. In 2023/24 and across the period of the Police, Fire and Crime Plan and the Medium Term Financial Plan (MTFP), capital expenditure of £46.8m is intended as follows:

Table 1: Estimates of Capital Expenditure in £ millions

Programme	2022/23 Forecast £m	2023/24 Plan £m	2024/25 Plan £m	2025/26 Plan £m	2026/27 Plan £m	2027/28 Plan £m
Estates	2.2	2.0	2.2	1.7	0.2	0.2
ICT	6.3	7.2	10.6	3.8	2.6	1.6
Fleet & Operational Equipment	2.1	1.5	1.8	1.2	1.5	1.2
TOTAL	**10.5**	**10.7**	**14.6**	**6.7**	**4.3**	**3.0**

The capital programme set out above includes:

7. Estates Programme

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

- Property Enhancements and Improvements
- Development of the Sports Hall at Wootton Hall
- Improvements at Campbell Square and the Firearms Range
- Accessibility improvements

8. Digital (ICT) Programme

The Digital programme is based in the digital strategy and includes:

- Ongoing replacement of laptops, mobile devices and monitors
- Airwave devices and infrastructure
- Command & Control Systems
- IT hardware, servers, technical equipment & infrastructure

9. Vehicle replacement

The programme provides for 40-50 planned vehicle replacements during 2023/24 and the cost of vehicle replacements below the insurance threshold as a result of accidents, along with operational equipment replacement including:

- Body Worn Video devices
- Telematics equipment
- Safer Roads vehicles

The Transport Unit are also facing unprecedented difficulties in relation to vehicle supply as a result of

- World semi-conductor and magnesium shortages
- Covid factory shut-downs
- Factory floods
- Brexit
- BLC National Vehicle Procurement Framework tendering process.

This is leading to significant delays in the delivery of vehicles and could result in the current fleet being retained and operated for a longer period.

Capital Programme Governance

The Governance approach is as follows:

10. The Joint Fire and Police Assistant Chief Officer meets quarterly with all departmental Heads of Department to review requirements and progress against the plans. Updates are

included as part of the Budget Monitoring Report which is shared with the Chief Constable and Senior Officers, the PFCC S151 Officer and the PFCC.

11. At least once per year, the PFCC chairs an Estates Board with the Chief Constable and Chief Fire Officer in attendance to consider strategic estates requirements. The intention of a joint estates board is to explore all joint accommodation needs, options and opportunities across both Fire and Police.

12. Every year, all other capital proposals are further refined and challenged and are included within the revenue and capital budget proposals.

13. The programme is collated by the Joint Finance Team who calculate the financing cost (which can be nil if the project is fully funded from other resources).

14. The proposed capital programme is then reviewed by Chief Officers and the PFCC's office. The final capital programme is then presented to the Accountability Board in January of each year for approval by the PFCC as part of the budget discussions. This Strategy refers to the version of the programme approved in January 2023.

Capital Financing

15. The Home Office capital grant ceased from 2022/23. All capital expenditure must be financed either from external sources (government grants and other contributions), the PFCC's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative).

16. 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.

17. The planned financing of the above expenditure is as follows:

Table 2: Financing of the Capital Programme

Funding Stream	2022/23 Forecast £m	2023/24 Plan £m	2024/25 Plan £m	2025/26 Plan £m	2026/27 Plan £m	2027/28 Plan £m
Grants	0.0	0.0	0.0	0.0	0.0	0.0
S106	0.1	0.1	0.1	0.1	0.1	0.0
Revenue Contributions	2.2	0.2	1.0	1.0	1.0	1.0
Receipts from Property Disposals	0.0	1.9	0.9	2.3	1.2	0.0
Reserves	0.3	0.1	0.1	0.1	0.1	0.0
Debt	8.0	8.5	12.6	3.2	1.9	2.0
TOTAL	**10.5**	**10.7**	**14.6**	**6.7**	**4.3**	**3.0**

Revenue Impact of the Capital Programme (inc. Minimum Revenue Provision)

18. Where the PFCC 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 included along with the other budgeted revenue implications of the capital programme as follows:

Table 3: Revenue Impact of Capital Financing

Treasury Management Budget	2022-23 Forecast £'000	2023-24 Estimated £'000	2024-25 Estimated £'000	2025-26 Estimated £'000	2026-27 Estimated £'000	2027-28 Estimated £'000
Interest payable on borrowing	496	496	832	1,283	1,452	1,617
Minimum Revenue Provision	1,221	2,102	3,800	5,314	5,235	5,247
Revenue Contribution to Capital Outlay	2,172	200	1,000	1,000	1,000	1,000
Total	**3,889**	**2,798**	**5,632**	**7,597**	**7,687**	**7,864**

19. These budgets and forecasts will be updated in the Treasury Management Strategy each year to take into account changes to the capital programme, prevailing interest rates and other variations to available funding.

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

    20.1. 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.

20.2. 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.

20.3. The Commissioner's policy is to finance shorter life assets from capital receipts, grants and revenue contributions. Where possible, borrowing is reserved generally for Land & Buildings, or Fleet and Digital projects which cannot be financed from the PFCC's own resources.

21. The PFCC'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 to £36.569m by 31st March 2028.

22. Projected levels of the PFCC's total outstanding debt (which comprises borrowing and leases) are shown below, along with the capital financing requirement:

Table 4: Capital Financing Requirement (Borrowing)

Forecast Borrowing and Investment Balances	**2022-23 Forecast £'000**	**2023-24 Estimated £'000**	**2024-25 Estimated £'000**	**2025-26 Estimated £'000**	**2026-27 Estimated £'000**	**2027-28 Estimated £'000**
External Borrowing at 1st April b/fwd	23,300	30,092	36,462	45,213	43,132	39,812
Net Borrowing Requirement to fund Capital Programme	8,013	8,472	12,551	3,233	1,915	2,004
MRP	(1,221)	(2,102)	(3,800)	(5,314)	(5,235)	(5,247)
CFR - Borrowing at 31 March c/fwd	**30,092**	**36,462**	**45,213**	**43,132**	**39,812**	**36,569**
Funds Available for Investment at 1 April b/f	4,000	5,000	5,000	5,000	5,000	5,000
Change in Funds Available for Investment	1,000					
Investments at 31 March c/fwd	**5,000**	**5,000**	**5,000**	**5,000**	**5,000**	**5,000**
Net Borrowing	**25,092**	**31,462**	**40,213**	**38,132**	**34,812**	**31,569**

23. 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 are known as financing costs (see para 9), which is compared to the net revenue stream i.e. the amount funded from Council Tax and core government grants.

Table 5: Prudential Indicator: Proportion of financing costs to net revenue stream

Actual and estimate of financing costs to net revenue stream	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Financing costs to net revenue stream	2%	2%	3%	4%	4%	4%

Treasury Borrowing Strategy

24. The PFCC'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 PFCC therefore seeks to strike a balance between historically cheaper short-term loans and long-term fixed rate loans where the future cost is known but may be higher.

25. External debt at 31st March 2022 was £23.3m, made up of:
    - Existing loans - £1.3m average interest rate of 4.82%
    - March 2021 Loan - £12.0m interest rate of 1.71%
    - New Loan March 2022 - £10.0m interest rate 2.38%

    Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term.

26. All recent borrowings were made following guidance from Link Asset Services, scrutiny by both CFOs and formal authorisation by the PFCC.

27. The PFCC 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, currently:

Table 6: Prudential Indicators: Operational Boundary and Authorised Limit

Operational Boundary	2022-23 Forecast £'000	2023-24 Estimated £'000	2024-25 Estimated £'000	2025-26 Estimated £'000	2026-27 Estimated £'000	2027-28 Estimated £'000
Total Borrowing	31,000	37,000	46,000	44,000	40,000	37,000

Authorised Limit	2022-23 Forecast £'000	2023-24 Estimated £'000	2024-25 Estimated £'000	2025-26 Estimated £'000	2026-27 Estimated £'000	2027-28 Estimated £'000
Total Borrowing	32,550	38,850	48,300	46,200	42,000	38,850

28. These are based on the agreed capital programme and recalculated each year as part of the updated Treasury Management Strategy.

Treasury Investment Strategy

29. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the PFCC'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. Cash balances will fluctuate seasonally due to the timing of grant receipts and there is daily oversight to manage this. Any revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

30. 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.

31. The PFCC'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.

Risk Management

32. The effective management and control of risk are prime objectives of the PFCC'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.

33. Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Joint Finance Team who must act in line with the Treasury Management Strategy approved by the PFCC and the agreed reporting requirements.

Investments for Service Purposes

34. The PFCC 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

35. The PFCC does not invest in any commercial property / activities.

Liabilities

36. In addition to current debt of £23.3m (figure prior to any 22/23 borrowing and repayments), the PFCC is committed to making future payments to cover any Local Government Pension Scheme (LGPS) pension fund deficits. These are determined by the scheme actuary based on triennial valuations, the most recent of which was at 31st March 2022, which has marginally reduced the level of contributions from 2023/24. There is also a provision of £0.355m and reserves of £3.710m to cover the risks of both the self insured public and employers liability claims where the PFCC's claims handlers have advised there is a high probability of economic benefits being transferred. This includes the successful claims in Allard v Devon and Cornwall Police for unpaid overtime following recalls to duty by covert human intelligence handlers, for which provisional costings have been calculated.

37. The PFCC has a general fund and earmarked reserves set aside to mitigate or smooth unforeseen or unexpected pressures on annual expenditure and manage the financial risks of major incidents.

38. The PFCC produces a Reserves Strategy alongside the Treasury Management and Capital Strategies to support the annual budget, Medium Term Financial Plan and precept proposals.

39. Further details on liabilities are also contained within the annual statement of accounts.

Sustainability

40. 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.

Knowledge and Skills

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

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