Philip Seccombe
Police and Crime Commissioner
for Warwickshire

Decision Application WPCC20068

Capital Strategy 2019/20

Application Date:	02.04.2019	**Name of Applicant:**	Elizabeth Hall Treasurer
Application Decision Reference: WPCC20068			

1. Summary of the application

The Commissioner is asked to approve the Capital Strategy for 2019/20.

2. Background information:

CIPFA in its revised Prudential Code 2017 set out the requirement for a capital strategy to be formally reported. It outlines that the Chief Finance Officer would also need to report explicitly on the risks associated with the capital strategy. This formal reporting became a requirement from 2019/20. This capital strategy would set out the long term context for the capital and investment decisions the PCC makes, focuses on the process and ensures that the PCC can demonstrate that he has considered

- Capital expenditure
- Debt and Borrowing and treasury management
- Commercial activity
- Long term liability
- Knowledge and skills

The CIPFA Prudential Code has at its centre the belief that all decisions should be affordable, prudent and sustainable. The development of the Capital strategy reinforces these principles and strengthens the Code. It reflects the different financial landscape in which local authorities and PCCs now operate and the commercial pressures this brings on investment decisions.

This, the first Capital Strategy reflects the 2019/20 Revenue Budget , Capital Programme and Medium Term Financial Plan agreed by the PCC in February 2019 and the Treasury Management Strategy approved by the PCC in March 2019. This Capital Strategy and the schemes within it will be reviewed throughout 2019/20 and amended if necessary as the Warwickshire Police Force develops its planned future arrangements following the decision by West Mercia to terminate the Strategic Alliance.

3. Whether additional information/report is attached to support this decision application

YES

List of additional information/report

a) The Capital Strategy 2019/20 is attached

4. Expected benefits (non financial)

The Capital Strategy provides information on the planned capital expenditure for 2019/20 and the Medium Term Capital Programme. It considers the governance arrangements for capital projects and the capital programme, the financing of capital expenditure, the plans to repay and replace debt finance and plans for asset disposals and capital receipts. It outlines the estates management strategy and treasury management, borrowing and investment strategies. It sets out investments held for service purposes and the commercial activities undertaken by the PCC. It states, the long term liabilities and their governance, including the Pension Funds.

This strategy will comply with the CIPFA Prudential Code

5. Impact of not approving the application

Failure to comply with the CIPFA Prudential Code

6. Costs

The Capital Strategy sets out the planned capital programme in the period 2019/20 to 2021/22 and its financing. It identifies the impact on the revenue budget, showing an increase in financing costs of £0.8m, from £1.7m in 2019/20 to £2.5m in 2021/22

7. Savings:

As above

8. Equality and Diversity Implications:

None

9. Treasurer's comments

The Capital Strategy sets out the long term context in which capital and investment decisions are made and identifies the associated risks. In it the Treasurer states that the proposed capital programme is prudent, affordable and sustainable.

However, there is an acknowledgement that the capital strategy will remain under review throughout 2019/20 as a result of the termination of the strategic alliance by West Mercia This will inevitably mean that there may be changes to investment plans as decisions are taken to develop the future service model for Warwickshire, however this will always take into account the need to secure value for money and apprise fully all investment opportunities and decisions.
10. Legal/Monitoring Officer comments The Capital Strategy complies with the CIPFA Prudential Code
Decision of the Police and Crime Commissioner To approve the 2019/20 Capital Strategy. Agreed
PCC Signature:
Date of Decision: 30th October 2019

Warwickshire Police and Crime Commissioner

Capital Strategy Report 2019/20

Introduction

This capital strategy is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability It has been written in an accessible style to enhance understanding of these sometimes technical areas The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with desired outcomes and take account of stewardship, value for money, prudence, sustainability and affordability The capital strategy is a key document for the Police and Crime Commissioner (PCC) and Warwickshire Police and forms part of the business planning process which integrates with the revenue and capital budget planning processes and also includes an overview of the governance processes for approval and monitoring of capital expenditure.

However, it should also be noted that this Capital Strategy and the schemes within it are being kept under review as the Warwickshire Police Force develops its planned future arrangements following the decision by West Mercia Police to terminate the Strategic Alliance. This review will be ongoing throughout 2019/20 and beyond as the force exits and transitions services from the alliance.

Capital Expenditure and Financing

Capital expenditure is where the Police and Crime Commissioner (PCC) spends money on assets, such as ICT, property or vehicles that will be used for more than one year The expenditure can be in respect of additions, replacements or enhancements of assets, and this can include spending on assets owned by other bodies. The PCC has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year

In 2019/20, as part of the Alliance with West Mercia the PCC was planning capital expenditure of £13 4m which includes an element of slippage from previous years This is summarised in the table below However as a direct result of the termination notice served by West Mercia, some investment decisions, and thus areas of capital spending have had to be reviewed in 2019/20 This process will continue throughout 2019/20 as plans and the implications on capital are developed

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

	2017/18 actual £m	2018/19 forecast £m	2019/20 budget £m	2020/21 budget £m	2021/22 budget £m
Estates Strategy	3.1	0.3	6.9	0.6	0.6
ICT Programme	3.6	1.7	5.3	3.2	3.1
Vehicle Replacement	0.9	1.0	0.8	0.8	1.3
Plant and Equipment	0.1	0.1	0.4	0.0	0.0
Affordability Envelope	0.0	0.0	0.0	2.2	2.2
TOTAL	7.7	3.1	13.4	6.8	7.2

Some of the main capital projects include:

- The relocation of the Operational Policing Unit and the redevelopment of Stratford Police Station (both of which are being reviewed following the termination of the strategic alliance and the need to understand the future estates needs of Warwickshire Police)
- Investment in ICT Infrastructure, systems and the Operational Control Centre, although the needs are also being reviewed following the termination notice to determine the clear requirements for Warwickshire moving forward.
- Network Infrastructure (Kcom/DCD)
- Emergency Services Network

Governance: The Strategic Estates Manager (advised by Place Partnership Limited), the Head of Digital Services and the Head of Transport Services prepared initial bids for projects for inclusion in the Capital Programme in September 2018 The Treasurer and Director of Finance subsequently collated and appraised these bids for inclusion in the Capital Programme, and force finance calculated any associated financing costs of the proposals (which may be nil if the project is fully externally financed). The Chief Constable and Chief Executive, advised by the Treasurer and Director of Finance review all bids based on a comparison of service priorities identified as part of the forces' business planning process and recommendations are then made to the PCC for final consideration The final capital programme is presented to the PCC in November and approved by him in February each year as part of the annual budget setting process

All projects included in the capital programme will require further detailed work and a completed business case to seek formal approval by the PCC, before the project is commenced.

- Details of the PCC's capital programme are included in the 2019/20 Revenue Budget and Medium Term Financial Plan. This is published on the Warwickshire PCC's website.

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 and/or leasing). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2017/18 actual £m	**2018/19 forecast £m**	**2019/20 budget £m**	**2020/21 budget £m**	**2021/22 budget £m**
External sources	0.6	0.4	0.4	0.4	0.4
Own resources	2.3	0.2	1.3	6.4	3.0
Debt	4.8*	2.5*	11.7	0.0	3.8
TOTAL	**7.7**	**3.1**	**13.4**	**6.8**	**7.2**

* financed from "internal borrowing", i.e. surplus cash rather additional external debt.

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Effectively MRP is a charge to revenue for the repayment of the principal element of borrowing. Any borrowing will always be both prudent and affordable. Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. This financing profile will change as capital spending plans are reviewed following the termination of the Alliance by West Mercia.

The planned MRP/repayments and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £ millions

	2017/18 actual £m	**2018/19 forecast £m**	**2019/20 budget £m**	**2020/21 budget £m**	**2021/22 budget £m**
Own resources	0.5	0.9	1.0	1.5	1.5

- The PCC's full minimum revenue provision statement is included in the Treasury Management Strategy and is available on the PCC's website.

The PCC's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £6.7m during 2019/20. Based on the above figures for expenditure and financing, the PCC's estimated CFR is as follows:

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

	31.3.2018 actual £m	31.3.2019 forecast £m	31.3.2020 budget £m	31.3.2021 budget £m	31.3.2022 budget £m
TOTAL CFR	**25.0**	**26.6**	**33.3**	**3184**	**33.2**

Estate management: To ensure that capital assets continue to be of long-term use, the PCC has an estate management strategy in place. This will be kept under review and will need to be redrafted to reflect the ending of the strategic alliance and the future estates requirements of Warwickshire. However, the current strategy

- gives an overview of the current property portfolio
- identifies the major projects (outlined above)
- sets out a programme for the disposal of assets following an asset review in 2017. This includes for example the site at Southam Police Station
- outlines plans to progress co-location opportunities
- commits to a review of assets which may lead to their disposal or refurbishment
- considers the need for new regional facilities and their future development
- envisages the development and adoption of a Carbon Management and Energy Plan

The PCC's current estate management strategy is published on the PCC's website: https://www.warwickshire-pcc.gov.uk/key-information/our-publications/ and will be updated following the end of the strategic alliance with West Mercia.

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. The PCC is currently also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts.

The PCC anticipates receiving £1.3m of capital receipts in 2019/20. The table below shows the anticipated capital receipts over the MTFP period. These are currently included in the financing of the capital programme in the MTFP. The value and timing of the capital receipts however, will also remain under review throughout

2019/20 and beyond given the need to consider how services will be delivered in Warwickshire following the termination of the alliance

Table 5. Capital receipts in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Asset sales	0.1	0.0	1 3	5.4	2 8
Loans repaid	0.0	0.0	0 0	0.0	0.0
TOTAL	**0.1**	**0.0**	**1.3**	**5.4**	**2.8**

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the PCC's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by short-term 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 ("internal borrowing")

Due to decisions taken in the past, as at 28th February 2019 the PCC had £13 6m of long term borrowing at an average interest rate of 4 67% and £13 3m of treasury investments at an average rate of 0.5%

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 (currently available at around 0 75%) and long-term fixed rate loans where the future cost is known but higher (currently 2 0% to 3.0%)

Projected levels of the PCC's total outstanding debt are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Debt	14 0	13.1	19 8	18.8	20 7

Capital Financing Requirement	25 0	26.6	33 3	31 8	33 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 Table 6 assumes that the capital spend set out in Table 1 occurs in the year that it is forecast, whereas in practice there is likely to be some slippage between years. It also assumes that the requirement for new *borrowing set out in Table 2 is met by external borrowing, rather than financed from* surplus cash ("internal borrowing"), due to the level of cash currently held by the PCC it is likely that in the short term any new borrowing will be internal with external borrowing required in later years (from PWLB)

In both the Capital Strategy, and the Treasury Management Strategy, the PCC is assuming the cash and investment balances will be kept to a minimum and that external borrowing to fund capital expenditure will be kept as low as possible The PCC will consider alternative strategies during the course of the financial year

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

	2018/19 limit	**2019/20 limit**	**2020/21 limit**	**2021/22 limit**
Authorised limit – borrowing	40 0	45.0	45.0	45 0
Authorised limit – PFI and leases	0.0	0 0	0.0	0.0
Authorised limit – total external debt	40 0	45 0	45.0	45 0
Operational boundary – borrowing	30 0	30 0	35 0	35 0
Operational boundary – PFI and leases	0 0	0	0 0	0 0
Operational boundary – total external debt	30 0	35 0	35.0	35 0

- Further details on borrowing are in Section 6 of the treasury management strategy.

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 Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss Money that will be held for longer terms can be invested more widely, as set out in the Treasury Management Strategy. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the PCC may request its money back at short notice

Table 8: Treasury management investments in £millions

	31.3.2018 actual £m	31.3.2019 forecast £m	31.3.2020 budget £m	31.3.2021 budget £m	31.3.2022 budget £m
Short-term investments	8.3	13 7	1.0	2 1	0 0

Further details on treasury investments are in Section 8 of the treasury management strategy.

Governance: Decisions on treasury management investment and borrowing are made daily and are delegated from the Treasurer, to the Director of Finance and his staff, who must act in line with the treasury management strategy approved by the PCC. Regular reports on treasury management activity are presented to the Joint Audit and Standards Committee The Joint Audit and Standards Committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

The PCC can make investments to assist local public services, including making loans to and buying shares in local service providers The PCC holds 2 shares in Place Partnership Limited. This is a joint operation owned by the PCC and Chief Constable for Warwickshire, the PCC and Chief Constable for West Mercia, Hereford and Worcester Fire and Rescue Authority, Worcestershire County Council and until 31st March 2019, Redditch Borough Council and Worcester City Council The Company provides property management and maintenance services and being a Teckel company can trade commercially within certain parameters It is intended that the company will at least break even.

The PCC owns two justice centres at Royal Leamington Spa and Nuneaton. These are a multi-partner jointly controlled operation The partners include Warwickshire Police, Her Majesty's Courts and Tribunal Services, Probation, Youth Justice Services and Victim support. Whilst no legal entity exists, the business of the Justice Centres is conducted through a separate Justice Board under a formal agreement.

The partners to the agreement have joint control of operations therefore the PCC is not the sole beneficiary or controlling partner. Partners contribute to the running costs, including building maintenance on the basis of floor area Further details are included in the Statement of Accounts.

The PCC also acts as lessor for 3 radio mast facilities, at Rugby Police station, Bedworth Police station and limington All these properties are owned by the PCC. The rent received in 2017/18 was £148,000

In light of the public service objective, the PCC is willing to take more risk than with treasury investments, however it still plans for such investments to at least break even

Governance: Decisions on service investments are made by the PCC in consultation with the Chief Constable, Chief Executive, Treasurer and Director of Finance and must meet the criteria and limits laid down in the Treasury Management Strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme

- Further details on service investments are also shown in the Statement of Accounts.

Commercial Activities

With central government financial support for local public services declining, the PCC can invest in commercial property purely or mainly for financial gain and can lend to joint venture companies and partners in formal collaboration agreements The PCC holds one commercial investment property, Limington Mast This was valued at £375,000 in the 2017/18 Statement of Accounts but the PCC received rental income of £136,000 for it in 2017/18 There are no restrictions in his ability to realise the value inherent in this property or on his right to the remittance of income and proceeds of disposal The PCC has no contractual obligations to purchase, construct or develop the investment property or undertake repairs, maintenance or enhancement.

With financial return being the main objective, the PCC accepts higher risk on commercial investment than with treasury investments The principal risk exposures include vacant properties following termination or a fall in the capital value These risks are managed by the Strategic Estates Manager and/or Place Partnership Limited

Governance: Decisions on commercial investments are made by the PCC Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme each year

- Further details on commercial investments and limits on their use are in pages Section 8 of the Treasury Management Strategy

The PCC is also a shareholder in Place Partnership Limited (as shown above)

Liabilities

In addition to debt of £13.6m detailed above, the PCC is committed to making future payments in respect of any pension fund deficits. The Local Government pension fund is re-valued on a regular 4 yearly basis and the costs are managed accordingly

A joint decision by the West Mercia PCC and Chief Constable was made in October 2018 to terminate the alliance with Warwickshire. Pursuant to the Strategic Alliance Collaboration Agreement all reasonable costs arising as a result of the separation must be paid by the party serving notice Detailed work has been undertaken since receiving the termination notice to design the new arrangements for Warwickshire and accurately assess the costs of termination and implementation. Warwickshire has mitigated the cost impact at every opportunity and produced a full business case to support effective and considered decision making.

Governance: Decisions on incurring new discretional liabilities are taken by the PCC in consultation with the Chief Constable, Chief Executive, Treasurer and Force Chief Finance Officer. The risk of liabilities crystallising and requiring payment is monitored by Force Finance and reported to the Chief Constable and PCC in the monthly budget monitoring reports.

- Further details on liabilities and guarantees are included in the statement of accounts

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP (effectively principal repayments) 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, business rates and general government grants

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

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Financing costs (£m)	1.2m	1.5m	1.7m	2 6m	2.5m
Proportion of net revenue stream	1 29%	1 67%	1 63%	2 49%	2.38%

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 50 years into the future The Treasurer is satisfied that the proposed capital programme is prudent, affordable and sustainable because of the need for replacement and refurbishment of some assets, , the planned programme for the disposal of assets (generating capital receipts) and the opportunities the programme presents to secure better value for money All capital projects will be subject to detailed options appraisals and business cases before final approval is given by the PCC

Knowledge and Skills

The PCC employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Treasurer and Director of Finance are both qualified accountants with between 25-30 years' experience each

Where PCC 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, Place Partnership Limited as property consultants and Warwickshire Legal services as its legal advisors This approach is usually more cost effective than employing such staff directly, and ensures that the PCC has access to knowledge and skills commensurate with its risk appetite