Warwickshire Police and Crime Commissioner

Capital Strategy 2020/21

1 Purpose and scope

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities (including Police and Crime Commissioners) 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 revenue and capital planning process. It provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the delivery of desired outcomes. It also provides an overview of how associated risk is managed and the implications for future financial sustainability. It also includes an overview of the governance processes for approval and monitoring of capital expenditure.

Throughout this document the term Warwickshire is used to refer to the activities of both the PCC and the Force. This Capital Strategy includes all capital expenditure and capital investment decisions for Warwickshire. It sets out the long term context in which decisions are made with reference to the life of the projects/assets.

2 Capital Expenditure – Definition

Capital expenditure is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing fixed asset. Fixed assets are tangible or intangible assets that yield benefits to Warwickshire generally for a period of more than one year, e.g. land and buildings, ICT, business change programmes, equipment and vehicles. This is in contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services. 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. The capital programme which is approved as part of the budget report each year is Warwickshire's plan of capital works for future years (over the medium term financial plan period), including details on how the schemes will be financed.

3 Capital vs Treasury Management Investments

Warwickshire PCC produces a separate annual treasury management strategy which is approved each year. Treasury Management investment activity covers those investments, which arise from the organisation's cash flows and debt management activity, and ultimately represent balances, which need to be invested until the cash is required for use in the course of business.

For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Annual Treasury Management Strategy Statement.

Cleary some treasury management decisions link closely to the capital strategy in terms of funding and the documents should be read in conjunction with each other.

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4 Links to other corporate strategies and plans

The PCC produces his Police and Crime Plan every four years, which is also reviewed in the intervening years to ensure it is up to date and reflective of current priorities. The Chief Constable produces an annual force management statement which sets the strategic direction for the force.

To support these overarching documents a number of interrelated strategies and plans are in place, such as the Financial Strategy, Medium Term Financial Plan, Medium Term Capital Plan, Capital Strategy and the Treasury Management Strategy. The Evolve Strategic Business case is also a fundamental plan which provides high level direction in terms of the transitional process for Warwickshire from the Alliance arrangements.

The operation of all these strategies and plans is underpinned by the Code of Corporate Governance which applies to the force and the PCC and includes the Contract Procedure Rules, the Financial Regulations and the schemes of delegation. The Corporate Governance framework is also reviewed annually by the Joint Audit and Standards Committee.

Capital resources should be directed to those programmes and projects that optimise the achievement of the outcomes identified in the plans and the following processes are designed to ensure that this happens.

Section A - Developing a Capital Programme

5. The Capital Budget setting process

5.1 Introduction

The Medium Term Financial Plan covers a period of three years. This incorporates the impact of the capital programme through its financing and as such the capital programme is also presented over this time frame. The capital budget sets out the anticipated level of expenditure and the associated funding. The plans are drawn up, reassessed and extended annually and, if required, re-prioritised to enable the aims and objectives established in the PCC's Police and Crime Plan, the Force's Strategic

Plan to be achieved and also to support national initiatives and commitments for example the emergency services network. The capital budget is summarised in section 3 of this document, but the key strategic focuses of the capital programme include:

- To ensure the property estate remains fit for purpose, identifying opportunities to streamline assets and develop the estate infrastructure whilst also acknowledging the need to maintain core sites and establishing (post alliance) and improving core training facilities in Warwickshire.
- To ensure provision is made for ICT and business change technology to stabilise the existing infrastructure which will enable the transition of ICT services to their new state with a new partner which reflects the overall investment to provide innovative digital policing services in Warwickshire.
- The maintenance, development and replacement of other core assets (e.g. vehicles and communication infrastructure) to maximise the advantage of new technology and reflect legislative changes.

The capital budget acknowledges the need to transition services in 3 key areas – ICT, transactional services and forensics within a constrained timeframe as a result of the end of the alliance with West Mercia. Warwickshire is committed to maximising opportunities for collaborative working which provide improved value for money and service delivery for local communities. Many of the capital investments and projects included within the capital budget have emerged as part of the strategic business case approved by the PCC and Chief Constable which outlines the future service provision model following the termination notice received from West Mercia. This overarching plan is supported by a series of further business cases on specific project areas which have been collectively reviewed and approved as appropriate for inclusion within the capital budget. They relate to the discreet areas of work and projects that are required to enable the transitional and transformational process to progress to arrive at an improved end state with a new collaborative partner. These projects have been incorporated into the final capital programme approved in February 2020 by the PCC.

5.2 Collaboration and partnership working:

A focal point of the Warwickshire capital strategy is the continued support for the national and local drivers that encourage collaborative working and engagement across the sector. Despite the termination notice received from West Mercia in respect of the strategic alliance, Warwickshire recognises the benefits of partnership working and is entering new collaborations with West Midlands police in April 2021, although work and costs on establishing and preparing for these is included within the 2020/21 capital programme which will improve the overall service to the public and benefit the communities of Warwickshire.

5.3 Capital budget setting and timelines

The timeline for preparing the capital budget usually commences in the summer, but given the extraordinary events regarding the need to transition services from the alliance, such work has been ongoing throughout 2019/20, to arrive at an agreed set of business cases for consideration to facilitate that transition.

The key criteria for consideration being:

- Ability to transition services in an affordable and sustainable manner that provide value for money
- Ability to provide improved service delivery which will keep communities safe
- Ability to support the repatriation of services and staff within the Warwickshire footprint, where appropriate, to facilitate improved services post Alliance
- Achievement of high level agreed PCC, Force, Regional and/or National outcomes;
- Maintenance, stabilisation (ICT) and improvements in the essential infrastructure of the Force;
- Development of improved Force wide capability
- Adjustments to existing prioritised plans / projects to reflect the changed landscape and future service delivery model outside of the alliance
- Redevelopment and improvement of estates, including health and safety and environmental issues

5.4 Capital projects identification and business case prioritisation

Under normal circumstances and in areas less or unaffected by the transitional process, high level business cases are prepared for consideration based on an agreed timetable by the service departments and the Evolve Change team. Some of these have been in conjunction with other collaborative forces eg West Midlands which will enable a more joined up approach to capital investment. Over the autumn, the business cases are reviewed internally and prioritised, including the Director of Finance. Force finance calculate any associated financing costs of the proposals. The first draft costed Medium Term Capital Plan is usually presented to the PCC in late autumn, by the Director of Finance and Treasurer, who will have reviewed the bids with other stakeholders including the Chief Constable and Chief Executive, based on a comparison of service priorities identified as part of the forces' business planning process.

The first draft will provide views on affordability and potential funding issues and options. This process runs alongside the revenue budget setting process, because of the interdependencies across revenue and capital as a result of the funding options and the nature of some projects. Refinement to the capital plans will occur as more information, particularly around the transitional arrangements in 2020/21 emerge. These result in redrafted and re-costed plans which are presented at the regular PCC/CC meetings for agreement.

5.5 Affordability and financial planning

The overall financial position of Warwickshire and hence the scope for future capital expenditure must take into consideration the combination of the revenue budget, capital programme as well as the position on reserves. The revenue and capital budget positions are interdependent in several ways. This may be in terms of the method of financing (borrowing will have revenue implications) in addition to whether the capital investment also involves some form of revenue expenditure.

The revenue Medium Term Financial Plan identifies the potential financial position for the next three years and will include forecasts on inflation, committed growth requirements, efficiency savings, and assumptions around grant and council tax funding and any other information introduced during the budget process. The extent to which the annual revenue budget, through the 3 year forecast can support the capital programme is a key factor to overall financial planning and has been particularly critical to Warwickshire in setting the 2020/21 budget in the absence of a settlement with West Mercia on costs arising from the termination of the alliance. As a result all the costs of transition are funded from within local Warwickshire resources. However, once a settlement is agreed this will lift some pressure on the capital and revenue budget and may require some re-writing of the capital strategy to reflect the changed circumstances. The annual police capital grant was reduced significantly in the 2020/21 central government settlement and now provides only a very small fraction of the funding required to maintain the Forces assets.

5.6 Capital Sustainability

The financial position of the Warwickshire has been changing as it transitions form the alliance with West Mercia. In the absence of a settlement on costs, which the terminating party (West Mercia) are liable for, the revenue and capital budgets and MTFP are financed fully from local resources in Warwickshire. The settlement is the subject on ongoing negotiations with involvement from the Home Office. Warwickshire has held relatively high reserves, but these are now being used rapidly to transition services. Additionally the MTFP period includes significant borrowing. When a settlement is agreed. The capital strategy I respect of funding strategies will have to re-addressed, as funding can be rebased, potentially reducing borrowing levels and using reserves in a different manner. At the current time the picture regarding a settlement is still uncertain, but this may change during the course of 20202/21 and if so this will reduce stress on in year budgets and capital funding strategies will be revisited.

Despite the need to transition, the investment programme over the medium term for Warwickshire also includes a significant element of transformation. The strategy therefore remains to invest in core infrastructure now that will not only offer overall service improvements to the public, but also maximise revenue savings into the future through more efficient and mobile use of police personnel, enabled by improved Information and Communication Technology systems and other core infrastructure for example, connected vehicle fleet and building assets. Warwickshire’s investment strategy will also continue to be influenced by, and take account of national visions for policing, as well as regional and local priorities.

5.7 Approval process

The final version of the Medium Term Capital Plan is presented to the PCC in the following late January for inclusion with the main budget report and subsequent approval, reflecting the known funding position and any further developmental work on the plan. The formal PCC approval process involves the agreement of the capital budget for the following year, and an acknowledgement of the intention, for planning purposes, of the remaining years of the Medium Term Financial Plan. Where a project has been included in the budget based on a high level business case, further more detailed work will be required in the form of a comprehensive business case to seek formal approval by the PCC for release of the funds during the course of the year. This should always be before the project is commenced. Details of the PCC's capital programme are included in the 2020/21 revenue budget and medium term financial plan report, which is published on the PCC website.

Section B - Governance

6.1 Funding Strategy and Capital Policies

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). This section sets out Warwickshire's policies and priorities in relation to funding capital expenditure and investment.

6.2 Government Grant

The Commissioner only receives limited financial support from the Home Office; the annual capital grant is currently only £0.113m per annum. This grant was reduced significantly in the 20202/21 settlement and only finances a very small proportion of the capital programme.

Specific capital grants may be received for agreed capital works but these are relatively uncommon in Warwickshire.

6.3 Capital Receipts

A capital receipt is an amount of money which is received from the sale of an item on the fixed asset register, usually estates related. They cannot be spent on revenue items. When a capital asset is no longer needed or is surplus to requirements, 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 £0.85m of capital receipts in 2020/21.

The PCC is in the process of developing a new estates management policy in the light of the termination of the strategic alliance to ensure that assets continue to be of long term use. This is in the process of being redrafted and will outline the future estates requirements of Warwickshire including any likely capital receipts. However, the current strategy published on the website:

- 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/ .

6.4 Prudential Borrowing

Local Authorities, including the PCC, can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by the Government so the PCC needs to ensure it can fund the repayment costs. Debt is only a temporary source of finance, since loans and leases must be repaid, 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 must always be both prudent and affordable. Further details on prudential borrowing including the prudential indicators is contained within the Treasury management strategy.

6.5 Reserves and balances

The infrastructure reserve contains funds to finance capital spending throughout the MTFP period. A separate reserves strategy is prepared, and the annual budget report also contains additional information in relation to reserves.

6.6 Revenue Funding

Revenue contributions to capital or direct revenue funding (DRF) is included in both the annual revenue budget and the medium term financial plan to cover the loss of capital grant in the 2020/21 finance settlement. However, with the passage of time this will potentially become a limiting factor for capital investment as it balances annual revenue funding priorities with long term capital investment strategies.

7 Procurement and Value for Money

Procurement is the purchase of goods and services. Warwickshire is establishing its own department outside following the termination of the strategic alliance with West Mercia. It ensures that all contracts, including those of a capital nature, are legally compliant and provide best value for money. It is essential that all procurement activities comply with regulations and best practice as set out in the Code of Corporate Governance framework, which is reviewed annually and which also includes the Contract and Financial Regulations. Guidance on this can be sought from the Procurement team. The main aim is to hold 'value for money' as a key goal in all procurement activity to optimise the combination of cost and quality.

8 Partnerships and Relationships with other Organisations

Wherever possible and subject to the usual risk assessment process Warwickshire will look to expand the number of capital schemes which are completed on a partnership basis and continually look for areas where joint projects can be implemented.

Section C - Management Framework

9 Capital Monitoring, project and performance management

Capital projects are subject to high levels of scrutiny in term of project management, either by the Evolve Change Team or Analysis and Service Improvement, both of which report back to the CC and PCC in the weekly meetings.

The Director of Finance produces a regular monthly Money Matters reports for the PCC and CC which include capital monitoring. These reports are based on the most recently available financial information. These monitoring reports will show spending to date and compare projected expenditure with the approved capital budget. The Treasurer also meets throughout the year with the force finance team to understand and challenge the position on capital project spending and delivery and the Chief Executive meets regularly to understand and monitor the picture on estates capital schemes.

For proposed in-year amendments to the annual capital budget, for new schemes not already included in the medium term capital plan, a business case is prepared for submission to the PCC for consideration and approval, including details on how the new scheme is to be funded. In addition, for those business change programmes where a formal Board has been established, a scheme monitoring reports and feedback is presented to each Board meeting.

10 Risk Management

Risk is the threat that an event or action will adversely affect Warwickshire's ability to achieve its desired outcomes and to execute its strategies successfully. Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.

The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties. The force and the PCC each hold separate risk registers which set out the key risks to the successful delivery of their respective corporate aims and priorities and outlines the key controls and actions to mitigate and reduce risks, or maximise opportunities. These documents are due to be fundamentally reviewed in 2020/21 in conjunction with the Joint Audit and Standards Committee. However, the current processes and risk registers are kept under constant review to manage risk effectively.

To manage capital risk effectively, the risks associated with each project need to be systematically identified, analysed, influenced and monitored. It is important to identify the appetite for risk by each scheme and for the capital programme as a whole, especially when investing in complex and costly business change programmes. This is particularly relevant to Warwickshire as it undergoes its ambitious transitional and transformational process to exit the alliance and set up new collaborative working arrangements in key areas of service and as a result it is accepted that there will be a certain amount of risk inherent in delivering the desired outcomes. It is hoped that the monitoring routines in terms of project, performance and financial management will keep the risk of capital projects to a low level whilst making the most of opportunities for improvement.

Any key risks identified as part of the capital planning process are considered for inclusion in the corporate risk register. The Director of Finance and Chief Finance Officer will report jointly on the deliverability, affordability and risk associated with this Capital Strategy and the associated capital programme drawing on appropriate specialised advice to enable them to reach their conclusions as necessary.

Funding Capacity Risk
This is the risk that identified project costs are either understated or escalate during the project lifecycle, for example if project scope changes. This risk is mitigated as far as possible by the identified monitoring process and controls. However a further key mitigating factor is the management of the general reserves. Further detail is contained within the Treasurers statement on the adequacy of reserves statement in the revenue budget report.

Credit risk
This is the risk that the organisation with which we have invested capital monies becomes insolvent and cannot complete the agreed contract. Accordingly, Warwickshire will ensure that robust due diligence procedures cover all external capital investment. Where possible contingency plans will be identified at the outset and enacted when appropriate.

Liquidity Risk
This 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. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes. Where possible appropriate interventions will occur as early as possible.

Interest Rate Risk
This 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 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.
There is also a risk that external interest rates will rise, after the budget has been set, meaning that actual debt charges are higher than those included in individual business cases and more widely in the revenue budget. This risk will be managed by the Treasurer who will liaise with external Treasury Management advisors to determine the best time to take new external loans.

Exchange Rate Risk
This 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

11 Final other considerations

All capital schemes must comply with legislation, such as the Disability Discrimination Act, the General Data Protection Regulations (GDPR), building regulations etc.