Warwickshire Police and Crime Commissioner

Capital Strategy 2021/22

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.

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.

To complement the plan the force has produced its Fit for the Future strategy which is a 5 year strategy to 2025 to outline strategic priorities and the high level direction in terms of the transitional and transformational process for Warwickshire Police.

The Chief Constable also produces an annual force management statement which assesses current and future demand requirements against the current status of workforce and assets and plans to address any gaps and requirements.

To support these overarching documents a number of interrelated strategies and plans are in place, such as the Budget and financial strategy, Medium Term Financial Plan, Medium Term Capital Plan, reserves strategy, Capital Strategy and the Treasury Management Strategy.

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 has been extended as part of the 2021/22 budget process to cover a five year period. 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 management statement and the Fit for the Future 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 are:

- 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 and improving core training facilities in Warwickshire. An estates review is planned during 2021/22 and this will further inform requirements over the medium term.
- To ensure provision is made for ICT and business change technology to stabilise and improve the existing infrastructure. The ICT service will be delivered in Warwickshire, and the transformation is being managed through the Evolve team and an extensive programme of works. The medium term capital programme reflects the overall investment anticipated to provide innovative digital policing services in Warwickshire.
- The maintenance, development and replacement of other core assets (e.g. vehicles, equipment 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 from the current arrangements with West Mercia. Warwickshire is committed to maximising opportunities for collaborative working which provide improved value for money and service delivery for local communities and as such forensics services will be delivered through a new section 22 collaboration agreement with West Midlands police from September 2021.

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. Warwickshire recognises the benefits of partnership working and will consider any opportunities for collaborative working where there are benefits from doing so, and that provide value for money.

5.3 Capital budget setting and timelines

The timeline for preparing the capital budget usually commences in the late summer/early Autumn as part of the annual budget setting process. The programme and budget is however kept under constant review given the ongoing transition and transformation that Warwickshire is undergoing. As such the Evolve business change team work closely with the finance department all year round to keep the programme of works updated.

Some of the key criteria for transformation being:

- Ability to transition the remaining 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 provide the equipment and infrastructure necessary to provide efficient and effective services.
- 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
- Redevelopment and improvement of estates, fleet and equipment, including health and safety and environmental issues to improve services

5.4 Capital projects identification and business case prioritisation

Business change is unavoidable and is desirable to ensure that the business continues to address need and flexes with changing circumstances.

The business planning process is the mechanism to facilitate this process, for bringing projects forward for consideration. This process is facilitated within Analysis and Service Improvement department within the force. However, the sole purpose of Business Plans or Business cases should not be to seek additional funding and grow the budget. They should articulate how the aims and objectives of the Police & Crime Plan and Chief Constable will be better achieved over the medium term, explaining how the business will evolve and the associate risks and mitigations that may need to be addressed or put into place.

Business Plans should also explain any areas of business that are no longer appropriate, the process of transitioning out of these and identify the potential for greater efficiency and effectiveness to achieve continued improvements in service delivery.

To ensure that business plans fully articulate and identify future changes that will impact on demand for example changes in legislation and outline how we will respond to that change, the strategic business planning team will work with business leads to develop their business plans that will ultimately be considered by Chief Officers and the PCC.

The Annual Business Planning Cycle co-ordinates all of our strategic activity to ensure that it is appropriately sequenced to inform our underpinning Policing and Crime Plan, Fit for the Future strategic priorities, Financial Planning, decision-making. The approach is coordinated fully with other strategic documents and processes, as the team also deliver the Annual Strategic Assessment, Control Strategy and the HMICFRS Force Management Statements.

The research and analysis that underpins these strategic documents inform decisions regarding priorities, goals and direction at a strategic level as well as the deployment of resources across the Force. This includes the analysis of large amounts of data that is held to assess historic and current demand and uses professional knowledge and intelligence to make planning assumptions for future demand requirements, to ensure we are fit to meet this demand with the necessary skills and capacity, and that we have the resources in place to address this.

The business planning process has strong links with the financial planning and budget setting process, and a number of factsheets have been developed and are in the process of being approved to provide budget holders and other stakeholders with the relevant information. In seeking investment in our areas of business and support for new ideas Budget Holders / senior leaders should demonstrate the benefits and impact that this will have across the Force and be prepared to be held accountable for delivering the results and implementing the changes contained in the plan.

Whilst the Analysis & Service Improvement team co-ordinate the business planning process, it is the business case owner who takes ownership of the project from inception to delivery and ensures not only that the service elements of the proposal are delivered but that resources are available and funding / finances can be found for all costs arising from the decision. It may be that a degree of up front financing is required, however this should be cognisant of the financial parameters set by the force, with benefits be clearly articulated in the business case.

Budget Holders should also identify and ensure the support required from professional services such as ICT, estates or project management support can be provided both technically and from existing capacity. To support this activity a change governance process has been developed to complement business planning where any in year investment decisions are passed through a number of review gateways before a decision is made by change. Depending on the scale of the project will guide its governance with major projects governed through an established programme and project methodology. Finance staff will work closely with Budget Holders, to understand the business proposal and to achieve better outcomes from the available resources.

At appropriate times, business plans and their budget implications are discussed with the PCC at the weekly meetings in determining those that will be included within the budget for the coming year, and more widely over the MTFP period.

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 five 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 five year forecast can support the capital programme is a key factor to overall financial planning. The budget for 2021/22 has been set and is no longer reliant on the routine use of reserves to balance the budget which is unsustainable and unaffordable. All projects must therefore be delivered within the existing budget cost envelope, and any areas of anticipated additional cost will need to be financed from other corresponding underspends.

5.6 Capital Sustainability

The majority of capital expenditure will be financed from borrowing as per the recent budget report. If other funding streams become available during the course of the year or over the life of the plan, for example capital receipts, the PCC may consider amending his plans by substituting them in lieu of borrowing, which would avoid some of the ongoing revenue implications. Reserves are being maintained as a result of the uncertainty created by the pandemic and to protect reserve levels more generally to address any risk on the ongoing transition and transformation of services.

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. The force business planning and change management methodology will govern and oversee this process. 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, and the capital programme over the medium term provides for some of the anticipated costs of doing so.

5.7 Approval process

The final version of the Medium Term Capital Plan is presented to the PCC in late January each year 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 2021/22 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 and therefore 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. Both of these sources of funding would be utilised as a priority for funding capital expenditure.

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 is not anticipating receiving any capital receipts in 2021/22.

The PCC will be undertaking an estates review in 2021/22 to ensure that assets continue to be of long term use and are fit for purpose. This terms of this review are currently being drafted and will outline the future estates requirements of Warwickshire including any likely capital receipts. However, the current strategy is published on the website and will be updated over the course of the year in line with the review. Currently the 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.
- 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

A separate reserves strategy exists, but this proposes that reserves are not used to finance capital expenditure given current uncertainties and a need to protect reserves to manage risk associated with the pandemic and the transition process. The annual budget report also contains additional information in relation to reserves.

6.6 Revenue Funding

No revenue contributions to capital or direct revenue funding (DRF) is included in the 2021/22 budget or across the Medium term financial plan.

7 Procurement and Value for Money

Procurement is the purchase of goods and services. The team in Warwickshire 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 finance and contract regulations can be sought from the finance and procurement teams, however, 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 Money Matters report 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 and/or Treasurer meets regularly to understand and monitor the picture on estates capital schemes.

For proposed in-year amendments to the annual capital budget, to allocate specific areas of funding to projects, or for new schemes not already included in the medium term capital plan, a business case will need to be prepared for submission to the PCC for consideration and approval. This will need to be within the approved overall capital budget. In addition, for those business change programmes where a formal Board has been established, regular scheme monitoring reports and feedback is presented to each Board meeting and a high level overview included in the Money Matters report brought to the PCC.

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. The strategies have been reset and the registers reviewed during 2020/21 and are considered at each meeting of the Joint Audit and Standards Committee.

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. 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, and will be kept under review by the Director of finance and the Treasurer, drawing on the advice of others as necessary 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 and are included within the Treasury management strategy, which is reviewed annually.

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. This is not considered to be a significant risk for any current capital projects for Warwickshire.

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 force finance staff and 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.