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2022/23 Capital Strategy

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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.

Clearly 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 continues to cover a 5 year period, but has informally also been extended out up to 10 years, although this is for indicative financial planning rather than any formal decision making. The medium term capital plans cover a period of 5 years and incorporate 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. The outcomes from estates review is will further inform requirements over the medium term.
- To ensure provision is made for ICT and business change technology. The process of transitioning ICT services to Warwickshire is nearing completion and systems are now operating on more robust and modern infrastructure, updated systems accessed by staff on new devices. The medium term capital programme has reflected this process over the last couple of years, but now represents a return to more normal levels of capital investment to sustain the ongoing work. Further investment to drive out further efficiencies either in capital or revenue will be the subject of further consideration under the digital stream of the Empower work which will commence from April 2022 following the ending of the Evolve programme of works.
- 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.
- To commit to address issues around the sustainability of our estate and vehicles, where possible.

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. Forensics services in Warwickshire are delivered through a collaboration agreement with West Midlands police, which is working effectively, and Warwickshire is also committed to working regionally and with local partners like our community safety partnerships to deliver improved services.

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 capital programme and budget is however kept under constant review during the course of the year through the regular budget monitoring processes. The new police and crime plan identifies the key strategic priorities. The budget links with these, along with the capital programme. The force are however adopting a new strategic approach from April 2022 called Empower, which is based on three work streams, place, people and technology to determine the most cost effective. This will determine the future operating model given the ongoing and efficient operating model for Warwickshire police over the medium term.

Some of the key criteria for the ongoing technological transformation being:

- 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 and drive out more efficient work and increased productivity from the recent significant investments in ICT.
- Achievement of high level agreed PCC, Force, Regional and/or National outcomes;
- the ongoing development of improved Force wide capability
- Redevelopment and improvement of estates, fleet and equipment, including health and safety and increasingly addresses 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 information has been developed and is being shared through the business partnering model to provide budget holders and other stakeholders with the relevant information and improve their financial skills and knowledge. 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, finance 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 on the change. Depending on the scale of the project, A, S & I 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. Any requiring a PCC decision for example on estates or that have budgetary implications will be subject to scrutiny at the holding to account/governance board meeting and will pass through the PCC's governance processes.

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 2022/23 has been approved by the PCC, and continues to comply with the strategy of a good and balanced budget that does not rely on the use of reserves to fund routine spending and budget gaps. 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. Savings requirements over the medium term have been identified and early planning through the Empower programme will outline options for addressing these.

5.6 Capital Sustainability

The majority of capital expenditure will be financed from borrowing as per the recent budget report. Capital grant from government has been removed in the final funding settlement for 22/23, and so the challenge will be to identify a sustainable funding of the capital programme over the medium to longer term. Capital receipts are forthcoming and have been used in 21/22 and over the next few years to fund short term assets, to minimise the revenue implications of the minimum revenue provision. Expert external Treasury advisers have been consulted on the most cost effective use of the capital receipts and the robustness of the minimum revenue provision policy, and their recommendations will continue to be considered fully when determining and allocating capital funding. Given that the PCC and force are beginning to emerge from the transition and the pandemic to a more 'normal' level of business, and to consider the most cost effective and efficient use of resources, there is likely to be a return to the establishment of an infrastructure or capital reserve to identify sustainable funding for capital over the medium term, in line with the reserve strategy. This will be in addition to annual budgeted contributions to capital across the medium term financial plan to replace lost capital grant and be a further source of capital funding.

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, as will the work of the Empower programme which will align with the priorities set out in the PCC's new police and crime plan and the force fit for the future strategy.

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 2022/23 budget and medium term financial plan report, which is published on the PCC website and has been approved via a decision notice.

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; annual capital grant was receivable up to 2021/22, but has been removed from 2022/23 onwards. Sustainable capital financing will need to be identified to replace this in the medium term.

Specific capital grants may be received for agreed capital works but these are relatively uncommon in Warwickshire but have included some for the emergency services network replacement work. 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 received a more significant capital receipt in 2021/22 and the second instalment of that receipt is due in 2022/23. This receipt is being used to fund medium term capital spending in the most cost effective manner possible.

The PCC commissioned the force to undertake an estates review in 2021/22 to ensure that assets continue to be of long term use and are fit for purpose. The strategy sits in alignment with the PCC's police and crime plan and the forces "Fit for the Future" commitments, and the estates work will play a role in contributing towards the priorities laid out within those documents, including:

- ✓ Developing an estate that reflects modern day policing requirements

- ✓ A growing workforce that is inclusive and representative of the communities we work within, with the right skills and equipment to do the job
- ✓ A commitment to a greener force which positively contributes to a sustainable environment
- ✓ Delivering a good and balanced budget

At a project level, these high level priorities are translated into more granular objectives:

1. Our staff have the necessary physical infrastructure they need to carry out their roles, not what they think they need (i.e. fit for purpose and accessible)
2. Our capital and ongoing revenue commitments align to our financial plans
3. The provision and locations of our physical infrastructure align to staff expectations, as well as the public expectations of the communities we serve
4. All physical infrastructure is maintained to an appropriate standard (i.e. defect free/ safe and in working order)
5. All infrastructure is protected to an appropriate level through necessary physical security considerations
6. Our physical infrastructure investments are cognisant of our future environmental obligations (i.e. emissions/ waste reduction specifically)

The programmes of work that need to flow from this strategy will be determined and prioritised to fit in with the capital programme and available finance. Much of the estates budget has been presented at a high level and business cases and investment opportunities will now be considered in line with the full strategy to allocate in year funding.

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, and has been updated for 2022/23 to reflect a changing position whereby reserves may again be set aside as part of the assessment once the outturn for 2021/22 is known, to fund capital given that some of the current uncertainties regarding the revenue position during the transition process but also further uncertainty created by the pandemic is now beginning to settle. This is also due in part to increasing pressure to identify sustainable capital funding in the medium term, following the removal of core capital grant from 2022/23 onwards.

6.6 Revenue Funding

Revenue contributions to capital are included in the 2022/23 budget being a continuation of the approach for 2021/22 which was to replace the 'lost' capital grant. This approach is also rolled out over the medium term financial plan to ensure that the medium term capital programme can be financed and is affordable. Where possible and prudent to do so, further in year opportunities for increasing revenue contributions to capital will be considered.

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 explore all opportunities for increasing the number of capital schemes which are completed on a partnership basis and continually look for areas where joint projects can be implemented, especially where they will deliver improved benefits and value for money.

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/Empower teams or Analysis and Service Improvement, all 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 regularly 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 projects.

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, at the force governance board meetings. The project will ideally 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. The PCC will scrutinise the business case and pass this through his own governance process, and publish the decision on the website.

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 have separate risk management policies which are reviewed regularly, and hold separate risk registers which set out the key risks to the successful delivery of their respective corporate aims and priorities. The strategic risk registers outline the key controls and actions to mitigate and reduce risks, or maximise opportunities. The strategies have been recently reviewed and the risk registers are reviewed regularly by the respective officer teams and considered at each meeting of the Joint Audit and Standards Committee meetings.

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. Risks for capital spending and investments may develop in line with some of the following:

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 Conclusion

This capital strategy outlines that all capital expenditure and investment decisions in Warwickshire are taken to achieve desired outcomes and take account of stewardship, value for money, prudence, sustainability and affordability. All our capital schemes must comply with legislation, such as the Disability Discrimination Act, the General

Data Protection Regulations (GDPR), building regulations and align with the priorities laid out in the Police and Crime Plan, which links in with the force fits for the future strategy. Due diligence and strong governance processes cover capital decision-making and the Commissioner and Chief Constable are kept fully informed on issues affecting capital through regular monitoring and risk management processes.