Northamptonshire Police Fire and Crime Commissioner
and
Northamptonshire Police

Capital Strategy

2019/20 – 2022/23

March 2019

Contents

1. Purpose

1.1 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.

1.2 The Capital Strategy is an overaching strategyfor the Police, Fire and Crime Commissioner (PFCC) and Northamptonshire Police and forms part of the authority's integrated revenue, capital and balance sheet planning. 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 includes an overview of the governance processes for approval and monitoring of capital expenditure.

1.3 Throughout this document the term Northamptonshire and/or the Force are used to refer to the activities of both the PFCC and Northamptonshire Police. The Medium Term Capital Plan is referred to as the Capital Programme throughout this document.

2. Scope

2.1 This Capital Strategy includes all capital expenditure and capital investment decisions for Northamptonshire. It sets out the long term context in which decisions are made with reference to the life of the projects/assets.

2.2 Whilst the Capital Programme and Strategies for each of the assets currently focus on the next 5 years, work is underway to develop the Estates Strategy to reflect its suitability and financial impact up to the next 30 years. This work will be carried out alongside the Northamptonshire Commissioner Fire and Rescue Authority Estates Strategy to maximise efficiency opportunities and ensure a fit for purpose estate for the future.

3. Capital Expenditure

3.1 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 Northamptonshire 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.

3.2 The capital programme is Northamptonshire’s plan of capital works for future years, including details on the funding of the schemes.

4. Capital vs. Treasury Management Investments

4.1 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.

4.2 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.

4.3 Treasury Management arrangements are undertaken on behalf of the PFCC and PFCC Chief Finance Officer by the Force Finance Team and the PFCC and CC have engaged external Treasury advisers to support investment and borrowing decisions. The external advisers undertake regular meetings, balance sheet and capital programme reviews with the service in addition to offering regular seminars, workshops and regular briefings and communications.

4.4 The Treasury Management Strategy is reviewed annually at the Accountability Board with the PFCC and Chief Constable and a Decision Record held on the PFCC website. Regular updates are also reviewed at the Board throughout the year. The Joint Independent Audit Committee (JIAC) also review the Strategy and receive and consider the quarterly updates at the Committee.

4.5 The CIPFA Treasury Management Code recognises that some local authorities are entitled to make investments for policy reasons outside of normal treasury management activity. These may include service and commercial investments. However, like all police forces, Northamptonshire does not have a General Power of Competence, which gives councils the **power** to do anything an individual can do provided it is not prohibited by other legislation. As such, is prevented from entering into commercial investment activities.

5. Links to other corporate strategies and plans

5.1 The PFCC produces his Police and Crime Plan every four years. The current version covers the period 2017 to 2021. A refreshed plan is being consulted on during February 2019.

5.2 To support these overarching documents a number of interrelated strategies and plans are in place, such as the Medium Term Financial Strategy, Medium Term Capital Programme, Capital Strategy, Estates Strategy, ICT Strategy, Vehicle Fleet Strategy and the Treasury Management Strategy.

5.3 The Estates, ICT and Fleet Strategies form the Asset Management Plans and include assessments associated with existing assets, ensuring that such costs are included within the revenue budget MTFP.

5.4 The operation of all these strategies and plans is underpinned by the Code of Corporate Governance which includes Contract Standing Orders and Financial Regulations.

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

6. The Capital Budget Setting Process

6.1 Introduction

At any given time the Force is committed to rolling Medium Term revenue & capital plans that usually extend for 4 to 5 years. The plans are drawn up, reassessed and extended annually and if required re-prioritised to enable the Force to achieve the aims and objectives established in the PFCC's Police and Crime Plan, the Force Commitment and to support national drivers like the National Policing Vision for 2025.

Following the Transfer of Fire Governance to the PFCC in January 2019, the PFCC and the Chief Constable are working with the Chief Fire Officer to consider a longer term Estates masterplan for the next 30 years to cover policing and fire. This will inform the Capital Strategy.

The Medium Term Capital Programme provides the Force infrastructure and major assets through capital investment, enabling the Force to strengthen and streamline core assets and systems, and provides the framework for delivering innovative policing with a lower resource profile.

Key focuses of the Capital Programme:

To ensure the property estate remains fit for purpose, identifying opportunities to streamline assets and develop the estate infrastructure; maintaining core sites and improving core training facilities.

To ensure provision is made for ICT & Business Change Technology to maintain and develop the existing infrastructure and invest in the core technologies required to provide innovative digital policing services.

The maintenance and replacement of other core assets where necessary, e.g. vehicles and communication infrastructure.

The plans acknowledged the constrained financial position of the Force and maximise both the available financial resources and the capacity that the Force has to manage change projects.

6.2 Force Collaboration & Wider Sector Engagement.

Although the Force has its own Capital Strategy and Medium Term Capital Programme, the natural drivers that encourage local and regional forces to collaborate, such as cost and resource sharing, along with structured collaborations and national plans, can have a significant influence on local decision making.

One of the focal points therefore of the Capital Strategy is to acknowledge regional and national partnership working, both with other Forces and in a the wider context of engagement with Local Authorities & Councils, other Emergency Services and the Crown Prosecution Service, to improve overall service to the public.

6.3 The Capital Budget Setting Process & Timetable Overview.

For any particular budget setting year, the process for the Force starts during the summer of the preceding year with the Force Change Team and other key Stakeholder groups for both Northamptonshire and other Collaborative Forces agreeing the exact time table and approach to be adopted to secure investment requirements and ideas from the Stakeholder Groups covering the key criteria such as:

- Achievement of high level agreed Force, Regional or National outcomes;
- Maintenance of the essential infrastructure of the Force;
- Development of improved Force wide capability
- Adjustments to existing prioritised plans / projects.
- Rationalisation & modernisation of estates
- Carbon management & Health and Safety Invest to save schemes.
- Interoperability opportunities with Northamptonshire Commissioner Fire and Rescue Authority (NCFRA) or other bodies.

Based on an agreed timetable, Business Cases for consideration will be submitted into the Change Board and /or the East Midlands PCC and CC Board (EMPCCB) for both Northamptonshire and collaborative Forces in order that a joined up approach is made to capital investment.

The bids will then be presented to and extensively reviewed by the Chief Constables Management Team and included in the Medium Term

Capital Programme which, will then be presented to the PFCC late autumn, together with the budget proposals, providing views on affordability and potential funding issues and options.

A final version of the Capital Programme will be presented to the PFCC in the following December/January for approval, reflecting the known funding position any further developmental work on the plan.

The formal PFCC approval, agrees the capital budget for the following year, and acknowledges the intention for planning purposes of the remaining years of the Medium Term Plan.

6.4 Identifying Capital Expenditure / Investment Requirements

The need for a capital scheme will typically be identified through one or more of the following processes.

- Senior Stakeholders will submit business cases that support delivery of local, Force, Regional or National Objectives. These plans are considered at the Change Board or other forums such as the Estates Board and are be sponsored by a member of the Chief Constables Management Team. The business cases must identify the requirement, rationale, deliverables, benefits, links to Force and / or PFCC Priorities, and costs in terms of both Capital investment and ongoing Revenue consequences.
- Reviews of existing capital projects will identify that budget variances are likely to occur and that either more or less funding is likely to be required. Full rationales are required to justify variances and are submitted as per service delivery bids above.
- The Force’s other key strategies will inform the capital strategy and a capital scheme bid may arise from that, for example the Estates Strategy which rationalises and develops the Forces operational buildings and estates may require either sale, purchase or redevelopment of an element of the estate.

6.5 Affordability and Financial Planning.

Prior to submission of the Draft Capital Programme in late autumn, a significant amount of financial work will have already been undertaken on Revenue budgets. This work will have identified potential financial position for the force in respect of the coming medium term (typically 4 years), taking into account core known information and stated assumptions.

The work will include forecasts on inflation, committed growth requirements, forecast productivity and efficiency savings, assumptions around grant and council tax funding and any other information introduced during the budget process.

The revenue financial position is also influenced by the Capital Bid process and the Capital Programme – in terms of both revenue consequences of capital programmes and also through the ability or requirement to financially support capital investment, either through direct financing or borrowing.

6.6 Capital Sustainability.

The Force's financial position is changing. For many years the Force has benefitted from reserves, supported by the sale of operational buildings or police houses or from revenue or earmarked reserves assigned to capital investment.

As we move forward through the capital programme, the picture moves to funding through capital grant and either direct revenue financing or borrowing for specific projects.

The Strategy is therefore 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.

Its investment strategy will also be influenced by and take account of National visions for policing, Regional and Local priorities.

6.7 The Formal Capital Programme Approval Process

As indicated, the PFCC receives the updated Capital Programme in January at the Accountability Board each year as part of the overall suite of budget reports.

The PFCC also approves the overall borrowing levels at the Accountability Board in January each year as part of the Treasury Management Report. The taking of loans, if required, then becomes an operational decision for the PFCC's Chief Finance Officer, in discussion with the Force Assistant Chief Officer (Finance and Resources) who will decide on the basis of the level of reserves, current and predicted cashflow, and the money market position whether borrowing should be met from internal or external borrowing.

Once the PFCC has approved the capital programme, then expenditure can be committed against these approved schemes subject to the normal contract procedure rules and the terms and conditions of funding.

Whether capital projects are funded from grant, contributions, capital allocations or borrowing, the revenue costs must be able to be met from existing revenue budgets or identified (and underwritten) savings or income streams.

Following approval by PFCC the capital programme expenditure is then monitored on a regular basis.

7. Individual Project Management

Capital Projects are subject to high levels of scrutiny. This varies dependant on the type of project and may be influenced by size or by the makeup of regional involvement. Each Project will have a Project Manager and potentially a team to implement the project.

Typically projects will have a dedicated Project Board, which, if part of a larger programme may sit under a Programme Board. Programme and Project Boards will have a Senior Responsible Officer or Chair Person.

Detailed oversight is further provided through ICT, the Estates Board and the Force Change Board.

Regional Projects or Programmes may also report into Regional Boards.

7.1 Project Funding

Dependent on the project, once an approved capital project is initiated, proportionate project funds may be released to project managers in stages, called Stage Gates rather than funding being released in full at the start of the project.

Depending on project size the initial limited release of funds will enable a project to be started and relevant project documentation, for example a detailed business case, to be completed. Once that has been satisfied further funds will be released in stages at specific project review points or stage gates within existing project management processes, which will be defined and agreed with project managers at the start of the project.

This enables the Force to link the release of funds to key project milestones or progress points and enable improved visibility of project progress relative to committed expenditure thus mitigating the risk of significant project spend variances.

Ongoing Capital replacement for items such as fleet and ICT are undertaken in line with the respective strategies.

8. Monitoring of the capital programme

The Force Assistant Chief Officer (Finance and Resources) will submit capital monitoring reports to both Chief Constable’s Management Team and the PFCC monthly as part of the Budget monitoring reports throughout the year. These reports will be based on the most recently available financial information. These monitoring reports will show spending to date and compare projected income and expenditure with the approved capital budget.

For proposed in-year amendments to the annual capital budget, these will be identified at the quarterly capital programme review meetings with the PFCC CFO and included in the Force budget monitoring report considered at the Accountability Board by the PFCC regularly throughout the year.

For schemes not already included in the medium term capital plan, the Force will prepare a business case for submission to the PFCC 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 detailed scheme monitoring report is presented to each Board meeting.

9. Multi-Year Schemes

Payments for capital schemes often occur over many years, depending on the size and complexity of the project. Therefore, estimated payment patterns are calculated for each project so that the expected capital expenditure per year is known. This is called a cash flow projection or budget profiling.

The approval of a rolling multi-year capital programme assists Northamptonshire stakeholders in a number of ways. It allows the development of longer term capital plans for service delivery. It allows greater flexibility in planning workloads and more certainty for preparation work for future schemes. It also allows greater integration of the revenue budget and capital programme. It also matches the time requirement for scheme planning and implementation since capital schemes can have a considerable initial development phase.

10. In Year Changes to the Capital Programme

A medium term capital plan is produced which shows all planned expenditure over the next 4/5 years. This plan will include a schedule to show how the planned expenditure will be funded.

A separate annual capital budget is produced before the start of the financial year. Initially this budget will only include ongoing schemes from previous years as well as annual provisions such as vehicles, plant and equipment. Additional schemes from the medium term capital plan are included in the annual budget after tenders have been accepted and timescales are known.

The updated annual capital budget is approved by the PFCC at the Accountability Board meeting with the Chief Constable.

11. Funding Strategy and Capital Policies

This section sets out Northamptonshire policies and priorities in relation to funding capital expenditure and investment.

11.1 Government Grant

The Police Service only receives limited financial support from the Home Office; annual capital grant is currently less than £0.5m per annum. This grant is not hypothecated and can be carried forward if not spent in the year of receipt.

Specific capital grants may be received for agreed capital works undertaken by those regional policing units for which Northamptonshire is part e.g. Counter-terrorism policing and the Regional Organised Crime Unit.

11.2 Capital Receipts

A capital receipt is an amount of money which is received from the sale of an item on the fixed asset register. Proceeds are only classed as capital if they exceed the deminimis value (currently £10k) and such receipts cannot be spent on revenue items.

These capital receipts, once received, are used to finance the capital programme. Unfortunately, the pool of assets available for sale is rapidly declining.

11.3 Revenue Funding

Recognising that the pool of assets available for sale is declining direct revenue contributions are set at a sustainable level in the revenue budget and are reviewed annually as part of the capital programme.

11.4 Prudential Borrowing

Local Authorities, including the Police, 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 Northamptonshire needs to ensure it can fund the repayment costs.

The authority's Minimum Revenue Provision (MRP) Policy is reviewed annually as part of the Treasury Management Strategy sets out a prudent approach to the amount set aside for the repayment of debt.

Due to the ongoing debt charges (i.e. MRP and external interest charges) Northamptonshire will currently only consider external borrowing for longer term life assets such as ICT or estate projects.

11.5 Reserves and balances

Unspent capital grant and capital receipt monies can be carried forward in the Balance Sheet until they are required to fund the capital programme.

Where appropriate, Northamptonshire also uses money held in earmarked revenue reserves to help fund capital expenditure, most notably the Invest to Save Reserve.

HM Treasury guidance on capital projects recognises that there is potential for project costs to exceed the initial assessment. This is called Optimisation Bias and relates to any project type, although it can be particularly impactive when relating to the development of complex ICT or business change programmes.

11.6 Third party capital contributions

Where appropriate funding may be received from third parties towards capital expenditure or shared assets and in these instances, assets will be recognised in the Balance Sheets of each organisation.

11.7 Leasing

Northamptonshire may enter into finance leasing agreements to fund capital expenditure. However, a full option appraisal and comparison of other funding sources must be made and the Assistant Chief Officer (Finance and Resources) and the Chief Finance Officer must both be satisfied that leasing provides the best value for money method of funding the scheme before a recommendation is made to the PFCC.

Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.

12. Procurement and Value for Money

Procurement is the purchase of goods and services. Northamptonshire is part of the East Midlands Straetgic Procurement Unit (EMSCU) that ensures that all contracts, including those of a capital nature, are legally compliant and best value for money.

It is essential that all procurement activities comply with prevailing regulations and best practice as set out in the Corporate Governance Framework, which includes Contract and Financial Regulations. Guidance on procurement can be sought from EMSCU.

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.

13. Partnerships and Relationships with other Organisations

Wherever possible and subject to the usual risk assessment process Northamptonshire 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, particularly following the transfer of Governance for Northamptonshire Commissioner Fire and Rescue Authority (NCFRA) to the PFCC.

14. Management Framework

The PFCC has given legal consent for the Chief Constable to own short life assets, such as ICT, equipment and vehicles. On a day to day basis, the Head of Estates manages the estate on his behalf.

The Assistant Chief Officer (Finance and Resources) manages the medium term capital programme and provides regular updates to the Chief Constable's Management Team who, collectively, maintain oversight of planned expenditure.

The PFCCs Chief Finance Officer is responsible for developing and then implementing the Treasury Management Strategy Statement, with support from the Force Finance Team.

During the budget preparation process the Chief Constable's Management Team take a strategic perspective to the use and allocation of Northamptonshire capital assets and those within its control in planning capital investment.

Having approved the medium term capital plan and the annual capital budget in January each year the PFCC formally holds the Chief Constable to account for delivery of capital projects during the Accountability Board meetings.

15. Performance Management

Clear measurable outcomes should be developed for each capital scheme. After the scheme has been completed, the Chief Constable is required to check that outcomes have been achieved in line with the Corporate Governance Framework.

Reviews should look at the effectiveness of the whole project in terms of service delivery outcomes, design and construction, financing etc. and identify good practice and lessons to be learnt in delivering future projects.

16. Risk Management

Risk is the threat that an event or action will adversely affect Northamptonshire'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 corporate risk register sets out the key risks to the successful delivery of Northamptonshire's corporate aims and priorities and outlines the key controls and actions to mitigate and reduce risks, or maximise opportunities.

To manage risk effectively, the risks associated with each capital 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.

Northamptonshire accepts there will be a certain amount of risk inherent in delivering the desired outcomes of the Police and Crime Plan and will seek to keep the risk of capital projects to a low level whilst making the most of opportunities for improvement. Where greater risks are identified as necessary to achieve desired outcomes, Northamptonshire will seek to mitigate or manage those risks to a tolerable level. All key risks identified as part of the capital planning process are considered for inclusion in the corporate risk register.

The Assistant Chief Officer (Finance & Resources) and Chief Finance Officer will report jointly on the deliverability, affordability and risk associated with this Capital Strategy and the associated capital programme at the annual budget discussions of the Accountability Board. Where appropriate they will have access to specialised advice to enable them to reach their conclusions.

16.1 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, Northamptonshire will ensure that robust due diligence procedures cover all external capital investment. Due diligence is a key element of the EMSCU procurement process. Where possible contingency plans will be identified at the outset and enacted when appropriate.

16.2 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.

16.3 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 on-going 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.

16.4 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.

16.5 Inflation Risk

This is the risk that rates of inflation will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates of inflation 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.

16.6 Legal and Regulatory Risk

This is the risk that changes in laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, Northamptonshire will understand the powers under which the investment is made. Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.

16.7 Fraud, Error and Corruption

This is the risk that financial losses will occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the agreed Code of Corporate Governance. Northamptonshire has a strong ethical culture which is evidenced through our values, principles and appropriate behaviour. This is supported by the national Code of Ethics, the Corporate Governance Framework, Related Party disclosures and Declaration of Interests.

17. Other Considerations

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

18. Underlying Documents

The Capital Strategy is part of an integrated set of documents which need to be read in conjunction with each other as follows:

- Police and Crime Plan
- Strategic Policing Requirement
- Treasury Management Strategy
- Estates Strategy
- Fleet Strategy
- ICT strategy
- Medium Term Financial Plan
- Joint Corporate Governance Framework
- Reserves Strategy
- Budget and Precept Annual Reports to the Police, Fire and Crime Panel
- Collaboration Agreement Fire and Policing (currently In progress)