Office of the
Police & Crime
Commissioner
West Yorkshire

Capital Strategy

2019/20 – 2022/23

Contents

PCC / WEST YORKSHIRE POLICE

CAPITAL STRATEGY

1 Purpose

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with desired outcomes and take account of stewardship, value for money, prudence, sustainability and affordability.

The Capital Strategy is a key document for the Police and Crime Commissioner (PCC) and West Yorkshire Police and forms part of the PCC'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.

2 Scope

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

3 Capital Expenditure

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 the PCC / West Yorkshire Police 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 capital programme is the PCC and West Yorkshire Police's plan of capital works for future years, including details on the funding of the schemes.

4 Capital vs. Treasury Management Investments

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.

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 PCCs, the West Yorkshire PCC 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

The PCC produces his Police and Crime Plan every four years. The current version covers the period 2016 to 2021 (Refreshed 2018).

The Chief Constable has produced a Policing Strategy 2016-21.

To support these overarching documents a number of interrelated strategies and plans are in place, such as the Medium Term Financial Forecast, Medium Term Capital Programme, and the Treasury Management and Annual Investment Strategy.

The operation of all these strategies and plans is underpinned by the Code of Corporate Governance which includes Contract Procedure Rules and the Forces Financial Regulations & Chief Constables Financial Instructions.

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 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 PCC's Police and Crime Plan, the Force Policing Strategy and to support national drivers like the National Policing Vision for 2025.

The Medium Term Capital Plan 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, improving core training facilities and progressing the Asset Management Plan.

- 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 PCC has his own Capital Strategy and Medium Term Capital Plan, 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 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.

Governance arrangements for the Force's capital programme is delivered through a framework for strategic management, reflecting corporate priorities, aims and objectives to drive transformational change in service delivery.

The Force's overarching capital programme covers priority areas for focus aimed at taking forward the forces vision covering key criteria such as:

- Achievement of high level agreed Force and national outcomes;
- Maintenance of the essential infrastructure of the Force;
- Development of improved Force wide capability;
- Scientific and operational equipment;
- Modernisation of Estate;
- Maintaining, improving and enhancing assets;
- Adjustments to existing prioritised plans / projects;
- Carbon management & health and safety;
- Invest to save schemes.

Business Cases are presented to the Executive Change Board (ECB) and subjected to a series of gateways ensuring the project is robust, deliverable and its benefits achievable.

A costed draft Capital Medium Term Financial Forecast (MTFF) will be presented to the PCC in early autumn, to consider affordability and potential funding issues and options. For each budget meeting between this point and the final meeting in January a revised iteration will be provided, linking the Capital Programme, and the Medium Term Financial Plan/ Forecast.

A final version of the MTFF will be presented to the PCC in the following January for approval, reflecting the known funding position and reflecting any further developmental work on the plan.

The formal PCC approval, agrees the capital budget for the following year, and acknowledges the intention for planning purposes of the remaining years of the MTFF.

6.4 Identifying Capital Expenditure / Investment Requirements

The need for a capital scheme will be identified and submitted via the Portfolio Management Office (PMO). Senior stakeholders will submit business cases that support delivery of local, force, regional or national objectives. The business case must be sponsored by a member of the Chief Officer Team (COT) and must identify the business needs, rationale, options, resource requirements, deliverables, benefits, links to Force and / or PCC priorities, and costs in terms of both capital investment and ongoing revenue consequences.

For schemes that are 'business as usual', such as general maintenance, spend is prioritised based on condition surveys and is approved via the Force Accommodation Board and not the PMO.

6.5 Business Case Prioritisation

The delivery of capital programmes consider risk, dependencies, and scheduling to reflect the capacity of different parts of the organisation.

Capital schemes for consideration are submitted to the PMO who will undertake an assessment against a specified set of criteria agreed by the Strategic Delivery Group (SDG).

Schemes that develop past the assessment will have a detailed Project Mandate created giving consideration to various elements including resourcing and benefits. Once the Project Mandate has been approved for progression by the SDG, an outline business case will be developed. The business case will initially be assessed once again by the SDG before going on to the ECB for sign off.

The force's prioritisation matrix will be used to score projects. This will consider key factors in assessing the importance of the scheme for operational priorities, risk profile, benefits and costs and ultimately provide an indicative score for each business case. Project dependencies will also be considered as part of this process. This will be presented to and reviewed by COT.

6.6 Affordability and Financial Planning

Prior to submission of the draft Capital MTFF in early 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 MTFF – 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.

6.7 Capital Sustainability

The Forces financial position is changing. For many years, the Force has benefitted from capital reserves, supported by the sale of operational buildings and back office buildings, or from revenue reserves assigned to capital investment.

As we move forward, through the next 4 years, the picture moves away from funding of the capital programme through use of accumulated reserves and capital receipts, and into a position of funding through either direct revenue financing and borrowing for specific projects. The level of capital grant funding received from central Government represents only a small proportion of the forecast capital expenditure for the force. In the run up to the 2019 Spending review, we are members of national working groups having conversations with the Government about the need for a capital grant that more accurately reflects the investment needed.

Beyond the next four years, it is anticipated that almost all capital investment will have to be funded from revenue contributions. This is during a continued period of revenue pressure and uncertainty.

The PCC and Force 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.

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

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 project and level of capital funding required. Each Project will have a Project Manager and potentially a business lead and team to implement the project.

Detailed oversight is provided through the Project Management Office, Strategic Delivery Group (Directors and Commanders) and Executive Change Board (Chief Officers).

Monitoring of the capital programme

Reports are submitted monthly to both COT and the PCC 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, for schemes over £1m not already included in the medium term capital plan, the Director of Finance will prepare a business case for submission to the PCC for consideration and approval, including details on how the new scheme is to be funded.

In addition, for those business change programmes where a formal Board has been established, a detailed scheme monitoring report is presented to each Board meeting.

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 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.

6.8 The Formal Capital Programme Approval Process

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

The PCC approves the overall borrowing levels in February each year as part of the budget setting process. The taking of loans, if required, then becomes an operational decision for the PCC's Chief Finance Officer who will decide on the basis of the level of reserves, current and predicted cash flow, and the money market position whether borrowing should be met from internal or external borrowing.

Once the PCC 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 PCC 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 Project Management Office, Strategic Estate Groups and Force Change Boards.

Regional Projects or Programmes may also report into Regional Boards.

8 Monitoring of the capital programme

The Assistant Chief Officer will submit capital monitoring reports to both the Chief Officer Team and the PCC on a regular basis 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, for schemes not already included in the medium term capital plan, the Assistant Chief Officer will prepare a business case for submission to the PCC for consideration and approval, including details on how the new scheme is to be funded. The business case will be presented to the Joint Executive Group.

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 Funding Strategy and Capital Policies

This section sets out PCC / West Yorkshire Police policies and priorities in relation to funding capital expenditure and investment.

9.1 Government Grant

The Police Service only receives limited financial support from the Home Office; annual capital grant is currently £1.8m per annum. This grant 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 West Yorkshire Police is the lead force e.g. Counter-terrorism policing, the Regional Organised Crime Unit and the National Police Air Service.

9.2 Capital Receipts

A capital receipt is an amount of money which is received from the sale of an item on the fixed asset register. They 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.

9.3 Revenue Funding

Recognising that the pool of assets available for sale is declining direct revenue funding (DRF) is seen as a sustainable funding alternative. An appropriate provision for DRF is included in both the annual revenue budget and the medium term financial plan.

9.4 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 the PCC needs to ensure he can fund the repayment costs. The authority's Minimum Revenue Provision (MRP) Policy 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) the PCC will currently only consider external borrowing for long-term estate projects.

9.5 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.

The PCC also uses money held in earmarked revenue reserves to help fund capital expenditure, most notably the Organisational Change Reserve.

9.6 Leasing

The PCC 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 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 PCC.

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

10 Procurement and Value for Money

Procurement is the purchase of goods and services. West Yorkshire Police and the PCC use the Regional Procurement Department and seek to ensure 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 the aforementioned governance framework and specifically the Contract Standing Orders.

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.

11 Management Framework

The PCC 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 behalf of the PCC.

The Assistant Chief Officer manages the medium term capital programme and the annual capital budget and provides regular updates to the Chief Constable’s Management Team who, collectively, maintain oversight of planned expenditure.

The PCCs Chief Finance Officer is responsible for developing and then implementing the Treasury Management Strategy Statement, including the Annual Investment Strategy.

During the budget preparation process the Chief Officer Team take a strategic perspective to the use and allocation of capital assets and those within their control in planning capital investment. They receive reports on proposed capital projects and make formal recommendations to the PCC during the development of the capital programme.

Having approved the medium term capital plan and the annual capital budget in February each year the PCC formally holds the Chief Constable to account for delivery of capital projects.

12 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.

Programme evaluations are required for all significant investments.

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.

13 Risk Management

Risk is the threat that an event or action will adversely affect the PCC’s and or West Yorkshire Police’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 both PCC and West Yorkshire Police 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.

The PCC accepts there will be a certain amount of risk inherent in delivering the desired outcomes of 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, the PCC 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.

13.1 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, the PCC and West Yorkshire Police 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.

13.2 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.

13.3 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.

13.4 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.

13.5 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.

13.6 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, the PCC and West Yorkshire Police 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.

13.7 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. The PCC and West Yorkshire Police have a strong ethical culture which is evidenced through our values, principles and appropriate behaviour. This is supported by the national Code of Ethics and detailed policies such as Anti-Fraud and Corruption and Declaration of Interests.

14 Other Considerations

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

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