January 2023

Capital Strategy 2023/24

Police and Crime Commissioner for Lincolnshire

1 INTRODUCTION

1.1 The Capital Strategy forms a key part of the Police and Crime Commissioner's (PCC) overall corporate planning framework. It provides a mechanism by which capital investment and financing decisions can be planned in the short to medium (five years) term.

1.2 The Strategy sets the framework for all aspects of the capital investment programme so that the PCC can provide the assets required for future service delivery by the force; this will include the entire process involved in capital investment from planning and prioritisation, through delivery and management to outcomes and funding. The Capital Strategy has direct links to the other strategies and operational delivery plans including the PCC's "Community Safety, Policing and Criminal Justice Plan" and the Chief Constable's (CC) Force Strategy; the Estates, Fleet, and Digital, Data & Technology (DDAT) delivery plans; and forms a key part of the Medium-Term Financial Plan (MTFP).

1.3 The Capital Programme is set out in Appendix 1.

2 OBJECTIVES

2.1 The key aims of the Capital Strategy are to:

- provide a clear set of objectives and a framework so that all capital investment is targeted at making sure the force "has the right tools for the job" as set out under the key principle of "Policing that works" of the PCC's "Community Safety, Policing and Criminal Justice Plan 2021/25";
- set out how capital requirements are identified, prioritised, and resourced through the preparation and approval of detailed business cases, including identification of realisable benefits and a robust financial evaluation;
- consider options available for funding capital expenditure and how resources may be maximised, whilst minimising the ongoing revenue implications of any such investment;
- identify the resources available for capital investment over the MTFP planning period;
- establish effective arrangements for the monitoring and management of capital programmes, including budget profiling, deliverability, value for money, assessment of project outcomes, and benefits realised;
- target investment in projects that deliver the long-term benefits to policing in Lincolnshire, as identified within both the PCC's and CC's policing plans.

3 GOVERNANCE FRAMEWORK FOR THE CAPITAL PROGRAMME

3.1 A governance framework will be put in place to ensure that capital investment decisions support the overall objectives of the PCC and Chief Constable, and best use is made of available resources. The PCC's Financial, Contract and Procurement Rules are designed to provide the governance process and ensure that capital programme planning is aligned with the service and revenue budget planning cycle within the framework of the MTFP. The governance framework includes:

- The Police and Crime Strategic Board, which is responsible for scrutinising and recommending for approval the MTFP and supporting strategies, including this Capital Strategy and the Capital Programme;
- The Police and Crime Strategic Board is also responsible for scrutiny of both the revenue and capital budget monitoring reports;
- The Capability Board, and its sub-board, the Change Board approves business cases for capital expenditure before submission to the PCC for funding approval; monitors the delivery of all change programmes within the force, including the capital programme; and monitors the realisation of service and financial benefits resulting from the capital programme.

3.2 The Chief Constable also has a governance framework in place to promote an integrated approach to capital decision making which ensures capital investment is targeted at service improvement in line with both the PCC's and Chief Constable's policing plans.

These include:

- The Chief Constable's Executive Board which has overall responsibility for the delivery of the Force strategic plan and the supporting estates, fleet and DDAT plans. Proposed capital expenditure is tested against the service priorities set out in the Chief's Constable's Strategy before being submitted for approval and adding to the capital programme;
- The Capability Board, which acts as a sub-committee of the Chief's Constable's Executive Board and is responsible for the monitoring and management of all change programmes within the force, including the capital programme. Business cases for capital investment are reviewed by the Change Board using an evaluation method (see section 3.3 for more detail) before being recommended to the PCC for funding approval;
- Following the appointment of the Chief Digital & Information Officer (CDIO), the Digital and Data Directorate is in the process of being restructured by amalgamating departments formerly referred to as IMU (will remain unchanged), Tech Futures and IT. The DDaT (Digital, Data and Technology) Portfolio is structured to contribute to local, regional and national digital objectives. It will include all digital products, adopting a co-design approach to ensure management and review of existing capabilities as well as initiating change requirements and retiring existing solutions or introducing new ones, within the potential of a modernised digital architecture to support policing;
- The DDaT Board will meet bi-monthly and provide accountability for digital products, support governance for those within or proposed by the DDaT Portfolio, report status of change to the Change Board and raise strategic concerns to the Capability Board. The DDaT Board will agree devolved responsibility to identified capability and product owners;

- For major projects, which have a significant impact across the whole force or are multi-agency projects, there are/ will be specific project boards with appropriate representation. For example:
    - Guardian Command & Control
    - ERP+

3.3 Capital expenditure proposals will be subject to a standard evaluation process before approval of funding.

- For new projects, a Business Case will be submitted that identifies the required capital investment, revenue consequences, full lifetime costings and funding source. A new method of evaluating business cases is now in place which has been approved by the Capability Board. This new method has been based on a priority-based budgeting approach. To achieve this, business cases will be scored by an Evaluation panel, which will consist of three members drawn from a larger pool of trained staff on rotation, with ideally representation from Strategic Development, Finance and operational policing. The scoring will be based on the following criteria which includes the weightings:

Level of service	20%
Police and Crime plan/Force Strategy	30%
Force Management statement	20%
Force/departmental risk register	30%

A threshold score of 50 will be applied. Proposals scoring above 50 will be recommended to Change Board for consideration and approval. The Change Board will receive a report of those cases which did not score above the threshold. Feedback will be provided by the evaluation panel (see below) and if the scoring was influenced by lack of detail or missing information, then a case can be resubmitted if supported by Change Board.

- Subject to the business case being approved, a decision report will be submitted for approval by the PCC.

Quarterly reports will be submitted to the Police and Crime Strategic Board (PCSB) that identify changes to the capital programme, including;

- New capital schemes approved
- Slippage in programme delivery
- Projects/schemes reduced or removed
- Virements between schemes
- Revisions to spend profile and funding
- Actual spend by scheme against budget.

Depending on the size of the project, a project or programme board may be set up with key stakeholders to provide sufficient governance and management of the project and identify any risks which could affect the project or the organisation as whole. Any risks deemed significant for the organisation will be taken forward to the Risk Management Board.

4 CAPITAL PRIORITISATION

4.1 The purpose of the capital strategy is to ensure that future capital investment is targeted towards meeting the objectives in both the PCC's and Chief Constable's strategic plans.

4.2 The capital strategy also recognises that financial resources available for capital expenditure are limited in the current economic and political climate. The strategy therefore seeks to identify and attract alternative sources of funding and methods of delivering projects collaboratively which will generate match funding from other parties. It also seeks to target investment in schemes which generate the highest operational benefits and realise significant revenue savings.

4.3 The Estates Plan will set out a coherent plan for effective property management and usage across the force area, which supports local service delivery in the most cost-effective manner. It should also identify any backlog maintenance issues across the property portfolio and set out a prioritised timescale to address the most urgent of these, which will then inform the planned capital maintenance programme. It will also identify any opportunities for accommodation-sharing with suitable partners and surplus assets which may be disposed of to generate capital receipts for reinvestment.

4.4 Opportunities for shared facilities and collaborative service delivery will be supported through the capital strategy. Although now completed, the Blue Light Programme, provides shared accommodation for blue light services in a modern, energy-efficient building which facilitates co-operation and effective working between the blue light partners.

4.5 The key priorities for allocating capital funding to schemes are summarised below:

- Meet the key priorities in PCC and CC corporate strategies;
- Reduce the backlog maintenance liability by rationalising the operational estate;
- Invest in energy saving initiatives which reduce future running costs and reduce CO2 emissions;
- Invest in ICT hardware and software on an Invest to Save basis;
- Support investment in joint delivery platforms which support data sharing, improved joint working and sharing of knowledge; in particular where it may be possible to secure significant third-party contributions or match grant funding.

5 FUNDING STRATEGY

5.1 Background

5.1.1 Capital investment is regulated by compliance with the "Prudential Code for Capital Finance in Local Authorities" (The Code). Under the Code, local authorities and police may exercise discretion over the funding of capital expenditure and have the freedom to determine, within the regulatory framework of the Code, the level of borrowing they wish to undertake to deliver their capital plans and programmes. The key test is that of affordability and the Code sets out a number of prudential indicators and limits that must be complied with to ensure that borrowing remains affordable.

5.1.2 There is a range of potential capital funding sources which can be generated internally or in partnership with others. The PCC will encourage new levels of public and private sector investment to match internal investment in its capital programme; for example, capital receipts from land sales, developer agreements (S106 agreements), joint funding opportunities with the private sector, joint initiatives with public sector partner agencies or collaborative projects with other regional forces.

5.1.3 The capital strategy aims to maximise the financial resources available for investment in service provision and improvement, and the outcomes of which will inform the Medium-Term Financial Plan.

5.2 Sources of Capital Funding

The main sources of capital funding are summarised below:

5.2.1 ***Central government and Regional government grants:***

- Basic Formula Grant allocations – formula grants for capital projects have now ceased from 2022/23.
- Specific Grant allocations – for example, Police Transformation Fund grants, which are subject to a bidding process and allocated in relation to specific projects or initiatives. All opportunities to bid for these additional resources will be taken.

5.2.2 ***Reserves:***

- Funding which has been allocated in a specific year but is not required until future years will be carried forward in earmarked capital reserves. These reserves will vary from year to year, depending on the level of funding available and the timing of their respective projects.
- Reserves can be created from most sources of funding; direct revenue financing, capital grants, capital receipts, and insurance receipts or reserves.

5.2.3 ***Public and Private Sector****:*

- Contributions will be sought from developers towards the provision of public or private assets or facilities; for example, S106 agreements, which are designed to mitigate the impact of development on communities by funding additional facilities. These contributions are usually earmarked for specific purposes in planning agreements and limited to a specified area affected by the development.
- There may also be the opportunity to work with the private sector to utilise redundant assets and vacant land, to bring them into useful economic purpose. Capital receipts from asset disposal represent a finite funding source and it is important that a structured programme of disposals is planned to support the PCC's and force priorities. Cash receipts from the disposal of surplus assets can be used to fund new capital investment or repay debt on existing assets; they may also be used for transitional costs under the new flexibilities for use of capital receipts.
- Opportunities will also be sought to work with other public sector bodies such as local authorities, CCGs and other health providers, higher education providers etc. to deliver projects that are of mutual benefit to all parties.

- In addition, work will be undertaken with public sector bodies within the area about joint use of buildings and facilities, under the "One Public Estate" agenda.

5.2.4 ***Direct Revenue Financing (DRF):***

- Capital expenditure may be funded directly from revenue (DRF). Capital expenditure may be funded by specific revenue budget provision or from revenue underspends and reserves. However, the pressure on the revenue budget due to the low funding level of Lincolnshire Police limits the extent to which this may be used as a source of capital funding. The approved de minims limit for spend to be capitalised is £10,000; equipment purchases below this limit will be charged as revenue expenditure.

5.3 Borrowing and Leasing

5.3.1 Under the Prudential Code, the PCC has discretion to undertake borrowing to fund capital projects. The cost of borrowing (interest and debt repayment) is charged to revenue over the life of the asset being funded and will be included in the MTFP.

5.3.2 This discretion is subject to complying with the Code's regulatory framework which essentially requires any such borrowing to be prudent, affordable and sustainable (Local Government Act 2003). Prudential borrowing does provide an option for funding capital expenditure, which has to be funded each year from within the revenue budget or from generating revenue savings over the life of the asset sufficient to cover the initial investment and borrowing costs. These "Invest to Save" capital projects will be prioritised in the capital programme as they offer increasing operational efficiency and relieve the pressure on the revenue budget.

5.3.3 The Treasury Management Strategy (TMSS) forms part of the MTFP process. The TMSS sets the prudential indicators against which the projected borrowing can be assessed for prudence and affordability and performance against those indicators is reported half yearly. Most of the external borrowing need will be taken from the Public Works Loan Board (PWLB) and advantage will be taken of the Certainty Rate (Gilt rate +0.8%) to secure debt at a competitive rate.

5.3.4 The lack of availability of other sources of capital funding means that the PCC is increasingly reliant upon the use of borrowing to fund the capital programme. However, the consequence of this is increasing pressure on the revenue budget in future years due to capital charges (minimum revenue provision for debt repayment and interest charges). As a result, priority will be given to "Invest to Save" capital schemes which generate revenue savings over and above borrowing costs.

5.3.5 Leasing may also be considered as a capital financing option. Leasing arrangements form part of the capital financing requirement (CFR) but have the loan facility built into the contractual agreement. Leasing is often a useful option for assets which require replacement on a rolling basis such as fleet vehicles. A robust business case will be required to compare the cost of the leasing arrangement with outright purchase and if viable, then leasing may be undertaken.
Lease financing of expenditure needs to take into account:

- Value of expenditure
- Residual value of asset acquired
- Leasing agreement matches the life span of the asset acquired
- Equipment leased is part of a rolling replacement programme.

5.3.6 Leasing may be used where appropriate for the purchase of minor equipment, IT and vehicles, supported by robust business case.

5.3.7 Other arrangements which provide low cost borrowing will be taken as appropriate. For example, the government SALIX scheme provides interest free loans for energy saving capital schemes, subject to meeting the pre-set criteria in terms of energy and carbon reduction.

5.3.8 ***Internal Borrowing:***

Internal borrowing refers to the use of internal cash balances generated from reserves and provisions to support capital expenditure, rather than taking external debt. The advantage in recent years has been that investment rates are very low and considerably below that of Public Works Loan Board (PWLB) borrowing rates so that where possible employing cash balances to support capital expenditure has delivered a saving on interest charges. However, with use of reserves over time, internal borrowing will need to be replaced with external debt giving rise to a refinancing risk should interest rates start to rise. This is explained in detail within the Treasury Management Strategy under the borrowing policy.

5.4 Allocation of Funding

5.4.1 Capital resources will be allocated to schemes/projects based on asset values and asset lives to manage the revenue implications. The general principle is that unsupported borrowing will be used for long term assets where possible, to minimise the charge to the revenue budget for debt repayment (Minimum Revenue Provision MRP). Other available capital resources will be used for shorter life assets e.g., vehicles and IT investments.

APPENDIX 1 – CAPITAL PROGRAMME

Capital Schemes	2022/23 Revised Approved Programme £m		2023/24 Proposed Programme £m	2024/25 Proposed Programme £m	2025/26 Proposed Programme £m	2026/27 Proposed Programme £m
Building maintenance/improvements	1.499		1.526	1.600	1.600	1.600
Occupational Health Unit Relocation			0.480			
Vehicle replacement	2.282		1.800	2.100	1.600	1.400
Digital Data and Technology	2.688		5.967	1.601	1.019	1.550
Command and Control	2.335		0.815			
Unify Telephony Upgrade (2022/23)						
ESMCP	0.203				4.176	
Equipment replacement	0.458		0.250	0.250	0.250	0.250
Other	0.289					
Total	**9.754**		**10.838**	**5.551**	**8.645**	**4.800**
Funding :						
Capital Receipts	0.060		3.310	0.060	0.060	0.060
Capital Grants Unapplied - ESMCP					0.170	
Capital Grants Unapplied - Home Office						
Capital Grants Unapplied - LED			0.225			
Capital Grants Received in Advance						
Direct Revenue Financing	0.040					
Earmarked Reserves						
Borrowing - General	9.554		7.303	5.491	8.415	4.740
LRSP Partner Contribution	0.100					
Total	**9.754**		**10.838**	**5.551**	**8.645**	**4.800**