Appendix 2

CAPITAL PROGRAMME 2017/18 TO 2019/20

Background

1. The Government support for capital spending includes the capital grant which directly supports the capital programme. Since 2004 the Prudential Code has given the police authority and now the PCC the freedom to set its own borrowing limit subject to compliance with the Code.

Prudential Code

2. The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice.

3. The Prudential Indicators required by the Code are designed to support and record local decision making. They are not designed to be comparative performance indicators.

4. The main objective in consideration of the affordability of the capital programme is to ensure that total capital investment remains within sustainable limits, and in particular to consider its impact on the council tax.

5. In assessing affordability the Office of the Police and Crime Commissioner (OPCC) has to take into account all the resources currently available to the organisation and estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the coming year and the following 2 years.

6. In relation to being prudent there is a need to ensure that, over the medium term, net borrowing will only be used for capital purposes. It is also prudent to ensure that treasury management is carried out in compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and limits are set on fixed and variable interest rate exposures, and on the maturity structure of borrowing.

7. The decisions on capital investment need to take into account option appraisal, asset management planning, strategic planning for both the OPCC and Force and the achievability of the forward plan.

Prudential Indicators

8. The actual 2015/16 capital expenditure and the estimated capital expenditure for the current year and future years are:-

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Total	5.5	6.6	11.7	4.1	1.6

9. The estimates of the ratio of financing costs to the net revenue stream for 2015/16 and for the current and future years are:-

2015/16	2016/17	2017/18	2018/19	2019/20
Actual	Estimate	Estimate	Estimate	Estimate
%	%	%	%	%
1.30	1.31	1.46	2.17	2.15

10. The actual capital financing requirement at 31 March 2015 and the estimates for the current and future years are:-

	31.3.16	31.3.17	31.3.18	31.3.19	31.320
	£m	£m	£m	£m	£m
Total	21.8	23.0	29.4	29.1	27.1

11. The capital financing requirement (CFR) measures the OPCC's need to borrow for capital purposes. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the OPCC has to ensure that net external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year plus estimates of any additional CFR for the current and next two years. The OPCC met this requirement in 2015/16, and is expected to do so in future years.

12. In respect of external debt, the recommended authorised limits for total external debt, gross of investments, for the next three financial years are shown below:-

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Borrowing	20.4	24.4	27.0	27.8
Long Term Liabilities	1.9	1.4	1.0	0.6
Total	22.3	25.8	28.0	28.4

13. These authorised limits are consistent with the OPCC's current commitments, existing plans, and IT Strategic Alliance proposals for capital expenditure and its financing, and the approved treasury management policy. The authorised limit for 2017/18 is the statutory limit determined under section 3(1) of the Local Government Act 2003.

14. There is a need to have an approved operational boundary for external debt which is based on the same estimates as the authorised limit (para 12). The operational boundary reflects an estimate of the most likely level of debt. It does not include the additional headroom within the authorised limit that allows for unusual cash movements.

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Borrowing	19.4	23.4	26.0	26.8
Long Term Liabilities	1.4	0.9	0.5	0.1
Total	20.8	24.3	26.5	26.9

15. The OPCC’s actual external debt at 31 March 2016 was £13.8m. The amount is split between the Public Works Loans Board (PWLB) figure of £12.4m and Leicestershire County Council £1.4m (transferred debt from 1995 regarding the formation of police authorities as per the Police and Magistrates Courts Act 1994. This has now transferred to the OPCC).

    It is planned that the 2016/17 ‘borrowing requirement’ of £2.8m will be met by external borrowing however, the final decision will be made in March 2017.

16. The estimate of the incremental impact of capital investments proposed in this report for Band D Council Tax per week are:

2017/18	2018/19	2019/20
0p	8p	2p

17. A monitoring system is in place and reports on progress against the indicators are taken to the OPCC.

Proposed Capital Programme

18. The capital programme has been prepared in consultation with budget holders on the basis of operational need and risk. The Estates programme reflects the previously approved Estates Strategy. The IT programme reflects significant investment in additional mobile devices, local IT infrastructure and Contact centre telephony. The Force’s share of the £12.4m investment in the Tri-Force IT enabling work stream is also included.

19. A summary of the proposed Capital Programme for 2017/18 is shown in the table below. The PCC has reviewed and scrutinised a more detailed programme relating to the financial years 2016/17 to 2019/20.

Proposed Capital Programme 2017/18

Expenditure	**£000**	**Funding**	**£000**
Property	2,969	Capital Grant (provisional)	700
Information Technology	7,118	Borrowing Requirement	8,222
Emergency Services Network	600	Capital Receipts	700
Vehicle Fleet	1,039	Home Office Grants (TBC)	2,004
		Revenue Contributions	100
Total	**11,726**	Total	**11,726**

20. The Programme includes property schemes relating to the co-location of Coalville police station with the Fire Service providing for a smaller efficient building, the continuation of major refurbishments at Beaumont leys and Admin 2 (following the recent flood damage), the remodelling of the Command Suite at Force HQ and a provisional sum to create a fit for purpose ‘property’ storage facility at Keyham Lane which will be subject to further review and scrutiny with the PCC.

The information technology expenditure includes significant investment to complete the roll out of mobile devices across the Force including frontline officers, The Force's share of the Tri-Force IT enabling work stream business case approved by the Tri – Force Collaboration Board on the 11/10/2016, provision for the costs associated with the implementation of the Emergency Service Network as advised by the Home Office and future investments in the Contact Centre telephony. Planned replacements for the existing vehicle fleet are also included.

Funding Arrangements

21. The provisional 2017/18 capital grant is £0.7m a reduction of £0.1m compared to the previous year. After the utilisation of receipts arising from the sale of properties as part of the Strategic Estates Strategy, anticipated Home Office grants (transformation fund for IT) and the application of revenue contributions to capital schemes, the borrowing requirement is **£8.222m** for 2017/18.

22. The Capital Programme assumes that the 17/18 borrowing requirement of £8.222m is financed through maturity loans from the PWLB at an indicative interest rates of 3.07% for 25 years (£3m), 2.50% for 10 years (£0.9m) and 1.75% for 5 year loans (£4.3m). Revenue resources are set a side over the same loan period to repay the principal on maturity.

Minimum Revenue Provision Policy (2017/18)

All expenditure incurred by the Police and Crime Commissioner must be charged to the revenue account in the year it is incurred, with the exception of items which can be capitalised in accordance with proper accounting practice – usually items which have an expected life of more than one year.

Capital expenditure items such as land, buildings, IT, vehicles and equipment can be financed in a number of ways. In the case of capital grant, capital receipts, 3rd Party contributions and contributions from the revenue budget, the expenditure is effectively financed and paid for as it is incurred by the application of those resources.

Where the commissioner finances capital expenditure through borrowing (debt) resources must be set aside to repay that debt from the revenue account. The amount charged to revenue account for the repayment of borrowing is known as the Minimum Revenue Provision (MRP). The Statutory Guidance issued by the DCLG sets out the 4 options for calculating the annual provision.

The Guidance requires an annual statement of the policy adopted in calculating the MRP to be agreed each financial year.

The intention of the Guidance is to ensure that the repayment to revenue is made over a period bearing some relation to that over which the asset continues to provide a service.

The recommended MRP policy is:

- For capital expenditure incurred before the 1st April 2008 (which was supported capital expenditure) the policy will be based on 4% of the Capital Financing requirement

- From the 1st April 2008 for all unsupported borrowing the MRP policy will be the Asset Life Method (Equal instalment approach) – the MRP will be based on the estimated life of the assets.

The commissioner's policy is to finance shorter life assets from capital receipts, grants and revenue contributions with borrowing reserved generally for Land and Buildings with an expected life of 25 years and significant IT projects.

Background Papers

Home Office Settlement Notification via the Home Office website

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