Police and Crime Commissioner for Humberside

Capital Strategy

2019/20 – 2023/24

March 2019

HUMBERSIDE POLICE

CAPITAL STRATEGY

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 a key document for the Police and Crime Commissioner (PCC) and Humberside 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 Humberside Police is used to refer to the activities of both the PCC and the Force.

2. Scope

2.1. This Capital Strategy includes all capital expenditure and capital investment decisions for Humberside 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

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 Humberside Police generally for a period of more than one year, e.g. land and buildings, ICT, continuous improvement (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 the PCC's plan of capital works for future years and arrangements are in place within the Medium Term Resource Strategy (MTRS) and Treasury Management Strategy Statement (TMSS) setting out how the programme will be funded. An extract from the TMSS for 2019/20 to 2021/22 setting out key capital prudential indicators is attached at Appendix 1.

4. Capital Expenditure and Treasury Management

4.1. Treasury Management is:- The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

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 TMSS and Treasury Management Practice Statements (TMPS).

4.3. 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 and police forces, the PCC for Humberside and the Chief Constable do 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. They are therefore prevented from entering into commercial investment activities.

5. Links to other Corporate Strategies and Plans

5.1. The PCC has produced his Police and Crime Plan covering the period 2017 to 2021.

5.2. The Chief Constable has produced his Plan on a Page and the Chief Executive has a delivery plan. These documents set out how the aims of the Police and Crime Plan will be delivered.

5.3. To support these overarching documents a number of interrelated strategies and plans are in place, such as the MTRS, the Capital Programme, Capital Strategy and the TMSS, incorporating the Annual Investment Strategy.

5.4. The operation of all these strategies and plans is underpinned by the Code of Corporate Governance which includes Standing Orders and Financial Regulations and Contract Procedure Rules. These are supplemented with the Chief Constables Financial Instructions.

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

6. The Capital Budget Setting Process

6.1. Introduction

6.1.1. The PCC and the Chief Constable maintain a rolling 5 year Medium Term Resource Strategy (MTRS) incorporating revenue and capital plans. 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 Chief Constable's Plan on Page and the contribution required to national priorities and the National Policing Vision for 2025.

6.1.2. The Capital Programme includes provision for infrastructure and major assets through capital investment, enabling the Force to strengthen and streamline key assets and systems, and provides the framework for asset rationalisation with the aim of delivering cost effective policing.

6.1.3. Key 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; maintaining key sites and improving facilities.
- Ensure provision is made for ICT and Business Change Technology to maintain and develop the existing infrastructure and invest in the new technologies required to provide innovative and digital policing services.
- Maintain and replace other key assets where necessary, e.g. vehicles and communication infrastructure.

6.1.4. The Capital Programme therefore reflects the investment required to deliver the Estates Strategy, the IT/IS Strategy and the Force's fleet strategy

6.1.5. The plans acknowledge the continuing constrained financial position of the PCC and the Force and seek to maximise both the available financial resources and the capacity to manage change projects.

6.2. Collaboration

6.2.1. The Capital Programme recognises the need for local, sub-regional and regional collaboration. Structured collaborations and national plans can also have a significant influence on local decision making along with cost and resource sharing.

6.2.2. This strategy therefore acknowledges wider partnership working, both with other Forces and with other local partners such as the Humberside Fire and Rescue Service, with the aim of improving services to the public.

6.3. The Capital Budget Setting Process and Timetable

6.3.1. The budget setting process each year involves the Force commencing work in the summer of the preceding year on a comprehensive mid- year financial review. This includes an assessment of the position on current and planned capital schemes. A timetable is established to enable the MTRS to be revised and updated for the latest assumptions of spend and for external factors such as grant allocations, pay awards, price increases etc.. It involves close consultation between the Chief Constable and the PCC. The resultant 5 year forecast is designed to support the PCCs precept recommendation to the Police and Crime Panel in early February in accordance with the timetable set out in Regulations.

6.3.2. The process involves the Force Finance Team liaising with Commanders and Branch Heads along with collaboration with key partners and aims to:-

- Achieve high level agreed Force, Regional or National outcomes;
- Ensure the maintenance of the essential infrastructure of the Force;
- Develop and improve Force wide capability;
- Amend and adjust existing prioritised plans / projects as necessary;
- Rationalise and modernise the estate;
- Support business change requirements;
- Address Health and Safety and sustainability issues and
- Examine opportunities for invest to save schemes.

6.3.3. Based on an agreed timetable, budget monitoring and the mid-year financial review informs a reassessment of the base budget and projected capital programme outturn. This identifies temporary and permanent budget pressures and savings opportunities. Information is also obtained from collaborative partners.

6.3.4. Over the autumn, growth, inflation and requests for additions to the capital programme are assessed and prioritised, considering key factors to ascertain the importance of individual initiatives. This information is then presented to and extensively scrutinised and reviewed by the Strategic Change Board, the Chief Constables Chief Officer Group (COG) and the Accountability Board (Corporate Governance Group) to obtain an initial view of affordability.

6.3.5. A costed draft MTRS is be presented to the PCC setting out views on affordability and potential funding issues and options.

6.3.6. A final version of the MTRS is then presented to the PCC in late January for approval, reflecting the known funding position and any further developmental work on the proposals.

6.3.7. Following consideration of his recommended to the Police and Crime Pane and any comments, the precept and MTRS are then formally approved. The MTRS incorporates details of savings plans, estimates of the use of reserves and revenue consequences of capital. The Capital Programme is approved at this point for the coming financial year and future years covered by the MTRS.

6.4. Capital Expenditure and Investment Requirements

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

- Commands and Branches will make submissions to support the delivery of local, Force, Regional or National Objectives. These plans must be sponsored by a member of COG and must identify the requirement, justification, deliverables, benefits, links to the Chief Constable's Plan on a Page and / or PCC Police and Crime Plan. The submissions also set out costs in terms of both capital investment and ongoing revenue consequences together with benefit realisation plans.

- 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 capital scheme bids will arise from reviews and updates of the Estates Strategy, which seeks to rationalise and develop the Forces operational buildings and estate, including initiatives which require sale, purchase or redevelopment of an element of the estate.

- The Joint Collaboration Board identifies investment requirements in connection with the IT/IS Strategy which is part of the collaboration with the South Yorkshire PCC and Force.

- The Regional Collaboration Board identifies requirements for capital investment arising from collaboration with the other forces in the Yorkshire and the Humber Region.

6.4.2. The Fleet Strategy identifying new and vehicle replacement requirements is produced by staff supporting the joint vehicle fleet maintenance facility with the Humberside Fire and Rescue Service. These plans and any fleet review outcomes, are considered by Senior Officers and Staff before being submitted to COG, the Accountability Board and finally to the PCC for final approval.

6.5. Assessment of Business Cases and Bids for Funding

6.5.1. Examination of business cases and bids for funding are assessed and prioritised by applying a standardised approach detailing the impact on the Plan on a Page and Police and Crime Plan aims, operational priorities, risk, benefits and cost.

6.5.2. The assessment is subject to extensive review by Chief Officers and senior staff over the course of the budget process.

6.5.3. Detailed discussions are held with collaborative partners to agree as far as possible Force prioritisation and understand affordability risks and issues on joint working initiatives and programmes.

6.5.4. Once a full list has been agreed capital project proposals are incorporated into the Capital Programme and detailed within the MTRS.

6.6. Affordability and Financial Planning

6.6.1. Prior to submission of a draft MTRS 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 medium term, 5 years, taking into account core known information and stated assumptions.

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

6.6.3. The revenue financial position is also influenced by the Capital Programme in terms of both revenue consequences of capital schemes and also through the ability or requirement to financially support capital investment, either through borrowing, grant, capital receipts or other means of finance with associated capital financing costs.

6.7. Capital Sustainability

6.7.1. The financial position of the PCC and the Force is reviewed regularly and financial proposals are adjusted to take account of additional external funding including the application of grants and capital receipts to fund capital expenditure when they have been received.

6.7.2. With the exception of unapplied capital grants and receipts, the PCC does not have access to capital reserves. Capital receipts have been limited and given the pressure on revenue budgets, reliance has been placed on external borrowing to finance capital. Surplus cash balances have been used as a cost effective means of financing capital whilst recognising that those cash balances would need to be replenished with new external borrowing as and when they are required. This self-financing has meant that the PCC remains under borrowed as a result, as is the case with many local authorities.

6.7.3. The Force's strategy is to invest in core infrastructure that will not only offer overall service improvements to the public, but also maximise revenue savings into the future. The Estates Strategy seeks to support the achievement of the aims and objectives of the Police and Crime Plan and the Plan on a Page by ensuring that the Force has access to modern, up to date and cost efficient facilities as well as identifying obsolete and/or underutilised assets for disposal generating capital receipts for reinvestment.

6.7.4. This dovetails with the IT/IS strategy's focus on mobile technology to support agile working to improve the efficiency and effectiveness of staff. Similarly the fleet strategy builds on the need to improve efficiency and effectiveness and involves the sharing of infrastructure with key partners and improved telematics to establish optimum levels of vehicle usage.

6.7.5. The investment strategy will also be influenced by and take account of National visions for policing, regional, sub-regional and local priorities.

6.8. The MTRS Approval Process

6.8.1. As indicated, the PCC receives the updated Capital Programme in January each year as part of a series of budget reports.

6.8.2. The PCC approves the overall borrowing levels prior to the start of each financial year based on the financial projections within the MTRS in the TMSS. The proposals are scrutinised by the Joint Independent Audit Committee prior to approval.

6.8.3. 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 cashflow, and money market conditions whether borrowing should be met from internal or external sources.

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

6.8.5. 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 savings or income streams.

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

7. Project Management

7.1. Capital Projects are subject to proportionate levels of scrutiny. This varies dependant on the type and scale of project and may be influenced by size or by the makeup of sub-regional or regional involvement. Each Project will have a Project Lead and major projects will be overseen by a full project board chaired by a Chief Officer.

7.2. If a project forms part of a larger programme then this and the relevant project board may sit under and report to a further Programme Board, for example the South Bank Custody Board reports to the Joint Estates Board.

7.3. Detailed oversight is further provided on ICT projects through Joint Collaboration Board with South Yorkshire and through individual project boards such as those for ERP, Connect and SMARTContact. Reports on these projects are also reported to the Strategic Leads Board and if required, the Strategic Change Board or COG.

7.4. Regional Projects or Programmes may also report into Regional Boards.

8. Project Funding

8.1. Once a capital project is initiated, project funds are released based on the agreed budget included in the capital programme. Spending is closely monitored via the project boards and as part of the overall routine budget monitoring reporting process.

8.2. This arrangement enables the Force to monitor progress against key project milestones or progress points and enable improved visibility of project progress as well as identifying levels of expenditure committed against budget to identify and assess the impact of any significant project spend variances.

9. Monitoring the Capital Programme

9.1. The Assistant Chief Officer (Resources) will submit capital monitoring reports to both COG and the Accountability Board (Corporate Governance Group). This information will also be considered by the JIAC. Reports will be submitted 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.

9.2. For proposed in-year amendments to the annual capital budget and for schemes not already included in the medium term capital plan, the Assistant Chief Officer (Resources) and the Deputy Chief Executive and Treasurer 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.

9.3. Notes of the Accountability Board (Corporate Governance Group) and individual PCC decisions will be published on the PCC's website.

10. Multi-Year Schemes

10.1. Payments for capital schemes often occur over a number of 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 budget profiling assists with cashflow projections.

10.2. 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. In addition it matches the time requirement for scheme planning and implementation given capital schemes can have a considerable initial development phase.

11. Changes to the Capital Programme in Year

11.1. The MTRS shows details of all planned expenditure over the next 5 years and incorporates the Capital Programme. It includes tables to show how the planned expenditure will be funded.

11.2. The MTRS is subject to continuous review and in year amendments are approved individually or as part of the budget monitoring arrangements where appropriate.

12. Funding Strategy

12.1. This section sets out the PCC and Humberside Police policies and priorities in relation to funding capital expenditure and investment.

- General Government Grant:- The Police Service only receives limited financial support from the Home Office; annual capital grant is currently around £700k per annum. This grant is not hypothecated and can be carried forward if not spent in the year of receipt.
- Specific Capital Grant:- Capital grants may be received for specific projects separately approved for Humberside Police or regional partners.
- 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. The main source of capital receipts is currently estate rationalisation.
- Direct revenue funding (DRF):- DRF can be used to finance capital expenditure. Given the restrictions on revenue spending the capacity for this is limited. Appropriate provision for DRF is included in both the annual revenue budget and the medium term financial plan where appropriate e.g. where capital spending is below the deminimis limit of £10k.
- Prudential Borrowing:- Local Authorities, including PCCs, can set their own borrowing levels based on their capital need and their ability to meet the costs of borrowing. The levels will be set by using indicators and factors set out in the Prudential Code where borrowing costs are not supported by the Government. The PCC also needs to ensure the repayment costs can be met. The PCC' Minimum Revenue Provision (MRP) Policy sets out a prudent approach to the amount set aside for the repayment of debt. Interest charges will also have to be funded and are included in the budget and MTRS.

- Capital 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.
- Earmarked and Revenue Reserves:-The PCC could also use money held in earmarked revenue reserves to help fund capital expenditure, most notably the Performance Improvement Reserve but there are no plans to use the reserve in this way at the current time. HM Treasury guidance on capital projects recognises that there is a potential for projects costs to exceed the initial assessment. Consideration needs to be given to this risk when compiling business cases for inclusion in the capital programme as it could ultimately impact on reserves.
- Third Party Capital Contributions:- Monies received for third parties can be used to support capital expenditure where this is appropriate and in accordance with the terms of any such external support.
- Leasing:- Humberside Police 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 (Resources) and the Deputy Chief Executive and Treasurer 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.

13. Value for Money and Procurement

13.1. Procurement is the purchase of goods and services. Humberside Police is supported by the Regional Procurement Team that ensures that all contracts, including those of a capital nature, are legally compliant and best value for money.

13.2. It is essential that all procurement activities comply with prevailing regulations and best practice as set out in the Code of Corporate Governance, Standing Orders and Financial Regulations, including those in relation to contracts. Guidance on this can be sought from the Regional Procurement Team.

13.3. 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.

14. Partnerships and Other Organisations

14.1. Subject to the usual risk assessment process Humberside Police will look to explore the possibility of undertaking capital schemes on a partnership basis where appropriate. The following are examples of this approach:-

- Humberside Police has a joint ICT Department with South Yorkshire Police and a number of ICT and business change programmes are being delivered collaboratively.

- Humberside Police is currently providing the Estates Management Service for the Humberside Police and Rescue Service and there is a joint vehicle maintenance facility at Melton. Opportunities for the delivery of services from joint facilities is being explored at several locations.

- The PCC is actively supporting the Police ICT Co. Ltd. in the development of IT solutions for the Police Service.

14.2. Where capital assets are procured on behalf of Humberside Police by third parties, only expenditure related to the Force will be included in the capital programme within the MTRS and in the asset register.

15. Management Framework

15.1. All of the assets are held in the ownership of the PCC who has given consent to the Chief Constable for them to be used in connection with day to day business.

15.2. The Assistant Chief Officer (Resources) and the Deputy Chief Executive and Treasurer manage the MTRS and the capital programme and the Chief Constable provides regular updates and monitoring reports. COG and the Corporate Governance Group also maintain oversight of planned expenditure with independent scrutiny by the JIAC.

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

15.4. During the budget preparation process the Chief Constable's Chief Officer Group take a strategic view of the use and allocation of capital assets and those within its 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.

15.5. 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 through the Accountability Board (Corporate Governance Group) and in regular assurance meetings with individual Chief Officers.

16. Performance Management

16.1. 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.

16.2. Post implementation reviews should be completed by Humberside Police for significant and strategic capital projects.

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

17. Risk Management

17.1. Risk is the threat that an event or action will adversely affect the PCC's and the Force's ability to achieve their desired outcomes and to execute agreed strategies successfully.

17.2. 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.

17.3. 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 OPCC's risk registers set out the key risks to the successful delivery of the Police and Crime Plan and the Chief Constable's and the Chief Executive's delivery plans and outline the key controls and actions to mitigate and reduce risks, or maximise opportunities.

17.4. To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.

17.5. 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.

17.6. The PCC and the Chief Constable accept that 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, the PCC and the Force 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 Force and OPCC risk registers. The risks and risk management arrangements are reviewed by the JIAC.

17.7. The Assistant Chief Officer (Resources) and Deputy Chief Executive and Treasurer will report jointly on the deliverability, affordability and risk associated with this Capital Strategy and the associated capital programme. Where appropriate they will have access to specialised advice to enable them to reach their conclusions.

- 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 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.
- Liquidity Risk:-This is the risk that the timing of any cash flow from a project has adverse effects, for example if other organisations do not make their contributions when agreed. This is also the risk that the cash flows will be less or more than expecteThe exposure to this risk will be monitored via the revenue and capital budget monitoring processes and detailed cash flow projections. Where possible appropriate interventions will occur as early as possible.
- 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.
- 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.
- 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.
- 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 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.
- 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 OPCC and the Humberside Police Force both 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.

18. Other Considerations

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

Appendix 1

THE CAPITAL PRUDENTIAL INDICATORS 2019/20 – 2021/22

The PCC's capital expenditure plans are the key driver of treasury management activity. The output of capital expenditure plans is reflected in the prudential indicators, which are designed to provide an overview and confirm capital expenditure plans.

CAPITAL EXPENDITURE

This prudential indicator is a summary of the PCC's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Capital expenditure £'000	2017/18 Actual	2018/19 Revised	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Total	**15,177**	**17,931**	**15,487**	**24,598**	**4,473**

Other long-term liabilities - The above financing need excludes other long-term liabilities, such as leasing arrangements that already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are forecast to be financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need. No forecasts have been included with regards to forecasts of capital receipts. Financing arrangements with be adjusted as/when disposals are completed and the disposal proceeds are received.

Financing of capital expenditure £'000	2017/18 Actual	2018/19 Revised	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital receipts	590	283	-	-	-
Capital grants	1,180	698	713	700	700
Capital reserves	-	-	-	-	-
Revenue	100	-	-	-	-
Net financing need for the year	**13,307**	**16,950**	**14,774**	**23,898**	**3,773**

The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the PCC's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the PCC's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge, which broadly reduces the borrowing need.

The CFR includes any other long-term liabilities (e.g. leases). Whilst these increase the CFR, and therefore the PCC's borrowing requirement, these types of scheme include a borrowing facility so the PCC is not required to separately borrow for these schemes.

£'000	2017/18 Actual	2018/19 Revised	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital Financing Requirement					
Opening CFR	**59,360**	**70,680**	**84,487**	**95,120**	**113,810**
Movement in CFR	**11,320**	**13,807**	**10,633**	**18,690**	**(2,249)**
Total CFR	**70,680**	**84,487**	**95,120**	**113,810**	**111,561**
Movement in CFR represented by					
Net financing need for the year (above)	13,307	16,950	14,774	23,898	3,773
Less MRP and other financing movements	1,987	3,143	4,141	5,208	6,022
Movement in CFR	**11,320**	**13,807**	**10,633**	**18,690**	**(2,249)**

BORROWING

The capital expenditure plans set out above provide details of the service activity of the PCC. The treasury management function ensures that the PCCs cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the PCC's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current portfolio position

The PCC's treasury portfolio position at 31 March 2018 and forward projections are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the CFR), highlighting any over or under borrowing:

	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
External Debt					
Debt at 1 April	29,207	45,281	54,827	66,190	86,710
Repayment of Debt	(2,426)	(7,404)	(3,411)	(3,378)	(3,266)
Forecast new Debt	18,500	16,950	14,774	23,898	3,733
Other L/t liabilities (OLTL)	-	-	-	-	-
Gross debt at 31 March	**45,281**	**54,827**	**66,190**	**86,710**	**87,217**
The CFR	**70,680**	**84,487**	**95,120**	**113,810**	**111,561**
Under borrowing	**25,399**	**29,660**	**28,930**	**27,100**	**24,344**

Within the range of prudential indicators there are a number of key indicators to ensure that the PCC operates its activities within well-defined limits. One of these is that the PCC needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Deputy Chief Executive and Treasurer reports that the PCC has complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Treasury Indicators: limits to borrowing activity

The operational boundary: This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £'000	2018/19 Revised	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Debt	80,879	110,562	106,469	103,821
Other long term liabilities	-	-	-	-
Total	**80,879**	**110,562**	**106,469**	**103,821**

The authorised limit for external debt: This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the PCC. It reflects the level of external debt, which, while not desired could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all PCCs plans, or those of a specific PCC, although this power has not yet been exercised.

Authorised limit £'000	2018/19 Revised	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Debt	82,879	112,562	108,469	105,821
Other long term liabilities	-	-	-	-
Total	**82,879**	**112,562**	**108,469**	**105,821**

Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the PCC's overall finances.

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

%	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Total	1.73	2.47	3.16	3.92	4.51

The estimates of financing costs include current commitments and the proposals in the 2019/20 budget report.