Police and Crime Commissioner for Norfolk
Capital Strategy

1. Introduction

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

1.2 The Capital Strategy is a key document for the Police and Crime Commissioner (PCC) for Norfolk and the Chief Constable of Norfolk and throughout this document the term Norfolk is used to refer to the activities of both the PCC and the Constabulary.

1.3 The capital strategy sets out the long-term context in which capital expenditure and investment decisions are made in Norfolk and gives due consideration to both risk and reward and the impact on the achievement of priority outcomes.

2. Objectives

2.1 The key objectives of the Capital Strategy are to:

- Provide a framework that requires new capital expenditure to be robustly evaluated, ensuring that capital investment delivers value for money and is made in accordance with the Norfolk corporate, financial and asset management strategies, matching their visions, values and priorities.
- Set out how Norfolk identifies, prioritises, delivers and manages capital programmes and projects. This includes outlying the governance framework from initiation to post project review.
- Ensure that the full life cost of capital expenditure is evaluated, including borrowing, maintenance and disposal costs.
- Ensure that all capital expenditure and related borrowing cash flows are affordable, prudent and sustainable.
- Identify the resources available for capital investment over the planning period and any restrictions on borrowing or funding.

3. Governance

3.1 There is a robust joint governance model that sits over the Norfolk only, Suffolk only and collaborated departments. Please refer to Annex A.

3.2 Project boards are initiated for all appropriate projects and are run on Prince 2 project models. These individual projects report into Portfolio Boards each with a Senior Responsible Officer. Reports from these boards are then taken to the Organisational Board chaired by the Deputy Chief Constables of Norfolk and Suffolk (DCCs) and attended by each Head of Department.

3.3 Sitting above this is the Strategic Planning and Monitoring meeting, again chaired by the DCCs but with a smaller membership (DCCs, Chief Finance Officers of Norfolk and Suffolk, Head of Finance, Head of Strategic Business Operational Services, Director of ICT, Director of HR). This group acts as monitor of the Change Programme including delivery of all projects, as a gateway for new projects emerging in year, ensures appropriate resources are agreed in line with priorities and ensures targets set within the Medium-Term Financial Plan (MTFP) are met.

3.4 Reports as appropriate are then taken to the Joint Chief Officer Team (JCOT) meeting that consists of all Chief Officers from Norfolk and Suffolk, as well as the Head of Finance, Director of HR, Director of ICT and Head of Strategic Business Operational Services.

4. Strategies and Plans

4.1 The PCC produces his Police and Crime Plan every four years. The current version covers the period 2016 to 2020.

4.2 To support this plan a number of interrelated strategies and plans are in place, such as the Medium Term Financial Plan (MTFP), which includes the medium term Capital Programme, Capital Strategy, and the Treasury Management Strategy.

4.3 The operation of all these strategies and plans is underpinned by the Scheme of Governance which includes the Financial Regulations & Contract Standing Orders.

4.4 In addition there are four key strategies that support the capital strategy.

- The current Estates Strategy runs from 2016–2020 and sets out the PCC vision for the Norfolk Estate. Specifically the strategy is designed to ensure delivery of a fit-for-purpose estates portfolio that is responsive to current and future needs, effectively supports meeting strategic objectives and service delivery and which is focussed on improving public confidence and reducing costs. The strategy will support the aim of maximising resources for front line policing and delivery of effectiveness, efficiency and value for money.

- There is a Joint Transport Strategy for Norfolk and Suffolk that covers the period 2015-2019. Vehicle replacement and procurement forms part of this strategy. It contributes to force performance by ensuring fleet acquisition and replacement with an optimum use of all resources. The strategy promotes continuous modernisation and service improvements ensuring local and national strategies are considered to drive forward a cost effective and efficient service.

- Similarly there is a Joint ICT Strategy for 2017-2020 for Norfolk and Suffolk that aims to modernise the delivery of police services across both counties, as well as emphasising availability, security and resilience of information assets and systems. It seeks to enable modern working practices and technologies to help shape future service provision, from a modern and efficient technology base, fulfilling the objective of working at work in the same way as we work from home.

4.5 In addition, there is a 7 Force collaboration programme in the east of England consisting of Norfolk, Suffolk, Bedfordshire, Cambridgeshire, Hertfordshire, Kent and Essex. In support of the 7 Force strategic collaboration programme, the ICT departments of the 3 clusters collaborate to design and implement a converged ICT capability with a long term aim of allowing implementation of a Single ICT capability to deliver all ICT services across the 7 counties. This will in time allow police officers and staff to work out of any police premises across the 7 counties using a single log on.

5. Capital Budget Setting including evaluation and prioritisation

5.1 The capital programme is developed through the Service and Financial Challenge governance process that uses Outcome Based Budgeting principles. The Challenge Panels are informed by the Force Management Statement (FMS) that forecast demand changes for the Constabulary over the next four years, any gaps that exist regarding capacity or capability and the steps being taken to improve. To ensure a consistent approach is taken across all areas of the organisation, several thematic Challenge Panels are also considered to ensure any cross cutting issues are picked up.

5.2 As part of this process there is a Capital Challenge Panel meeting with the Director of ICT, Head of Estates and Head of Transport to review the most significant elements of the programme and ensure these are consistent with the current strategies and policies previously mentioned. The panel consists of the Deputy Chief Constables (DCCs) of Norfolk and Suffolk, Chief Finance Officers (CFOs) from Norfolk and Suffolk, Head of Joint Finance and the Head of Joint Strategic Business Operational Services.

5.3 Heads of all other departments put forward smaller capital bids in their submission documents and these are also assessed by a Challenge Panel with the same membership as above.

5.4 Following the panel processes as described above there is a further review and prioritisation meeting of the DCCs and CFOs before a draft capital programme, along with the relevant agreed funding, is presented to the Chief Constables. Following this the Police and Crime Commissioners review, amend if necessary, and finally approve the programmes.

Identification and Prioritisation

5.5 The identification process is initiated through the Challenge Panel as described above and that runs from August to October each calendar year, as a result of which bids are made by department heads and a draft capital programme is produced.

5.6 The capital project proposals are prioritised with reference to a business case and considered against the following 9 factors in order of priority;

- Mandation – unavoidable projects i.e. mandated or contractually obliged,
- Strategic Alignment – alignment to the Police and Crime Plan i.e. 7 strategic aims,

- Interdependencies – with other projects and or strategies and plans,
- Risk – of not doing the project and whether this is within tolerable levels,
- Cashable savings – the return on investment (ROI) measured against the initial outlay,
- Deferability / Complexity –The level of resource commitment, internally and externally and time critical deadlines,
- Non Cashable benefits –other benefits such as service improvements and efficiency / productivity benefits
- Mitigation – future cost avoidance

5.7 This draft programme is then challenged and prioritised by the Board before a final programme is put before Chief Officers and Police and Crime Commissioners for final sign off.

Evaluation

5.8 To evaluate the successful outcomes of the capital projects a post project review is carried out. The depth of this review is proportionate to the project and benefits set out in the initial Business Case and Project Initiation Documentation.

5.9 The review is in effect a check on performance against the original proposal. It focusses on outcomes achieved, the extent to which benefits are being realised and actual costs against forecasts. This enables lessons learned information to inform improvements in the overall process

Collaboration and cost sharing

5.10 The Estates capital programme for Norfolk is a sovereign programme and is line with the current Norfolk Estates Strategy. Spend on vehicles is also funded on a non-collaborated basis, although the strategy for investment is in line with the Joint Transport Strategy. ICT related spend on refreshing desktops and monitors in Norfolk premises is also Norfolk only spend.

5.11 Most other spend including the replacement of ICT infrastructure, the purchase of short-life assets such as Body Worn video, mobile devices, and high tech crime kit is funded collaboratively with Suffolk on the ratio of Net Revenue Budget (currently 57% Norfolk : 43% Suffolk).

Implementation and Monitoring

5.12 Monitoring of the capital programme in year is undertaken monthly, using commitment information to understand the projected outturn of the programme. This view is then incorporated into the monthly revenue and capital monitoring reports that are presented to the Chief Constables and the Police and Crime Commissioners. These reports give information about under or over-spends against the revenue and capital budgets, and take into account the revenue implications of capital spending.

5.13 Progress on capital schemes is reported on a quarterly basis to a Capital Planning and Monitoring meeting.

5.14 In addition, following approval of the capital programme a Project Manager is identified for each key project. The Project Manager is responsible for managing implementation and delivering against the project objectives. The Project Manager will produce the project plan for approval. Progress against the plan is reported to the quarterly meeting and monitored through monthly highlight reporting. Overall monitoring of specific programme risks is also undertaken.

5.15 Detailed implementation work is assigned to key individuals and overseen by the specific Project Boards as per the governance model set out in Appendix A.

6. Capital Funding

6.1 All capital expenditure has to be funded through the Police Fund, either through income received in the year or through the use of reserves. For the purposes of this Strategy, the term “funding” relates to the use of current income or reserves to fund capital expenditure. The term “Financing” relates to how the asset is to be paid for, e.g. internal borrowing (cash balances) or external borrowing.

6.2 The capital programme needs to be fully funded over the life of the MTFP and more information on this is set out below. As part of the MTFP process it is ensured that a balance of the funding sources is used to ensure an adequate and sustainable level of reserves remain at the end of the planning period. More information on this is set out in the Reserves Strategy. This is a strong financial indicator of the affordability and sustainability of the capital programme.

6.3 Capital can be funded from a number of different sources, including:

6.4 Capital receipts - Capital receipts are generated from the sale of existing capital assets. Proceeds from the sale of assets are either used to fund capital expenditure in the year of receipt or set aside in a Useable Capital Receipts Reserve to fund capital expenditure arising in future years.
This method of funding has been utilised significantly in previous years, as the PCC has disposed of non-operational or surplus property, such as police houses or traditional police stations. As the PCC’s estate has been downsized and modernised, the opportunity to fund capital expenditure using capital receipts will be significantly diminished beyond the medium term.

6.5 Capital grant - Direct funding from government capital grants has been a principal source of funding in previous years. Non-specific government capital grants have been made available through a formula-driven allocation. However, these grants are now significantly lower than in prior years, with the expectation that this will diminish to negligible levels by the end of the current (MTFP) as the government has looked to reduce direct capital funding.

Where relevant and appropriate the PCC will aim to secure specific grant opportunities, either from Central Government or through collaboration with public sector or other partnership bodies.

6.6 Reserves - Income surpluses that has been set aside from previous years and transferred to reserves can be used to fund capital expenditure. The Capital

Financing and Efficiency Improvement Reserve is specifically used to ring fence funding for future capital expenditure.

6.7 As reserves have been consumed in recent years to pump prime efficiency initiatives and the funding of investment in short-life assets, the level of reserves now available to fund future capital expenditure is diminished and will not be a major source of funding going forward, unless reserves are replenished through the accumulation of future revenue surpluses.

6.8 As capital expenditure has been internally financed in previous years from internal cash balances, not all PCC reserves are cash-backed. Therefore, even though reserves are used to fund capital expenditure, there may still be a need to finance the expenditure using external borrowing.

6.9 Direct revenue funding - In the budget delegated to the Chief Constable there is an element of the current revenue budget that funds capital expenditure, any amount funded in this way will be charged directly to the Police Fund.

6.10 In order to maintain the level of investment required in short-life assets to ensure the most efficient service possible, over the life of the MTFP this source of funding is being significantly increased due to the reduction of availability of the other funding sources described above.

6.11 Minimum Revenue Provision (MRP) - Accumulated capital expenditure not funded using the methods is called the Capital Financing Requirement (CFR). This balance is funded using MRP, there are a number of MRP options available to fund this balance, the method adopted by the PCC is the Asset Life Method, where the associated asset is funded using either equal Instalments or an annuity basis.

6.12 MRP is charged against the Police Fund annually and effectively reduces the CFR. The PCC has adopted a position where only long life assets are funded using MRP. As other funding sources dry up, it is possible that short-life assets may be funded using this method. However in the longer-term funding short life assets in this way is not sustainable and there will be a greater need to fund from direct revenue as outlined above.

6.13 MRP is also the funding method for assets financed via Private Finance Initiatives (PFI) or Finance Leases. MRP is calculated as equivalent to the principal repayment of the PFI or lease liability in the year.

7. Capital Financing and Borrowing

Capital expenditure can be financed in the following ways:

7.1 Capital grants received or capital receipts from asset sales, generate cash balances and these are directly used to finance capital expenditure. Where in-year revenue funding of capital takes place, financing is made from in-year income sources.

7.2 Internal borrowing. Where cash or investment balances have increased over a period of time as reserves have accumulated, these balances can be used to finance the acquisition of assets. This decision is often made as the investment returns received are normally lower than the interest that would be payable if the capital expenditure is financed using external borrowing.

7.3 External borrowing. This method is used to finance capital expenditure where the above options are unavailable. External borrowing can be obtained from a number of sources:

- PFI – Historically major infrastructure projects have been financed using PFI arrangements. Private finance is secured to finance the schemes which form part of a Public/Private Partnership. Norfolk PCC have used this method to finance the OCC at Wymondham and several Police Investigation Centres (PICs) across Norfolk and Suffolk.
- Nationally, new PFI arrangements have significantly reduced in number and the Government have now withdrawn support for future schemes.
- Leases – Some assets have been secured using leasing arrangements. With the advent of Prudential borrowing, leases are less popular as they are generally an expensive financing route. However, with the introduction of a new leasing Standard (IFRS 16), property lease liabilities will be brought onto the balance sheet and form part of the CFR and thus attract MRP.
- Prudential borrowing – with the introduction of the Prudential Code, local government bodies have been able to secure external borrowing on favourable terms, providing there borrowing is prudent, affordable and sustainable. Unfunded long term assets are therefore primarily financed using this route. External borrowing is principally sourced from the Public Works Loans Board (PWLB), where finance is available on fixed or variable rates over varying terms and repayable on a maturity or an annuity basis. The PCC is expected to source significant new PWLB finance throughout the medium-term. The PCC is also able to take advantage of the Certainty Rate (20 basis point discount) available where projected future borrowing requirements are indicated to the PWLB in advance.

Annex 1

Governance model