

**CAPITAL PROGRAMME 2017/18 TO 2020/21****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 in compliance with the Code.

**Prudential Code**

2. The Local Government Act 2003 requires the OPCC to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.
3. 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.
4. 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.
5. 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.
6. 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.
7. 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.
8. 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**

9. The actual 2016/17 capital expenditure and the estimated capital expenditure for the current year and future years are (further detail is provided in the Capital Programme see para 19)

	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Total	4.5	8.3	11.6	3.7	1.9

10. The estimates of the ratio of financing costs to the net revenue stream for 2016/17 and for the current and future years are:-

2016/17	2017/18	2018/19	2019/20	2020/21
Actual	Estimate	Estimate	Estimate	Estimate
%	%	%	%	%
1.31	1.27	1.66	1.75	1.87

11. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet the financing costs, net of investment income.
12. The actual capital financing requirement at 31 March 2017 and the estimates for the current and future years are:-

	31.3.17	31.3.18	31.3.19	31.3.20	31.3.21
	£m	£m	£m	£m	£m
Total	21.0	25.0	29.7	30.2	28.9

13. The capital financing requirement (CFR) measures the OPCC's underlying 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 2016/17, and is expected to do so in future years. This is a key indicator of prudence.

14. 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:-

	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m
Borrowing	24.4	25.8	28.6	29.7
Long Term Liabilities	1.4	1.0	0.5	0.5
Total	25.8	26.8	29.1	30.2

15. These authorised limits are consistent with the OPCC's current commitments, existing plans 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.
16. 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 14). 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.

	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m
Borrowing	23.4	24.8	27.6	28.7
Long Term Liabilities	0.9	0.5	0.0	0.0
Total	24.3	25.3	27.6	28.7

17. The OPCC's actual external debt at 31 March 2017 was £13.3m. The amount is split between the Public Works Loans Board (PWLB) figure of £12.4m and Leicestershire County Council £0.9m (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).
18. It is planned that the 2017/18 'borrowing requirement' of £5.5m will be met by external borrowing however, the final decision will be made in March 2018.
19. The estimate of the incremental impact of the capital investments proposed in this report for Band D Council Tax per week are:

2018/19	2019/20	2020/21
0p	4p	0p

20. This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.
21. A monitoring system is in place and reports on progress against the indicators are taken to the OPCC.

### Proposed Capital Programme

22. A summary of the proposed Capital Programme for 2018/19 is shown in the table below.

<i>Proposed Capital Programme 2018/19</i>			
<b>Expenditure</b>	<b>£000</b>	<b>Funding</b>	<b>£000</b>
Property	6,060	Capital Grant (provisional)	700
Information Technology	3,660	Borrowing Requirement	6,958
Emergency Services Network	643	Capital Receipts	950
Vehicle Fleet	1,204	Home Office Grants	219
CCTV	40	Revenue Contributions	2,630
		3 <sup>rd</sup> Party Contributions	150
<b>Total</b>	<b>11,607</b>	<b>Total</b>	<b>11,607</b>

23. The 'Estates' programme is based on the approved Estates Strategy and includes new schemes in relation to the 'property store' to provide a fit for purpose facility and a replacement neighbourhood office for Hinckley Road, providing a smaller efficient building. Provision is also included for the completion of the new Coalville property following co-location with the Fire Service and major refurbishments in the Contact Management Centre and Training Facility.
24. Following the withdrawal of Northants from the IT Tri-Force collaboration resulting in a number of the work streams no longer proceeding the Head of IT has reviewed the requirements for Leicestershire moving forwards.
25. The IT programme includes:
- significant investment in the data infrastructure and storage to support new services such as voice, Wi-Fi and agile remote access etc.
  - an upgrade to the current mapping software (IR3)
  - completion of the PC replacement programme with agile equipment
  - implementation of 'middleware' to support agile working
  - the roll out of the single telephony platform and video conferencing (Tri-force projects)
  - completion of the Contact Centre telephony project to exploit new methods of contact eg web chat, social media and email
  - Upgrades to the ICCS to support the roll out of the ESN programme
  - preparatory work in relation to the National Enabling Programmes Office 365.
26. Provision is also been made for the rolling programme of ANPR camera replacements (including vehicle fits), CCTV at Keyham Lane which is now at the end of its useful life.
27. The latest update suggests that transition to the Emergency Service Network (ESN) is delayed until June 2019. The costs associated with the implementation have therefore been re profiled. These are based on Home

Office estimates from circa 2 years ago and will be updated when more accurate figures become available from the Project Team. It is highly likely that the cost of the project will be higher than the original Home Office projections as more detail becomes available following the award of the national contracts etc.

28. Planned replacements for the existing vehicle fleet are also included.

### **Funding Arrangements**

29. The provisional 2018/19 capital grant is £0.7m, which is no change on the 2017/18 allocation. 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), the application of revenue contributions to capital schemes and 3rd party contributions, the borrowing requirement is £6.958m for 2018/19.
30. The Capital Programme assumes that the 18/19 borrowing requirement of £6.958m is financed through loans from the PWLB at an indicative interest rates of 3.07% for 25 years (£6m) and 1.75% for 5 year loans (£1m). Revenue resources are set a side over the same loan period to repay the principal on maturity.

### **Minimum Revenue Provision Policy (2017/18)**

31. 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.
32. 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.
33. 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.
34. The Guidance requires an annual statement of the policy adopted in calculating the MRP to be agreed each financial year.
35. 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.
36. The recommended MRP policy is:

- For capital expenditure incurred before the 1<sup>st</sup> April 2008 (which was supported capital expenditure) the policy will be based on 4% of the Capital Financing requirement
  - From the 1<sup>st</sup> 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.
37. 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.