Annex 4

KENT POLICE AND CRIME COMMISSIONER

CAPITAL STRATEGY

1. Purpose

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires Police and Crime Commissioners (PCCs) 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.

The Capital Strategy is a key document for the Kent PCC and Kent Police and forms part of the 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.

Throughout this document the term Kent Police is used to refer to the activities of both the PCC and the force.

2. Scope

This Capital Strategy includes all capital expenditure and capital investment decisions for Kent 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

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 Kent Police generally for a period of more than one year, e.g. land and buildings, ICT, 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.

The capital programme is Kent Police's plan of capital works for future years, including details on the funding of the schemes.

4. Capital vs. Treasury Management Investments

Treasury Management investment activity covers those investments which arise from the organisation's cash flow and debt management activity, and ultimately represents balances which need to be invested until the cash is required for use in the course of business.

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 Annual Treasury Management Strategy Statement.

The CIPFA Treasury Management Code recognises that some organisations are entitled to make investments for policy reasons outside of normal treasury management activity. These may include service and commercial investments. However, like all police bodies, Kent Police does 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 and as such, is prevented from entering into commercial investment activities.

5. Links to other corporate strategies and plans

The PCC produces his Police and Crime Plan every four years. The current version, is Safer in Kent: The Community Safety and Criminal Justice Plan 2017 to 2021.

The PCC and the Chief Constable have produced a Joint Vision which is supported by the Chief Constable's Policing Model.

To support these overarching documents a number of interrelated strategies and plans are in place, such as the Medium Term Financial Plan (MTFP), Medium Term Capital Plan (MTCP), Reserves Strategy, Asset Management Plan and the Treasury Management and Annual Investment Strategy.

The operation of all these strategies and plans is underpinned by the Code of Corporate Governance and Financial Regulations.

Capital resources should be directed to those programmes and projects that optimise the achievement of these outcomes. The following processes are designed to ensure this happens.

6. The Capital Budget Setting Process

Kent Police is committed to rolling medium term revenue and capital plans that also cover the same period. The plans are drawn up, reassessed and extended annually and if required re-prioritised to enable Kent Police to achieve the aims and objectives established in the Police and Crime Plan, the force's policing model and to support national drivers like the National Policing Vision 2025.

The MTCP provides Kent Police infrastructure and major assets through capital investment, enabling Kent Police to strengthen and streamline core assets and systems, and provides the framework for delivering innovative policing with a lower resource profile.

Key focus of the Capital Programme:

- To ensure the property estate remains fit for purpose, identifying opportunities to streamline assets and develop the estate infrastructure; maintaining core sites, improving core training facilities and progressing the Asset Management Plan.
- To ensure provision is made for ICT and Business Change Technology to maintain and develop the existing infrastructure and invest in the core technologies required to provide innovative digital policing services.
- The maintenance and replacement of other core assets where necessary, e.g. vehicles and communication infrastructure.

The plans acknowledge the constrained financial position of Kent Police and maximise both the available financial resources and the capacity that the force has to manage change projects.

7. Collaboration and Wider Sector Engagement.

Although Kent Police has its own Capital Strategy and MTCP, the natural drivers that encourage local and regional forces to collaborate, such as cost and resource sharing, along with structured collaborations and national plans, can have a significant influence on local decision making.

One of the focal points therefore of Kent Police's Capital Strategy is to acknowledge regional and national partnership working, both with other forces/PCCs and in the wider context of engagement with Local Authorities and Councils, other Emergency Services and the Crown Prosecution Service, to improve overall service to the public.

8. Affordability and Financial Planning.

Prior to submission of the draft MTCP in late autumn, a significant amount of financial work will have already been undertaken on Revenue budgets. This work will have identified the potential financial position for Kent Police in respect of the coming medium term, taking into account core known information and stated assumptions.

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

The revenue financial position is also influenced by the Capital Bid process and the MTCP – in terms of both revenue consequences of capital programmes and also through the ability or requirement to financially support capital investment, either through direct financing or borrowing.

9. Capital Sustainability.

Kent Police's financial position is changing. For many years Kent Police has benefitted from substantial capital reserves, supported by the sale of assets or from revenue reserves built up over a number of years from in-year revenue underspends.

Looking ahead over the medium term the ability of Kent Police to maintain its current level of expenditure on capital funded from accumulated reserves or the sale of assets becomes limited. The prudent use of reserves over the medium term, the reducing level of underspends (if any) and the reducing number of assets available for sale means that alternative ways of funding the capital programme need to be considered. With this in mind Kent Police are introducing a Revenue Contribution to Capital Outturn (RCCO) to set aside an increasing level of revenue expenditure over the medium term to provide revenue funding for short life programmes. For longer term projects, namely asset builds, then consideration will be given to borrowing or direct financing.

The Kent Police Strategy is therefore to invest in core infrastructure now that will not only offer overall service improvements to the public, but also maximise revenue savings in the future through more efficient and mobile use of police personnel, enabled by improved Information and Communication Technology systems and other core infrastructure, e.g. connected vehicle fleet and building assets.

Its investment strategy will also be influenced by, and take account of national visions for policing, regional and local priorities.

10. The Formal MTCP Approval Process

As indicated, the PCC receives the updated Capital Programme in January each year as part of the overall suite of budget reports.

The PCC approves the funding levels in February each year. The taking of loans, if required, then becomes a decision for the PCC's Chief Finance Officer (PCCCFO) in conjunction with the Force Chief Finance Officer (FCFO) who will decide on the basis of the level of reserves, current and predicted cashflow, and the money market position whether borrowing should be met from internal or external sources.

Once the PCC has approved the capital programme, then expenditure can be committed against these high level schemes subject to a full business case being submitted, normal contract procedure rules and the terms and conditions of funding.

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 (and underwritten) savings or income streams.

Following approval by PCC the capital programme expenditure is then monitored on a regular basis through regular financial monitoring reports and reported at the PCC's Performance and Delivery Board on a quarterly basis.

11. Individual Project Management

Capital Projects are subject to high levels of scrutiny. This varies dependant on the type of project and may be influenced by size or the makeup of regional involvement. Each project will have a Project Manager and potentially a team to implement it.

Typically projects will have a dedicated Project Board, which, if part of a larger programme may sit under a Programme Board. Programme and Project Boards will have a Senior Responsible Officer or Chair Person.

Detailed oversight is further provided through the ICT Project Management Office, Strategic Estate Groups and Force Change Boards.

Regional Projects or Programmes may also report into Regional Boards.

12. Monitoring of the capital programme

The FCFO will submit capital monitoring reports to the Chief Officer Senior Management Team and the PCC on a regular basis throughout the year. These will usually be submitted to the quarterly Capital Monitoring Board. 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.

For proposed in-year amendments to the annual capital budget, for schemes not already included in the MTCP, the Director of Finance 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.

Monitoring reports presented and discussed with the PCC at his Performance and Delivery Board meeting with the Chief Constable are published on his website.

In addition, for those business change programmes where a formal Board has been established, a detailed scheme monitoring report is presented to each Board meeting.

13. Multi-Year Schemes

Payments for capital schemes often occur over many 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 is called a cash flow projection or budget profiling.

The approval of a rolling multi-year capital programme assists Kent Police 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. It also matches the time requirement for scheme planning and implementation since capital schemes can have a considerable initial development phase.

14. In-year Changes to the Capital Programme

A MTCP is produced which shows all planned expenditure over the next 5 years. This plan will include a schedule to show how the planned expenditure is likely to be funded subject to business case approval.

A separate annual capital budget is produced before the start of the financial year. Initially this budget will only include ongoing schemes from previous years as well as annual provisions such as vehicles, plant and equipment. Additional schemes from the MTCP are included in the annual budget after tenders have been accepted and timescales are known.

15. Funding Strategy and Capital Policies

This section sets out Kent Police policies and priorities in relation to funding capital expenditure and investment.

15.1 Government Grant

The police service only receives limited financial support from the Home Office; annual capital grant is currently approximately £1m per annum. This grant is not hypothecated and can be carried forward if not spent in the year of receipt.

15.2 Capital Receipts

A capital receipt is an amount of money which is received from the sale of an item on the fixed asset register. This can only be spent on other capital expenditure and cannot be used to fund revenue items.

These capital receipts, once received, are used to finance the capital programme. The pool of assets available for sale is declining.

15.3 Revenue Funding

Recognising that the pool of assets available for sale is declining a RCCO is seen as a sustainable funding alternative. This will begin in 2020/21 and an appropriate provision for RCCO is included.

15.4 Prudential Borrowing

Local Authorities, including police bodies, can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by the Government so Kent Police needs to ensure it can fund the repayment costs. The authority’s Minimum Revenue Provision (MRP) Policy sets out a prudent approach to the amount set aside for the repayment of debt.

In recent years, Kent Police have consistently avoided external borrowing by using internal resources (reserves, capital receipts), however, the reduction in resources available may mean that for long term estate projects external borrowing would be more appropriate.

15.5 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. Kent Police also hold revenue reserves built up over a number of years to fund elements of the capital programme.

15.6 Leasing

Kent 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 FCFO and the PCCCFO 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.

16. Procurement and Value for Money

Procurement is the purchase of goods and services. Kent Police has a joint Procurement Section with Essex Police and are now part of the 7F procurement project that ensures that all contracts, including those of a capital nature, are legally compliant and best value for money.

It is essential that all procurement activities comply with prevailing regulations and best practice as set out in the Code of Corporate Governance, which includes Contract and Financial Regulations. Guidance on this can be sought from the Procurement team.

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.

17. Partnerships and Relationships with other Organisations

Wherever possible and subject to the usual risk assessment process Kent Police will look to expand the number of capital schemes which are completed on a partnership basis and continually look for areas where joint projects can be implemented. In support of this initiative Kent Police has a joint ICT Department with Essex Police and a number of ICT and business change programmes are being delivered collaboratively.

Where Kent Police procures capital items on behalf of other consortium partners only Kent Police related expenditure which will be included in the fixed asset register will be included in the MTCP and the annual capital budget.

18. Management Framework

The PCC has given legal consent for the Chief Constable to own short life assets, such as ICT, equipment and vehicles. On a day to day basis, the Head of Property manages the estate on his behalf.

The FCFO manages the MTCP and the annual capital budget and provides regular updates at the Chief Officer Strategic Meeting (COSM) where, collectively, Chief Officers maintain oversight of planned expenditure.

The PCCCFO is responsible for developing and then implementing the Treasury Management Strategy Statement, including the Annual Investment Strategy.

During the budget preparation process, COSM take a strategic perspective to the use and allocation of Kent Police 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.

Having approved the MTCP and the annual capital budget in January each year the PCC formally holds the Chief Constable to account for delivery of capital projects at the Performance and Delivery Board meetings.

19. Performance Management

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.

Post scheme evaluation reviews should be completed by Kent Police for all schemes over £0.5 million and for strategic capital projects.

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

20. Risk Management

Risk is the threat that an event or action will adversely affect Kent Police's ability to achieve its desired outcomes and to execute its strategies successfully.

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.

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 corporate risk register sets out the key risks to the successful delivery of Kent's corporate aims and priorities and outlines the key controls and actions to mitigate and reduce risks, or maximise opportunities.

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

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.

Kent Police accepts 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, Kent Police 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 corporate risk register.

The FCFO and the PCCCFO 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 specialist advice to enable them to reach their conclusions.

20.1 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, Kent Police 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.

20.2 Liquidity Risk

This is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. This is also the risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes. Where possible appropriate interventions will occur as early as possible.

20.3 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.

20.4 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.

20.5 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.

20.6 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, Kent Police 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.

20.7 Fraud, Error and Corruption

This is the risk that financial losses will occur due to errors, 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. Kent Police has 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.

21. Other Considerations

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

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