

STRATEGIC GOVERNANCE BOARD
FRIDAY, 14TH DECEMBER 2012
REPORT OF THE CHIEF CONSTABLE

8B REVISED CAPITAL PROGRAMME AND STRATEGY

1. PURPOSE OF THE REPORT

1.1 To present the: -

- Revised Capital Programme for 2012/13.
- Review of the Capital Strategy for 2013/17.

2. INFORMATION AND ANALYSIS

Revised Capital Programme 2012/13

2.1 The Capital Programme for 2012/13 has been updated to reflect slippage, virements, variations and savings on schemes. The Revised Capital Programme is shown at **Appendix A** and is summarised below: -

Capital Programme	Approved Estimate 2012/13 £000s	Slippage £000s	Other Changes £000s	Revised Estimate 2012/13 £000s
Building Works	1,732	(360)	585	1,957
Vehicles & Equipment	2,615	(282)	67	2,400
IS Schemes	4,826	(1,710)	(714)	2,402
Invest to Save Schemes	1,266	(473)	0	793
EMCTIU	344	0	0	344
Total	10,783	(2,825)	(62)	7,896

2.2 The nature of the capital programme can lead to delays in incurring the expenditure. In order to aid early identification of these areas budget holders have been asked to identify schemes where expenditure is likely to be incurred in future years rather than the 2012/13 programme. This early information now allows for planned slippage from 2012/13 into future years as summarised in the table below:-

Capital Scheme	Slippage £000s	Slippage £000s
<u>Building Works</u> Police Premises Fund		360
<u>Vehicles & Equipment</u>		

Equipment		282
<u>IS Schemes</u>		
Hand Held Terminals	400	
Office Automation	250	
Server/Storage Upgrade	400	
Network Upgrade	300	
Mobile Data	360	1,710
<u>Invest to Save Schemes</u>		
Invest to Save		473
Total		2,825

2.3 A considerable amount of the slippage relates to IT. This is for two main reasons:-

- (i) Collaboration has prompted the need to ensure that as far as possible the technology we have in place and the systems that we use is aligned with other forces in our region. This is a far from simple process as there is a need to align investment plans of up to 5 forces, who are starting with very different technologies and equipment.
- (ii) The force only replaced equipment where it is necessary. In many cases it has delayed replacement to make sure that it gets full value from existing equipment.

2.4 The review of the capital programme has also sought to identify areas where savings can be made or where schemes are no longer required. For example, the IMPACT scheme was always dependent on a national solution being identified, which means at this stage it is no longer necessary to include it within the programme. Equally a regional solution is being investigated for electronic data storage. These savings have funded two recent schemes that were approved by the Police Authority – both of these will help deliver future savings.

2.5 These other changes to the Capital Programme brought about by the review are summarised below: -

Capital Scheme	£000s	£000s
<i>New scheme/increase in budget</i>		
Chief Officer Vehicle	30	
ANPR B Division	31	
Refurbishment C Block	340	
Biomass Boiler	245	646
<i>Virements</i>		
Capitalised Maintenance	(38)	
Legislative Works	(45)	
Multi Purpose Hall Refurbishment	83	
IS Server Replacement	(24)	
Digital Interview Recording Equipment	24	0

Savings		
Chief Officer Vehicles	(18)	
Telecoms Replacement	(120)	
Network Equipment	(50)	
Office Automation	(57)	(245)
Schemes Removed		
IMPACT	(224)	
Electronic Storage	(200)	
Workflow Management System	(39)	(463)
Total		(62)

2.6 The effect the above changes have on the funding of the capital programme are summarised as follows: -

Capital Programme	Approved Funding 2012/13 £000s	Slippage £000s	Other Changes £000s	Revised Funding 2012/13 £000s
Grants and Contributions Brought Forward from Earlier Years	6,404	0	0	6,404
Capital Grant	1,610	0	0	1,610
Other Grant and Contributions	429	0	30	459
Reserves	4,188	(473)	188	3,903
Revenue Contributions	103	0	60	163
Capital Receipts	437	0	0	437
Total	13,171	(473)	270	12,976
Difference Between Expenditure and Available Funding	2,388	2,352	340	5,080

Capital Strategy 2013/17

- 2.7 The Local Government Act 2003 brought into effect the Prudential Code for Capital Finance in Local Authorities from 1 April 2004. The Prudential Code requires an Authority to have regard to Asset Management Planning and formulating a Capital Strategy.
- 2.8 The Capital Strategy provides a framework for future Capital Investment to help the Police and Crime Commissioner take a longer-term view of Capital Investment. It seeks to ensure that the considerable sums invested in projects are consistent with the Derbyshire Constabulary's needs and long term plans.
- 2.9 The proposed Capital Strategy is set out at **Appendix B**.
- 2.10 The Strategy focuses on the need to ensure that a robust approach is taken to adding new projects into the programme. This is especially important when Capital Resources are scarce. This means that there is an even greater onus to ensure that these limited resources are directed to schemes that are of the

highest priority and consistent with long term plans. It is equally important that these resources are effectively managed to control scheme costs.

- 2.11 The Capital Strategy seeks to ensure that a robust approach is taken to the development of the Capital programme by: -
- Ensuring a realistic estimate of the cost of new capital schemes which may include using external advisors.
 - Providing an in-depth assessment of schemes prior to their inclusion within the capital programme.
 - Updating scheme costs, where schemes have not been implemented within a year of their inclusion within the programme.

3. RECOMMENDATIONS

- 3.1 To approve the changes to the 2012/13 capital programme (paragraph 2.5)
- 3.2 To approve the capital slippage of £2.825m to 2013/14 (paragraph 2.2)
- 3.3 To note the latest forecast capital outturn position (paragraph 2.1)
- 3.4 To note the latest capital funding position for 2012/13 (paragraph 2.6).
- 3.5 The Capital Strategy for 2013/17 is approved.

4. IMPLICATIONS

	LOW	MEDIUM	HIGH
Crime & Disorder		X	
Environmental	X		
Equality & Diversity	X		
Financial		X	
Health & Safety	X		
Human Rights	X		
Legal	X		
Personnel	X		
Risk	X		

The financial implications centre around the funding of the capital programme. At this stage the revised programme is fully funded, although there will be considerable pressure on capital resources in future years.

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ATTACHMENTS

Appendix A Revised Capital Programme for 2012/13.

Appendix B Capital Strategy for 2013/17.

Revised Capital Programme 2012/13

Capital Programme 2012/13	Approved Estimate £000s	Slippage £000s	Other Changes £000s	Revised Estimate £000s
Building Works				
Capitalised Maintenance	397	0	(38)	359
Contingency & Feasibility Study	10	0	0	10
Business Continuity - Security Issues	126	0	0	126
Legislative works(Asbestos,smoke detectors,legionella,DDA, M&Eng)	152	0	(45)	107
Small Adaptations & Pre sale improvements	22	0	0	22
Upgrade of electrical systems CDHQ	286	0	0	286
Police Premises Fund	360	(360)	0	0
Replacement of UPS Kit	96	0	0	96
Urgent Heating Works/Energy Efficiency	86	0	245	331
Enquiry Office Branding	47	0	0	47
Multi Purpose Hall Refurbishment	50	0	83	133
Canteen Area Refurbishment	100	0	0	100
C Block Refurbishment	0	0	340	340
Total Building Works	1,732	(360)	585	1,957
Vehicles & Equipment				
General Vehicle Replacement Programmes	1,461	0	0	1,461
Chief Officer Vehicles	48	0	12	60
Equipment	404	(282)	0	122
ANPR related schemes	303	0	31	334
Digital Equipment for recording PACE interviews	399	0	24	423
Total Vehicles & Equipment	2,615	(282)	67	2,400
IS Schemes				
IS Replacement Projects	2,366	(1,050)	(251)	1,065
IS Infrastructure Projects	1,194	(300)	0	894
Customer Projects	1,266	(360)	(463)	443
Total IS Schemes	4,826	(1,710)	(714)	2,402
Invest to Save Schemes	1,266	(473)	0	793
East Midlands Counter Terrorism Intelligence Unit (EMCTIU)	344	0	0	344
TOTAL PLANNED EXPENDITURE	10,783	(2,825)	(62)	7,896
FUNDING				
Funding b/f Grant & Contributions	6,404	0	0	6,404
Capital Grant	1,610	0	0	1,610
Other Grant & Contributions	429	0	30	459
Use of Reserves	4,188	(473)	188	3,903
Revenue Contributions to Capital Outlay	103	0	60	163
Sale of Land & Buildings	437	0	0	437
TOTAL FUNDING	13,171	(473)	278	12,976
EXPENDITURE COMPARED TO FUNDING	2,388	2,352	340	5,080

CAPITAL STRATEGY 2013/17

1. Introduction

- 1.1 The Capital Strategy will form the basis of the decision making process whereby the Police and Crime Commissioner (the Commissioner) determines capital funding levels and evaluates, approves and monitors capital expenditure within the available funding.

2. Principles

- 2.1 The Commissioner has a duty to act in accordance with statute, regulations, secondary legislation and all extant professional codes of practice which deal with various elements of capital accounting.
- 2.2 Under the Local Government Act 2003 Local Authorities are required to have regard to the Prudential Code for Capital Finance in Local Authorities when carrying out their duties as set out in Part 1 of the Act.

3. Capital Programme

- 3.1 The Commissioner is responsible for determining the programme for capital investment in fixed assets that are central to the delivery of quality police services. Capital investment must meet the varying needs of the Constabulary, reflecting risk and threats and links into the Police and Crime Plan.
- 3.2 Annually the Commissioner in conjunction with the Chief Constable will prepare a capital programme outlining the estimated capital expenditure and funding over a minimum three year period. The Commissioner will also give consideration to the achievability of the programme.
- 3.3 The funding of this programme will be kept under review to secure sufficient resources to fund the schemes within the programme.
- 3.4 It is recognised that there may not be sufficient capital resources to fund the total cost of all schemes within the capital programme in the year that they are scheduled to commence.
- 3.5 Where there is a shortfall in later years of the programme it may be necessary to consider prudential or internal borrowing as a means of covering the shortfall. It will also be necessary to keep these future schemes under review if additional resources are unable to be generated to fund them.

3.6 It is also recognised that schemes may change over time. For schemes already included in the capital programme, the initial appraisal will be reviewed and updated for inflation and other changes if they have not been implemented within a year of their inclusion within the programme.

3.7 The Commissioner has a duty to safeguard and maintain the assets and the capital programme will take account of any capital works necessary to achieve this objective.

4. **Capital Resources**

4.1 The Commissioner will ensure that the first two years of the capital programme are balanced, so that the proposed capital expenditure (i.e. the funded programme) is matched by available and identifiable capital resources.

4.2 Capital funding can come from several sources:

- General Capital Grant
- Specific Capital Grant
- Borrowing
- Capital Receipts from sale of assets
- Capital Contributions from third parties
- Revenue Contributions
- Reserves

It is recognised that in later years the availability of capital resources may be less certain, which will potentially impact on the deliverability of the capital programme.

4.3 It is recognised that future schemes beyond the first two years may not be fully funded and that it will be necessary to keep these under review in the light of the potential to raise additional capital resources via prudential borrowing or additional contributions from the revenue budget.

4.4 The programme beyond years 1 & 2 is indicative only. It sets out the potential capital pressures and the potential resources to fund them. As with the revenue budget there may be an imbalance of funding for these future years. At this stage it is too early to predict how these imbalances will be covered either through:-

- Additional Government Grant
- Further Contributions from Reserves
- Funding from the revenue budget
- Prudential Borrowing
- Asset Sales

- 4.5 A number of the above will depend on the revenue budget and its ability to support the capital programme via direct contributions or by meeting borrowing costs.
- 4.6 Ultimately the Commissioner may need to restrict the scale of the capital programme in these later indicative years.
- 4.7 The Prudential Code for Capital Finance, which was introduced on 1 April 2004, gives greater freedom to borrow to support future capital investment, provided that the cost of borrowing associated with the extra debt is affordable.
- 4.8 The Code enables large sums to be borrowed, known as unsupported borrowing to fund new projects. However, the full cost of this additional borrowing must be met as no Government support will be available to offset the extra borrowing costs.
- 4.9 The Government has introduced strict rules to ensure any additional borrowing is affordable. This is set out in the Prudential Code for Capital Finance, which requires 3 to 5 year plans to be determined to show that the extra borrowing is affordable. As a guide £1m of borrowing will cost £72,700 in the first year reducing thereafter based on a term of 25 years (at October 2012).
- 4.10 The level of borrowing will be reviewed on an annual basis in line with the Prudential Code to determine whether it is prudent to take on additional borrowing to fund major projects.
- 4.11 Increasingly reserves are being relied upon to fund the capital programme. Over recent years the amount held in reserves has increased as a result of the prompt action taken to address the significant reductions in government grant and the freeze on increases to Council Tax. Reserves are likely to continue to be an important funding source during the medium term period of this capital strategy.
- 4.12 More emphasis will be placed on Invest to Save schemes, which are designed to generate future revenue savings. Wherever possible the aim is to maintain an Invest to Save reserve of £1m to support these projects.
- 4.13 Disposal of surplus land and property help to achieve some of the capital aspirations that are set out within this strategy. The proceeds from disposals can only be used to fund capital schemes. The Asset Strategy and Property review identify potential disposal opportunities in more detail.

5. **Capital Expenditure**

5.1 The Code of Practice on Local Authority Accounting states that expenditure can be capitalised by recognising it on the Commissioner's Balance Sheet if: -

- It is expected that the item can be used for more than one financial year.
- It is probable that future economic benefits or service potential associated with the item will be realised.
- The cost of the item can be measured reliably, costs must be identifiable and not an integral part of some wider expense.

However, capital expenditure does not cover repair and maintenance.

5.2 The following categories of expenditure which meet the above criteria in paragraph 5.1 are to be treated as capital expenditure: -

- Acquisition, construction or enhancement of police property.
- Replacement of Information Technology (IT) equipment.
- Investment in new and upgraded Information Management Systems
- Vehicles
- Other large items of equipment

5.3 Each category of capital expenditure is underpinned by its own strategy, which sets out the potential benefits in that element of service, the long-term objectives and identifies essential and/or desirable requirements. These separate strategies will be reviewed and updated on a periodic basis and cover the following areas: -

- Property Development (Estates Strategy).
- IT/IM Strategy.
- Vehicle (Transport Strategy).

6. **Monitoring and Performance**

6.1 Monthly capital monitoring reports outlining progress against the approved programme will be prepared for the Commissioner.

6.2 A report detailing the Prudential Indicators will be prepared on a ½ yearly basis to comply with the Prudential Code for Capital Finance.

6.3 In setting the Prudential Indicators, not only do they help assess affordability, but they also set performance measures. These measures are used to assess the degree of success in implementing this strategy.

6.4 This strategy will be subject to a periodic review to ensure compliance with legislation and codes of practice.

7. Collaboration

7.1 This will impact on the future delivery of the capital strategy. Derbyshire will seek to implement key capital projects in collaboration with other Constabularies to:-

- Achieve economies of scale in procurement of capital items e.g. IT equipment, vehicles.
- Achieve economies of scale in implementing key infrastructure projects.
- Ensure that where possible there is common equipment e.g. IT applications.