Kent Police and Crime Commissioner
Capital Strategy 2023/2024

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 a summary of how associated risk is managed and the implications for future financial sustainability and an overview of the governance processes for approval and monitoring of capital expenditure.

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

2 Scope

This Capital Strategy includes all capital expenditure and capital investment decisions for Kent Police Group. It sets out the medium to long term context in which decisions are made with reference to the life of the projects/assets.

3 Legislation

Expenditure on capital is bound by legislation and codes of practice. This strategy complies with and has regard to:

- Local Government Act 2003
- Localism Act 2011 (England)
- Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020
- Capital Finance: Guidance on Local Government Investments, third edition (2018)
- Capital Finance: Guidance on Minimum Revenue Provision, fourth edition (2018)
- CIPFA Prudential Code (2021)
- CIPFA Prudential Code Guidance Notes (2021)
- CIPFA Treasury Management Code of Practice and Cross-Sectoral Guidance Notes (2021)
- CIPFA Financial Management Code (2019)

4 Links to other Corporate Strategies and Plans

The PCC produces a Police and Crime Plan every four years. Making Kent Safer 2022-2025 is refreshed annually.

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, Commissioning Strategy, Asset Management Plan, and the Treasury Management Strategy (TMS).

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 the outcomes contained within those documents. The following processes are designed to ensure this happens.

5 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 Group generally for a period of more than one year, e.g. land and buildings, ICT, equipment and vehicles. This contrasts with 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 Group’s plan of capital works for future years, including details on the funding of the schemes.

6 Capital vs. Treasury Management Investments

Treasury Management investment activity covers those investments which arise from the organisation’s cash flows and debt management activity, and ultimately represent 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 Treasury Management Strategy.

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 PCC 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.

7 The Capital Budget Setting Process

Kent Police Group is committed to a rolling Medium-Term revenue and capital plan that covers the current financial year plus four years. The plans are drawn up, reassessed, and extended annually and if required re-prioritised to enable Kent Police Group to achieve the aims and objectives established in the PCC’s Police and Crime Plan, the Chief Constable’s Policing Model and to support national drivers like the National Policing Vision for 2025.

Although an MTCP is published the Capital Strategy takes a view beyond the medium term and looks at the long-term implications of the capital projects and the funding thereof.

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

Key focuses 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 Estates Strategy and 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.
- Improving our environmental sustainability and mitigating our impact on the environment.

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

8 Collaboration and Wider Sector Engagement

Although Kent Police Group 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, other emergency services, the Crown Prosecution Service and central government and its agencies, to improve overall service to the public.

9 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 and capital budgets. This work will have identified the potential financial position for Kent Police Group in respect of the coming medium term, considering 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 plus 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 through the ability or requirement to financially support capital investment, either through direct financing or borrowing.

10 Capital Sustainability

For a long time, Kent Police Group has benefitted from substantial capital reserves, supported by the sale of operational buildings or police houses or from revenue reserves built up over a number of years from in year revenue underspends.

Recently this position has changed. Looking ahead over the medium term the prudent use of reserves, the level of overspending and the reducing number of assets available for sale means that alternative ways of funding the capital programme have been considered. A Revenue Contribution to Capital Outturn (RCCO) was introduced to set aside an increasing level of revenue expenditure over the medium term to provide revenue funding for short life programmes.

Kent Police Group will also use internal borrowing to fund the programme. This means borrowing against future cashflow. It is recognised that this reduces the availability of funds for investment and the impact of this is considered in the Treasury Management Strategy. It is also recognised that borrowing internally will impact on the revenue budget as this borrowing is repaid into the cashflow. This will be considered when making decisions in the level of capital funding available.

These borrowing decisions are not made in isolation nor are they made over a one year or five-year view. Borrowing plans are expanded across the long term to ensure that decision makers are aware of the financial impact their decision will have beyond the medium term.

The Kent Police strategy is to invest in core infrastructure now that will not only offer overall service improvements to the public, but also maximise revenue savings into the future through:

- A smaller, more efficient and effective estate.
- Protecting our officers and staff, through the purchase of safety equipment
- Making our officers and staff more efficient and effective enabled through improved Information and Communication Technology solutions
- Improving our environmental sustainability and mitigating our impact on the environment.

Its Investment Strategy will also be influenced by and take account of National visions for policing, regional and local priorities.

The Force Chief Finance Officer (FCFO) and PCC's Chief Finance Officer (PCCCFO) believe that the Capital Strategy and Capital Programme proposed are sustainable.

11 The Formal MTCP Approval Process

The MTCP is continuously updated during the financial year but begins to crystallise formally in the autumn. The MTCP is presented to Chief Officers Management Board (COMB) and once agreed is then presented to the PCC as part of the overall suite of budget reports for formal approval. The programme will be a mixture of continuing projects, regular maintenance, and new projects. How this programme is funded will have been discussed and agreed through the FCFO and PCCCFO prior to the PCC's final approval. The taking of loans, if required, then becomes a decision for the PCCCFO in conjunction with the FCFO who will decide funding of the capital programme based on the level of reserves, current and predicted cashflow, and the money market position. It will then be determined whether borrowing should be met from internal or external borrowing. Where appropriate, both CFO's may seek advice from external partners, including but not limited to our Treasury Management advisors on the most appropriate and cost-efficient method of borrowing.

The PCC approves the funding envelope and a high-level view of projects in February each year. 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.

12 Individual Project Management

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

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 Chairperson. Detailed oversight is further provided through ICT Project Management Office, Strategic Estate Groups and Force Change Boards. Regional Projects or Programmes may also report into Regional Boards.

For large capital projects or those that are of public, or PCC interest, the PCC or a senior member of the PCC's team will be invited to have a seat on the programme board for that project or regular personal briefing to the PCC will be requested.

13 Monitoring of the Capital Programme

The FCFO will submit capital monitoring reports as part of the regular financial reporting requirements to the PCCCFO monthly. These reports will have already been to COMB and be shared with the PCC on a regular basis throughout the year. The reports are submitted to the Finance Oversight Board and are 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. The report will also include current forecast of the funding of the programme alongside the revenue implications.

For proposed in-year amendments to the annual capital budget, for schemes not already included in the medium-term capital plan, the FCFO 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. The reports are also presented to the Joint Audit Committee on a quarterly basis.

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.

14 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 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.

15 In Year Changes to the Capital Programme

An MTCP is produced which shows all planned expenditure over the next five 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 cases have been accepted and timescales are known.

16 Funding Strategy and Capital Policies

16.1 Government Grant

The PCC no longer receives any direct Government support for capital expenditure.

16.2 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 sale of assets is a one-off receipt and means the pool of assets available for sale reduces limiting the ability to fund projects from capital receipts.

16.3 Revenue Funding

Recognising that the pool of assets available for sale is declining a RCCO is seen as a sustainable funding alternative. However, the pressures on the revenue budget are acute with substantial savings already being required. Where appropriate and affordable an appropriate provision for RCCO is included within the annual revenue budget and the medium-term financial plan.

16.4 Prudential Borrowing

Local authorities, including PCC’s, 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 Group need to ensure it can fund the repayment costs. The authority’s Minimum Revenue Provision (MRP) Policy, published within the TMS sets out a prudent approach to the amount set aside for the repayment of debt.

16.5 Internal Borrowing

The PCC holds significant invested funds, representing income received in advance of expenditure plus any balances and reserves held. The level of funds for investment is determined by the cashflow into and out of the organisation. To minimise borrowing costs, any surplus funds that would normally be held for investment can be used to fund projects within the capital programme. This is called internal borrowing and means the cost of borrowing is the return on investment foregone. The impact of this will be reflected within the TMS.

16.6 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 Group can also hold revenue reserves built up over a number of years to fund elements of the capital programme. Reserves are held and controlled by the PCC through the PCCCFO. Details on Reserves is contained within the Reserves Strategy, published alongside this strategy and the Budget and Precept Report.

16.7 Leasing

Kent Police Group 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. Under the code Private Finance Initiatives (PFI) are classed as leasing. Kent has two such PFI projects, North Kent, and Medway Police Stations. They are monitored carefully and reviewed to ensure they are operating effectively, retain value for money and that Kent are prepared for when the PFI financing ends and the buildings revert to Kent Police ownership.

17 Procurement and Value for Money

Procurement is the purchase of goods and services and the financial regulations clearly set out the processes and rules in place for effective procurement. Kent Police Group have recourse to two key partnerships to leverage the best value for money from our capital activities.

7F Commercial ensures that all tender processes and 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 7F Commercial Team.

The national BlueLight Collaboration is a government funded organisation that acts on behalf of all PCCs and Chief Constables across the country to obtain efficient and effective services providing value for money opportunities. This works on our behalf across both revenue and capital spending.

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.

18 Partnerships and Relationships with other Organisations

Wherever possible and subject to the usual risk assessment process Kent Police Group 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 has a joint ICT Department with Essex Police and several ICT and business change programmes are being delivered collaboratively.

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

19 Management Framework

All contracts are in the name of the PCC meaning that the PCC owns all of the assets. However, the Chief Constable has day to day operational control over short life assets, such as ICT, equipment, and vehicles. Ownership of the estate belongs with the PCC, but as these are operational buildings, the Head of Estates manages the estate on behalf of the Chief Constable with regular reporting to the OPCC and oversight.

The PCCCFO and FCFO manage the medium-term capital plan and the annual capital budget. The FCFO provides regular updates to COMB who, collectively, maintain oversight of planned operational expenditure.

The PCCCFO is responsible for developing and then implementing the strategic documents; Capital Strategy; Reserves Strategy and the Treasury Management Strategy in consultation with the FCFO.

During the budget preparation process COMB take a strategic perspective to the use and allocation of Kent Police Group 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 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 as part of the regular Finance paper at the Performance and Delivery Board meetings.

20 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 Group for all schemes over £1.0 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. These reviews will be presented to the Finance Oversight Board.

21 Risk Management

Risk is the threat that an event or action will adversely affect Kent Police Group'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. Both the Force and the OPCC have a corporate risk register which 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 Group 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 Group 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 specialised advice to enable them to reach their conclusions.

21.1 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 will ensure that robust due diligence procedures cover all external capital investment through its arrangements with 7F Commercial and where appropriate through BlueLight Commercial. Where possible contingency plans will be identified at the outset and enacted when appropriate.

21.2 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.

21.3 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.

21.4 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. However, for Kent Police capital projects this is unlikely to have a material impact.

21.5 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.

21.6 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

Group 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.

21.7 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. Kent Police Group 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.

22 Other Considerations

Capital Schemes must, as with all PCC and Force spend, comply with all appropriate legislation, such as for example, the Disability Discrimination Act, the General Data Protection Regulations (GDPR) and building regulations etc.

February 2023