



DORSET
POLICE & CRIME
COMMISSIONER
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CAPITAL STRATEGY

2023/24

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1.0. Introduction

- 1.1. This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 1.2. It addresses the capital components of the wider financial strategies adopted by the Police and Crime Commissioner (PCC). It identifies the links and relationships that need to be made in considering and implementing the Capital Programme to support the Police and Crime Plan priorities. This is done through the [Medium Term Financial Plan](#) (MTFP) which sets out the governance and control framework within which the investment planning and delivery takes place.
- 1.3. Decisions made this year on capital and treasury management will have financial consequences for the PCC for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report. The Prudential Code and the Treasury Management Code were both reviewed in 2021 and this Strategy complies with the requirements of the new code.

2.0. Capital Expenditure and Financing

- 2.1. Capital expenditure is where the PCC spends money on assets, such as property or vehicles, that will be used for more than one year.
- 2.2. In 2023/24, the PCC is planning capital expenditure of £20.574mn as summarised in Table 1 below:

Table 1: Prudential Indicator: Actual, Forecast and Estimates of Capital Expenditure

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
<u>Capital Programme</u>						
Vehicles Replacements	695	1,179	924	983	871	1,105
ICT	1,404	3,797	3,537	2,842	2,227	2,724
Estates	2,236	7,395	15,123	4,403	2,820	2,805
Other Capital	339	1,193	637	412	1,276	700
REFCUS	233	0	0	0	0	0
Assumed Slippage	0	0	(500)	(400)	(300)	(200)
Total Capital Programme*	4,907	13,564	19,721	8,240	6,894	7,134

*The figures exclude the impact of IFRS16 as the adoption of this standard relates to a change in accounting treatment and does not represent cash expenditure.

- 2.3. A significant number of projects within the capital programme are recurring such as the Vehicle Replacement Programme, IT infrastructure, and estates projects. This is important when considering the funding of the programme. The main 'one off' capital projects include the PRISM programme of IT system improvements (£2.274mn over the MTFP period) and the Futures Programme of £21.055mn over the MTFP period. The PCC has no plans to incur capital expenditure on investments.
- 2.4. **Governance:** Budget holders prepare business cases to include new projects in the capital programme. The business cases are reviewed by Finance who confirm the financing cost and

revenue impacts. The business case must be considered by the relevant operational board to confirm their support and links to the PCCs' priorities before the Capital Strategy Group considers the bids for inclusion within the programme. The Capital Strategy Group considers the financing costs as well as the timing and overall affordability and will make recommendations to the Resource Control Board. The final capital programme is then presented to the PCC for approval in February each year. Once approved, the capital programme is then monitored by the Capital Strategy Group and Resource Control Board on a quarterly basis.

- 2.5. All capital expenditure must be financed, either from external sources (grants and other contributions), own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is shown in Table 2 below:

Table 2: Capital Financing

	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Funding						
Grant	719	265	23	0	0	0
Capital Receipts	0	756	0	0	0	0
Earmarked Reserves	0	0	0	0	0	0
Revenue Contribution to Capital	2,523	3,658	3,288	4,229	4,421	4,521
Borrowing	1,665	8,885	16,410	4,011	2,473	2,613
Total Funding*	4,907	13,564	19,721	8,240	6,894	7,134

*The figures exclude the impact of IFRS16 as the adoption of this standard relates to a change in accounting treatment and does not represent cash expenditure.

- 2.6. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Planned MRP budgets are shown in Table 3 below:

Table 3: Replacement of prior years' debt finance

	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Minimum Revenue Provision	216	435	675	1,219	1,803	1,927

- 2.7. The PCC's full minimum revenue provision statement can be found in the Treasury Management Strategy.
- 2.8. The borrowing strategy is set out in the annual Treasury Management Strategy. Whilst borrowing is an important funding source, the revenue implications can be significant for shorter life assets. Therefore, the aspiration is to move to a position where borrowing is only used to fund assets with a life of more than 15 years.

- 2.9. The PCC's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £13.050mn during 2023/24. Based on the above figures for expenditure and financing, the PCC's estimated CFR is shown in Table 4 below:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Total CFR	30,864	37,109	50,159	50,460	48,866	47,417

*The figures exclude the impact of IFRS16 as the adoption of this standard relates to a change in accounting treatment and does not represent cash expenditure.

- 2.10. **Asset management:** To ensure that capital assets continue to be of long-term use, the Force has an asset management strategy in place. This sets out how the Force will manage the estate going forward.
- 2.11. **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. All disposals of surplus land and buildings must be approved by the PCC. When making any decision to dispose of assets the PCC must have regard to the right of the Chief Constable to have unfettered access to operational assets. The PCC shall consult with the relevant governance board and notify the Chief Constable. The PCC will have regard to the views expressed by the relevant governance board and the Chief Constable, but the final decisions will be a matter for the PCC. There are no new plans to generate a capital receipt in the coming financial year.

3.0. Treasury Management

- 3.1. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the PCC's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 3.2. As at the 31 March 2022, the PCC held £22.415mn of Private Finance Initiative (PFI) loans, £0.726mn of other long term loans, £13mn short term borrowing with Local Authorities and finance leases of £42,000. The PCC also held treasury investments totalling £12.481mn as at 31 March 2022. The PCC continues to maximise the use of the cash held before taking costly external debt, this is referred to as internal borrowing. It is anticipated the level of internal borrowing at 31/03/2023 will be £7.245mn.
- 3.3. **Borrowing strategy:** The main objective when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting, and the PCC therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.
- 3.4. The PCC does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

- 3.5. Projected levels of the PCC's total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown in Table 6 below, compared with the capital financing requirement.

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31/03/2022	31/03/2023	31/03/2024	31/03/2025	31/03/2026	31/03/2027
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Debt						
incl. PFI & Leases	23,183	29,864	43,589	45,109	45,318	45,795
CFR	30,864	37,109	50,159	50,460	48,866	47,417

- 3.6. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen in table 6, the PCC expects to comply with this in the medium term.
- 3.7. **Liability benchmark:** To compare the PCC's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10mn at each year-end. The benchmark at 31 March 2022 was currently £10.519mn and is forecast to rise to £42.337mn over five years as shown in Table 7.

Table 7: Borrowing and the Liability Benchmark

	31/03/2022	31/03/2023	31/03/2024	31/03/2025	31/03/2026	31/03/2027
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Borrowing	(5,319)	16,130	31,365	33,657	33,827	34,014
Liability Benchmark	10,519	21,442	37,888	41,602	41,877	42,337

- 3.8. Table 7 shows that the PCC expects to borrow over the MTFP period.
- 3.9. **Affordable borrowing limit:** The PCC is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt). In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Limit	Limit	Limit	Limit	Limit	Limit
	£'000	£'000	£'000	£'000	£'000	£'000
Operational Boundary	38,183	49,864	63,589	65,109	65,318	65,795
Authorised Limit	43,183	54,864	68,589	70,109	70,318	70,795

- 3.10. Further details on borrowing can be found in the Treasury Management Strategy.

- 3.11. **Treasury investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.
- 3.12. The PCC's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer term is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy. The PCC is able to request money back at short notice with these funds.

Table 9: Treasury management investments

	31/03/2022	31/03/2023	31/03/2024	31/03/2025	31/03/2026	31/03/2027
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Investments	12,481	(2,557)	(3,093)	(3,296)	(1,598)	355

- 3.13. Further details on investments and prudential indicators can be found in the treasury management strategy.
- 3.14. **Risk management:** The effective management and control of risk are prime objectives of the PCC's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses.
- 3.15. **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Treasurer and Treasury team, who must act in line with the Treasury Management Strategy approved by the PCC. Quarterly reports on treasury management activity are presented to the Resource Control Board. The Independent Audit Committee also consider the quarterly reports.

4.0. Investments for Service Purposes

- 4.1. The PCC could make investments to assist local policing services, however they do not currently hold any such investments.

5.0. Commercial Activities

- 5.1. The PCC does not invest in commercial property however there are a number of former police houses which are now classified as investment properties as they no longer have an operational function. These properties are currently valued at £2.106mn comprising of 7 properties providing a net return after all costs of 1.62%.
- 5.2. **Risk management:** There are additional risks with commercial investments than with treasury investments. The principal risk exposures include vacancies at the end of tenancies and a reduction in capital value. The risk of vacancies is mitigated by the intention to sell the properties once vacant possession has been achieved thereby generating a capital receipt and reducing future borrowing and associated revenue costs. No further commercial investments are anticipated.

- 5.3. **Governance:** Day to day decisions on investment properties are made by the Head of Estates in consultation with the Treasurer. Any decision to sell would be made by the PCC.

Table 10: Prudential Indicator: Net income from commercial investments to net revenue stream

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Limit	Limit	Limit	Limit	Limit	Limit
	£'000	£'000	£'000	£'000	£'000	£'000
Net Income	(34)	(35)	(36)	(37)	(38)	(39)
Proportion of net revenue stream	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%

6.0. Liabilities

- 6.1. In addition to debt detailed above, the PCC is committed to making future payments to cover the pension fund. It has also set aside £1.391mn to cover provisions. The PCC is also at risk of having to pay for: a £21,000 APCC pension guarantee; and compensation claims regarding the public service pension scheme reform. No funds have been put aside for these liabilities because it is not probable that an outflow of resources is required for the guarantee. This also applies to the compensation claims. Therefore, these liabilities have been shown as contingent liabilities in the 2021/22 accounts.
- 6.2. **Governance:** Decisions on incurring new discretionary liabilities are taken by the PCC in consultation with Treasurer. The risk of liabilities crystallising and requiring payment is monitored by the PCC, Chief Executive and Treasurer and reported quarterly to the Resource Control Board.
- 6.3. Further details on the liabilities and guarantees can be found in the 2021/22 Statement of Accounts.

7.0. Revenue Budget Implications

- 7.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax and general government grants.

Table 11: Prudential Indicator: Proportion of financing costs to net revenue stream

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Financing Costs	216	495	1,276	2,300	3,074	3,268
Proportion of net revenue stream	0.15%	0.31%	0.78%	1.36%	1.76%	1.81%

*The figures exclude the impact of IFRS16 as the adoption of this standard relates to a change in accounting treatment and does not represent cash expenditure.

- 7.2. Further details on the revenue implications of capital expenditure can be found in the MTFP.

- 7.3. **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 40 years into the future. The Treasurer is satisfied that the proposed capital programme is prudent, affordable and sustainable following the detailed review of the programme at the Capital Strategy Group and the development of the MTFP including the anticipated revenue impacts of the capital programme.

8.0. Knowledge and Skills

- 8.1. The PCC employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Treasurer is a qualified accountant with substantial experience. Where necessary, staff can study towards relevant professional qualifications including CIPFA, ACCA, CIMA and AAT.
- 8.2. Where the PCC needs additional resources or where staff do not have the knowledge and skills required, external advisers and consultants that are specialists in their field are used. The PCC uses Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the PCC has access to knowledge and skills commensurate with its risk appetite.