

**Lincolnshire Police Authority
2010-13 Budgets
Prudential Framework Requirements**

1. PRUDENTIAL CODE

- 1.1 The Committee has previously been advised of the changes to Capital Management, which resulted from the introduction of the Prudential Code for Capital Finance in Local Authorities produced, by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Prudential Code was revised by CIPFA in late 2009 and a second edition of the code produced which is reflected in the narrative below.
- 1.2 Following the enactment of the Local Government Act 2003, the capital regulations became effective from April 2004. These new provisions replaced the previous complex regulations governing Local and Police Authorities' borrowing powers.
- 1.3 The Prudential framework is one based largely on self regulation. Police Authorities are free to borrow to fund capital expenditure provided their capital investment plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.
- 1.4 To demonstrate that these objectives have been fulfilled the Prudential Code sets out indicators that must be used and the factors that must be taken into account. The Code does not include suggested limits or ratios these are for each Local Authority to determine and set under section 4 of the Local Government Act 2003.
- 1.5 The Prudential indicators are designed to support and record local decision making in a manner that is publicly accountable, they are not however designed to be comparative in nature. They will need to be looked at with regard to the Authority's Treasury Management policies and indicators.
- 1.6 The Authority is able to determine its own fixed asset capital investment programme to support the delivery of policing services. However, the Prudential Code specifies the indicators that the Authority must take into account. They cover:-
- Affordability
 - Prudence
 - Capital Expenditure
 - External Debt
 - Treasury Management
- 1.7 The Prudential Code clearly states that the permitted ranges for an Authority's indicators should be set and revised by the same body that approves the budget, in this case the Police Authority. The Statutory Financial Officer is responsible for ensuring that all matters to be taken into account are reported to the Authority.

The Statutory Officer is also responsible for ensuring that procedures exist for monitoring performance against the indicators.

1.8 In setting ranges for indicators, the Authority must have regard to the following:-

- Affordability in terms of Council Tax
- Prudence and sustainability (implications for external borrowing)
- Value for money (option appraisal)
- Stewardship of assets (asset management planning)
- Service objectives (strategic planning)
- Practicality (achievability of the forward plan)

Affordability

1.9 The Prudential Code is intended to ensure that authorities assess the impact on Council Tax levels when considering capital financing plans. In deciding whether a financing plan is affordable, the Authority will have to consider all the resources available to it over a minimum of a three year period. The Prudential Code will require authorities to develop rolling three year forecasts of revenue resources, Council Tax levels and capital expenditure plans. Risk management strategies will be an important feature of preparing these forecasts.

1.10 The Authority's affordability indicators include those that look back to the previous year end.

1.11 Forward indicators include the Authority's estimated:-

- Ratio of financing costs to net revenue stream
- Council Tax that would result from its spending plans
- Capital expenditure
- Need to borrow to finance capital spending
- Authorised limit for external debt
- Operational boundary for external debt

1.12 Year end indicators include the Authority's actual:-

- Ratio of financing costs to net revenue stream
- Capital expenditure
- Capital financing requirement
- External debt

1.13 The Operational Boundary for external debt represents the Authority's estimate of the most likely (not worst case) financial scenario and should equate to the maximum level of external debt projected on this basis. It is seen as a key management tool for in year monitoring. The Authority may occasionally breach its Operational Boundary, but if the breach is sustained or regular, then review and action may be needed. The Authorised Limit provides headroom over and above the Operational Boundary, sufficient to accommodate unusual cash movements.

Prudence

- 1.14 In addition to the affordability indicators described above, the Prudential Code requires a set of prudential indicators. A key prudential indicator is that the Authority must ensure that over the medium term it will only borrow for capital purposes. To achieve this, the Authority must ensure that net external borrowing does not (except in the short term) exceed the total of the capital financing requirement from the preceding year, plus estimates of additional capital funding it expects to receive in the current and the next two years.
- 1.15 Other prudential indicators are intended to monitor whether treasury management is carried out in accordance with good practice. These include:
- Compliance with CIPFA's Code of Practice for Treasury Management in the Public Services
 - Upper limits on fixed interest rate and variable interest rate exposures
 - Upper and lower limits for the maturity of borrowings
 - Upper limit for principal sums invested for periods longer than 364 days.

Decision Making

- 1.16 The Code recognises that option appraisal, asset management planning, strategic planning and achievability of the forward plan are integral to sound capital investment decision by authorities. Against this background, this report examines the requirements of the Prudential Code for capital finance.
- 1.17 Under the Prudential Code, there is a requirement to produce 3 year capital plans with the forecast of resources available. The Code provides for estimates of the revenue stream including potential Council Tax revenues. It is therefore essential that there is a robust capital plan in process which identifies the pressure for finance over the three year planning period and subsequently where there are known significant variations beyond this.
- 1.18 It has previously been agreed that capital "bids" need close scrutiny and, as resources will be finite, some priority setting process needs to be in place. The following mechanism was also agreed:-
- a) Formal capital appraisals to be carried out to ensure that the investment is necessary and appropriate. The appraisals identify needs and appraise options before prioritising.
 - b) Different levels of appraisal are required depending on a range of issues including the estimated total cost of the scheme or project, whether it is funded by special grant or part of a national scheme or project, for example an NSPIS scheme or a mandatory or legislative requirement, as well as the ongoing revenue costs.
 - c) Capital appraisals will help set priorities within each of the 4 blocks of capital expenditure – namely Information and Communications Technology (ICT), Property or Estate, Vehicles and Equipment. It will be up to the Force to suggest how these blocks are considered in the first instance before submission to the Finance & Performance Committee.
 - d) The capital programme will identify earmarked resources where available, for example specific capital grants. The impact on the revenue budget will

also be shown in the capital programme report, for example, loss of interest on capital receipts, cost of new borrowing and running expenses.

- e) The capital programme will continue to show the funding but will initially only show that which is guaranteed – for example, special grant or earmarked capital receipts. The balance required will be met from a combination of borrowing and other forms of capital funding. The borrowing capability will be measured in accordance with the Code and will determine the total level at which the capital programme is capped.
- f) It will be necessary to ensure that the programme is affordable, prudent and complies with professional good practice in Treasury Management. The proposed investment will also have to show the Prudential Indicators included in the Code, which measures these elements.

**Lincolnshire Police Authority
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Capital Strategy**

1. CAPITAL STRATEGY

- 1.1 Given the Prudential regime, it is important for the Committee to prepare and approve a statement of its Capital Strategy. The statement is intended to describe how the Authority and Force collectively determine their programme of capital investments including how it identifies the key priorities.
- 1.2 The Capital Strategy is important because:-
- g) It promotes the most effective use of the Authority's capital resources by ensuring that the capital investment programme is closely aligned to its key priorities;
 - h) Its assessment by HMIC and External Audit contributes to both the financial and operational management of the Police Service.
- 1.3 The Capital Strategy is based on the results of a detailed and critical appraisal by the Force of all capital schemes previously included in future programmes and new capital needs identified by Budget Managers this has resulted in a major Reprofiting of capital requirements over the next four years.
- 1.4 The Capital Strategy Consists of 4 elements:-
- a) Investment in the estate.
 - b) Investment in ICT.
 - c) Investment in vehicles.
 - d) Investment in equipment.

The Strategy for each element is set out below.

1.5 Investment in the Estate

The Force Estate Strategy reflects the changes of modern day policing and a need to ensure flexibility of use and adaptation. Its primary aim is to be ultimately improving service delivery to the public. To do this it needs to support the corporate and rural policing strategies and help to deliver aims and objectives in the policing performance plan. The strategy aims to achieve its objectives by:-

- Modernising existing buildings to allow new technologies and better information on this, which will enable efficient, effective and economic communication and service delivery.
- Providing strategically placed major incident facilities, identification parade suites and training facilities, taking into account the local communities across the country.

- Ensuring accommodation is strategically placed for deployment of officers to incident response.
- Providing a pleasant and professional working environment to enhance effective working and management and the high standards required from staff in the delivery of policing services.
- Providing strategically placed but highly visible and accessible contact points for Neighbourhood Policing Teams.
- Consulting with rural communities to ensure communication points are visible and conveniently located.
- Proactively managing legislative requirements in all police premises, and through consultation with relevant interest groups such as the BPA, ensure facilities are suitable for all staff.
- Co-operating with other agencies progress sharing/joint use of accommodation.
- Proactively managing the disposal of surplus accommodation and looking at innovative ways of updating the estate.
- Ensuring strategically placed but easily accessible locations are provided for handling of detained persons.
- Providing secure and private facilities for vulnerable victims and witnesses.

1.6 Investment in Information Communication Technology (ITC)

The Force established an ICT Strategy at its ICT Strategy Group meeting in October 2007 covering the period up to 2011. This is currently being fully reviewed and refreshed and will be presented to a future meeting of the Finance and Performance Committee. The existing strategy includes the upgrading of networks to handle confidential information and data. Further work is being undertaken to conform with Police National Database requirements, which are anticipated to be live in 2010/11.

The Force is fully committed to working with the National Police Improvement Agency (NPIA) and Regional Forces to comply with the requirements of ISIS (Information Systems Strategy for the Police Service). The capital strategy includes the provision for various systems and the infrastructure capable of dealing with these new systems.

1.7 Investment in Vehicles

The vehicle strategy is to ensure that a fit for purpose fleet of vehicles that enable the Force provide an efficient and effective delivery of policing services to the people of Lincolnshire.

The fleet establishment consists of:-

Vehicle Type	NO.
Motor vehicles	300
Vans	87
Motorcycles	19
Mobile Police Stations	3
Trailers	<u>7</u>
Total	<u>416</u>

The capital strategy is to ensure that:-

- a) these vehicles are acquired at the most competitive price and replaced at the most cost effective time, maximising usage and residual values. The capital receipts from vehicle sales will be reinvested in the capital programme.
- b) The fleet is flexibly managed to ensure that optimum use is made of individual vehicles; this is achieved by proactively switching vehicles between high and low mileage roles.
- c) The Force's procurement strategy is to utilise fuel efficient, high performance, diesel vehicles. This results in low running costs without a detrimental effect on response times. Vehicles are purchased through National Home Office contracts.

1.8 Investment in Equipment

The Force is committed to the provision of operational equipment in support of its front line policing activities. Investment in equipment is only included in the programme if it is demonstrated to returned positive improvements in the Force performance.

Protective equipment is an important part of this area of the programme, with provision made to plan for the eventual replacement of time expired equipment.