

Cumbria Police Authority

19 January 2010
Agenda Item Number 8

Proposed Capital Programme 2010-11 and beyond

A report by the Chief Constable

1. Summary

1.1. The purpose of this paper is :-

- (i) to update members on progress of schemes within the current approved capital programme and the effect they will have on the capital programme for 2010-11 and beyond.
- (ii) to advise members with an initial view of new capital developments the Chief Constable would wish to bring forward in 2010-11.
- (iii) to continue to bring to members' attention future significant potential capital schemes, which the Constabulary aspires to undertake, but which have been deferred, pending decisions as to whether they remain prudent, affordable and sustainable in the context of the Constabulary's longer term financial position.

In relation to the proposals, the paper seeks to recognise the wider and longer term financial implications facing the Constabulary and Authority and, in doing so, links to an adjoining paper, which deals with revenue budget for 2010-11 and beyond.

2. Recommendations

2.1. Members are asked to:

- (i) Note and comment on the proposed Capital Programme for 2010-11 and beyond.
- (ii) Approve the latest estimates of expenditure against current schemes.
- (iii) To approve the indicative capital development for Finance and Business Systems upgrade.

3. Impact of Previous Years Schemes on the 2010-11 Capital Programme

3.1. A number of current approved capital schemes will run into 2010-11 and beyond. For many projects this is in accordance with the planned profile of expenditure, although in some instances it results from project slippage. Prior to outlining new capital plans and resources for 2010-11, for members' information, it is worthwhile to briefly take stock of progress on existing schemes, which will impact on spending in 2010-11 and beyond.

3.2. In the December capital programme report to the Police Authority members were provided with a summary of progress on the 2009-10 capital programme and implications for future years based on projections at the end of September 2009. To remind members the main conclusions were as follows :-

- For the most part schemes are proceeding on time and budget.
- Slippage from 2009-10 into future periods is projected to amount to £2.1 million (20% of the original budget), with seven of the ten schemes planned new schemes in 2009-10 expected to progress beyond the scoping phasing in the year. Slippage is principally attributable to the Kendal Custody works where £1.2m of payments expected to be incurred at the end of the 2009-10 financial year will now fall into early 2010-11 and the Sleuth programme (£800k) where work has slowed as a result of competing priorities in Lancashire Constabulary.

3.3. Capital expenditure projections have now been updated based on the position at the end of November. In February, this report will be updated for the quarter 3 position as at December 2009 which will also be reported to Governance Committee in February. It is unlikely that the figures will differ substantially from the November position outlined in this report. The latest forecast in the main confirms the September projections outlined in paragraph 3.2 with the exception that work on Mobile Working is now expected to slip into 2010-11 whilst a new design centred around a broader vision is developed.

In addition, the November flooding has led to a further five week delay in the Command and Control system go-live date. This delay has had the effect of slipping some expenditure that was planned for 2009-10 into 2010-11. The project is still anticipated to come in on budget.

3.4. The latest projections of capital expenditure have been incorporated into the detailed proposed capital programme, which is shown as **Appendix 1** to this report.

4. Revision of the Capital Strategy

4.1. Members will recall that during the preparation of the 2009-10 capital strategy the Chief Constable, recognising the increasing budgetary pressures on the Authority and Constabulary, commissioned a review of current and future capital schemes to ascertain whether they remained affordable, sustainable and prudent.

4.2. The review concluded that for the most part the Constabulary was already committed to completing existing projects, but that some future schemes, most notably the development of custody facilities and a new BCU HQ at Barrow should be delayed by two years.

4.3. During 2009-10 the Constabulary's Chief Officer Group have recognised the likelihood of a further deterioration in Government funding in future years and recommended that:

- (i) The indicative estates project at Windermere estimated at £500k be removed from the programme.
- (ii) The annual budget for the IT Replacement programme be reduced by £300k from £800k to £500k per annum, with a corresponding reduction in financing contributions from the annual budget to the capital programme.

Both proposals were agreed by Police Authority as part of the budget paper in November 2009.

4.4. For presentational purposes schemes which were delayed as a result of the Chief Constables review in 2008-09, namely works to south estate and combined case and

custody system (C3PO), are not included in the main capital programme in **Appendix 1** but are included as a potential future schemes in **Appendix 2**, pending firm proposals to go ahead at a future date, subject to the provision of a business case and the identification of budget capacity.

5. National Resources supporting Capital Spending

- 5.1. The Minister of State for Policing, Crime and Security, (David Hanson) announced details of capital funding in 2010-11 for Police Authorities on 6th January. Nationally, allocations for capital grant and supported borrowing were confirmed at £220m which was as indicated when the three year settlement was originally announced in December 2007.
- 5.2. For Cumbria, the amount allocated for 2010-11 was confirmed in the statement of 6th January. The settlement represents good news in that there had been speculation that capital resources would be reduced in 2010-11. The allocation for 2010-11 is as follows :-

	2010-11 £m
Specific Capital Grant	1.127
Supported borrowing	0.621
Total Supported Capital Expenditure	1.748

- 5.3. Finally, to remind members, use of Home Office capital grant is not restricted to the year of allocation, but can be retained until needed, earning interest in the interim. The capital financing proposals in section 7 of this report indicate that the reserve of unapplied capital grants which the Authority has built up over the years, amounting to £5.288m at the end of 2008-09, are forecast to be applied in 2009-10 and 2010-11. These had been earmarked for application in earlier years but were rolled forward in order that future borrowing requirements could be brought forward in support of estates work at Durrhill and Kendal.

6. Capital Proposals 2010-11 and beyond.

- 6.1. Recognising that the Authority and Constabulary's forecast budget position allows little scope to accommodate new developments and that borrowing to finance future capital spending will increasingly impact on the revenue budget, new capital projects being brought to the Authority for approval have been restricted to those which have been assessed as the highest priority by the Constabulary Chief Officer Group.
- 6.2. The capital developments which the Chief Constable now wishes to formally bring forward for 2010-11 are as follows:
- Rolling forward of annual replacement programmes for Fleet, IT and IT Networks and Radio Infrastructure.
 - Upgrading Finance and Business Systems.
 - Phase 2 of Police National Database Implementation.

Brief details of individual schemes are described below and, where appropriate are supported by formal business cases as **Appendix 3** to this report.

- 6.3. In addition to the schemes detailed below another potential estates project is currently being developed. Following the flooding to the West BCU HQ at Workington in November 2009, the option to redesign the layout of the ground floor of the building during the reinstatement works is being considered. The current suggestion is for the essential services to be permanently relocated to the upper floors and for the ground floor to become more open plan with some meeting/conference room provision. At this stage the detailed scope and estimated cost of such redevelopment have not been funded but it is hoped that these will be able to be included in the February budget paper. Notwithstanding that the building at Workington forms part of a PFI arrangement and as such is owned by the PFI provider and not the Authority. The alterations can be carried out by the Authority as revenue expenditure funded from capital under statute.

6.3.1. Fleet Replacement Programme

This is the routine annual replacement programme, as presented for members to approve each year. The profiling of the replacement programme takes account of the calculations made by the fleet manager, based on a combination of vehicle age, condition, mileage and value, which ensures the minimum full life vehicle cost. The annual replacement programme for 2010-11 amounts to £858k with indicative amounts in the following years.

6.3.2. Information Technology Replacement Programme

This is the routine annual replacement programme, as presented for members to approve each year. The replacement programme reflects that IT hardware typically needs to be replaced every four years or so, before its performance deteriorates to an unacceptable level. The annual cost of the programme for 2010-11 has been reduced to £500k from £800k per annum as a result of a Chief Officer Group recommendation previously reported to members in November with indicative similar amounts in the following years.

6.3.3. Information Technology Network and Radio Infrastructure Programme

The annual IT Network and Radio Infrastructure Programme was incorporated in the Capital Strategy for the first time in 2008-09. The programme facilitates the maintenance and upgrade of the IT infrastructure, which underpins the force's IT applications, in a planned and co-ordinated manner, thereby ensuring that the force's IT systems to continue to operate effectively. The annual provision for Network and Radio Infrastructure replacement has an annual cost of £955k for 2010-11 with indicative similar amounts for future years.

- 6.3.4. As the above schemes relate to on-going replacement programmes which have previously been approved in principle by the Authority, new business cases have not been provided.

6.4. New Projects

6.4.1. Police National Database

The Police National Database is a national project. The first phase of the project incorporates Identity Access Management (IAM), Confidential Environment (CE) and PND. The capital strategy includes indicative amounts (previously approved) for IAM £624k and CE £580k, total £1,204k. A business case requesting a partial drawdown of funds in relation to the first phase of PND rollout is included elsewhere on this agenda. A further business case is to be submitted in Autumn 2010 for the second phase of PND delivery. The MTFE includes an indicative amount of £1.4m in respect of this

(capital £120k, revenue £1,280k) spread over 2010-11 and 2011-12.

6.4.2. Finance and Business Systems Upgrade

This project is ostensibly for the upgrade of the finance and payroll systems which have not been developed since the formation of the Police Authority in 1996. However, the capital investment is a precursor to a wider modernisation of support service systems and business processes which will include introduction of e-procurement and establishment of an internal finance/HR transaction shared service centre, and will release revenue budget savings in future years.

7. **Financing of Capital Proposals**

7.1. Financing of capital expenditure

7.1.1. The Capital Proposals now put forward are part of a long term indicative capital plan, which amounts to a total of £19m between 2010-11 and 2014-15. As highlighted in paragraph 4.4 above, the funded plan excludes potential schemes, which the Constabulary aspires to undertake but for which no approval is sought at the moment, including the replacement of the accommodation at Barrow. A summary breakdown of the programme is set out in the table below and is also attached in more detail at **Appendix 1**.

7.1.2. The table below also sets out a schedule of financing to support the proposed Capital Programme. Members will note that the Authority will have to resort to new external borrowing of £3.3m to finance the programme, subject to meeting the requirements of the Prudential Code of Practice on Capital Finance. This figure is somewhat less than previously reported to the Authority in the Medium Term Financial Forecast primarily because it now excludes the additional borrowing which would be necessary to finance the 'potential' schemes but is consistent with the capital position as reported in December.

7.1.3. In comparison with the financing assumed in December, a prudent approach based on Home Office indications that capital resources may be in shorter supply in future, has been adopted with a reduction of 25% in the annual capital grant assumed from 2011-12 onwards.

7.1.4. Other material sources of capital finance over the period set out in the table below include: -

- Capital grants – £11.2m, using existing grants and, for the future, applying expected grants based on the levels of grant entitlement announced on 6th January.
- Capital receipts – in light of the general economic climate and the current state of the property market, no capital receipts are now assumed beyond those already generated in 2009-10.
- Revenue Contributions to Capital Expenditure - £7.0m, assuming a revenue contribution of £1.200m in 2010-11 (see revenue budget proposals elsewhere on this agenda) and annual contribution of £1.2m thereafter.

	2009-10 £'000	2010-11 £'000	2011-12 £'000	2012-13 £'000	2013-14 £'000	2014-15 £'000	Total £'000
Capital Expenditure							
Existing Schemes	6,771	6,052	568	175	0	0	13,566
Proposed Schemes 2010-11	0	2,686	2,555	2,415	2,475	2,375	12,506
	6,771	8,738	3,123	2,590	2,475	2,375	26,072
Financing							
Capital Grants	5,162	2,713	845	845	845	845	11,255
Capital Receipts	142	0	0	0	0	0	142
Revenue Contributions to Capital	957	1,200	1,200	1,200	1,200	1,200	6,957
Capital Reserve	61	2,504	578	545	430	330	4,448
Borrowing	449	2,321	500	0	0	0	3,270
	6,771	8,738	3,123	2,590	2,475	2,375	26,072

7.1.5. As noted in paragraph 7.1.1 future Potential Projects, which the Constabulary aspires to undertake but are not being put forward for approval in the 2010-11 programme are excluded from the analysis above. For members information these projects, which include the replacement of the South BCU HQ amount, in total, to £11.4m. Progressing the potential schemes would entail further borrowing of £9.8m. A full analysis of potential future schemes is provided in **Appendix 2**.

7.2. Ongoing costs arising from Capital Schemes.

7.2.1. Ongoing costs arising from capital expenditure can be grouped into two distinct component sections. On the one hand most capital schemes incur ongoing running costs, and in addition, there are the costs in terms of interest foregone or direct borrowing to finance the expenditure. In relation to the schemes proposed for 2010-11 the only schemes which have ongoing revenue commitments is the replacement of the Finance and Business systems which are expected to generate ongoing savings of £375k from a combination of more efficient business processes and more effective procurement, which will, subject to scheme approval, be factored into the budget as they are further developed as part of the sustainability and excellence programme.

7.2.2. If the 'potential' schemes noted in paragraphs 7.1.1 and 7.1.5 were to be progressed at a future date, because they will principally need to be financed from an additional £9.8m of borrowing there would be a significant impact on the revenue budget. For illustrative purposes the annual effect of servicing this level of additional debt in terms of interest payments and statutory minimum revenue provision would amount to £700k per annum. This sum and any bespoke running costs relating to these schemes have NOT been factored into the revenue estimates reported elsewhere on the agenda at this stage, or into the Medium Term Financial Forecast.

8. **The Prudential Code of Practice and Sustainability of Capital proposals**

8.1. The Prudential Code for Capital Finance requires that supporting a Capital Programme by external borrowing must be judged in terms of its Prudence, Affordability and Sustainability and in the context of the broader budget proposals. The Chief Constable's proposals to delay investment in some new major projects until the financial challenges facing the Authority are addressed are entirely consistent with the objectives of the code. The annual Statement of Treasury Management and Prudential Indicators for 2010-11 and the following three years will be presented to the main budget meeting to accompany the formal budget proposals.

- 8.2. However, it should be noted that, in advance of the budget meeting, the effects of capital proposals on the revenue budget both in terms of direct revenue support for schemes and the costs of borrowing to fund the programme have been fully incorporated into the revenue budget for 2010-11 and the accompanying medium term financial projections to 2013-14 contained in the budget report elsewhere on this agenda.
- 8.3. The Capital Programme proposed in this report will form an integral component of the Chief Constable's vision to achieve an excellent and sustainable force from 2012.

Craig Mackey
Chief Constable
11 January 2010

Appendices

1. Schedule of existing capital expenditure with accompanying financing statement.
2. Schedule of proposed capital expenditure with accompanying financing statement
3. Business Cases in support of Proposed Capital Developments in 2010-11:
 - Finance and Business Systems Upgrade

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Human Rights Implications

None Identified

Race Equality / Diversity Implications

None Identified

Risk Management Implications

As identified in the report

Financial Implications

As identified in the report

Personnel Implications

As identified in the report

Capital Programme 2010-11 to 2014-15 – Proposed Schemes

Project Description	Forecast Outturn 2009-10 £000	Forecast Outturn 2010-11 £000	Forecast Outturn 2011-12 £000	Forecast Outturn 2012-13 £000	Forecast Outturn 2013-14 £000	Forecast Outturn 2014-15 £000	Total Costs £000
Existing Schemes							
Pre 2009-10 Schemes							
HQ Adaptations Protective Services	2	0	0	0	0	0	2
Off Site Accomodation Protective Services	5	0	0	0	0	0	5
Oracle 11i-Origin HR System	119	50	0	0	0	0	169
Oracle 11i-Finance System Upgrade	0	68	0	0	0	0	68
Command & Control	1,431	1,249	0	0	0	0	2,680
Upgrade Power Supply & Transformer at HQ	0	0	0	0	0	0	0
Implementation of Stand Alone e-learning	124	0	0	0	0	0	124
North Cumbria BCU Head Quarters	48	0	0	0	0	0	48
Alterations to Joiners Shop	-3	0	0	0	0	0	-3
Sleuth	141	998	25	0	0	0	1,164
Disability Discrimination Act Works (2007/08)	61	0	0	0	0	0	61
OS / Property Roof	29	1	0	0	0	0	30
Action for justice Interview Suites	15	0	0	0	0	0	15
Identity Access Management	503	120	0	0	0	0	623
Vehicle Replacements & Adaptations 08/09	240	0	0	0	0	0	240
Total pre 2009-10 Schemes	2,715	2,486	25	0	0	0	5,226
Approved Schemes 2009-10							
Vehicle Replacements & Adaptations 09/10	767	188	0	0	0	0	955
IT Replacements 09/10	900	37	0	0	0	0	937
Camera Scheme 09/10	88	0	0	0	0	0	88
IT Infrastructure - Wide Area Network (WAN) & IP Telephony Phase 2&3	987	67	43	0	0	0	1,097
West Estate - IT Server Room at Workington	205	0	0	0	0	0	205
South Estate - Kendal	449	2,321	500	0	0	0	3,270
Printer Replacement (Finance Lease)	50	0	0	0	0	0	50
Indicative Schemes 2009-10							
IT Application Server Replacement	0	150	0	175	0	0	325
PND Full Confidential System	580	0	0	0	0	0	580
Mobile Data	30	803	0	0	0	0	833
Total Existing Schemes	6,771	6,052	568	175	0	0	13,566
Proposed Schemes 2010-11							
Firm Schemes							
Fleet Replacement Programme	0	858	980	960	1,020	920	4,738
IT Replacement Programme	0	500	500	500	500	500	2,500
Indicative Schemes							
IT Network & Radio Infrastructure	0	955	955	955	955	955	4,775
Police National Database (PND)	0	0	120	0	0	0	120
Finance System Upgrade	0	373	0	0	0	0	373
Total Proposed Schemes 2010-11	0	2,686	2,555	2,415	2,475	2,375	12,506
Total Proposed Programme 2010-11	6,771	8,738	3,123	2,590	2,475	2,375	26,072
Financed By:							
	Forecast Financing 2009-10 £000	Forecast Financing 2010-11 £000	Forecast Financing 2011-12 £000	Forecast Financing 2012-13 £000	Forecast Financing 2013-14 £000	Forecast Financing 2014-15 £000	Total Financing £000
Capital Receipts							
Sale of Police Houses & Other Assets	12	0	0	0	0	0	12
Contribution re Camera Scheme	88	0	0	0	0	0	88
Contribution re Vehicles	42	0	0	0	0	0	42
Revenue Contributions to Capital Outlay	957	1,200	1,200	1,200	1,200	1,200	6,957
Capital Grants							
Capital Grants - Applied from Reserve	5,162	2,380	845	845	845	845	10,922
Specific Capital Grant - Mobile Data	0	333	0	0	0	0	333
Capital Reserves							
General Capital Reserve	0	2,504	578	545	430	330	4,387
DDA Reserve	61	0	0	0	0	0	61
Borrowing	449	2,321	500	0	0	0	3,270
Total Financing	6,771	8,738	3,123	2,590	2,475	2,375	26,072

Capital Programme 2010-11 to 2014-15 – Potential Future Schemes

Project Description	Forecast Outturn 2009-10 £000	Forecast Outturn 2010-11 £000	Forecast Outturn 2011-12 £000	Forecast Outturn 2012-13 £000	Forecast Outturn 2013-14 £000	Forecast Outturn 2014-15 £000	Total Costs £000
Proposed Future Schemes							
South Estate - BCU HQ	0	0	0	0	5,000	0	5,000
South Estate - Custody Unit	0	0	2,370	2,800	200	0	5,370
Sub-total Estates Projects	0	0	2,370	2,800	5,200	0	10,370
PMU/IT Projects							
Combined Case & Custody Preparation (C3PO)	0	0	1,100	0	0	0	1,100
Sub-total PMU/IT Projects	0	0	1,100	0	0	0	1,100
Total Potential New Schemes	0	0	3,470	2,800	5,200	0	11,470
Financed By:							
	Forecast Financing 2009-10 £000	Forecast Financing 2010-11 £000	Forecast Financing 2011-12 £000	Forecast Financing 2012-13 £000	Forecast Financing 2013-14 £000	Forecast Financing 2014-15 £000	Total Financing £000
Capital Receipts (Barrow)	0	0	0	0	1,000	0	1,000
Capital Receipts (Dalton & Ambleside)	0	0	0	0	700	0	700
Borrowing	0	0	3,470	2,800	3,500	0	9,770
Total Financing	0	0	3,470	2,800	5,200	0	11,470