Appendix 1

DRAFT

MPA BUDGET SUBMISSION

TO THE GLA

NOVEMBER 2004

PART x

BORROWING AND CAPITAL SPENDING PLAN 2005/06 TO 2009/10

Borrowing and Capital Spending Plan 2005/06 to 2009/10

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Schedules

Introduction

1. The borrowing and capital spending plan for 2005/06 to 2009/10 has been developed in accordance with budget guidance issued by the Mayor on 30 May 2004.

2. The budget guidance stated that the borrowing and capital spending plan should include:

   - details of proposed authorised borrowing limits over the period of the capital spending plan justified by reference to the requirements of the Prudential Code;

   - the level of borrowing required to support the capital spending plan separately identifying borrowing not attracting Government support (unsupported borrowing) from supported borrowing;

   - a statement of funding available detailing the various sources;

   - a list of all the proposed projects including:

     – a description of the nature of the expenditure;

     – the total cost of each project (minor projects grouped together);

     – previous years' expenditure (in total);

     – cost in 2005/06; and

     – projected cost over the next four years i.e. 2006/07 to 2009/10.

   - a statement linking capital expenditure to the delivery of objectives/priorities;

   - details of the revenue expenditure consequences of the capital spending plan, including debt management costs, which are to fully reflected within the revenue budget proposals. The consequences arising from projects expected to be funded by supported borrowing from those supported by unsupported borrowing should be separately identified; and

   - a statement outlining how projects have been prioritised and how performance is to be monitored and evaluated.

Overall Position

3. The medium term capital expenditure programme for 2004/05 to 2008/098 was approved by the MPA on 25 March 2004. It set the capital programme for 2004/05 and the capital allocations for future financial years. In doing so it recognised the better than expected capital settlement for 2004/05 and the increased flexibilities afforded by

the introduction of the Prudential Code. Since confirming the capital programme, changes have been made to the current year's programme. These result from slippage in respect of major projects such as the C3i Programme necessitating the carry forwarding of funds from 2003/04 to 2004/05 and beyond.

4. It is acknowledged that the scale of funding that can be made available for capital investment is insufficient to finance the full range of schemes the Authority would wish to initiate over the course of the capital programme 2005/06 to 2009/10. The Prudential Code has provided some flexibility in terms of allowing discretion over the level of borrowing which can be undertaken to support capital expenditure. However, caution still needs to be exercised in view of the financial burden that is borne by the revenue programme. The drive to increase police and police community support officer numbers brings accommodation, equipment, and technology demands that must be addressed. Whilst, a detailed planning process is already in place, ensuring capital investment is prioritised in line with Service needs, it has been recognised that a more focused approach is required, allowing a corporate wide analysis of overall affordability, prudence and sustainability as directed by the Prudential Code.

Capital Strategy

5. The MPA endorsed the establishment of a capital strategy in February 2004, with a draft document approved by the Finance Committee in July 2004. The strategy is enclosed at Schedule 5.1. Whilst much can already be claimed to be in place, the policy will mature and develop over the coming two to three years. The core element of the strategy is to focus the Authority's capital planning directly on projects and activities that support the achievement of the Authority's vision. Integral to the strategy are:

- the identification of investment needs;
- the generation of option appraisal for all major capital project proposals;
- prioritisation of capital projects thereby determining the allocation of additional capital resources;
- member involvement at all stages of the process thereby enhancing corporate governance and ensuring fully agreed corporate priority criteria;
- timely monitoring of ongoing and completed projects;
- management and evaluation of ongoing/completed projects to ensure benefits have been delivered;

- regular corporate review of the estate and existing vehicles, plant and equipment to ensure that it is being used in the most efficient and effective way;

- the establishment of a Capital Strategy Board; and

- the development of new asset management plans detailing management processes, planned action for improved corporate asset use, replacement criteria, etc.

6. The capital strategy will become an integral part of the strategic financial and service planning process supporting the annual budget setting exercise. The capital investment needs of the MPA will be set in the context of what opportunities are available both from internal resources, and using external partnership and co-operation, to ensure the achievement of strategic objectives.

7. The newly created Capital Strategy Board will be responsible for reviewing investment needs identified by business groups and assessing the merits of each scheme in accordance with agreed prioritisation criteria. Investment projects must be seen to build upon corporate goals and business group priorities. This process will be robust and transparent and will be subject to annual review. The strategy will ensure that schemes are shown to represent the strategic objective they support or the business goal they will fulfil. However, in the short term projects will continue to be identified by the type of activity involved e.g. property, technology, transport, etc.

Prioritisation and Monitoring

8. Capital resources have been allocated to MPS provisioning areas largely on the basis of previously approved MPA capital budgets. However, given the parlous state of the MPA Estate it is recognised that some regeneration can occur internally by using receipts secured from the disposal of buildings not suitable or fit for purpose to purchase modern structures offering adaptable accommodation options. Whilst, it will not be policy to ring-fence capital receipts for purely property purposes, the general condition of the MPA Estate will demand that there will be a significant call on capital receipts for Estate enhancement/improvement.

9. The criteria for determining the inclusion of individual projects within the spending plan have been subject to review as part of the capital strategy formulation process. Many of the key considerations still remain. However, the criteria have been sharpened to give a greater link with corporate objectives. Key prioritisation criteria are:

   - a mandatory legal requirement to provide the service or asset;

   - meeting the objective of the “Towards the Safest City” strategy;

- continuing or completing a capital project where there is a contractual commitment;

- a demonstrable need to replace an asset for efficiency purposes;

- where significant revenue savings will result; and

- the continuation or completion of a project where significant expenditure has already occurred and unjustifiable wastage of resources would result.

10. The Capital Programme Review Board will be responsible for ensuring that the above criteria are applied in a consistent manner and resolving any issues of conflict.

11. The monitoring of capital expenditure has recently been subject to review with spend information now forwarded to Committee as part of an integrated monthly report. The report details performance against the revenue and capital budgets as well as details of budget movements and progress against savings. All adjustments beyond the delegated approval level of £1m will be referred to Committee for approval, with new projects forecast to cost in excess of £0.5m reported to Committee for endorsement as to inclusion within the capital spending plan.

Development of Capital Spending Plan

12. In May 2003 the document 'Building Towards the Safest City 2003-08' was agreed by the Authority. This set out the revised property and estate strategy and explained how it complemented the MPS vision of making London the safest major city in the world. To meet our property needs it was acknowledged "we need to come up with some new and radical thinking to ensure (proposed) solutions are affordable, deliverable and in line with diverse and often complex front-line policing needs." Investment in land and buildings now reflects a policing priority theme based approach, concentrating on the statutory obligations placed on the MPA. "Building Towards the Safest City 2003-08" gives clear details on how the Estate will be managed and developed. It is seen as an essential cornerstone in the development of the new capital strategy.

13. Property is a long-term investment which must reflect the changing needs of a dynamic police force. Too much of our Estate is outdated and in the wrong place. The aim is to correct this in a dynamic and innovative way. Upgrading or renewing the Estate is no longer an option. The financial position will continue to be closely monitored to ensure that we can respond to investment opportunities as and when they present themselves.

14. Other key areas of the capital programme, e.g. IT and transport have also been reviewed. Significant investment in information technology continues to be made and implementation of the information strategy is critical in providing structured support in the fight against crime. Interrelated criminal justice, crime management, information management, and intelligence systems are being developed. Resource systems have also been enhanced, e.g. HR and Finance to ensure efficient and effective use of manpower and equipment can be made. In addition to these initiatives, considerable IT investment will result through the C3i Programme – see paragraph 25. Vehicles, boats and helicopters are essential assets to support front line policing in the capital. In the competitive motor vehicle industry negotiation with suppliers continues to ensure that vehicles and equipment are acquired at advantageous prices.

15. Renewal of the present helicopter fleet is deemed urgent. The three existing helicopters are becoming unreliable and not providing sufficient flying hours to support a wide range of territorial policing, public order and counter-terrorist activities. The cost of replacement would be prohibitive but subject to 40% specific funding being achieved from the Home Office, and reasonable sums being secured from the disposal of the existing craft, is considered sustainable and supportable utilising the flexibilities provided under the Prudential Code i.e. unsupported borrowing.

16. Timing problems can be experienced with major projects. The carry-forward of funds between financial years is possible but every opportunity is explored to anticipate projects from forward years to utilise available finances. This enables ‘slipped’ schemes to slot back into the capital programme and also eliminates the need to find additional funds as the portfolio of projects remains unchanged. For this to be achieved the must be a number of schemes within the spending plan that have the ability to be fast-tracked. As part of the development of the capital strategy a number of such projects are being identified as well as a call-off list of schemes which whilst initially afforded a low priority against the criteria listed at paragraph 9 can be called upon should savings be identified during the course of the financial year.

17. A summary of the expenditure proposals for 2005/06 and the next four years, i.e., 2006/07 to 2009/10 and the resultant resourcing proposals are set out in Schedule 5.2. Details of individual projects are set out in Schedules 5.3 to 5.8 in respect of each business group/programme of works. The MPA Finance Committee will review the capital programme in January 2005 following announcement by the Home Office of the capital settlement for 2005/06 for police authorities in England and Wales.

Resources

18. The capital spending plan has been prepared on the understanding that funding will be available from capital grant, capital receipts, capital reserves, specific grants awarded for named projects, and borrowing (supported and unsupported). There are of course ongoing revenue costs to be taken into account in terms of financing the borrowing aspect of the capital programme i.e. actual interest charges and the statutory requirement to repay an element of outstanding principal each financial year.

19. Future availability of funding is based on the following assumptions:

    - police capital grant – as per 2004/05 level;
    - supported borrowing – as per the 2004/05 level notified as part of the capital settlement.
    - unsupported borrowing – as deemed affordable, prudent and sustainable and required to ensure an efficient, balanced capital plan (see paragraphs 27 and 28 below);
    - capital receipts (see paragraph 21 below);
    - usable capital reserves (see paragraphs 22 - 24 below);
    - specific capital grants (see paragraph 25 below);

20. Other than in the utilisation of specific grants the MPA chooses not to identify individual funding arrangements for each project. A ‘pool’ of finance is available to meet recorded expenditure. This enables general capital grants to be fully utilised in the year of application by being written-off to the Capital Financing Reserve. To ensure compliance with the Prudential Code all projects to be financed through unsupported borrowing are specifically identified. This enables decisions to be reached on the affordability, prudence and sustainability of each individual scheme.

Capital Receipts

21. The sum included within the capital spending plan from the disposal of surplus assets as required for meeting planned investment needs is projected at £8m in 2005/06 and £7m per annum thereafter. This is in line with previous estimates. However, as noted at paragraphs 8, 12, and 13, should the opportunity present itself, options will be explored for the disposal of unsuitable/not fit for purpose properties to enable renewal/rejuvenation of the Estate.

Capital Reserves

22. Over recent years it has been possible to utilise usable capital reserves to support the capital programme. Usable capital reserves have remained particularly buoyant as a result of the decision to continue sales of the residential estate, coupled with disposal of redundant and outdated police stations. However, the level of reserves has diminished to the point where it is no longer considered prudent to reduce further the level of capital reserves.

23. In preparing the capital spending plan it is acknowledged that a suitable level of capital reserves should be maintained to ensure:

- security in respect of major projects such as the C3i and Step Change Programmes should funding or cashflow problems arise;
- reassurance that reserves are not denuded to such a level that serious financial concerns would arise;
- safety from the effects of less than budgeted in year capital receipts; and
- reassurance that reserves provide sufficient flexibility should critical capital expenditure issues arise.

24. For the duration of the C3i Programme it has been agreed that a minimum level of usable capital reserves of £10m be maintained. This ensures a suitable level of assurance exists should unforeseen circumstances arise.

C3i Programme

25. The C3i Programme comprises the replacement of the Authority's command and control system (MetCALL) together with the upgrade of the present police radio network (Airwave). The programme is largely funded from specific grants provided by the Home Office. However, it is recognised that £11.147m of MPA funds were invested at the onset of the project and further monies will be required to secure a successful conclusion. The scale of the project and the major outlay involved demands that the project is closely monitored. Timing problems are arising due to security considerations and the supply of the Integrated Communications Platform. It is acknowledged that with no further funds available from the Home Office, the expenditure profile for completion of the C3i Programme must be managed within the overall cash flow profile of the MPA capital spending plan 2005/06 to 2009/10. To this end, discussions have taken place with the Home Office to ensure that the payment profile of the relevant specific grants can be suitably adjusted to align with forecast expenditure.

Prudential Code

26. The Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, provide the regulatory framework for the new financial regime for capital expenditure. These documents support the new CIPFA Prudential Code which acts as a professional code of practice to support local authorities in taking investment decisions. The start date for the new system was 1 April 2004 and like many local authorities the MPA has been cautious in exploring the potential flexibilities provided under the Code.

27. Detailed work has been undertaken in determining appropriate indicators and borrowing limits to ensure that the capital investment plan is affordable, prudent and sustainable, that sensible planning principles are adopted, and that treasury management decisions are taken in accordance with sound financial management practice. The prudential indicators will be regularly updated to ensure that borrowing is maintained within affordable limits.

28. Within the capital spending plan financing of the capital programme has been pitched at the level of supported borrowing as notified within the 2004/05 capital settlement. Unsupported borrowing has largely been limited to the capitalisation of revenue items which it is recognised should more correctly be classified as capital expenditure. This adjustment of the spending plan takes heed of the operating de-minimis expenditure level for capital expenditure of £5k and the benefits that must be evidenced for capital items across more than one accounting period. In compiling the latest capital spending plan the opportunity has been taken to increase the level of unsupported borrowing used in this way from £5m to £15m. £5m has been added to the Property Services budget to support building enhancements and a further £5m added to the Department of Information’s budget in respect of the renewal of technical equipment. This decision complements savings identified within the revenue submission to achieve a balanced budget. Unsupported borrowing has also been utilised to finance new initiatives where alternative funding sources do not present themselves but are key to delivering the long-term objective of making London the safest capital city in the world e.g. renewal of the helicopter fleet and the Step Change Programme.

29. At the present time only stage one of the Step Change Programme is included within the capital spending plan. Subsequent tranches of the Programme are detailed within a separate part of the overall budget submission.

30. The list of prudential indicators and relevant calculations used in determining the appropriate level of borrowing to be negotiated by the Authority in support of capital expenditure are shown at Schedule 5.9. The calculations at present exclude the funding implications of future tranches of the Step Change Programme.

Property Services – Interim Operational Plan

31. ‘Building Towards the Safest City 2003-08’ has set out clear goals in terms of focussed strategies for policy delivery, concentrating on legislative and key policing aims rather than individual schemes of work. A wholesale review of the Estate is required as it is old and expensive to run: some 35% of it pre-dating 1940. Considerable funding is required and this is not readily available. An Interim Operational Plan has recently been published which acts a guide to how the MPA intends to manage the Estates over the next three take the first steps towards its vision of providing buildings that are fit for 21st century policing purposes. The plan is seen as setting down policy that will bridge the short-term gap in accommodation provision. It seeks to address the immediate concerns of the main operational command units. A copy of the Interim Operational Plan is included at Schedule 5.10 to this submission.

Asset Management Plans

32. Asset management plans are an integral part in the development of a grounded and workable capital strategy. They clearly define assets held, their general condition, how such assets can be utilised to maximum benefit, efficiency and performance targets, and include maintenance profiles to identify lifetime needs and when disposal should be considered. The asset management plans help define investment priorities. Their creation represents a considerable body of work and until such time that the MPS has an asset base that can be regarded as fit for purposes can only be approached in a fragmented way. Planning documents for the drawing up of asset management plans are attached at Schedule 5.11.

Revenue Consequences

33. When preparing the capital spending plan recognition has been taken of (a) the revenue costs of implementation; and (b) on-going costs once projects are completed e.g. maintenance, etc. (The former of these are noted against named capital schemes within the accompanying schedules.) All estimated revenue costs associated with the five-year capital plan have been incorporated within the revenue budget submission for 2005/06 and in the medium term financial projections for future years.

34. The revenue consequences of borrowing to finance the capital spending programme in terms of the debt management expenses that arise have been calculated and are shown in the calculations at Schedule 5.12. These costs have been taken into consideration in preparing the revenue submission for 2005/06 and future years. In formulating the capital strategy over the coming years it will be essential to recognise the full range of savings that can be achieved in revenue costs such as maintenance, etc. when choosing to invest in new property or IT

schemes. This will ensure that the full benefits of borrowing to invest are secured and could lead to renewal of the asset base without a significant impact on the revenue budget.

Forward View

35. The continued growth in police officer, police community support officer and police support staff numbers, brings with it increased demand for suitable accommodation and equipment for daily tasks to be performed. This coupled with the worn out and non-compliant condition of much of the MPA Estate, and the pressure to introduce modern technology and vehicles to assist in the fight against crime, means that the present capital programme is regarded as inadequate to meet real needs.

36. Decisions on which capital projects should proceed will be taken in line with the developing capital strategy. Demands on the revenue budget are considerable; such that any direct use of revenue funds to finance budgeted capital expenditure cannot realistically be considered. The consequence of this is that important schemes of work are being delayed longer than should be appropriate for a modern police force. It is likely that as understanding of the impact of unsupported borrowing on revenue expenditure grows the pressure will increase to allow the level of loan financed capital investment to rise.

37. Discussions continue with the Home Office on capital funding issues and the possibility of increasing the level of direct capital grants that can be made available. Steps will also continue to be taken to explore innovative ways of securing assets for use by the Authority, e.g. partnership arrangements, sponsorship, etc.