

<b>CAMBRIDGESHIRE POLICE AND CRIME PANEL</b>	<b>Agenda Item No. 8</b>
<b>24<sup>th</sup> March 2021</b>	<b>Public Report</b>

## Report of Acting Cambridgeshire Police and Crime Commissioner

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### OVERVIEW OF CAPITAL FINANCING 2021/22 TO 2024/25

#### 1. PURPOSE

- 1.1 To provide the Cambridgeshire Police and Crime Panel (the “Panel”) with an overview of the Acting Police and Crime Commissioner’s (the “Acting Commissioner”) capital expenditure and financing in response to a request from the Panel at their 3<sup>rd</sup> February 2021 meeting.

#### 2. RECOMMENDATION

- 2.1 The Panel is recommended to note the report.

#### 3. TERMS OF REFERENCE

- 3.1 Item 6 – to review or scrutinise decisions made, or other action taken, by the Police and Crime Commissioner in connection with the discharge of the Commissioner’s functions.

Item 8 - To support the effective exercise of the functions of the Police and Crime Commissioner.

#### 4. BACKGROUND

- 4.1 In recent years it has been possible to finance the Capital Programme largely through revenue and capital reserves and the Acting Commissioner has been able to maintain an under-borrowed position against the capital financing requirement.

- 4.2 Over the life of the current Medium Term Financial Plan (MTFP) to 2024/25, the Capital Programme totals £73.1m and the majority of the funding will need to be a mixture of short and long term loans. The programme covers the estate, vehicle fleet and ICT projects in the main. The capital expenditure profile of the programme over the MTFP period is as follows:

	Total Project Cost £	Project Spend to Date £	Forecast Programme 2021/22 £	Forecast Programme 2022/23 £	Forecast Programme 2023/24 £	Forecast Programme 2024/25 £
<b>Totals for All Schemes</b>	75,213,941	2,141,000	21,360,067	38,291,533	8,707,439	4,713,902

- 4.3 Capital grant funding for Police Forces is minimal – Cambridgeshire receives an annual capital grant of just £0.1m. The financing of the proposed Capital Programme therefore will see a necessary shift to higher levels of:

- a) External borrowing (peaking at £43.8m, representing 60% of the total financing of the programme to 2024/25, before falling back down to £28.3m); and
- b) Increased revenue contributions to capital outlay (RCCO).

- 4.4 The borrowing required is for planned, operationally essential developments, including the relocation of Parkside police station from Cambridge City, further investment in ICT, and national initiatives like the Emergency Services Network upgrade, Operational Support Unit training facilities and a new firing range facility. The latter two projects are joint projects as part of the Bedfordshire, Cambridgeshire and Hertfordshire collaboration. The cost of borrowing does have a revenue impact through increased interest costs and minimum revenue provision (MRP) payments both of which are already forecast in the MTFP.

£000	2021/22	2022/23	2023/24	2024/25	Total
Capital Grants	136	136	136	136	543
RCCO	3,000	3,000	3,000	3,000	12,000
RCCO (from Collaboration Vehicle recharges)	440	440	440	440	1,760
Capital Carry Forward Reserve	602	0	0	0	602
Capital Receipts Forecasts	5,850	1,250	0	16,700	23,800
Use under borrowed cash	6,054	0	0	0	6,054
Borrowing	5,279	33,466	5,132	-15,562	28,315
<b>Total Financing</b>	<b>21,360</b>	<b>38,292</b>	<b>8,707</b>	<b>4,714</b>	<b>73,073</b>

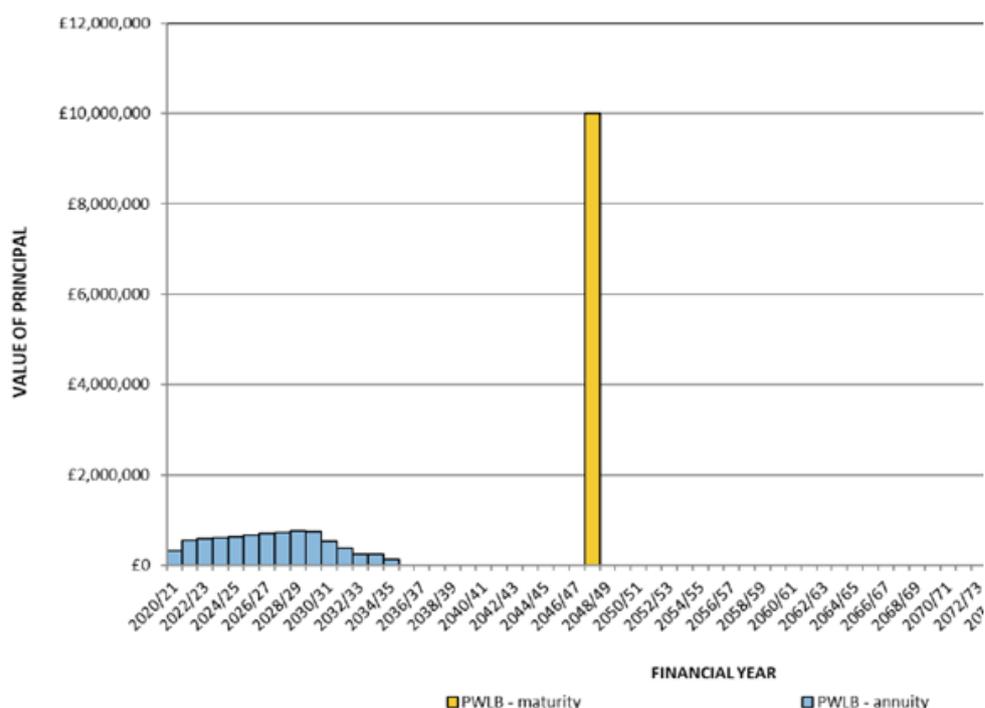
\*Note – totals may not add through due to rounding differences

- 4.5 Currently the Acting Commissioner has six loans with the Public Loans Works Board, totalling £17.5 million as set out in the table below. Five of the six loans are annuity loans with the sixth loan payable on maturity in 2046/47. The bar chart below illustrates the maturity profile of the Acting Commissioner's portfolio of loans. Annuity loans pay back both interest and capital whereas maturity loans pay back only interest until the loan principal is due for repayment i.e. at maturity.

#### Table of Acting Commissioner's Loan Balances

PWLB Loans	Balance as at 31/01/2021	Cash Balance as at 31/01/2021
Loan 1	£813,949.53	£813,949.53
Loan 2	£1,343,034.77	£1,343,034.77
Loan 3	£2,698,339.82	£2,698,339.82
Loan 4	£2,680,107.67	£2,680,107.67
Loan 6	£10,000,000.00	£10,000,000.00
<b>Total</b>	<b>£17,535,431.79</b>	<b>£17,535,431.79</b>

## Graph Illustrating the Maturity Profile of the Loan Portfolio



## 5. KEY ISSUES

- 5.1 In order to fund the Capital Programme, borrowing will peak in 2022/23, with gross borrowing forecast to total £59.1m which will impact both the revenue account and cashflow.
- 5.2 The impact of financing costs in the MTFP are detailed in the below table. The ratio of financing costs is one of the prudential indicators and shows the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue funding i.e. taxation and non-specific grant income. The higher the ratio, the higher the proportion of resources committed to service net capital costs, and which represents a potential affordability risk. The lack of capital grant funding referenced in paragraph 4.3 is a contributing factor to the Acting Commissioner's ratio of financing costs increasing in the context of having to fund assets to meet operational requirements.

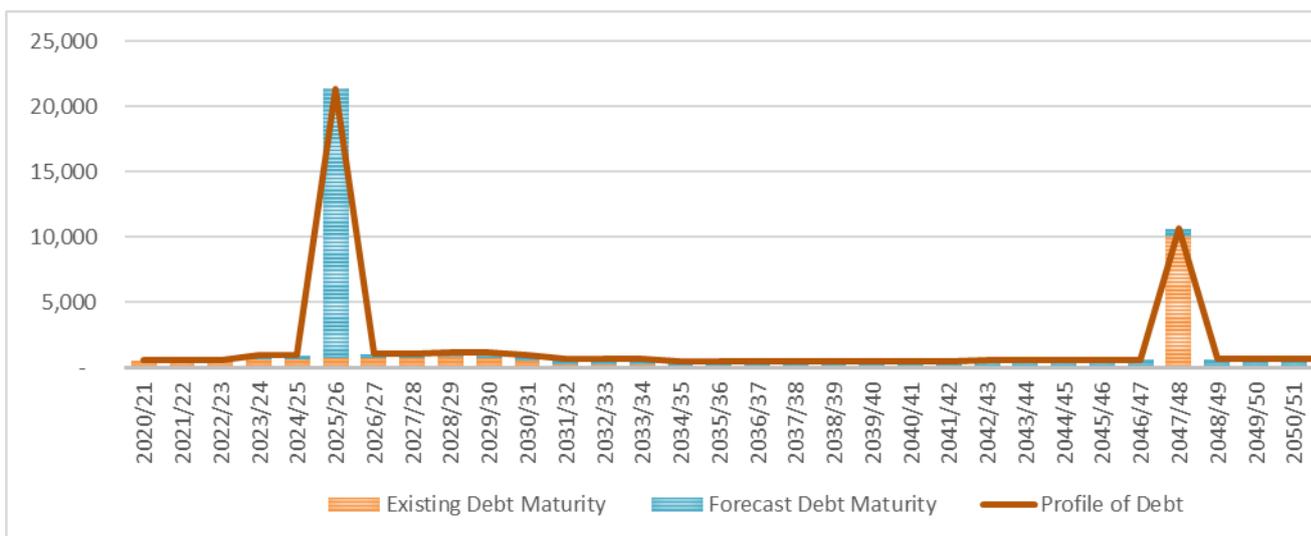
Ratio of Financing Costs		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
		Actual	Estimate	Estimate	Estimate	Estimate	Estimate
Interest cost on existing borrowing		627	604	579	553	526	526
Interest cost on new borrowing		-	-	-	611	1,287	1,278
Gains/losses on debt rescheduling		-	-	-	-	-	-
Interest and investment income		(175)	(114)	(114)	(114)	(114)	(114)
MRP & VRP		714	722	981	1,148	1,981	2,478
<b>Total Financing Costs</b>		<b>1,166</b>	<b>1,212</b>	<b>1,446</b>	<b>2,198</b>	<b>3,680</b>	<b>4,168</b>
<b>Net Budget Requirement</b>		<b>146,412</b>	<b>152,467</b>	<b>154,924</b>	<b>157,023</b>	<b>159,186</b>	<b>159,186</b>
<b>Ratio of financing costs</b>		<b>0.80%</b>	<b>0.79%</b>	<b>0.93%</b>	<b>1.40%</b>	<b>2.31%</b>	<b>2.62%</b>

5.3 The cashflow impact of debt maturity over the MTFP period is provided below:

	2020/21	2021/22	2022/23	2023/24	2024/25
Existing Debt Maturity	537	562	587	614	642
Forecast Debt Maturity		-	-	300	309
<b>Profile of Debt</b>	<b>537</b>	<b>562</b>	<b>587</b>	<b>915</b>	<b>952</b>

\*Note – totals may not add through due to rounding differences

5.4 The current MTFFS assumes a short-term loan payable on maturity will be taken out to cover the construction costs over the period until the Parkside site is disposed. Thereafter a long term fixed interest rate loan will be drawn to fund the remaining balance of the capital expenditure. This funding strategy is being kept under review. All new long-term loans are presumed to be on an annuity basis resulting in the following loan profile.



5.5 Although the repayment of the existing sixth loan of £10m in 2046/47, will not have revenue implications with MRP, a review of repayment options will need to be carried out in conjunction with the Commissioner’s Treasury Management Advisors.

5.6 The Acting Commissioner does carry a further risk resulting from the need to borrow externally which is the risk of future interest rate increases before the need to draw loans occurs. This would have the impact of increasing the cost of borrowing further. This risk is outside the control of the Acting Commissioner as it is influenced by the wider economy. The economic landscape will be kept under review with the support of the Commissioner’s Treasury Management Advisors.

## BACKGROUND DOCUMENTS

‘Medium Term Financial Strategy Report 2021/22 to 2024/25’ and ‘Final Capital Strategy 2021’, Agenda Item 8.0, Business Co-ordination Board, 16<sup>th</sup> March 2021

<https://www.cambridgeshire-pcc.gov.uk/accessing-information/decision-making/business-coordination-board/>