Office of the Police and Crime Commissioner for Surrey

Capital Strategy

The Police and Crime Commissioner for Surrey

2022/23 – 2026/27

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SURREY POLICE

CAPITAL STRATEGY

1. INTRODUCTION

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with desired outcomes and take account of stewardship, value for money, prudence, sustainability and affordability.

The Capital Strategy is a key document for the Police and Crime Commissioner (PCC) and Surrey Police and forms part of the authority's integrated revenue, capital and reserves planning. It provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the delivery of desired outcomes. It also provides an overview of how associated risk is managed and the implications for future financial sustainability. It includes an overview of the governance processes for approval and monitoring of capital expenditure.

The Capital Programme is developed through a set governance route of approval at the Strategic Change Board, CFO Approval Board and Chief Officers. There are three main areas which feature within the Capital Programme; Fleet, ICT and the Estate strategy, all have independent strategies in place which demonstrate the requirements from each individual area.

Throughout this document the term Surrey is used to refer to the activities of both the PCC and the Force.

2. OBJECTIVES

The CIPFA Prudential and Treasury Management Codes (2021 edition) require that for 2022/23, all local authorities will produce a Capital Strategy Report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that the PCC fully understands the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

The key aims of the Capital Strategy are to:

- provide a clear set of objectives and a framework within statutory legislation that proposes new capital expenditure to be evaluated to ensure that all new capital investment is targeted at meeting the Force priorities;
- set out how the Force identifies, programmes and prioritises capital requirements and proposals arising from business plans submitted through a stringent gateway appraisal mechanism comprising of Business cases;
- consider options available for funding capital expenditure and how resources may be maximised to generate investment in the area and to determine an affordable and sustainable funding policy framework, whilst minimising the ongoing revenue implications of any such investment;
- identify the resources available for capital investment over the medium term finance plan planning period;
- ensure the strategy has an overall balance of risk on a range on investments over timespan, type of investment and rate of return;
- establish effective arrangements for the management of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, value for money and security of investment, and,
- deliver projects that focus on delivering the long term benefits to policing in Surrey.

3. CAPITAL EXPENDITURE - DEFINITION

Capital expenditure is incurred on the acquisition/creation of assets, or expenditure that enhances/adds to the life or value of an existing fixed asset. Fixed assets are tangible or intangible assets that yield benefits to Surrey generally for a period of more than one year, e.g. land and buildings, ICT, business change programmes, equipment and vehicles. This is in contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services.

The capital programme is Surrey's plan of capital works for future years, including details on the funding of the schemes.

4. CAPITAL VERSUS TREASURY MANAGEMENT INVESTMENTS

Treasury Management investment activity covers those investments which arise from the organisation's cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Annual Treasury Management Strategy Statement.

The CIPFA Treasury Management Code recognises that some local authorities are entitled to make investments for policy reasons outside of normal treasury management activity. These may include service and commercial investments. However, like all police forces in England and Wales, Surrey Police does not have a General Power of Competence, which gives councils the power to do anything an individual can do provided it is not prohibited by other legislation. As such, Surrey Police is prevented from entering into commercial investment activities.

5. GOVERNANCE OF THE CAPITAL PROGRAMME

5.1 Governance process

Governance processes are in place along with contract standing orders and financial regulations to ensure that available resources are allocated optimally and deliver value for money, and that capital programme planning is determined in parallel with the service and revenue budget planning process within the framework of the Medium Term Financial Plan. These include:

- The PCC is ultimately responsible for approving the overall Capital Budget which is included with the annual Precept Proposal and presented to the Surrey Police and Crime Panel.
- The Change Planning Board reviews yearly and ad hoc proposals / concepts and ensures that the change portfolio remains affordable.
- The Change Planning Board critically assesses the yearly and ad-hoc changes in line with the Yearly Change planning. This Board review and asses priorities based any resources conflicts and provide recommendation on prioritisation ranking.
- The Strategic Change Board agree final business cases for all Surrey/Sussex collaborated change where funding has been identified or is already included in the revenue and capital budgets.
- The CFO Approval Board oversee, scrutinise and approve or recommend for approval business cases for capital investment and one off or on-going revenue investment that is considered business as usual
- The Extended Chief Officer Group will be consulted when business cases require Chief Officers or PCC oversight due to value or operational impact.
- The Joint Chief Officer Meeting will be consulted when Collaborated Surrey/Sussex business cases require Chief Officers or PCC oversight due to value or operational impact.

6. LINKS TO OTHER CORPORATE STRATEGIES AND PLANS

The PCC produces his Police and Crime Plan, the current version covers the period 2021-2025.

https://www.surrey-pcc.gov.uk/wp-content/uploads/2022/02/Police-and-Crime-Plan-2021-25.pdf

The Chief Constable produces a Force Business Plan which complements the Police and Crime Plan.

<https://www.surrey.police.uk/SysSiteAssets/media/downloads/surrey/about-us/business-plan-2017.pdf>

Surrey Police Commitments to our Communities, our Force, and our People set out how we will serve Surrey from 2020-2025, with the ultimate aim of making Surrey Be Safe, Feel Safe.

https://www.surrey.police.uk/police-forces/surrey-police/areas/au/about-us/priorities-and-direction/our-commitments/

To support these overarching documents a number of interrelated strategies and plans are in place, such as Medium Term Financial Plan which includes the capital programme, the Capital Strategy, Treasury Management and Annual Investment Strategy.

The operation of all these strategies and plans is underpinned by the Scheme of Governance which shows how the OPCC and the Chief Constable comply with the principles of 'good governance' and sets out the arrangement in place for effective governance and financial management. The Scheme of Governance comprises:

- Surrey Code of Corporate Governance*: This describes how the PCC and Chief Constable achieve the core principles of 'good governance'.*

- Framework of Decision-Making and Accountability**:** *This describes how the PCC will make/publish key decisions and fulfil his/her responsibilities to hold the Chief Constable to account. It also sets out the role of the Audit Committee.*

- Surrey-Sussex PCC Scheme of Delegation**:** *This sets out the key roles of the PCC/Chief Constable and those functions they delegate to others.*

- Memorandum of Understanding (MOU)**:** *The MOU describes how the PCC and Chief Constable will work together and ensure sufficient support in areas such as estates management, procurement, finance, HR, communications and corporate development.*

- Financial Regulations**:** *These set out the framework for managing the PCC's financial affairs.*

- Contract Standing Orders**:** *These describe the rules for the procurement of goods, works and services. Contracts are issued in the name of the PCC and the Chief Constable operates within the parameters of Contract Standing Orders.*

7. THE CAPITAL BUDGET SETTING PROCESS

7.1 Introduction

Surrey Police is committed to rolling medium term revenue & capital plans that usually extend for 4 years, setting out the anticipated level of expenditure and the associated funding. The plans are drawn up, reassessed and extended annually and, if required, re-prioritised to enable the aims and objectives established in the Force Business Plan to be achieved, along with the Force Commitment to support national drivers like the National Policing Vision for 2026.

The Medium Term Financial Plan provides the infrastructure and major assets through capital investment, enabling Surrey Police to strengthen and streamline core assets and systems, and provides the framework for delivering innovative policing with a lower resource profile.

Key focuses of the Capital Programme:

- To ensure the estate remains fit for purpose, identifying opportunities to streamline assets and develop the estate infrastructure; maintaining core sites and progressing the Estate Strategy.
- To ensure provision is made for ICT & Business Change Technology to maintain and develop the existing infrastructure and invest in the core technologies required to provide innovative digital policing services, as per the ICT Strategy.
- To ensure provision is made for transport within the Joint Transport service across Surrey and Sussex as per the Joint Transport Services Asset Management Plan.
- The maintenance and replacement of other core assets where necessary, e.g. communication infrastructure.

The plan acknowledges the financial position of Surrey Police and maximises both the available financial resources and the capacity that Surrey has to manage change projects.

7.2 Force Collaboration & Wider Sector Engagement.

Although Surrey Police has its own Capital Strategy and Medium Term Financial Plan the natural drivers that encourage local and regional forces to collaborate, such as cost and resource sharing, along with structured collaborations and national plans, can have a significant influence on local decision making.

One of the focal points therefore of the Surrey Capital Strategy is to acknowledge regional and national partnership working, both with other forces and in a the wider context of engagement with Local Authorities & Councils, and other Emergency Services, to improve overall service to the public.

7.3 Identifying Capital Expenditure / Investment Requirements

The capital programme is developed through the set governance route of approval at the Strategic Change Boards, CFO Approval Board and Chief Officer Group. The programme is supported by the respective strategies for the Estate, Fleet, ICT and business led requirements. The revenue impact of any such proposals are also included in the medium term financial planning model where the revenue account, if necessary, is charged with corresponding interest payable and "minimum revenue provision" costs when borrowing is required.

7.4 Affordability and Financial Planning.

The overall financial position of Surrey Police and hence the scope for future capital expenditure, must take into consideration the combination of the revenue budget, capital programme as well as the position on reserves. The revenue and capital budget positions are intertwined as achieving the Surrey priorities may require revenue expenditure or investment in capital items, depending on what is needed, and one impacts the other.

The revenue Medium Term Financial Plan will identify the potential financial position for Surrey for the next four years and will include forecasts on inflation, committed growth requirements, forecast productivity and efficiency savings, assumptions around grant and council tax funding and any other information introduced during the budget process.

The revenue position influences the capital position in terms of potential affordability of support for Direct Revenue Financing (DRF) of Capital Expenditure or debt charges (for external borrowing) whereas the capital bid process influences the revenue position in terms of both revenue consequences of capital programmes and also the requirement to financially support capital investment, either through DRF or external borrowing.

The extent to which the annual revenue budget, through the 4 year forecast, is expected to be able to support the capital programme is a key factor to overall financial planning and is becoming more so as other sources of funding cease to be available. The annual police capital grant provides only a small fraction of the funding required to maintain the Forces assets.

7.5 Capital Sustainability

For many years Surrey Police has benefitted from substantial capital reserves, supported by capital receipts from the sale of operational buildings or police houses.

The Capital Receipts Reserve contains receipts from the sale of assets which can be used to finance future capital expenditure. The Capital Receipts received in-year will be applied to fund capital expenditure in year.

As we move forward through the next 4 years and beyond, there will be a move away from funding of the capital programme through use of accumulate reserves and into a position of funding through either DRF or external borrowing for specific projects.

The capital financing approach remains to maximise the use of Capital Receipts to support the capital programme after the use of capital grant whilst maximising the overall benefit in underpinning the Revenue budget.

The strategy is focused around the type of asset that needs to be financed, with the aim that short life assets such as vehicles and IT will be financed from DRF whereas long life assets such as buildings, where necessary, are financed by borrowing.

The Surrey Police Strategy is therefore to invest in core infrastructure now that will not only offer overall service improvements to the public, but also maximise revenue savings into the future through more efficient and mobile use of police personnel, enabled by improved Information and Communication Technology systems and other core infrastructure, for example, a connected vehicle fleet and building assets.

The Surrey strategy will also be influenced by and take account of national visions for policing, regional and local priorities.

8. MONITORING OF THE CAPITAL PROGRAMME

Capital monitoring reports are submitted to both the Chief Constables Management Team and the PCC on a regular basis throughout the year. These reports are based on the most recently available financial information, showing spending to date and compare projected expenditure with the approved capital budget.

The Force request the PCC to approve the carry forward any capital budget slippage which is presented as a two year programme. This enables the Force to run a flexible programme allowing schemes to be deferred where there are genuine reasons for a delay, and also allows schemes that have made good progress to bring forward future allocations into the current year.

9. FUNDING STRATEGY AND CAPITAL POLICIES

This section sets out Surrey policies and priorities in relation to funding capital expenditure and investment.

9.1 Government Grant

The Government has ceased providing an annual grant to support the capital and investment programme from 2022/23.

Specific capital grants may be received for agreed capital works.

9.2 Capital Receipts

A capital receipt is an amount of money which is received from the sale of an item on the fixed asset register. They cannot be spent on revenue items and are used to help finance the capital programme. As the pool of assets available for sale declines the financial support from these receipts will diminish (see 7.5 Capital Sustainability).

9.3 Revenue Funding

Recognising that the pool of assets available for sale is declining direct revenue contribution is seen as a sustainable funding alternative. An appropriate provision for this is included in both the annual revenue budget and the medium term financial plan. As Surrey moves forward this is understood to become the limiting factor for capital investment as it balances annual revenue funding priorities with long term capital investment strategies.

9.4 Prudential Borrowing

Local Authorities, including the Police, can set their own borrowing levels based on their capital needs and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by the Government so Surrey Police needs to ensure it can fund the repayment costs. The

Surrey Minimum Revenue Provision Statement sets out a prudent approach to the amount set aside for the repayment of debt.

9.5 Reserves and balances

Unspent capital grant and capital receipt monies can be carried forward in the Balance Sheet until they are required to fund the capital programme.

Surrey has also set aside earmarked revenue reserves to help fund capital expenditure, most notably the PCC Estate Strategy Reserve.

HM Treasury guidance on capital projects recognises that there is a potential for projects costs to exceed the initial assessment. This is called Optimism Bias and relates to any project type, although it can have a particularly high impact when relating to the development of complex ICT or business change programmes. Surrey Police does not currently have an Optimism Bias Reserve but may consider this in the future.

9.6 Third party capital contributions

On occasion Surrey will receive income from a third party (usually a local authority) who have agreed to contribute towards an asset (e.g. ANPR cameras) that Surrey will own.

9.7 Leasing

Surrey may enter into finance leasing agreements to fund capital expenditure. However, a full option appraisal and comparison of other funding sources must be made and both the Chief Constable’s Chief Finance Officer (CFO) and the PCC’s Chief Finance Officer (CFO) must be satisfied that leasing provides the best value for money method of funding the scheme before a recommendation is made to the PCC.

Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority’s borrowing.

IFRS 16 Leases

The major change is that under IFRS 16 there will no longer be any distinction between operating and finance leases in the financial statements of lessees.

Currently, local authorities account for an item as an operating lease if most of the risks and rewards have not transferred to them. In this case, they simply record a rental expense on a straight-line basis over the lease term, with no long-term asset or liability recorded. This accounting treatment will cease to exist, except in the case of low-value items, or for short-term leases (under 12 months).

This means that local authorities will be required to include a right-of-use asset and an equivalent liability, at the present value of lease payments.

For many local authorities, this will mean that a significant amount of assets and liabilities that were previously not recorded and shown only in the lease commitments disclosure note will now be included in the statement of financial position.

The standard has no impact on the actual cash flows of the Surrey PCC. However the standard requires the capitalisation, and subsequent depreciation of costs that are currently expenses as paid which impacts disclosures of cash flows within the cash flow statement. The amounts currently expensed as operating cash outflows which will instead be capitalised are presented are financing cash outflows.

The introduction of the IFRS 16 lease accounting standard will increase the level of assets and liabilities, therefore increases will be required for the capital finance requirement, the operational boundary, the authorised limit and the ratio of financing costs to net revenue stream.

The re-measurement of lease liabilities for changes in inflation and the expected term will count as capital expenditure in the near future. The capital programme budget will therefore need to be adjusted for the estimated cost of this expenditure following implementation of IFRS 16.

In December 2020, CIPFA announced the deferral of the implementation of IFRS 16 Leases in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) until the 2022/23 financial year.

In December 2021, The Department of Levelling-up Housing and Communities (DLUHC) asked CIPFA/LASAAC Local Authority Accounting Code Board to deliberate how time-limited changes to the code may help ease delays to the publication of audited financial statements as only 9% of local authorities in England met the 30 September 2021 audit publication deadline. In response to this request, CIPFA/LASAAC issued an exceptional consultation, which included deferral of the implementation of IFRS 16 Leases.

Following closure of the consultation, CIPFA/LASAAC outlined a preliminary decision to pursue the deferral of IFRS 16 for a fixed period of two years subject to review and approval by HM Treasury’s Financial Reporting Advisory Board (FRAB) until the 2024/25 fiscal year.

9.8 Procurement and Value for Money

Procurement is the purchase of goods and services. Surrey has a Procurement Department that ensures that all contracts, including those of a capital nature, are legally compliant and best value for money.

It is essential that all procurement activities comply with prevailing regulations and best practice as set out in the Scheme of Governance, which includes Contract Standing Orders and Financial Regulations. Guidance on this can be sought from the Procurement team.

The main aim is to hold ‘value for money’ as a key goal in all procurement activity to optimise the combination of cost and quality.

10. PARTNERSHIPS AND RELATIONSHIPS WITH OTHER ORGANISATIONS

Wherever possible and subject to the usual risk assessment process Surrey will look to expand the number of capital schemes which are completed on a partnership basis and continually look for areas where joint projects can be implemented. In support of this initiative:

- Surrey has a joint ICT Department with Sussex Police and a number of ICT and business change programmes are being delivered collaboratively.

- Other capital schemes, most notably new technology programmes, are being delivered across the SE region is support of the SE Regional Information Technology Programme (SERIP) strategy.

11. MANAGEMENT FRAMEWORK

The PCC owns all assets, including short life assets, such as ICT, equipment and vehicles.

Although the PCC owns all land and buildings, on a day to day basis, the Head of Property manages the estate on his behalf.

The Chief Constable's CFO (Executive Director of Commercial and Finance Services) manages the medium term capital plan and the annual capital budget and provides regular updates to the Finance Planning and Performance Board who, collectively, maintain oversight of planned expenditure.

The PCC's CFO is responsible for developing and then implementing the Treasury Management Strategy Statement, which includes the Annual Investment Strategy.

Having approved the medium term capital plan and the annual capital budget in February each year the PCC formally holds the Chief Constable to account for delivery of capital projects.

12. RISK MANAGEMENT

The PCC's Treasury Strategy and investment policy has regard to the following to manage risk:

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The PCC's investment priorities will be security first, liquidity second, then yield (return).

Risk is the threat that an event or action will adversely affect Surrey's ability to achieve its desired outcomes and to execute its strategies successfully.

Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.

The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties. The corporate risk register sets out the key risks to the successful delivery of Surrey's corporate aims and priorities and outlines the key controls and actions to mitigate and reduce risks, or maximise opportunities.

To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.

It is important to identify the appetite for risk by each scheme and for the capital programme as a whole, especially when investing in complex and costly business change programmes.

Surrey Police accepts there will be a certain amount of risk inherent in delivering the desired outcomes of Police and Crime Plan and will seek to keep the risk of capital projects to a low level whilst making the most of opportunities for improvement. Where greater risks are identified as necessary to achieve desired outcomes, Surrey will seek to mitigate or manage those risks to a tolerable level. All key risks identified as part of the capital planning process are considered for inclusion in the corporate risk register.

The Chief Constable's CFO (Executive Director of Commercial and Finance Services) and the PCC's CFO will report jointly on the deliverability, affordability and risk associated with this Capital Strategy and the associated capital programme. Where appropriate they will have access to specialised advice to enable them to reach their conclusions.

12.1 Funding Capacity Risk

This is the risk that identified project costs are either understated or escalate during the project lifecycle, for example if project scope changes. This risk is mitigated as far as possible by the identified monitoring process and controls.

12.2 Credit Risk

This is the risk that the organisation with which we have invested capital monies becomes insolvent and cannot complete the agreed contract. Accordingly, Surrey will ensure that robust due diligence procedures cover all external capital investment. Where possible contingency plans will be identified at the outset and enacted when appropriate.

12.3 Liquidity Risk

This is the risk that the PCC might not have funds available to meet its commitments to make contracted payments on time or that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. This is also the risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates.

The PCC manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the Treasury and Investment Strategy reports), as well through a comprehensive cash flow management system, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

Whilst the Public Works Loan Board provides access to longer term funds, it also acts as a lender of last resort to authorities (although it will not provide funding to an Authority or PCC whose actions are unlawful). The PCC is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

12.4 Interest Rate Risk

This is the risk that interest rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Interest rates will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

There is also a risk that external interest rates will rise which may impact on the cost of borrowing externally. This risk will be managed by the Chief Constable’s CFO and PCC’s CFO by reviewing interest rates when borrowing is required and consult with Treasury Management advisors when required.

12.5 Exchange Rate Risk

This is the risk that exchange rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Where relevant, exchange rates will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

12.6 Inflation Risk

This is the risk that rates of inflation will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. This is of particular concern during this financial year as the implications of the pandemic and the invasion of Ukraine increase inflation to levels not seen for 30 years. Rates of inflation will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

12.7 Legal and Regulatory Risk

This is the risk that changes in laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, Surrey will understand the powers under which the investment is made. Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.

12.8 Fraud, Error and Corruption

This is the risk that financial losses will occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the agreed Code of Corporate Governance. Surrey has a strong ethical culture which is evidenced through our values, principles and appropriate behaviour. This is supported by the national Code of Ethics and detailed policies such as Anti-Fraud and Corruption and Declaration of Interests.

13. OTHER CONSIDERATIONS

Capital Schemes must comply with legislation, such as the Disability Discrimination Act, the General Data Protection Regulations (GDPR), building regulations etc.

14. COVID-19 and Ukrainian Invasion

The CIPFA Treasury and Capital Management Panel has identified a number of key issues which need to be considered as result of the COVID-19 pandemic.

Cash Flow Management

It is recommended that day-to-day cash flow management is prioritised during and immediately after the COVID-19 period. Forecasted cash flows are likely to be on a downward trend for the medium to long term. Alternatively, the new grant awards may lead to temporary surpluses. These should be considered against the Surrey Police's normal monitoring of and any breaches should be reviewed and reported. Assumptions will need to be transparent and Surrey Police will need to consider the financial control systems required to gather as much information as possible on key significant items of expenditure and income that will impact on cash flows, such as:

- the timing for likely changes to the major schemes in the capital programmes
- the impact of the pandemic on service provision (e.g. the cash impact of delivering services in different ways)
- new or different levels of grant income
- overtime or special arrangements for key workers
- changes to policy such as the changes to business rates
- consideration of the impact of the pandemic on other receivables such as council tax
- Inflationary pressures particularly on fuel, energy and other commodities

Liquidity

The impact of the various cash flow scenarios described above will create greater uncertainty over the amount and timing of cash flows collected by the force. It is likely that Surrey Police will need to keep under review the liquidity of their investment portfolios and make cash available in the shorter term. Surrey Police may also need to consider their ability to be able to convert investments to cash at short notice and even the liquidity of their longer-term investments.

Security

A key part of treasury management is the management of risk and the protection of the principal sums invested. Surrey Police will therefore consider the impact of COVID-19 on the approach to their treasury management activities.

Implications on PWLB Interest Rate Rise

Surrey Police will have a number of options to finance local authority capital expenditure:

- continuing to finance through PWLB at the new rate
- reducing or delaying elements of the capital programme
- seeking to fund through other sources of finance within the force e.g. revenue or capital receipts (though it is recognised that these sources are increasingly limited for the force)
- seeking alternative funding solutions

As with all capital financing decisions it will be important that they are properly evaluated and risk managed using the principles of the Prudential and the Treasury Management Codes. Borrowing will need to be sustainable, prudent and affordable, with a full understanding of the risks and impact on the authority. This will include:

- a full option appraisal against other alternatives – this will also need to consider options for postponement and not proceeding with the scheme or particular elements of capital expenditure plans
- an impact analysis on the Surrey Police's future finances, ensuring that this is fully understood in both the medium- to long-term and taking into account future changes in the economic environment
- an assessment of accounting consequences before entering into the transactions, including the impact on Surrey Police's general fund
- a full evaluation of the refinancing risks
- for new or 'innovative' transactions – an assessment of whether the authority and its decision makers have appropriate skills and experience to make the relevant assessments
- consideration of the impact that the new financing option will have on its capital strategy.

March 2022