



**Ethics Transparency and Audit Panel
5 February 2020**

**Fire Capital Strategy and Capital Programme 2020/21 to 2022/23
(Incl. Minimum Revenue Provision Policy)**

Item 4 (iii)

Report of the Director of Finance / S151 Officer

Summary

As part of the overall financial strategy for the Staffordshire Commissioner Fire and Rescue Authority a three year Capital Programme has been prepared. This report schedules the proposed investment programme for 2020/21 to 2022/23, and presents the indicators required within the updated Prudential Code. This all forms part of the Capital Strategy for the Staffordshire Commissioner Fire and Rescue Authority.

This report provides the Board with the opportunity to scrutinise this capital budget and strategy proposal prior to the Staffordshire Commissioner presenting the report to the Police, Fire and Crime Panel on the 10 February 2020.

The Prudential Code requires local authorities to determine that capital expenditure and investment decisions are affordable, prudent and sustainable, and to set limits on the amount they can afford to borrow in the context of wider capital planning. The Capital Strategy is part of the Authority's sound medium term financial planning process, ensuring there is a clear strategy supporting the next three years of capital investment.

The Capital Strategy sets-out how the long-term context in which capital investment and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes in line with the current Corporate Safety Plan. It also demonstrates that the Staffordshire Commissioner takes capital and investment decisions in line with Service objectives and properly takes account of stewardship, value for money, prudence, sustainability and importantly affordability.

This report also reviews the robust and prudent approach that has taken during the last few years, successfully managing the capital programme, reducing future capital financing requirements, and through the repayment of long term loans reducing interest payments.

This report should also be considered alongside the Treasury Management Strategy, with both reports covering the reporting requirements of CIPFA's Prudential Code and Treasury Management in the Public Sector.

RECOMMENDATIONS

That ETAP note:

- a) the summary three year Capital Programme for 2020/21 to 2022/23 as set out in Appendix 1,
- b) the detailed capital programme for 2020/21 as set out within Appendix 2
- c) the Capital Strategy for 2020/21
- d) the Prudential Indicators that are set out within Appendix 3 including the Capital Financing Requirement for the three year period
- e) that the funding of capital expenditure from Reserves for the period 2020/21 to 2022/23 is in line with the approved Reserves Strategy
- f) note the Minimum Revenue Provision (MRP) policy statement incorporated within this report

Financial Implications

As with the revenue expenditure, capital expenditure is undergoing rigorous review and is scrutinised by the Capital Review Group, with minutes reported through to Service Delivery Board.

A quarterly financial update is also reviewed by the Strategic Governance Board during the year.

Legal Implications

There are no direct implications arising from this report.

Equality and Diversity

Any Equality and Diversity implications need to be given due consideration at an individual project level based upon the requirements of each specific spend area. For example, the implications and considerations from property and improvement works will be very different to the vehicle replacement programme.

Risk Implications

The programme is presented in outline only and it is recognised that the allocation of funds may need to be reviewed or altered in the light of the commissioning of individual schemes and the impact of the collaboration and change agenda. Updates to SGB will be provided as required.

Consultation and Engagement undertaken

The Staffordshire Commissioner has allocated resources following full and proper budget consultation by the Service. The Capital Review Group was established during 2010/11 to provide detailed scrutiny for all capital spend proposals, minutes from this group are reviewed by the Service Delivery Board.

Protective and Information Security Implications

Protective security implications have been given due consideration when establishing the revenue and capital budgets for 2020/21, within individual departments and also Service wide.

Procurement and Social Value impact

The procurement and social value implications will be given due consideration when establishing the most efficient and effective procurement route for capital spend that will not only deliver the required economies but also give due consideration to local business within Stoke-on-Trent and Staffordshire.

The Commercial team within Staffordshire Police will work with the Service to ensure that Social Value is delivered.

Other implications

None

1. Background

- 1.1 The Capital Strategy forms a key part of the Staffordshire Commissioner Fire and Rescue Authority's overall Corporate Planning Framework. It provides a mechanism by which the Commissioner's capital investment and financing decisions can be aligned over the medium term planning horizon.
- 1.2 The Strategy sets the framework for all aspects of the Commissioner's Fire and Rescue capital and investment expenditure; including planning, outcomes, prioritisation, management, funding and repayment.
- 1.3 There are four main areas of spend which feature within the Capital Programme;
 - Estates and Facilities
 - Operational Equipment
 - Transport
 - Information systems and technology

2. Objectives

2.1 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 vision, aims and priorities of the Authority;
- set out how the Authority identifies, programmes and prioritises capital requirements and proposals;
- 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 MTFS planning period;
- ensure the strategy has an overall balance of risk on a range of 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;
- deliver projects that focus on delivering the long term benefits to the Authority and the communities served within Staffordshire and Stoke on Trent.

3. Governance of the Capital Programme

3.1 A governance process is clearly established within the Service and Staffordshire Commissioner's Governance Framework and will continue to be adhered to, will follow 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 MTFS. These include:

- The Strategic Governance Board (SGB) which is ultimately responsible for approving the Capital Strategy for investment and the Capital Programme for approving changes to the programme within financial regulations and for the approval of business case submissions.
- The Ethics, Transparency and Audit Panel (ETAP) which is responsible for scrutiny of the MTFS documents and the Capital budget monitoring reports and can make recommendations to the Strategic Governance Board (SGB).
- The Capital Review Group has been established for a number of years and provides detailed scrutiny for all capital spend proposals and monitors delivery of the current year's programme and develops a rolling three year programme. The group consists of key stakeholders from within the Service and holds responsibility for the delivery of the Service's capital programme and has clear Terms of Reference in place. Minutes from this group are reviewed by the Service Delivery Board.

- 3.2 For new major projects and programmes an outline business case will be submitted that needs to include the capital investment requirements, repayment mechanisms, revenue impacts of capital spend and also lifetime costing if applicable.
- 3.3 For smaller areas of capital spend (based upon a rolling programme of requirements) the proposals may be submitted through the Capital Review Group and approved by the Staffordshire Commissioner Fire and Rescue Authority through the Strategic Governance Board. This is recognising that the programme consists of smaller spend areas that do not require the production of a full outline business case.
- 3.4 The monthly Resource Control Report is produced and available to all staff within the Authority, in addition quarterly financial progress and monitoring reports are submitted to the Strategic Governance Board with bi-months reports reviewed by the Finance Panel which is a sub group of the Ethics, Transparency and Audit Panel (ETAP).

4. Capital Priorities

- 4.1 The capital strategy must recognise that the financial resources available to meet the requirements of the Safety Plan and the current three key priority areas that are being developed for the next period of the new plan :
- Prevention and Early Intervention
 - Protecting Staffordshire and its People
 - Public Confidence
 - Service Reford
- 4.2 The bringing together of blue light services under a single governance route to the Staffordshire Commissioner provides opportunities to co-locate and share assets to the good of the community, delivering efficiencies and savings.
- 4.3 The Staffordshire Commissioner Fire and Rescue Authority will seek to prioritise investment in order to deliver economy and efficiency within the Service. This prioritisation will be achieved through the robust governance arrangements discussed above.

5. Funding Approach

- 5.1 The Staffordshire Commissioner Fire and Rescue Authority's capital investment falls within, and needs to comply with, the "Prudential Code for Capital Finance in Local Authorities" (The Code). Under The Code local authorities have greater discretion over the funding of capital expenditure especially with the freedom to determine, within the regulatory framework of the Code, the level of borrowing they wish to undertake to deliver their capital plans and programmes.
- 5.2 The main sources of capital funding are summarised below:

- **Central Government Funding Grants**
Capital Grant funding is no longer available from Central Government and ceased in 2012. Prior to this date the Authority received a capital grant in excess of £1 million per annum. Funding from the Home Office has been made available since 2012 but only on a bid for basis e.g. transformational funding.
- **The use of internal cash balances**
Interest rates on cash balances, over recent years, have remained low which has resulted in this being a more efficient use of cash to invest in the capital programme rather than taking additional external debt. The use of internal cash is an approach that has been undertaken successfully by the Authority for a number of years.
- **The use of Earmarked Reserves**
The Authority has a Reserves Strategy which includes the Earmarking of Reserves to support the capital programme. Funding into the medium term has been identified through this approach and remains a key funding strategy. To date only the vehicle replacement programme has been supported through the use of earmarked reserves.
- **The use of Capital Receipts**
Disposing of surplus assets is a good way to reinvest in the capital programme. Receipts will be targeted at the shortest life assets and then their use considered widely within any flexibility allowed by the appropriate government authority. In accordance with statutory instruments capital receipts may also be used for the repayment of debt.
- **Direct revenue funding**
Capital expenditure may be funded directly from revenue (CERA – capital expenditure charged to revenue account). In addition to specific revenue funds previously set aside, such as repairs and renewal funds, capital expenditure may be funded by specific revenue budget provision.

This approach has been adopted successfully funding the capital programme during this time and consequentially reducing the Capital Financing Requirement by £6.5m during the period 2013/14 to 2018/19. Due to funding pressures and a significant reduction in Revenue Support Grant funding this opportunity for direct revenue financing has reduced during the last financial year.

- **Borrowing and Leasing**
Under the Prudential Code the Authority has discretion to undertake borrowing to fund capital projects with the full cost of that borrowing being funded from the project returns or upon agreement to include in the MTFS estimates.

This discretion is subject to complying with The Code's regulatory framework which essentially requires any such borrowing to be prudent, affordable and sustainable (Local Government Act 2003). Prudential borrowing does provide an option for funding additional capital development but one which has to be funded

each year from within the revenue budget or from generating additional ongoing longer term income streams.

The Authority will test the prudence of the borrowing predictions against the prudential indicators set under The Code every year as part of the MTFS process and report on progress against those indicators half yearly.

Through the use of internal cash and direct revenue financing no new loans have been taken since 2010/11, and following the repayment of £0.5m of loans during 2019/20 the overall loans position will be reduced to £17.5m by 31 March 2020. This prudent approach to borrowing is inline with the Treasury Management Strategy and will continue into the medium term. However, should borrowing be required the Authority will continue to consider on a cautious and prudent basis as informed by a specialist team contracted from Staffordshire County Council in relation to Treasury Management who work closely with the finance team.

The Authority will utilise operational leases where possible for the purchase of minor equipment, IT and vehicles as supported by an appropriate business case.

Risk Management

- 5.3 Risk is the threat that an event or action will adversely affect the ability to achieve a desired outcome or execute strategies successfully.
- 5.4 To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.
- 5.5 The Director of Finance will report 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.
- 5.6 There are many categories of risk to be mindful of; these are detailed in **Appendix 4:**
 - Credit Risk
 - Liquidity Risk
 - Interest Rate Risk
 - Exchange Rate Risk
 - Inflation Risk
 - Legal and Regulatory Risk
 - Fraud, Error and Corruption

6. Capital Programme 2020/21 to 2022/23

- 6.1 The proposed Capital Programme for 2020/21 to 2022/23 is contained within **Appendix 1** of this report. The total Capital Programme for 2020/21 has been estimated at £4.8m, for 2021/22 £2.9m and for 2022/23 £2.4m.
- 6.2 The detailed scheme analysis supporting the programme for 2020/21 is shown within **Appendix 2**.
- 6.3 The Staffordshire Commissioner Fire and Rescue Authority is required to set estimates, impose limits and to report and publish actuals in line with The Prudential Code. The indicators for adoption by the Authority for 2020/21, 2021/22 and 2022/23 are set out in **Appendix 3**.
- 6.4 There are four main areas of spend which feature within the capital programme; Estates and Facilities which includes building and infrastructure work, Operational Equipment, Transport Appliances and Vehicles and finally Information Systems and Technology.

The four areas are discussed in more detail below.

- **Building and Infrastructure Work**

The budget proposal for 2020/21 includes a total capital requirement of £2.7m, which consists of the following main building and infrastructure projects plus some minor works:

- Stafford Fire Station, £1.5m. This is the balance held for the Transformation Funding Grant. As part of the Estates Strategy work will be ongoing into 2020/21 with a number of potential options being considered for this investment by the Staffordshire Commissioner. This will require a full business case being developed for approval by the Authority (through the Strategic Governance Board) and Home Office
- The refurbishment of Abbots Bromley fire station, £0.5m. This project being partially funded by the earmarked reserve created utilising the refinancing cash benefit from the PFI1 project (reinvestment back into the estate). This project was originally budgeted for 2018/19 but the scope of the project so far has exceeded the financial envelope. The budget includes additional work for the replacement of the drill tower
- The refurbishment of Brewood fire station, £0.5m. This project is currently being developed by the Property and Estates Team who will present options for this site to the Strategic Governance Board.
- Minor works at HQ site, £0.2m including replacement of windows, appliance bay roof and CCTV installation.
- The programme currently excludes the capital cost for the development of Hanley Fire Station into a joint Police and Fire response hub.

- **Operational Equipment**

Total investment of £0.4m has been identified and included within the programme for 2020/21:

- Appliance – hydraulic cutting equipment (battery powered), £0.1m
- Thermal imaging camera replacement, £0.1m
- Water rescue equipment, £0.1m
- Other areas, £0.1m

- **Appliances and Vehicles**

A vehicle replacement programme of £1.1m has been included within the proposed budget for 2020/21:

In summary the vehicle replacement programme includes the following:

- Possible refurbishment of PRLs, under review, £0.3m
- Aerial Ladder Replacement (ALP), £0.7m. This investment was originally included with 2018/19
- Light Vehicles, £0.1m, the programme includes the replacement of light vehicles as part of the rolling vehicle replacement programme

- **Information Technology**

The ICT programme for 2020/21 of £0.58m includes the following:

- Ongoing ICT rolling replacement programme for desktop and infrastructure, £0.3m,
- PSN core network development, ESN Enablement, £0.15m
- Other (including conference equipment, appliance fixed phones, telephony works), £0.13m

7. Funding the Programme

8.1 **Appendix 1** also details the proposed funding strategy for the 2020/21 programme together with indications for the funding of the next two years. For 2020/21, the programme will be funded by a combination of Government Grant, Earmarked Reserves and the use of Internal Cash. This is also reviewed within the Treasury Management Strategy Report.

8.2 The Authority will also seek to fund as much of the programme as possible through direct revenue contribution should additional savings be available in year.

8. Minimum Revenue Provision (MRP) Policy Statement

- 9.1 The Staffordshire Commissioner Fire and Rescue Authority is required each year to set aside some of its revenues as provision for debt repayment. This MRP provision essentially allows the Authority to “pay off” an element of the Capital Financing Requirement annually through a revenue charge known as the Minimum Revenue Provision (MRP).
- 9.2 The MRP was previously defined by statute with regulations providing for MRP as a 4% charge in respect of the amount of the Capital Financing Requirement (CFR). Under current regulations, the rules have been replaced with a general duty for a local authority to make an MRP charge to revenue which it considers prudent. The new regulation does not itself define “prudent provision”. However, guidance has been issued specifying methods for MRP calculation, which the Secretary of State considers prudent thereby effectively determining prudent provision.
- 9.3 Regulations require the Authority to approve an MRP Statement in advance of each year. It is recommended that the Authority continue to apply a MRP to capital expenditure funded by borrowing under the ‘Asset Life Method’: which calculates the MRP charge based on the estimated life of the asset for which the borrowing is undertaken.
- 9.4 The total level of debt for this Authority as at 31 March 2020 is forecast to be around £26.9m, and is forecast to increase to £27.5m by March 2023 based upon the capital investment requirements outlined within this paper.

Report Author: - David Greensmith ACMA CGMA
Telephone: - 01785-898690
Email: - d.greensmith@staffordshirefire.gov.uk

Staffordshire Commissioner Fire and Rescue Authority

Summary Proposed Capital Programme 2020/21 to 2022/23

	2020/21 Budget £	2021/22 Estimate £	2022/23 Estimate £
Building & Infrastructure Works			
Refurbishment Programme	2,516,480	600,000	0
Improvement Works	230,000	130,000	170,000
Total	2,746,480	730,000	170,000
Operational Equipment	391,000	247,000	991,000
Appliances & Vehicles			
Appliances & Specialist Vehicles	950,000	1,000,000	750,000
Vans & Cars	150,000	150,000	150,000
Total	1,100,000	1,150,000	900,000
Information Technology	580,000	850,000	300,000
Total Capital Programme	4,817,480	2,977,000	2,361,000

Funding			
Capital Grant	1,529,480	0	0
Abbots Bromley Refurbishment Reserve	417,100	0	0
Appliances & Vehicles Reserve	0	0	0
ALP Reserve	700,000	0	0
Capital Receipts	0	0	0
Borrowing Requirement	2,170,900	2,977,000	2,361,000
Total Funding	4,817,480	2,977,000	2,361,000

Staffordshire Commissioner Fire and Rescue Authority

Detailed Capital Programme 2020/21

Scheme Description	Detail	Budget 2020/21 £
<u>IADS</u>		
Stafford Refurbishment		1,529,480
Abbots Bromley Refurbishment		417,000
Abbots Bromley Tower	Drill Tower Replacement	70,000
Brewood Refurbishment	Internal Refurbishment	500,000
		2,516,480
<u>Building Works - Improvements</u>		
HQ - Amenities	Replacement of Windows (Incl. £50k c/fwd from 16/17)	100,000
HQ - Appliance Bay Roof	Replacement of roof insulating panels	80,000
CCTV Installations		50,000
		230,000
<u>Operational Equipment</u>		
Appliance Equipment - Hydraulic Cutting Equipment	Battery powered cutting equipment - 4 sets @ £17,000	104,000
Operational Equipment Pool	to be allocated for unknown equipment replacement (Incl. £15k for Dust Masks)	40,000
Water Rescue Equipment	Includes Bouyance Aids, Helmets and Drysuits (Incl. L&D)	66,000
Gas Tight Suits (GTS)	14 x New GTS to replace old	15,000
Thermal Image Cameras	Replacement due to warranty expiry (Phase 1 of 2) - 20 units @ £4,000	80,000
FF Decontamination Equipment	to replace exisitng equipment on IRU (2 units @ £15,000)	30,000
Hose Reel Branches	For exisitng Scania Appliances (flow test at 100L/M)	25,000
Appliance Equipment - Refurbished PRL	Kit for 1 x Scania PRL	21,000
Foam Equipment		10,000
		391,000
<u>Appliances & Vehicles</u>		
Appliances Pool	Conditioning scoring fleet following delivery of new Rosenbauers - Possible refurb of PRLs / recommissioning of CAFS	250,000
Light Vehicles Pool	Mix of Cars & Vans	150,000
ALP		700,000
		1,100,000
<u>Information Technology</u>		
ICT Rolling Programme - Desktop		150,000
ICT Rolling Programme - Infrastructure		150,000
Main Telephony Pre-works (1 of 2)		50,000
PSN Core Network		100,000
ESN Enablement (1 of 2)		50,000
Conference Equipment	C/fwd from 19/20 + an additional £20k	50,000
Appliance Fixed Phones		30,000
		580,000
Overall Total		4,817,480

Staffordshire Commissioner Fire and Rescue Authority Prudential Indicators

A. Indicators for Affordability, Prudence and Capital Expenditure

1. Ratio of Financing Costs to Net Revenue Stream

Estimate 2020/21	Estimate 2021/22	Estimate 2022/23
%	%	%
11.4	7.0	5.4

This shows the capital financing costs (interest charges/receipts and repayment of loans) as a proportion of government grant (revenue) and Council Tax. This allows the Authority to track how much of its annual income is needed to pay for its capital investment plans proportionate to its day to day running costs.

2. Estimates of Capital Expenditure

Estimate 2020/21	Estimate 2021/22	Estimate 2022/23
£m	£m	£m
4.817	2.977	2.361

Expressed in absolute terms rather than as a ratio, this shows the overall level of capital investment irrespective of how it is being funded.

3. Capital Financing Requirement / Gross Debt

Estimate 2020/21	Estimate 2021/22	Estimate 2022/23
£m	£m	£m
28.606	27.225	27.570

This indicator effectively shows the level of the Authority's underlying need to borrow for capital purposes.

Net borrowing is not expected to exceed the total of the capital financing requirement (except in the short term)

It is a key indicator of prudence that, over the medium term, net borrowing is only for capital purposes.

B. Indicators for Treasury Management

1. Treasury Management Code of Practice

The Authority has adopted the CIPFA Code of Practice on Treasury Management

2. External Debt

	2020/21	2021/22	2022/23
	£m	£m	£m
a. Authorised Limit	32.6	33.3	33.9
b. Operational Bound	28.6	28.6	31.3

This indicator identifies two limits in relation to external debt, and excludes PFI.

The Authorised Limit is the maximum level of external borrowing which should not be exceeded. The limit is linked to the estimated level of borrowing assumed in the Capital Programme.

In addition an Operational Boundary is required which represents the Director's estimate of the day to day limit for the Treasury Management activity based on the most likely i.e. prudent but not worst-case scenario.

Glossary of Risk Management Categories

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

Liquidity Risk is the risk 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 exposure to this risk will be monitored via the revenue and capital budget monitoring processes. Appropriate interventions will occur as early as possible.

Interest Rate Risk 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 on-going 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.

Exchange Rate Risk 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.

Inflation Risk 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. Rates of inflation will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible any exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

Legal and Regulatory Risk 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, we 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.

Fraud, Error and Corruption 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. This is supported by the national Code of Ethics and detailed policies such as Counter-Fraud and Corruption and Declaration of Interests.

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