

Item No.4 (iii) on Agenda

Report to the Police Fire and Crime Panel

13 February 2023

**Fire Capital Strategy and Capital Programme 2023/24 to 2025/26
(Incl. Minimum Revenue Provision Policy)**

Report of the Staffordshire Commissioner

INTRODUCTION

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 2023/24 to 2025/26, 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 for the next three years.

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 Authority 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 approach that the Authority 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 the Police Fire and Crime Panel note:

- a) the three year Capital Programme for 2023/24 to 2025/26 as set out in Appendix 1,
- b) the detailed capital programme for 2023/24 as set out within Appendix 2
- c) the Capital Strategy for 2023/24
- 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 2023/24 to 2025/26 is in line with the updated Reserves Strategy
- f) the Minimum Revenue Provision (MRP) policy statement incorporated within this report
- g) the capital programme and capital strategy supports the main Budget and MTFS paper

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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 Authority 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. Actions 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 through the governance arrangements 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 Finance 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 Corporate Safety Plan and the four key priority areas:
- Prevention and early intervention
 - Protecting Staffordshire and its people
 - Public confidence
 - Service Reform
- 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 Staffordshire Fire and Rescue and Staffordshire Police will continue to build upon the collaboration that has resulted in joint response bases in Tamworth Belgrave and Hanley. The introduction of the new Police Operating Model will see further opportunities to share locations as the joint estate strategy continues to evolve. The following locations are currently under review, Chase Terrace, Stone, Uttoxeter and Kidsgrove with progress expected during 2023.
- 4.4 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:
- **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 during the last few financial years.
 - **The use of earmarked reserves**
The Staffordshire Commissioner has a Reserves Strategy which includes the Earmarking of Reserves to support the capital programme. Some funding into the medium term has been identified through this approach and remains a key funding strategy.
 - **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.

- **Borrowing and leasing**

Under the Prudential Code, the Staffordshire Commissioner 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 within 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 Staffordshire Commissioner 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 (see Appendix 3), in line with the Treasury Management Strategy.

This prudent approach to borrowing will continue into the medium term. However, should borrowing be required the Commissioner 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.

6. Risk Management

- 6.1 Risk is the threat that an event or action will adversely affect the ability to achieve a desired outcome or execute strategies successfully.
- 6.2 To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.
- 6.3 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.
- 6.4 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

7. Capital Programme 2023/24 to 2025/26

- 7.1 The summary Capital Programme for 2023/24 to 2025/26 is contained within **Appendix 1** of this report. The total proposed Capital Programme for 2023/24 is £6.7m, for 2024/25 £3.6m and for 2025/26 £2.8m.
- 7.2 The detailed scheme analysis supporting the programme for 2023/24 is shown within **Appendix 2**.
- 7.3 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 2023/24, 2024/25 and 2025/26 are set out in **Appendix 3**.
- 7.4 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 2023/24 includes a total capital requirement of £1.6m, which consists of the following main building and infrastructure projects plus some minor works:

- Brewood - The refurbishment of the station is also anticipated to commence in the second half of 2023/24. This will be subject to a full business case and funded from the Authority's earmarked reserves, £0.5m.
- Abbots Bromley – the refurbishment work at this station has now been completed. Work on the training tower is scheduled for 2023/24. The existing tower is currently out of use, £0.15m
- Tutbury, feasibility work for the refurbishment of this station has been identified to commence during the year, with the main building work taking place during 2024/25, £0.15m
- Staffordshire Fire HQ, £0.6m. This includes resurfacing, lighting and health and safety works and improvement to the fire behavior training site
- Sustainable heating solutions, £0.15m. This work will look at sustainable heating options for the residual estate, with development and feasibility work to commence at Ipstones Fire Station. This is subject to a business case review.

• **Operational Equipment**

Total investment of £2.3m has been identified and included within the programme for 2023/24, a full list of the detailed projects is included within Appendix 2. The programme includes the following major items:

- Replacement of Operational PPE has commenced during 2022 with investment into 2023/24 (£0.4m). The total approved investment is £1.3m
- Replacement of BA sets due to age. This procurement exercise is being undertaken regionally led by West Midlands Fire and Rescue, c.£1.0m
- Thermal image camera replacement, £0.2m
- Hydraulic cutting equipment, continued rollout of battery operated cutting equipment to all appliances, £0.3m

• **Appliances and Vehicles**

A vehicle replacement programme of £1.8m has been included within the proposed budget for 2023/24:

In summary the vehicle replacement programme includes the following:

- Purchase of 2 Rescue Tender Pumping Appliances ordered during 2022/23, £0.5m
- The purchase of a further two appliances in year, commercial work to be undertaken and specifications completed, £0.3m
- Aerial Ladder Replacement (ALP), £0.5m. This total investment of £1.7m has been approved and is spread over 3 years and includes the replacement of both ALP's. The contract for this replacement has been approved and signed off by the Commissioner, delivery expected in 2023/24.

- Light Vehicles, £0.2m, the programme includes the replacement of light vehicles as part of the rolling vehicle replacement programme. The commitment to move to a more sustainable fleet and the procurement of electric vehicles as part of the overall environmental strategy is part of this programme.

- **Information Technology**

The ICT programme for 2023/24 of £0.9m includes the following:

- Ongoing ICT rolling replacement programme for desktop and infrastructure and device replacement strategy, £0.5m
- Full MS teams enablement across all stations, £0.125m.
- Other (includes alerter replacement), £0.3m

8. Funding the Programme

- 8.1 **Appendix 1** also details the proposed funding strategy for the 2023/24 programme together with indications for the funding of the next two years. For 2023/24, the programme will be funded by a combination of grant funding, earmarked reserves, direct revenue funding 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.

9. 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 2022 was £20.8m, and is forecast to increase to £29.3m by March 2026 based upon the capital investment requirements outlined within this paper.

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Staffordshire Commissioner Fire and Rescue Authority
Summary Proposed Capital Programme 2023/24 to 2025/26

	2023/24 Budget	2024/25 Plan	2025/26 Plan
	£	£	£
Building & Infrastructure Works			
Refurbishment Programme	650,000	550,000	
Improvement Works	930,000	605,000	510,000
Total	1,580,000	1,155,000	510,000
Operational Equipment	2,284,000	125,000	84,000
Appliances & Vehicles			
Appliances & Specialist Vehicles	1,360,000	750,000	980,000
Vans & Cars	510,000	370,000	470,000
Total	1,870,000	1,120,000	1,450,000
Information Technology			
ICT Hardware, Software Systems & Installations	925,000	1,150,000	730,000
Total	925,000	1,150,000	730,000
Total Capital Programme	6,659,000	3,550,000	2,774,000
<u>Funding</u>			
Direct Revenue Funding	510,000	370,000	470,000
Unsupported Borrowing	5,069,000	3,180,000	2,304,000
Earmarked Reserves	1,080,000		
Total Funding	6,659,000	3,550,000	2,774,000

Staffordshire Commissioner Fire and Rescue Authority

Detailed Capital Programme 2023/24

Scheme Description	Detail	2023/24 Budget £
IADS		
Brewwood Refurbishment	Internal Refurbishment and modernisation of 1960' fire station	500,000
Tutbury Refurbishment	Internal Refurbishment and modernisation of 1960' fire station	150,000
		650,000
<u>Building Works - Improvements</u>		
Sustainability heating system replacement - Stations	Ipstones - Phase out gas heating for sustainable solution	150,000
HQ - Resurfacing Works Phase 2	Front of Amenities and visitor car park and drainage	100,000
HQ - Lighting replacement programme Phase 3	Replace lighting with Energy Efficient LED to Control building	35,000
Stations - Lighting replacement programme Phase 3	Replace lighting with Energy Efficient LED at Biddulph (Old Part) + Wombourne	45,000
Skylight Window Replacement - old House	Replace existing skylights with aluminium solution	70,000
BEMS installation	Intelligent Heating / Sustainable Controls - HQ	120,000
Abbots Bromley - Tower	Look at tower options	150,000
HQ Old House - Escape Staircase	Replace fire escape staircase. Health and Safety issue re fire escape	90,000
HQ Amenities - Replace Boilers	Replace gas boilers in the Amenities building	100,000
FBT Improvement Works		70,000
		930,000
<u>Operational Equipment</u>		
Operational Equipment Pool	Replacement as required	25,000
Life Jackets x 300	Replacement of all Life Jackets within service due to age	37,500
Body Worn Cameras	Possible replacement of cameras. Decision paper to Response Directorate	22,000
Operational PPE	£1.3 million for new PPE (final year of PPE receipt)	400,000
BA Sets and Testing Modules (Questor)	Total replacement due to age of BA sets. Regional procurement exercise	1,000,000
Entry Control Board Batteries	Original batteries lasted 7 years and this is final year.	15,000
Thermal Image Cameras	Existing cameras are now starting to fail and parts are becoming difficult to obtain	200,000
RTC Stabilisation	Equipment for 12 pumps	32,500
Ladders	Replacement programme	11,000
Hydraulic Cutting Equipment	Ongoing replacement programme	292,000
Clean Concept Equipment	Ensure PPE is clean with not contamination	65,000
Appliance Equipment - ERPs	Equipment for new appliances	150,000
Appliance Equipment - ALPs	Equipment for new appliances	16,000
Boats		18,000
		2,284,000
<u>Appliances & Vehicles</u>		
Light Fleet	Mix of Cars & Vans	200,000
Specials Replacement	ICU, Off Road, RR	310,000
Pumping Appliances	ERP 3 & ERP 4 - Chassis Payments	300,000
ERPs	ERP 1 & ERP 2 - Body Build Payments	510,000
ALPs	ALP 1 & ALP 2 - Final Payments	550,000
		1,870,000
<u>Information Technology</u>		
ICT Rolling Programme - Desktop	Rolling program for officers and admin laptop replacement plus desktop solutions such as iGels.	150,000
ICT Rolling Programme - Infrastructure	Station end 5 year investment	200,000
PSN Network Refresh	This will probably span 2425 and 2526	50,000
Mobile Phone Replacement	Increase based on 2020/21 purchase costs	70,000
New Project - Device Strategy	Includes : tablets, mobile phones, alerters and tom toms	150,000
Stations/L&D Teams Rooms Enablement	Enablement across all station	125,000
Alerter Replacement	Investing in new alerter technology for operational staff	100,000
Microsoft enablement	O365 investment	50,000
SharePoint Intranet		30,000
		925,000
Overall Total		6,659,000

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 2023/24	Estimate 2024/25	Estimate 2025/26
%	%	%
6.1	6.6	7.3

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 2023/24	Estimate 2024/25	Estimate 2025/26
£m	£m	£m
6.7	3.6	2.8

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 2023/24	Estimate 2024/25	Estimate 2025/26
£m	£m	£m
28.5	28.9	29.3

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

	Estimate 2023/24 £m	Estimate 2024/25 £m	Estimate 2025/26 £m
Authorised Limit	30.4	31.9	33.2
Operational Boundary	17.7	18.7	19.0

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 Treasurer'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.

The above excludes the PFI Balance Sheet debt position.

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.