

AVON FIRE AUTHORITY

MEETING:	Avon Fire Authority
MEETING DATE:	Friday, 17 February 2023
REPORT OF:	The Treasurer
SUBJECT:	2023-2026 Capital Programme, Strategy and Prudential Indicators

1. SUMMARY

The Fire Authority is asked to consider the proposed 3-year Capital Strategy, together with the affordability and impact of the updated capital expenditure plans. When reviewing a Capital Strategy, the CIPFA Prudential Code (2017) requires all Local Authority organisations to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with the Service key objectives and take account of stewardship, Value for Money, prudence, sustainability and affordability.

2. RECOMMENDATIONS

The Avon Fire Authority is asked to:

- a) Approve the 2023-2026 Capital Programme.
- b) Approve the proposed funding and Prudential Indicators, as detailed in Appendices 1, 2 and 3 required to finance the 2023-2026 Capital Strategy.

3. BACKGROUND

- 3.1 This Capital Strategy outlines the projected capital expenditure and planned capital disposals, proposed by lead Directors, over the next three years from April 2023 to March 2026. This Capital Strategy builds on the 2022–2025 Capital Programme, which was approved by the Fire Authority in March 2022. The Fire Authority has the power to borrow external funds to finance its capital programme but, before it uses these powers, it is required to determine whether or not it is prudent to do so. The process for this is set out in the Prudential Code, which requires the Fire Authority to agree a range of prudential indicators which consider the affordability and impact of capital expenditure decisions.

- 3.2 As background to the estate portfolio, Avon Fire & Rescue Service (AF&RS) operates from 24 sites including 21 Fire Stations (made up of Whole Time and On Call), a Control facility and additional support buildings for training, logistics and fleet, and offices. The Service also shares a combined Fire & Police Headquarters in Portishead and a Joint Training Centre (JTC) in Avonmouth, with neighbouring Fire and Rescue Services. Additional specialist training facilities are based at a number of Whole Time Fire Stations, including Urban Search and Rescue, Hot Fire and Safe Working at Height training at Hicks Gate Fire Station and Rope Rescue training at Temple Fire Station.
- 3.3 As background on our operational fleet, AF&RS fleet profile is defined by the risks identified across the Service area and reviewed continually through our Integrated Risk Management Planning process which ensures the right appliance and equipment match the risks identified. There is also a key link between the Fleet Strategy and the Authority's Environmental Strategy which gives a commitment to be net carbon neutral by 2030.
- 3.4 The current operational fleet profile covers 70 front-line appliance vehicles including:
- 42 Type B Appliances of 12 and 15t chassis weights. (30 station based, 4 allocated to training, 8 reserve appliances for resilience)
 - 4 x Turn Table Ladder vehicles.
 - 4 x Heavy rescue pumps (18t Chassis).
 - 1 x heavy rescue tender.
 - 2 x Command units.
 - 17 Other specialist vehicle covering animal rescue, swift water rescue, rope rescue, welfare, environmental response, Breathing apparatus support and foam capabilities.
- 3.5 In addition to the operational fleet portfolio, there are a total of 72 ancillary vehicles which provide transport for operational support functions, ranging from small cars through to vans and a range of pool cars. This fleet of vehicles consists of station cars for transporting personnel, blue light cars for Officer emergency response, pool vehicles for staff use such as business fire safety and light commercial vehicles for service stores deliveries and fleet maintenance.
- 3.6 The Service is currently implementing a Transformation Programme to improve ways of working and effectiveness and create efficiencies through improved policies processes and use of digital technologies. This programme currently runs until March 2024 and represents a significant investment in both revenue (£1.964m) and capital costs (£0.571m) over the life of these two programmes. The foundations for the digital improvements also required an infrastructure improvement programme which is nearing completion.

4. **FINANCIAL IMPLICATIONS**

- 4.1 The attached summary shows the proposed 3-year capital expenditure plans, together with the proposed funding. It is important to note the Fire Authority will need to secure additional external loans from 2024/25 to fund this programme.

<u>A. Proposed expenditure</u> (April 2023 – March 2026)			£'000
			Total
Capital:	Fleet	£4,933k	
	Premises	£4,902k	
	ICT	£900k	
	Transformation	£471k	
	Control	£950k	
	Operational Equipment	£300k	
Total capital expenditure			12,456
Total proposed expenditure:			12,456
<u>B. Proposed funding:</u>			
Capital Receipts			200
Capital Reserves			9,275
External Borrowing			2,981
Total proposed funding:			12,456

The expenditure and funding are outlined within **Appendices 1 and 2**.

5. **KEY CONSIDERATIONS**

Capital Programme Overview

- 5.1 The summary in **Appendices 1 and 2** sets out the proposed 2023-2026 Capital Programme, which has been developed in accordance with the Fire Authority's proposed Service Plan. Lead Directors and managers, who oversee the Fire Authority's Capital Programme, have confirmed this projected expenditure and related asset disposals over the three-year period. The revenue effects of this programme, including those of prudential borrowing, have been included within the 2023-27 Medium Term Financial Plan (MTFP). **Appendix 3** shows no material impact on the Capital Financing costs (of this proposed Capital Programme) from the proposed need to take out further external borrowing from 2024/25. To further reduce the cost of external loans, a review was undertaken in 2022/23 to consider all other sources of internal funding, such as reserves, linked to a review of capital prioritisation and a review of efficiency savings.

- 5.2 Capital schemes, by their general nature, are large projects which are likely to take a significant period of time to complete and may well span different financial years. Capital investment is a key requirement to minimise risks relating to asset failure and to ensure compliance with national and local requirements and to provide an effective and efficient service with robust and fit for purpose assets in place. Due to their nature, capital schemes are also more difficult to profile within financial years and therefore re-profiling within and across financial years is more likely to occur than in revenue budgets where the key components are largely known within a financial year. The budget allocated for approved capital schemes will be for the total cost of the scheme and not simply what is anticipated to be spent during a particular financial year. Where there are proposed large movements within a financial year, this information will need to be agreed with the Treasurer and shared with the Fire Authority, to keep Members up to date on the Capital Strategy. This allows for the accurate monitoring of expenditure against the agreed budget for each capital scheme.
- 5.3 Within the Capital Strategy, it is assumed a capital receipt relating to a possible house sale, estimated at £125k, will take place in 2023/24. However, it is possible this receipt will not occur until after 2023/24.

Fleet Capital Programme

- 5.4 The proposed Fleet programme includes a capital investment totalling £4.9m (over the next three financial years), which represents 40% of the total proposed expenditure, the largest area of the Capital Strategy.
- 5.5 The profile of future capital investment within the fleet provision incorporates a cost-effective vehicle life cycle and the key priorities within this proposed investment (particularly for 2024/25, where the requested expenditure is £3.2m) relate to meeting the Authority's commitment to net zero carbon emission by 2030 and the impact of the Clean Air Zones (CAZs). New technology vehicles (electric and hydrogen) are roughly 100% more expensive than the cost of the equivalent internal combustion vehicles, across both the car and commercial vehicle market.
- 5.6 The level of CAZ compliant vehicles within the station-based appliance fleet is currently 40% because of the fleet replacement programme. The proposed capital investment in further vehicle procurement and the continual introduction of lower or zero emission vehicles within our CAZs will achieve 48% clean air zone compliance across the appliance fleet by March 2025.
- 5.7 A further 24 specialist operational vehicles are currently 21% CAZ compliant. The life cycle and appliance replacement programme for the Turntable Ladders, as an example, will not achieve clean air compliant emissions to be introduced into Bath and Bristol city centres until 2030. Compliance will only be achieved

through early replacement or a vehicle modification at high cost to the Authority.

- 5.8 On ancillary fleet, as of January 2023 the Service has 25 electric vehicles. The capital proposal seeks a further 5 additional EVs during 2023/24 and a further 22 during 2024/25, which would total 52 fully electric vehicles or alternative zero emission technology by 31st March 2025, representing 72% of the ancillary fleet, or 37% of the total fleet profile.
- 5.9 As outlined within the Service plan 2022 to 2025, the fleet programme is currently under review with regards to the Service's current and future needs, utilisation rates, incident types and affordability. This review will form part of the updated Fleet Strategy which will be issued in 2023/24.
- 5.10 AF&RS will also further evaluate the options for electric powered fire appliances in both the standards build Type B, the Heavy Pumping appliance and the smaller appliance specification as the market develops.

Premises Capital Programme

- 5.11 The proposed Capital Programme is £4.902m and consists of the following:
- 5.12 **Bedminster Major Refurbishment.** Subject to AFA approval of the contract award, the refurbishment of Bedminster Fire Station is due to commence in Q1 2023/24 and anticipated project costs (including construction) of £3.1m have been reflected in the Capital budget proposal for 2023/24 and 2024/25.
- 5.13 **General.** The proposed capital programme for estates over 2023-2026 includes £1.8m for additional estates priorities including:
- On Call Improvements, incorporating internal reconfiguration and extensions to provide improved bathroom and changing facilities, equipment storage and wellbeing and fitness areas.
 - Training Facilities, including replacement training towers.
 - Site Drainage systems (to ensure ongoing compliance with the latest environmental regulations); and,
 - Life Cycle replacement works to ensure continual improvement, upkeep, and investment in buildings (e.g. roof and yard surfaces works);

In addition, we will continue to focus on our Net Zero 2030 Target and identify further opportunities to invest in carbon reduction, renewable energy generation and storage. We will review the potential for further funding opportunities including additional Public Sector Decarbonisation Grants (PSDS) to supplement this Capital Programme.

- 5.14 Following the decision at the December 2022 Avon Fire Authority meeting to focus on the Severn Park Joint Training Centre acquisition model as the preferred option for training facilities and delivery at the end of the current PFI Contract in 2028, a review of the Estates strategy has been instigated, reporting into the Capital Steering and Prioritisation Group. This will consider the medium- and long-term Estates' Priorities, the capital investment required and any potential for estates rationalisation.
- 5.15 This strategy will determine the timescales for the redevelopment of Bath and Weston Fire Stations and consider any impacts on the scope and design of these schemes that could be required following the decision regarding Severn Park (e.g., any requirement for training facilities, or flexible office space at these Fire Stations). No further building costs on Bath or Weston's redevelopments have therefore been incorporated in the proposed Capital Programme (although it does include an element for remedial upkeep at Bath) and some further design work can be earmarked from the "General" allocation if needed.

Transformation Capital Programme

- 5.16 The proposed capital programme of £471K over the next three financial years for the Transformation Programme relates to investment in the digitisation of the Service through the system upgrades and digital solutions aimed at developing and/or improving systems and ways of working.
- 5.17 Specifically the proposed capital programme for the financial period 2023/24 includes, but is not limited to, the following:
- a) **Firewatch upgrades (£78k).** Firewatch is the core HR and resource planning system and upgrades would generate several efficiencies by bringing together accurate, relevant real-time data with digital user access to replace our "old" ways of working and reducing reliance on paper based or email systems.
 - b) **Smart screens on Stations (£32k).** The use of smart screens on our Service locations will improve and digitalise communications of key messages to stations ensuring risk critical or other information is shared as quickly and effectively as possible. The screens can also be used to display pertinent local information relevant to the work location at which it is situated.
 - c) **Other upgrades to core systems and digital solutions and Service Developments** including the Prevent and Protect solution to replace current systems (£36k). Additional costs will be quantified as the Transformation programme progresses and will be reviewed and prioritised alongside other items.

- 5.18 The digital aspect of the Transformation Programme will be further clarified during 2023/24 which may result in further capital spends on a number of projects yet to be quantified. The Transformation capital spend will also form part of the considerations of the Capital Programme Steering and Prioritisation Group and any potential reallocation of this spend will be considered within this forum.

IT Capital Programme

- 5.19 The IT budget for 2023/24 is £300k with future years remaining at £300k per annum to cover standard IT refresh requirements, such as laptops, monitors, servers, and other hardware. This amount reflects the need to keep in step with IT standards and requirements to meet our IT Strategy and flexible working commitments. This amount will also be utilised for upgrades to hardware infrastructure, including servers and a number of other projects.

Operational Control Capital Programme

- 5.20 The proposed expenditure of £450k has been carried over from 2022/23 with additional amounts being added in future years as this is part of a national programme which has been subject to delays and significant increases in cost.
- 5.21 Under the Fire and Rescue Services Act 2004, all Fire and Rescues services must plan for dealing with calls for help and for summoning personnel. To support this, Fire and Rescue services must provide equipment that is always secure and capable of functioning.
- 5.22 There have been on-going delays to the roll out of the national Emergency Services Network (ESN) and the replacement for Airwave (critical radio communications), which means that ageing hardware is becoming 'end of life' and is/will no longer be supported.
- 5.23 Therefore, the Service must seek alternative solutions, in a collapsing timeframe, to meet its statutory duty. To achieve this, the proposed Capital Strategy includes two key projects as follows:
- a) **Dispatch Communication Server (DCS) - £100k - £200k.** AF&RS currently use hardware called SAN H that connects to the Airwave network via software called 'Vortex'. Vortex is becoming end of life due to the switches and hardware being no longer supportable. DCS is the replacement being recommended by Airwave that will be supported until cutover to ESN, anticipated to be 2025.
 - b) **Replacement of Vision Operator Console client hardware including Vision 5 upgrade – £350k - £700k.** AF&RS' Command and Control mobilising system uses Vision 4 (version 4.31). We are exploring an

upgrade to Vision 5 to ensure we remain up to date with emerging technology. This approach may also be more cost effective than upgrading hardware and operating systems which are reaching the end of their life. The upgrade will also support our work towards establishing our 'Code of Connection' which is essential/mandatory for the Service to connect into the ESN.

Prudential Borrowing and Capital Financing Costs

- 5.24 As part of the Fire Authority's ongoing Treasury Management Strategy, external borrowing to fund the Capital Programme has continued to be deferred to date. This has been achieved by utilising internal sources of funding, mainly relating to the unused capital receipt from the sale of the previous HQ, which originally equated to £18m (now fully utilised), underspends from the Capital Programme and capital reserves. Based on the attached proposed Capital Programme (**Appendix 1**), it is forecast that additional external borrowing will need to commence in 2024/25, assuming all projected spend takes place in line with the proposed timescales.
- 5.25 The Prudential Code recognises that, in making its capital investment decisions, the Fire Authority must take into consideration its strategic objectives included in its Service Plan. The code allows the Fire Authority to borrow external funding as part of its funding options evaluation and to ensure Value for Money Public Sector organisations are encouraged to look at internal funding sources in the first instance.
- 5.26 The code also requires the Authority to set a limit on the total amount of its external debt. External debt in this context refers to both borrowing and other long-term liabilities. There are two limits required to be set which is the Authorised Limit for External Debt and the Operational Boundary for External Debt. Both these need to be consistent with the Authority's plans for capital expenditure and financing and with its Treasury Management Policy statement and practices.
- 5.27 The Operational Boundary is directly linked to the Authority's plans for capital expenditure, the estimates of the capital financing requirement and the estimate of the cash flow requirements for all other purposes, including revenue.
- 5.28 The Authorised Limit for External Debt provides headroom over and above the Operational Boundary to allow for unusual cash movements, for example if a large payment should need to be paid or receipt of funding is delayed. The CIPFA Prudential Code advises the margin between the Operational Boundary and the Authorised Limit for External Debt is based on each authority's assessment of risk and AFA has always adopted a £1m margin for the Authorised Limit for External Debt.

- 5.29 In accordance with its Treasury Management strategy the Fire Authority's overriding key objective when investing its cash balances is to minimise the risk to the re-payment of the principal and interest from these investments. Given the current economic climate and the need to demonstrate Value for Money, the decision was taken to delay new borrowing by using available internal funding. Dependent upon the timing and funding model of the proposed investment in Bath and Weston Fire Stations, and any preparatory construction work regarding future training provision, it is estimated that no further borrowing will be required until 2024/25. This will be closely monitored and is reflected in the details of the Authority's net external borrowing shown.
- 5.30 It is forecast that additional borrowing of £2.981m across 2024/25 and 2025/26 will be required to fund the proposed Capital Programme, assuming there is no slippage (**Appendix 3**). The impact of this increased external borrowing will have a negligible impact on the capital financing costs to the revenue budgets in the last two years of this Capital Programme.

Improved Capital Monitoring and Reporting

- 5.31 Improvements in recent years to capital reporting and monitoring (via the Finance team and capital leads and reporting to the Performance Review and Scrutiny Committee) have been bolstered in 2022/23 by:
- i) The establishment of the Capital Programme Steering and Prioritisation Group which considers all proposed capital projects and ensures these are prioritised according to Service need and objectives whilst remaining affordable.
 - ii) Regular capital reporting to both Service Leadership Board and Service Leadership Team to align with current reporting for revenue and to ensure capital spend is monitored and scrutinised in the same way.

Affordability and Value for Money (VfM)

- 5.32 As previously noted there is a need to prioritise capital spending bids to ensure the Capital Strategy is affordable and demonstrates VfM re: public funding.
- 1. Currently the Fire Authority have loans totalling £7m (2 loans of £3.5m each) ending in March 2030 and March 2040. The interest rates are 2.99% and 3.33% respectively.
 - 2. The cash balance held by the Service is currently £15m, £5m of this relates to notional payments made in order to repay the loan capital amounts when due.
 - 3. At similar rates it should be noted that the approximate cost of capital for future borrowing equates to 7% as a charge through the Fire Authority's revenue budgets. This represents an amount of £7k for every £100k borrowed.

Proposed changes to 2022/23 to 2024/25 Capital Programme

5.33 The key movements from the previous approved Capital Programme are:

- Bedminster costs have increased and the Bath and Weston builds have been paused to assess the most prudent time to commence these large-scale projects given the current economic climate.
- The Fleet Capital Programme remains largely the same and future provision will be evaluated based on the updated Fleet Strategy expected in 2023/24.
- Transformation capital of £471k has been carried over from 2022/23: this has been allocated by the Fire Authority to fund Transformation related projects which are expected in the next financial year.
- Significant capital funding requests have been submitted by Control which are required to ensure resilience (£950k). These are dependent on national work which is ongoing and will be monitored and assessed through the Capital Steering and Prioritisation Group

6. RISKS

6.1 This report links to CR20 Funding on the Corporate Risk Register (CRR).

6.2 The key risks relating to this 3-year Capital Programme are:

- Key developments such as the ongoing war in Ukraine and the general cost of living crisis are impacting on costs, supply chains and industries such as construction. Therefore, there is a risk that costs, availability, and timescales for completion of capital programmes and vehicle deliveries remain unclear and subject to movement.
- The risks of capital projects being delayed, which could result in assets failing and/or non-compliance with national and local requirements.
- Ensuring the estates programme continues but decisions on significant capital spend is future proofed in line with the Authority's preferred option for the future of training after the end of the PFI.
- Affordability of the future capital programme relating to increased Capital Finance charges through the Fire Authority's revenue budgets. As the proposed capital expenditure increases, this will increase the Fire Authorities expenditure in future years and therefore would require additional revenue savings within the Service to be made each year.
- An increase in interest rates resulting in an increase in borrowing costs and thus an increase in the Capital Finance charge to the revenue budget. This is not expected as detailed in the Treasury Management policy, but there is still uncertainty on this.
- Affordability considerations have the potential to impact on the ability of the Authority to meet its net zero carbon by 2030 commitment, for example with electric vehicles where costs are projected to be significantly higher than originally planned.

7. LEGAL/POLICY IMPLICATIONS

The Fire Authority must determine its capital investment decisions prudently and comply with the Prudential Code and the revised CIPFA Code of Practice for Treasury Management in the Public Services.

8. BACKGROUND PAPERS

AFA 2022-2025 Capital Programme Strategy Report 22.03.22 Paper 10

9. APPENDICES

1. Proposed Capital Programme 2023/24 – 2025/26
2. Detailed Capital Programme 2023/24 – 2025/26
3. Prudential Indicators

10. REPORT CONTACT

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