Avon Fire Authority

CAPITAL STRATEGY
2024/25 – 2026/27

1. INTRODUCTION

1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2021 includes a requirement for Local Authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with the Service objectives and take account of stewardship, value for money, prudence, sustainability, and affordability.

1.2. The capital strategy is a key document for Avon Fire Authority (the Authority) and forms part of the financial planning arrangements, reflecting the priorities set out in the Service Plan and the Medium-Term Financial Plan. It provides a high-level overview of how capital expenditure, and the way it is financed, contribute to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability and sets out the governance process for approval and monitoring of capital expenditure.

2. CAPITAL EXPENDITURE

2.1. Capital expenditure is incurred on the acquisition or creation of assets where it is probable the investment will yield future economic benefits for a period of more than one year and the costs can be measured reliably. Capital expenditure includes land, new buildings, enhancement to existing buildings within the estate and the acquisition of vehicles and major items of equipment. Intangible assets such as software can also be classed as capital expenditure in some circumstances.

2.2. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (repairs and maintenance) is charged to the revenue account as an expense when it is incurred. Revenue costs are incurred on a day-to-day basis and include costs such as salaries, heat, and light.

2.3. The Authority's de-minimis level for capital expenditure is £5k and assets costing individually or collectively less than £5k are not capitalised.

3. CAPITAL EXPENDITURE COMPARED TO TREASURY MANAGEMENT INVESTMENTS

3.1. The Authority defines Treasury Management activities as the management of the Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

3.2. Investments are carried out in line with the Treasury Management Strategy which is approved annually by the Fire Authority. Treasury Management investments arise from the Authority's cash flows and debt management activity, and ultimately represent balances which can be invested until the cash is required for use in the course of business.

3.3. In line with the CIPFA Code requirements, the Authority invests funds prudently and has regard for the security and liquidity of its investments before seeking the highest rate of return, or yield. The generation of investment income to support the provision of service is an important, but secondary, objective.

3.4. Performance of the Treasury Management investments is reported to the Policy and Resources Committee (PRC) at the end of each quarter, as part of the Revenue and Capital Budget Monitoring papers.

4. CAPITAL REQUIREMENTS

4.1. Since 2010, as part of its efforts to reduce the size of the national budget deficit, Central Government has made significant reductions to its funding for Local Government, thereby increasing reliance on local tax revenues in the form of council tax and business rates to fund services. This has had a direct impact on capital funding which is now wholly funded either from revenue contributions to capital reserves, proceeds from the sale of capital assets or prudential borrowing. The Authority no longer receives a general capital grant.

4.2. The Authority currently has 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, across the 4 unitary areas. The Service also shares a combined Fire and 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.

4.3. The Capital Programme for the sites owned by the Authority is informed by stock condition surveys, which are completed on a regular basis. These inform and direct the ongoing requirement for continual investment and upkeep of the estate.

4.4. Several of the Fire Stations are currently more costly to operate and maintain due to their state of repair. When preparing the Capital Programme, the prioritisation process considers the requirement to replace or rebuild one or more Fire Stations.

4.5. The Service's operational fleet profile is defined by the risks identified across the Service area and reviewed continually through our Community 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.

4.6. The current operational fleet profile covers 75 front-line appliance vehicles including:

46 Type B Appliances of 12 and 15t chassis weights. (35 station based, 3 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.
18 Other specialist vehicle covering animal rescue, swift water rescue, rope rescue, welfare, environmental response, breathing apparatus support and foam capabilities.

4.7. In addition to the operational fleet portfolio, there are a total of 78 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.

5. PROJECT INITIATION

5.1. The current method for allocating capital resources begins with the development of the Capital Programme and Medium Term Financial Plan (MTFP). The development of the Capital Programme is one of the duties of the Capital Steering and Prioritisation Group. This group was established, with its first meeting in June 2022, to consider all proposed capital projects and ensure these are prioritised according to the needs and objectives of the Service, whilst remaining affordable. This Steering Group sets strategic direction but does not authorise capital investment.

5.2. The development of the Capital Programme considers objectives and priorities of the Service Plan and achieving any actions associated with the delivery of the HMICFRS action plan, as well as aligning to various departmental strategies.

5.3. Once the strategic intent, prioritisation and funding sources for the Service wide Capital Programme have been identified, the Capital Steering and Prioritisation Group identifies the requirement for business cases and the pathway to the decision-making body. This pathway may or may not include the draft business case coming to Capital Steering group prior to approval by the Senior Leadership Team (SLT), the Senion Leadership Board (SLB), Fire Authority or a delegated Committee. The decision-making body will be determined by the size of the investment taking into consideration the requirements of the Service's Contract Procedure Rules.

5.4. Capital projects will be assessed for:

- Strategic fit – corporate objectives are being met by the expenditure;
- Identified need – e.g. vital repairs and maintenance to existing assets;
- Achievability – this may include alternatives to direct expenditure such as partnerships;
- Affordability and resource use – to ensure investment remains within sustainable limits;
- Practicality and deliverability; and

- Resource time is assessed when considering projects to ensure both delivery of projects and day-to-day work is covered.

5.5. As part of the launch of a Continuous Improvement Framework at the Service, the process covering both the requirement to prepare, and the content of, a business case and the associated approval and monitoring is being reviewed. The revised Framework and process is expected to be launched in March 2024. The Service is exploring using the “Five Case” model to develop the business case template as recommended by HM Treasury. The model provides a discipline and structure to arrive at the best possible decision and considers:

- the strategic case (the case for change);
- the economic case (value for money);
- the commercial case (it is commercially viable and attractive to the market);
- the financial case (to ensure the proposed spend is viable); and
- the management case (that the requirement is achievable).

5.6. Following approval of a significant premises capital project, a project manager is assigned from within the Premises department. The project manager is responsible for providing updates on the progress and costs of the capital project to the Capital Steering and Prioritisation Group, SLB or PRC, as appropriate.

6. THE SERVICE CAPITAL PROGRAMME 2024/25 – 2026/27

6.1. The Service capital programme for 2024/25 – 2026/27 is considered annually and is set out in the table below.

Funding and Expenditure	2024/25 Programme £'000	2025/26 Programme £'000	2026/27 Programme £'000	Total Programme £'000	Director Lead
Capital Receipt from fleet disposals	25	25	25	75	
Capital Reserve	4,959	134	-	5,093	
Contribution from Revenue	500	-	-	500	
Prudential borrowing	-	9,781	18,855	28,636	
Total Funding	5,484	9,940	18,880	34,304	
Premises	2,805	5,700	17,400	25,905	Angela Feeney
Operational Equipment	100	110	120	330	Richard Welch
Fleet	1,499	1,800	1,000	4,299	Richard Welch
ICT	300	330	360	990	Angela Feeney
Transformation	50	-	-	50	Simon Shilton
Control	730	2,000	-	2,730	Steve Imrie
Total Expenditure	5,484	9,940	18,880	34,304	

Table 1: Capital Programme 2024/25 – 2026/27

7. FUNDING THE CAPITAL PROGRAMME

7.1. There are several funding sources available to meet the Authority’s capital expenditure requirements. These are explored in more detail below.

8. REVENUE FUNDING

8.1. The Authority can assign an element of the Revenue budget each year to go towards funding the Capital Programme. The amount awarded to assist with the

Capital Programme is based on affordability and is specific to that year, ensuring the Service can still deliver a balanced budget whilst making this contribution. Table 1 identifies the amount the Authority is planning to fund from the revenue budget over the coming three years.

9. PRUDENTIAL BORROWING

9.1. The Authority is permitted to take out regulated external borrowing. The Local Government Act 2003 refers to affordability and the requirement that the local authorities in England and Wales keep under review the amount of money they borrow for capital investment.

9.2. The Code requires that "The local authority shall ensure all of its capital and investment plans and borrowing are prudent and sustainable. In doing so, it will take into account its arrangements for the repayment of debt (including Minimum Revenue Provision) and consideration of risk and the impact on the overall fiscal sustainability". The impact of borrowing is outlined within the Treasury Management Strategy Statement and monitored via the Prudential & Treasury Management Indicators at the Policy and Resources Committee on a quarterly basis.

9.3. At 31 January 2024, the Prudential Borrowing of the Authority stands at £7m. This is made up of two £3.5m loans with the Public Works Loan Board (PWLB), taken out in March 2015. The first loan has a 15-year term and is due for repayment in March 2030, the second loan has a 25-year term and is due for repayment in March 2040.

9.4. Based on the current Capital Programme, no additional external borrowing is planned to be taken out during 2024/25 but there is expected to be a new borrowing requirement thereafter. The Service will require Prudential borrowing to fund the majority of future capital spend, from 2025/26 onwards, as demonstrated in Table 1. The timing and quantity of the required new borrowing may alter slightly depending on the extent to which the current Capital Programme progresses as expected. The Authority will continually review the timing of the borrowing, considering cash requirements and interest rates, to ensure the most preferential arrangements are put in place. This is considered in more detail within the Treasury Management Strategy.

10. RESERVES

10.1. The Authority continues to benefit from the capital receipt arising from the sale of the previous Headquarters site, originally equating to £18m and allocated to an earmarked reserve. This reserve has been used to fund the Capital Programme in recent years and will be used to fund the majority of the Capital Programme in 2024/25, as demonstrated in Table 1 above. At the beginning of the 2024/25 financial year there is expected to be around £5m remaining in this reserve to fund future capital spend.

10.2. When the revenue budget allows, the Authority contributes an element of this budget to the Capital Reserves to help to defer and reduce the amount and cost of capital borrowing. Following approval by the Authority, an amount of £500k is proposed to be set aside within the 2024/25 revenue budget and moved into capital reserves to help to fund the future Capital Programme. This contribution can be seen in Table 1 above.

10.3. Once both the earmarked capital reserve and contributions from the revenue budget have been fully utilised, the remainder of the Capital Programme over the coming three years will be funded by Prudential borrowing.

11. MONITORING CAPITAL EXPENDITURE

11.1. The performance of the Capital Programme is reported to Officers every other month via the Financial Reporting at SLT and to Members each quarter at the Policy and Resources Committee where it forms part of the Capital Budget Monitoring papers. Any timing differences are also identified within these reports.

12. RISK MANAGEMENT

12.1. The Prudential Code recognises that in making its capital investment decisions, the authority must have explicit regards to option appraisal and risk:

"The Capital Strategy is intended to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, along with an overview of how associated risk is managed and the implications for future sustainability."

12.2. Each major capital project will have its own risk register and options appraisal to manage the operational risk arising from the project, however this section of the strategy focuses on strategic risks arising from capital investment activity.

12.3. Every item will go through a rigorous justification process to ensure each proposal is scrutinised before inclusion in the capital programme. This will become even more critical if collated bids exceed the available funding. All investment will be aligned to the Community Risk Management Plan and the Service Plan to ensure that the Service is replacing the right assets, at the right location to address the risk and at the same time reducing our revenue costs to help balance the budget.

12.4. The Capital budget requirement is determined on an annual basis. The process starts at the end of the summer with relevant departments determining their requirements. They are discussed at the Capital Steering and Prioritisation Group and scrutinised by Directors before being presented to the Authority in February for approval in advance of the coming financial year.

13. CREDIT RISK

13.1. There is a risk that a supplier becomes insolvent and cannot complete the agreed contract. Appropriate due diligence is carried out before a contract is placed as part of the procurement process.

14. LIQUIDITY RISK

14.1. This is the risk that the timing of cash inflows from a project will be delayed. In the main, the Authority's capital projects are self-funded and therefore don't rely on other organisations contributing or failing to make their contributions when agreed. Under the collaboration agenda it is possible that a capital project will be shared across organisations. Liquidity risk and the impact on cash flows is monitored on a regular basis as part of the Treasury Management Services provided to the Authority by Bristol City Council.

15. FRAUD, ERROR AND CORRUPTION

15.1. This is the risk that financial losses will occur due to error, fraudulent or corrupt activities. The Authority has procedures in place to minimise the risk of fraud especially regarding changing of bank details for suppliers. The Authority also has a Whistleblowing (Confidential Reporting) Code intended to encourage and enable staff to raise serious concerns within the Service, including any suspicions of fraudulent or money laundering activities. Declarations of interest are recorded at each Fire Authority and sub-committee meeting.

16. LEGAL AND REGULATORY RISK

16.1. This is the risk that changes to 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 a capital project, Officers will determine the powers under which any investment is made, taking appropriate advice where necessary.

16.2. Capital schemes must comply with legislation (Equality Act as an example) and also consider Authority Regulations, Service plans and Policies such as:

- Service Plan;
- Community Risk Management Plan;
- Contract Procedure Rules; and
- Financial Regulations.

17. MINIMUM REVENUE PROVISION

17.1. Within the Local Government Act 2003, local authorities are required to have regard to the statutory guidance on Minimum Revenue Provision (MRP). The Department for Levelling Up, Housing and Communities has produced statutory guidance which local authorities must have regard to.

17.2. Minimum Revenue Provision represents the minimum amount that must be charged to an authority's revenue budget each year for financing capital expenditure, where it has initially been funded from borrowing. The Minimum Revenue Provision accounting practice allows the Authority to set aside an amount of money each year to ensure that it can pay off the debts it has from buying capital assets.

17.3. The Minimum Revenue Provision Statement is reviewed annually and is included as an appendix to the Authority's Treasury Management Strategy papers.

18. AFFORDABILITY OF THE CAPITAL PROGRAMME

18.1. A variety of factors are considered when determining the affordability of the Capital Programme, including the impact on revenue budgets and reserves:

- Minimum revenue provision
- Interest payable
- Interest receivable
- Revenue contribution to capital
- The Authority's affordability indicator, that debt charges must be <6% of net revenue budget in each financial year.

18.2. The cheapest and most sustainable method to fund a Capital Programme is to set aside an amount from revenue each year to purchase assets, with any variations to the programme being smoothed out using an Earmarked Reserve for Capital.

18.3. The Authority is entering into a period of financial challenge. The Service needs to make efficiency savings to balance the revenue budget from 2024/25 onwards. As a result, there is expected to be limited scope for the Service to be able to fund capital investment via revenue contributions. The Service will therefore be looking to fund the Capital Programme from the 2025/26 financial year using Prudential Borrowing.

18.4. The Service is aware of the pressures additional Prudential borrowing will place on the revenue budget in terms of both interest and MRP contributions. This has been taken into account when generating the most recent Medium Term Financial Plan, and therefore any saving requirements reflect the anticipated additional costs associated with borrowing to fund the Capital Programme.

18.5. The Service has set Prudential & Treasury Management Indicators to assess the affordability, prudence, and sustainability of the current Capital Programme. These indicators are rolling rather than fixed, and the Service will monitor them on a regular basis with the ability to revise them at any time, following due process. This will ensure that any Capital Investment and associated funding decision is kept within the self-imposed limits set by the Authority.

18.6. The Service is aware of the risks associated with continuing to fund the Capital Programme with external borrowing over a long period of time. The Service therefore recognises the requirement to consider alternative approaches to capital investment and funding to ensure future sustainability and affordability. The ongoing review of the Estates Strategy, instigated following the Authority's decision to pursue the option to acquire Severn Park at the end of the PFI arrangement (2028), is a current area of exploration. This considers medium and long term priorities, capital investment requirements and also the potential for estate rationalisation.