AVON FIRE AUTHORITY

MEETING:	**Avon Fire Authority**
MEETING DATE:	**Wednesday, 20 March 2024**
REPORT OF:	**Statutory Finance Officer**
SUBJECT:	**Capital Programme and Strategy, including Prudential Indicators**

1. SUMMARY

- The Fire Authority is asked to consider the proposed 3-year Capital Strategy and Programme, considering the impact of the updated capital plans on affordability.
- The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code (2021) 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.
- The Capital Strategy is a key document for Avon Fire Authority and forms part of the Authority's Medium Term Financial Plan (MTFP) and outlines the Authority's approach to capital investment ensuring it is in line with its corporate priorities.
- It provides a strategic overview of how capital expenditure, capital financing and treasury management activity contribute to the delivery of outcomes. It also provides an overview of how associated risk is managed and implications for future financial sustainability.
- This paper presents the 3-year Capital Strategy and a number of options for the Capital Programme for the period 2024 – 2027, based on the options presented in the Updated 2024/25 Revenue Budget and MTFP paper.

2. RECOMMENDATIONS

2.1 The Fire Authority is asked to:

a) Approve the 2024 – 2027 Capital Strategy (**Appendix 1**)

b) Approve the appropriate option for the 2024 – 2027 Capital Programme linked to the option approved as part of the Updated 2024/25 Revenue Budget and MTFP, including funding sources. (**Appendices 2-6)**

c) Approve the appropriate Prudential Indicators linked to the option approved as part of the Updated 2024/25 Revenue Budget and MTFP. (**Appendices 7-11**)

3. BACKGROUND

3.1 The Capital Programme outlines the projected capital expenditure and funding sources, including planned capital disposals, over the next three years, from April 2024 to March 2027. The Capital Programme builds on the 2023-2026 Capital Programme, which was approved by the Fire Authority in February 2023.

3.2 During the Fire Authority meeting on 19 February 2024 a Member raised a proposal to remove the £500k contribution to the Capital Programme from the revenue budget during 2024/25. The Updated 2024/25 Revenue Budget Paper and MTFP, paper 10 at this meeting, presents several options considered to evaluate the impact of this proposal. Those options are also presented in this paper, with the associated impact on the Capital Programme and Prudential Indicators.

3.3 The Capital Strategy is a high-level overview of how proposed capital expenditure and the way it is financed contributes to the provision of services. It provides an overview of how associated risk is managed, future sustainability implications and sets out the governance process for approval and monitoring of capital expenditure.

3.4 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. Prudential Indicators have been calculated based on the proposed Capital Programme and are presented to the Fire Authority for approval as part of this paper. More detail on each indicator is included in paragraphs 5.27 to 5.33 of this paper, and within the Treasury Management Strategy, presented and approved at the 19 February 2024 Fire Authority meeting.

4. FINANCIAL IMPLICATIONS

4.1 Several options for the Capital Programme have been considered as part of the exploration of the proposal raised by a Member at the AFA meeting on 19 February 2024. Each of those options and the impact on the Capital Programme is described in this section.

Option 1

4.2 The below summary shows the proposed three-year capital expenditure plans, together with the proposed funding. It is important to note the Fire Authority will need to secure additional loans from 2025/26 to fund this programme. This is the proposed Capital Programme associated with **Option 1** presented in the Updated 2024/25 Revenue Budget and MTFP paper and reflects the initial budget, MTFP and Capital Programme presented to the Authority, before any changes have been made to address the proposal.

A. Proposed expenditure: (April 2024 – March 2027)		**£'000 Total**
Capital:	Premises £25,905k Operational Equipment £330k Fleet £4,299k ICT £990k Transformation £50k Control £2,730k	
	Total capital expenditure	**£34,304**
Total expenditure:		**£34,304**

B. Proposed funding:		
Capital Receipts		£75
Contributions from Revenue		£500
Capital Reserves		£5,093
External Borrowing		£28,636
Total funding available:		**£34,304**

4.3 The detailed capital expenditure and funding associated with this option is presented within **Appendix 2**, with associated Prudential indicators at **Appendix 7**.

Option 2

4.4 As presented in paper 10 at this meeting the second option is to remove the £500k contribution from the revenue budget to the Capital Programme, which can have one of the following impacts:

i. Reduction in the 2024/25 Capital Programme by £500k due to the removal of the contribution from the revenue budget. Therefore, overall capital programme is reduced by £500k, but level of borrowing when compared to Option 1 is not impacted. The £500k reduction in the 2024/25 Capital Programme is assumed to be achieved through the following:

1. £250k reduction in the Premises programme
2. £250k reduction in the Fleet programme

Detailed capital expenditure and funding associated with this option is presented in **Appendix 3**, with associated Prudential Indicators at **Appendix 8**.

ii. Rephasing of the Capital Programme such that the 2024/25 programme is reduced by £500k, but the 2025/26 programme is increased by £500k. This results in no overall impact on the total Capital Programme but means that borrowing will be £500k higher in 2025/26 when compared to Option 1. The rephasing is proposed to be achieved as follows:

1. £250k Premises programme moved from 2024/25 to 2025/26
2. £250k Fleet programme moved from 2024/25 to 2025/26

Detailed capital expenditure and funding associated with this option is presented in **Appendix 4**, with associated Prudential Indicators at **Appendix 9**.

iii. Leaving the Capital Programme unchanged both in terms of total spend and phasing of that spend, therefore all the remaining capital reserves will be utilised in 2024/25. This has the impact of the earlier introduction of borrowing to fund the programme during 2024/25.

Detailed capital expenditure and funding associated with this option is presented in **Appendix 5**, with associated Prudential Indicators at **Appendix 10**.

Option 3

4.5 As presented in paper 10 at this meeting the third option is to balance the revenue budget with additional contributions from reserves with just a £50k reduction in the 2024/25 Capital Programme, achieved by removing the Transformation allocation. The result of this change on the Programme, associated funding and Prudential Indicators is presented in **Appendices 6** and **11**.

5. KEY CONSIDERATIONS

Capital Programme Overview

5.1 The appendices to this paper set out the proposed 2024-2027 Capital Programme and funding sources based on the options outlined in section 4 above, 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 2024-28 MTFP.

5.2 Prudential Indicators are published within the appendices of this paper, covering both the Prudential (Capital) and Treasury Management Indicators, as recommended by CIPFA. These indicators ensure the Authority considers affordability, prudence and sustainability as part of its investment and borrowing strategy. They will be considered as part of any borrowing decision made by the Authority, are rolling rather than fixed, and can be subject to review and revision at any time.

5.3 Capital schemes, by their general nature, can be large projects which are likely to take a significant period of time to complete and span multiple financial years. Capital investment is a key requirement to minimise risks relating to asset failure, 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 Statutory Finance Officer 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, which is reported to the Policy and Resources Committee on a quarterly basis.

5.4 The commentary in the below paragraphs relates to Option 1, as described in paragraph 4.2 of this paper. Each of the scenarios within Option 2 and Option 3 slightly impact the Capital Programme, with the impact being described in the associated paragraphs in section 4.

Proposed Changes to 2024/25 to 2026/27 Capital Programme

5.5 The current Capital Programme shows a significant increase when compared to the previous approved Capital Programme which totalled £12.5m. The key movements are:

- Premises costs have been increased to include the £14.5m investment in the rebuild of the Bath Station and the £7.5m investment in the refurbishment of the Weston Station. The previous approved Capital Programme included the concept design for these works which informs the rebuild and refurbishment cost requirements.
- Transformation capital of £571k was included in the previous approved programme. This has been reduced to £50k as the programme is due to complete in March 2025, with limited further capital investment required.
- Significant capital funding is required within Control for the upgrade of the telecoms infrastructure and a mobilising system upgrade. This has increased the three-year capital programme within control from £950k to £2.7m.

Premises Capital Programme

5.6 The proposed Capital Programme is £25.9m, over 75% of the total Programme over the coming three years, and consists of the following:

i. **Bedminster Major Refurbishment.** This refurbishment work commenced during Q1 2023/24, with the final spend of £825k to be spent during 2024/25. Total spend for this project was anticipated to be £3.1m (including construction) and has replaced a previously failed extension with a new two storey building. Anticipated completion date is the end of June 2024.

ii. **Bath Rebuild.** Subject to AFA approval to proceed (business case due in July 2024), the replacement of the existing Bath Station has been included within the three-year programme at a total cost of £14.5m. Indicative timescales suggest the next stages of the design work will be completed in 2024/25, with construction commencing during 2025/26 and being completed in 2026/27.

iii. **Weston Refurbishment.** Subject to AFA approval to proceed (business case due in July 2024), the refurbishment of the existing Weston site has been included within the three-year programme at a total cost of £7.5m. This project would be expected to extend the life of the building by around 25 years. Initial timescales indicate next stages of design work will cost around £500k and be incurred during 2025/26, with refurbishment completion by March 2027.

iv. **General.** The proposed capital programme for estates over 2024-2027 includes just over £3m for other estates priorities. This will be further informed by the stock condition survey which is currently underway (final reports expected in March 2024), but is expected to continue to include:

- On Call station improvements to provide premises which support staff safety, welfare, dignity, and inclusion in alignment with the Service's aims. These works incorporate internal reconfiguration and extensions to provide improved bathroom and changing facilities, equipment storage and wellbeing and fitness areas.
- Training Facilities, including replacement training towers.
- Life Cycle replacement works to ensure continual improvement, upkeep, and investment in buildings (e.g. roof and yard surfaces works) and their assets (for example boilers and water heaters).

5.7 In addition, the Service continues to focus on our Net Zero 2030 Target. Any new building work undertaken is designed to be carbon neutral and the Service regularly looks to identify further opportunities to invest in carbon reduction, renewable energy generation and storage, as well as building environmental considerations into the assessment criteria when appointing contractors.

5.8 The Service regularly explore opportunities to reduce costs through potential grant funding and collaborative working groups. In recent years we have secured funding to supplement the Capital Programme in the form of Public Sector Decarbonisation Grants.

5.9 A review of the 2020-2030 Estates Strategy is underway and will be informed by the March 2024 Condition Surveys and information from the Severn Park working group on potential implications on our estates. As Members will recall in December 2022 a decision was taken to focus on acquiring Severn Park Joint Training Centre as a preferred model for future training when the current PFI Contract comes to an end in 2028. A paper updating Members on Severn Park will be presented in July 2024.

Fleet Capital Programme

5.10 The proposed Fleet programme includes a capital investment totalling £4.3m (over the next three financial years), the second largest area of the Capital Strategy.

5.11 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. 2024/25 consists of a £650k investment in a new Heavy Pumping Appliance, where contract award was approved by the Service Leadership Board in November 2023. The first year of the Programme also assumes the initial payments are made on four new Type B appliances, with final payments in 2025/26, reflecting the 18-month build time for these items.

5.12 The remainder of the Programme is allocated to cover the Service's blended fleet approach. This is associated with the ongoing review of the Fleet Strategy, where the current and future needs of the Service are being considered, along with utilisation rates, incident types and affordability. The updated Fleet

Strategy will be issued in 2024/25 and any future investment in Fleet will have taken the results of this review into consideration.

5.13 The Authority has committed to net zero carbon emission by 2030. 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.

5.14 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.

5.15 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. Current expectation is the fleet will be CAZ compliant by 2031.

5.16 On ancillary fleet, as of January 2023 the Service has 25 electric vehicles. A further 3 additional EVs are currently on order and expected to be in service by June 2024. The replacement profile for the final 24 vehicles will be reviewed during 2024/25, and, once replaced, would total 52 fully electric vehicles or alternative zero emission technology representing 72% of the ancillary fleet, or 37% of the total fleet profile.

5.17 AF&RS will also further evaluate the options for electric powered fire appliances in both the standard build Type B, the Heavy Pumping appliance and the smaller appliance specification as the market develops. As yet, no technology has met the requirements to make electric powered appliances a viable option. Hydrogen Fuel Cell units could be a possible solution, once available, but only after rigorous testing over the longevity of the power supply.

ICT Capital Programme

5.18 The IT budget for 2024/25 is £300k with future years reflecting an increase to account for inflation, at £330k and £360k per annum. This allowance is assumed 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 and will also be utilised for upgrades to hardware infrastructure, including servers and a number of other projects.

5.19 A recruitment process is currently in progress for an IT Manager, a position the Service has been lacking for some time. Upon appointment, a detailed review of the IT requirements and priorities for the Service will be completed. This impact of this review on the ICT Capital Programme will be considered, and any updates to the Programme reflected as appropriate.

5.20 The Service also acknowledges the requirement to invest in several ICT priorities as part of the HMICFRS action plan. The majority of this spend is expected to be to enhance software and is therefore expected to form part of the revenue budget, covered by the £150k ICT allocation proposed as part of the 2024/25 budget setting process. This will be kept under review, and any impacts to the ICT Capital Programme will be considered and updated as appropriate.

Transformation Capital Programme

5.21 The Transformation Programme is due to complete by March 2025. The Capital Programme for Transformation over the next three financial years is £50k, reflecting the final capital investment requirement of the programme.

5.22 **Smart screens on Stations.** The use of smart screens in 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.

Control Capital Programme

5.23 The proposed Capital Programme for Operational Control over the next three financial years is just over £2.7m. This is a significant increase from the £950k allocated for the three-year programme 2023-2026.

5.24 Under the Fire and Rescue Services Act 2004, all Fire and Rescue 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.

5.25 The Programme allocates £230k of capital investment to facilitate the national changes in telecoms infrastructure. All land lines will be moving from what is now referred to as ISDN/PTSN to digital lines, referred to as SIP, by the end of 2025. This is a non-negotiable investment to ensure the Service can receive calls and summon personnel in line with our statutory duty.

5.26 The Capital Programme has allocated £2.5m across the first two years to the mobilising system upgrade. Authority to proceed to procure was approved at the December 2023 Policy and Resources Committee meeting. This paper highlighted the need to find additional capital investment, over and above the allocation within the 2023-2026 Programme. Therefore, the 2024-2027 Programme has been increased accordingly.

Prudential Borrowing and Capital Financial Costs

5.27 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, underspends from the Capital Programme and capital reserves. Based on the Option 1 of the proposed Capital Programme (**Appendix 2**), it is forecast that the Capital Reserves created from the sale of the previous HQ will be fully utilised and additional external borrowing will need to commence in 2025/26. This assumes all projected spend takes place in line with the proposed timescales.

5.28 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 externally 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.

5.29 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. They were published as part of the Appendices attached to the Treasury Management papers presented to and noted by the Fire Authority in February 2024. Updated Prudential Indicators are included within **Appendices 7 to 11** of this paper, to demonstrate the indicators associated with each of the options considered to address the proposal to make a change to the 2024/25 revenue budget.

5.30 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.

5.31 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.

5.32 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 repayment 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.

5.33 It is forecast that additional borrowing of just under £29m across 2025/26 and 2026/27 will be required to fund Option 1 of the proposed Capital Programme, assuming there is no slippage (**Appendix 2**). The increased external borrowing has a significant impact on the revenue budget within the Medium-Term Financial Plan. Increased Capital Financing Costs, through both increased interest costs and also increased statutory contribution towards the capital element of the borrowing, have both been taken into account when developing the Medium-Term Financial Plan. Based on the assumptions made around interest rate and loan terms the cost of capital is expected to rise from around £700k in 2024/25 to close to £3m in 2027/28. This equates to around 6% of the Service net revenue in 2027/28 and therefore needs to be monitored closely to ensure the Service operates within the Prudential Indicators set as part of both this paper and the Treasury Management Strategy approved at the February 2024 Fire Authority meeting.

Affordability and Value for Money (VfM)

5.34 As previously noted there is a need to prioritise capital spending bids to ensure the Capital Strategy is affordable and demonstrates VfM with respect to public funding.

- 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.
- The cash balance held by the Service is just under £4m, with almost all of this balance relating to notional payments made in order to repay the existing loan capital amounts when due.
- It should be noted that the approximate cost of capital for current borrowing equates to 7% as a charge through the Fire Authority's revenue budgets. Option 1 of the Medium-Term Financial Plan has assumed a 1% increase on this with an 8% charge through the revenue budget on future borrowing. The costs of capital on the c£29m of new external borrowing (based on Option 1 presented in this paper) expected to be required to fund the proposed Capital Programme over the next three financial years is therefore estimated to be around £2.3m per annum.

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 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.
- Inclusion of both Bath and Weston estates projects within the current Capital Programme, prior to business case approval and condition survey results being received. Both Bath and Weston are existing commitments and the costs for associated works have been included to be prudent and avoid the impact on operational response and staff should the building facilities fail, which is anticipated within the medium-term financial planning period should no investment taken place.
- 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, so too does the Fire Authorities expenditure in future years (relating to the cost of servicing the debt) and therefore adds to the challenges the Authority is facing to deliver a balanced budget.
- 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.
- 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. Identify any operational, financial or reputational risks which should be taken into account.

7. LEGAL / POLICY IMPLICATIONS

7.1 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

a) AFA 2023-2026 Capital Programme, Strategy & Prudential Indicators, 17th February 2023, Paper 6.

[Agenda for Avon Fire Authority on Friday, 17th February, 2023, 10.30 am - Modern Council (moderngov.co.uk)]

b) AFA Treasury Management Strategy, including Prudential and Treasury Management Indicators and MRP Policy Statement, 19th February 2024, Paper 11.

https://avonfire.moderngov.co.uk/AFA Papers 19 Feb 24

c) AFA Updated 2024/25 Revenue Budget and MTFP, 20 March 2024, Paper 10.

9. APPENDICES

1. Capital Strategy 2024/25 – 2026/27
2. Proposed & Detailed Capital Programme 2024/25 – 2026/27 Option 1
3. Proposed & Detailed Capital Programme 2024/25 – 2026/27 Option 2 (1)
4. Proposed & Detailed Capital Programme 2024/25 – 2026/27 Option 2 (2)
5. Proposed & Detailed Capital Programme 2024/25 – 2026/27 Option 2 (3)
6. Proposed & Detailed Capital Programme 2024/25 – 2026/27 Option 3
7. Prudential and Treasury Management Indicators – Option 1
8. Prudential and Treasury Management Indicators – Option 2 (1)
9. Prudential and Treasury Management Indicators – Option 2 (2)
10. Prudential and Treasury Management Indicators – Option 2 (3)
11. Prudential and Treasury Management Indicators – Option 3

10. REPORT CONTACT

Verity Lee, Statutory Finance Officer, ext. 266
Claire Bentley, Head of Finance, ext. 235