APPENDIX 3

CAPITAL STRATEGY
2022 TO 2027

1. INTRODUCTION

1.1. The CIPFA Prudential Code for Capital Finance in Local Authorities establishes a framework that supports local strategic planning, asset management and appropriate options appraisal.

1.2. The objectives of the Code are to ensure that the capital plans of an organisation are affordable, prudent and sustainable and the treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

1.3. This document updates the previous Capital Strategy approved by the Authority in February 2021.

2. DEFINITION

2.1. To utilise the full extent of the Code and its framework, it is essential that there is a clear understanding of what capital expenditure is. Unless expenditure qualifies as capital it will normally fall outside the scope of the Code and its framework and be charged to revenue in the period in which the goods or services were received. If expenditure does qualify as capital, there are opportunities to finance such spend from any capital receipts held or to spread the cost over future years in line with the life of the asset(s) purchased.

2.2. In the main, expenditure must meet one or more of the following conditions for it to be classified as capital:

- Spend results in the acquisition, construction or enhancement of an asset (tangible or intangible) in accordance with 'proper practices';
- Spend meets one of the definitions specified in regulations made under the 2003 Local Government Act; or
- The Secretary of State makes a direction that the expenditure can be treated as capital.

3. CONTEXT

3.1. The capital programme requirements of the fire sector nationally are by nature limited in comparison to other public sector organisations such as local authorities who have diverse responsibilities to prioritise including Schools, Housing, Highways and Economic Development. Certainly, this is true of Cheshire Fire Authority with its capital expenditure plans largely limited to replacing essential operational assets (e.g. Estate Facilities, Vehicles, Equipment, Communications Infrastructure) together with individual ad-hoc capital investment schemes aimed at improving efficiency and operational performance/priorities which tend to be largely estate based. Examples include the completed programme to build the Operational Training Facility and replacement Chester Fire station. Currently in progress are approved schemes to continue with the ongoing fire station modernisation programme, to build a replacement fire station in Crewe. This Strategy also includes expenditure for the purchase of additional service housing in Wilmslow (although this is dependent upon the

Fire Authority determining to proceed with the proposal to change to a Day Crewed duty system at Wilmslow Fire Station.

3.2. In its *'Integrated Risk Management Plan 2020-24'* (IRMP), the Authority sets out its vision for fire and rescue services in Cheshire. The plan sets out a vision in which Cheshire Fire and Rescue Service focus on improving the safety of local communities and in developing its services and its people.

3.3. The Authority is committed to having rolling medium term revenue and capital plans (summarised in a Medium Term Financial Plan – MTFP) that usually extend for up to 5 years. The plans are drawn up, reassessed and extended annually and if required re-prioritised to enable the Authority to achieve its aims and objectives established in the current strategic plan.

3.4. In the past, general capital grant funding of over £1m was received each year, which helped to fund annual replacement of vehicles, IT and operational equipment and capital maintenance of fire buildings. This general grant funding ended in 2014/15. As a result all capital investment since 2015 has been funded from the Authority's own reserves unless specific funding was available. The Authority was very successful in bidding for and achieving specific grant funding towards both the safety centre and community fire station builds. However, no further government capital grant funding is anticipated going forward. The level of reserves currently held will not be sufficient to fund the current and proposed capital programmes over the medium term and borrowing will therefore be required going forward to meet the annual replacement programmes as well as investment in new technology and estate. Borrowing incurs on-going costs of interest payments and the funding set aside to repay the loan in due course.

3.5. Key focuses of the Capital Programme plans, all aligned to achieving the Authority's priorities above are:

- To ensure the property estate remains fit for purpose, identifying opportunities to streamline assets and develop the estate infrastructure; maintaining core sites and improving core training facilities.
- The replacement of other core assets where necessary, e.g. vehicles, operational equipment and communication infrastructure.
- Development of improved capability.
- To ensure provision is made for ICT Technology to maintain and develop the existing infrastructure and invest in the core technologies required to provide innovative and efficient digital services.
- Invest to Save Schemes.

3.6. The plans acknowledge the constrained financial position of the Authority and maximise both the available financial resources and the capacity that the Service has to manage change projects.

4. GOVERNANCE

4.1. The annual budget setting process is an ongoing process with the Joint Strategic Change team and other key stakeholder groups assisting departmental managers to identify change proposals and develop business cases for future capital investment requirements with ideas aligned to strategic plan priorities.

4.2. Business cases must explicitly identify the organisational requirement, rationale, deliverables, benefits, links to the Authority's priorities and costs in terms of both capital investment and ongoing revenue consequences.

4.3. Based on an agreed budget setting timetable, business cases are submitted for presentation to and scrutiny review by the Service Management Team (SMT) along with an initial view of potential affordability. Prioritisation is then made, taking into account the following in order of priority:

- Unavoidable (statutory or contractual);
- Operational Need (Enables continuity of agreed service delivery levels and priorities);
- IRMP Improvement Priority;
- Other (efficiency, invest to save, leverage of external funding, etc.).

4.4. An updated Draft Medium Term Financial Plan (MTFP), including a recommended Capital Programme, is then presented to the Authority, providing views on affordability, potential funding issues and options.

4.5. A final version of the MTFP is then presented to the Fire Authority for approval in February preceding each year. The MTFP reflects the known funding position and any further updates to the plan. At this stage, the Fire Authority is recommended to agree the capital budget for the following year and acknowledges the intention for planning purposes of the remaining years of the MTFP.

4.6. Where in-year additions to the approved Capital Programme are identified, a business case will be prepared and reviewed by the appropriate board/group (e.g. Performance and Programme Board or Land and Stations Working Group) before being submitted to the SMT. The SMT will then submit to the Authority for consideration and approval, including details of how the new scheme is to be funded, delivered and benefits realised, noting any ongoing MTFP implications.

4.7. Currently approved Financial Regulations (Section 10 of the Authority Constitution) specify individual officer roles and responsibilities relating to the capital programme along with a number of key controls as follows:

- Where a capital scheme is estimated to be overspent, if the overspend is estimated to be 10% or more than £100k, whichever is the lower (with a de-minimus of £10k), then approval to fund the overspend must be sought from the Authority.

- Where the overspend is estimated to be less than 10% and less than £100k, SMT will consider the overspend in the context of the overall programme, and if the overspend is unavoidable will either utilise the capital contingency, vire budget from an existing scheme or fund the overspend by contribution from the revenue budget or from reserves.

- Income which is the result of disposing of an asset and which is greater than £10k will be considered as a capital receipt. All other income will be treated as revenue.

- The Chief Fire Officer and Chief Executive and the Treasurer or the Head of Finance may jointly increase the amount of the Capital Programme by a maximum of £100k per annum, providing that any increase is for a new scheme(s), and the Head of Finance is satisfied with the funding arrangements.

- An increase approved by the Chief Fire Officer and Chief Executive and the Treasurer or the Head of Finance will be reported to Performance and Overview Committee at the earliest opportunity.

4.8. Following approval of the capital programme, a programme manager or project manager and a user representative is identified for each capital project. That individual is responsible for managing the project implementation and delivering its objectives. For all projects within the capital programme a Senior Officer is identified as project sponsor.

4.9. Monitoring progress against capital schemes is reported on at least a quarterly basis to the Performance and Programme Board, Land and Stations Working Group (where appropriate), SMT and to Performance and Overview Committee.

4.10. Once projects have been completed the programme or project manager completes a post implementation review for the major capital projects. This includes identifying at what stage the post project review will be carried out. The post project report is reviewed by the Performance and Programme Board and escalated to the SMT if required.

4.11. To evaluate the success and outcomes of capital projects a post project review is carried out. The depth of this review is proportionate to the scale of the project and the benefits set out in the initial Project Initiation Documentation. This review focuses on the outcomes achieved, the extent to which the benefits claimed are being realised, the actual costs, both revenue and capital, and the impact of other funding and partnership working. This information can then be used to learn lessons and make any improvements during subsequent projects.

5. FUNDING STREAMS

5.1. Capital expenditure can be funded from a number of sources as set out below:

- **Government Grants** – these are either general grants which can be used to fund any capital spend approved by the Authority or specific grants which can only be used to fund specific projects in line with any conditions placed with the grant. The Authority has not received an annual government capital grant allocation since 2014-15;

- **Capital Receipts** – when an asset held by the Authority is sold, the proceeds are held in reserve to be used either to fund future capital expenditure or to repay debt. They cannot be used to fund revenue expenditure;

- **Reserves** – funds can be set aside and held in earmarked reserves if known expenditure is to be incurred at a future date. These reserves can then be used to fund such expenditure be it capital or revenue. In terms of capital expenditure, it may be known that a specific asset may need replacing in 10 years and therefore funds are set-aside each year to build up the reserve to fund the replacement. Details of the reserves held are found within the Authority's Reserves Strategy;

- **External Contributions** – these are funds or grants provided by external organisations such as collaboration partners or local authorities for specifically agreed capital expenditure; and

- **Borrowing** – the Authority is permitted in law to take out loans or financing to fund capital expenditure. The Prudential Code sets out the requirements under which such borrowing must be undertaken including affordability, prudence and cost effectiveness. Any borrowing will incur costs for interest payable and the need to set-aside sufficient funds to repay the loan. These costs impact on the revenue budget.

6. CAPITAL PROGRAMME

6.1. The following table shows the Authority's overall Capital Programme and how it is anticipated that it will be funded from 2021-22 to 2026-27, figures quoted include both in-year approvals and schemes rolled forward from previous years. They therefore represent estimates of total capital expenditure in each year:

Note 1
2022-23 includes £4.5m for the purchase of houses in Wilmslow (Estates – Wilmslow). At the time of producing this Strategy this has not been approved by the Fire Authority which will consider the proposal to change the crewing system at Wilmslow Fire Station (the delivery of which necessitates the purchase of houses) at the same meeting that this Strategy will be presented for approval.

Note 2
The figures for the Fire Station Modernisation Programme (Estates – FS Modernisation) need to be viewed with some caution. The Programme has been paused to allow a review to take place – this means that Year 3 works that were due to take place during 2021-22 are being held in abeyance and it is not clear if they will be taken forward in their entirety and whether they will be completed during 2022-23. The review will also help determine the way forward for Warrington Fire Station, which to-date has not been included in any plans. The review is, therefore, likely to have two impacts on the Capital Strategy/expenditure: spend during 2022-23 will be less than indicated as works will be delayed for some time while the review is carried out; and the addition of Warrington Fire Station to the plans will significantly increase the requirement for capital funding.

2021/22 Estimate £000		**2022/23 Estimate £000**	**2023/24 Estimate £000**	**2024/25 Estimate £000**	**2025/26 Estimate £000**	**2026/27 Estimate £000**
	Expenditure:					
	Annual Replacement Schemes:					
2,100	Fleet Vehicles	1,349	955	965	985	965
50	Operational Equipment	28	350	350	600	350
400	ICT & Communications	100	50	50	50	50
	New Schemes:					
148	Estates – Training Centre	0	0	0	0	0
17	Estates – Chester FS	0	0	0	0	0
327	Estates – Crewe FS	5,600	1,000	0	0	0
2,322	Estates – FS Modernisation	4,350	3,000	3,000	0	0
257	Estates – Houses Modernisation	250	250	250	250	0
0	Estates – Wilmslow	4,500	0	0	0	0
0	Provision for New Projects	0	0	250	250	250
5,621	**Capital Expenditure**	**16,177**	**5,605**	**4,865**	**2,135**	**1,615**
	Financed by:					
0	General capital grants	0	0	0	0	0
513	Capital Receipts	0	0	0	0	0
1,108	Capital Reserves & Revenue Contributions	6,077	4,355	4,615	1,885	1,615
4,000	Borrowing	10,100	1,250	250	250	0
5,621	**Total Funding**	**16,177**	**5,605**	**4,865**	**2,135**	**1,615**

7. AFFORDABILITY

7.1. Capital expenditure plans are a key driver of treasury management activity. The funding of such plans impacts on cash balances and borrowing requirements in the short and longer terms. The on-going consequences of these decisions have a direct impact on the annual revenue budget. As such, having regard to the CIPFA Prudential Code for Capital Finance in Local Authorities, the Authority sets and reviews a number of prudential indicators showing the proposed capital expenditure plans, how they are to be funded, the impact on the organisation's finances and their affordability in terms of the impact on revenue budgets.

7.2. Full details and commentary on the prudential indicators are found within the Authority's Treasury Management Strategy 2022-23. Along with controls and limits relating to levels of capital expenditure and resulting borrowing requirements, these prudential indicators also include a specific affordability indicator, shown below, which provides an indication of the impact of the above capital expenditure plans and their financing proposals on the overall finances and precept (council tax):

Ratio of financing costs to net revenue funding (Extract from Treasury management Strategy 2022-23 - Table 5)

2020/21 Actual	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
0.94%	1.80%	2.32%	2.66%	2.87%	2.74%	2.66%

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream. The estimates of financing costs include current commitments and the proposals included in the budget/MTFP.

7.3. The above ratio is increasing due largely to the removal of available capital grant funding and the requirement to increase borrowing in order to finance the approved major build projects. The affordability of this will therefore continue to be reviewed alongside the MTFP.

8. RISK MANAGEMENT

8.1. Risk is the threat that an event or action will adversely affect the Authority's ability to achieve its desired outcomes and ability to execute its strategies successfully. Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.

8.2. The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties. The corporate risk register sets out the key risks to the successful delivery of corporate aims and priorities and outlines the key controls and actions to mitigate and reduce risks, or maximise opportunities.

8.3. To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored. It is important to identify the appetite for risk for each scheme and for the capital programme as a whole, especially when investing in complex business change programmes. Where greater risks are identified as necessary to achieve desired outcomes, the organisation will seek to mitigate or manage those risks to a tolerable level. All key risks identified as part of the capital planning process are considered for inclusion in the corporate risk register.

8.4. The Treasurer and Head of Finance will report jointly 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.

8.5. Credit Risk - The risk that an organisation with which we have contracted to deliver capital projects becomes insolvent and cannot complete the agreed contract. We will ensure that robust due diligence procedures cover the appointment of partners and contractors relating to capital programme delivery. Where possible contingency plans will be identified at the outset.

8.6. Liquidity Risk - This 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. There is also a risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes and mitigating actions taken promptly where appropriate.

8.7. Interest and Exchange Rate Risk - This is the risk that interest rates or 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. 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.

8.8. Inflation Risk - This 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 our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

8.9. Legal and Regulatory Risk - This 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, the Authority 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.

8.10. Fraud, Error and Corruption - This 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. Cheshire Fire Authority has a strong ethical culture which is evidenced through its values, principles and appropriate behaviour. This is supported by a Code of Ethics and detailed policies such as Anti-Fraud and Corruption and processes such as that in relation to declaration of interests.

9. FUTURE ACTIONS

9.1. This Capital Strategy currently looks ahead over the next 5 years to 2027. It will be reviewed to consider whether it would be appropriate and of value to extend this period to cover a longer term period of for example 10 or 20 years.

9.2. In view of the removal of ongoing government funding for capital programme expenditure, alternative potential funding arrangements will need to be considered which will include the extension of partnerships and collaborations.

9.3. The Strategy will be reviewed in light of emerging and changing issues, circumstances and priorities.