

CAPITAL STRATEGY 2023 TO 2028

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 2022.

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/created.
- 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 and upgrading 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 programmes 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 and to complete the purchase of additional service housing in Wilmslow in order to facilitate the agreed 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 IRMP.
- 3.4. In the past, general capital grant funding of over £1m was received each year from the Government, which helped to fund annual replacement of vehicles, IT and operational equipment and capital maintenance of buildings. This general capital 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 some 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 works 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 the estate. Borrowing incurs on-going costs of interest payments and the funding that is 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 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 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 must take into account the constrained financial position of the Authority and the need to 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 managed by the Authority's Service Leadership 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 IRMP 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 Leadership Team (SLT) 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 financial 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 SLT. The SLT will then submit the proposal 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:
 - Capital expenditure will be identified as such during the budget building process, and if additional expenditure is approved during the year. The capital programme will be approved annually by the Authority. In order to qualify as capital, expenditure must satisfy the following criteria:
 - Be in excess of £10k
 - Create an asset which has benefits which last for more than one year
 - Comply with guidance in the appropriate CIPFA code
 - Progress on the capital programme will be reported quarterly to the Performance and Overview Committee. The impact of any estimated overspends on the funding of the programme will be considered and every effort will be made to accommodate the impact within the existing funding package. If the overall impact cannot be accommodated, then the Chief Fire Officer and Chief

Executive and Treasurer jointly may approve an increase in funding of up to £50k. For funding above this level, approval must be sought from the Authority.

4.8. Following approval of the capital programme, a programme 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. 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. The post project report is reviewed by the Performance and Programme Board and escalated to the SLT if required.

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 2022-23 to 2027-28. 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

The Fire Station Modernisation Programme (Estates – FS Modernisation) was paused in 2022-23 to allow a review to take place in light of significant inflationary pressures on the overall programme. The review is ongoing and a number of Programme Delivery Principles have been agreed. The Programme is now due to recommence and be completed over the period up to and including 2025-26. At this point Ellesmere Port and Warrington are affectively being treated as sitting outside the Programme with work continuing to determine the way forward for these fire stations.

Note 2

There is currently no financial provision included in this strategy or any other plans relating to either Ellesmere Port or Warrington Fire Stations. If significant additional capital expenditure is approved in respect of these sites, it will be necessary to increase the future borrowing requirement and to recognise the impact of associated financing costs in the Medium Term Financial Plan.

2022/23 Estimate £000		2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
	<u>Expenditure:</u>					
	Annual Replacement Schemes:					
789	Fleet Vehicles	1,460	1,000	1,475	1,005	1,005
28	Operational Equipment	28	1,528	350	350	350
200	ICT & Communications	50	500	50	50	50
	New Schemes:					
3,200	Estates – Crewe FS	3,804	0	0	0	0
369	Estates – FS Modernisation	4,000	3,000	3,000	0	0
250	Estates – Houses Modernisation	250	250	250	0	0
4,500	Estates – Wilmslow	0	0	0	0	0
0	Provision for New Projects	0	250	250	250	250
9,336	Capital Expenditure	9,592	6,528	5,375	1,655	1,655
	<u>Financed by:</u>					
0	General capital grants	0	0	0	0	0
25	Capital Receipts	0	0	0	0	0
2,011	Capital Reserves & Revenue Contributions	5,542	6,278	5,125	1,655	1,655
7,300	Borrowing	4,050	250	250	0	0
9,336	Total Funding	9,592	6,528	5,375	1,655	1,655

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 providing context for 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 2023-24. 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:

Ratio of financing costs to net revenue funding (Extract from Treasury management Strategy 2023-24 - Table 5)

2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
1.86%	2.24%	2.07%	2.60%	2.67%	2.67%	2.58%

- 7.3. The above indicator identifies the trend in the financing costs of the Authority, (borrowing, MRP and other long term obligation costs), against the net revenue stream. The estimates of financing costs include current commitments and the proposals included in the budget/MTFP. 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 estates projects. The affordability of this will therefore continue to be reviewed alongside the MTFP.
- 7.4. The above estimates do not include any provision relating to either Ellesmere Port or Warrington Fire Stations. The affordability of any significant proposed future capital expenditure in respect of these sites will therefore need to be reviewed carefully 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 elements 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, 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 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 2028. 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 may include the extension of partnerships and collaborations.
- 9.3. The Strategy will be reviewed in light of emerging and changing issues, circumstances and priorities.