Appendix A

1. Changes since the last version

Version: V1

Information Asset Owner:	**Director of Finance and Assets**
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Approval:	**Executive Committee**

Please note that as Service Documents are frequently updated, if you print a document, its accuracy cannot be guaranteed. Always check the intranet for the latest version.

2. Index

3. Purpose and scope

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code includes a new 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.

This Strategy outlines the Authority's approach to capital investment ensuring it is in line with its corporate priorities and objectives set out in the Public Safety Plan (PSP). It provides a strategic overview of how capital expenditure; capital financing and treasury management activity contribute to the delivery of outcomes, as well as overview of the management of risk and future financial sustainability.

4. Roles and responsibilities

- Lead Member for Finance and Assets, Information Security and IT - Responsible for reviewing the annual capital programme/capital strategy.
- Members – Responsible for reviewing and approving the annual capital programme/capital strategy.
- Chief Fire Officer - Responsible for leading the Service on its continued journey of improvement in the Service's governance, performance and financial management.
- Director of Finance and Assets – s112 Officer and responsible for the Finance and Assets Directorate.
- Deputy Director of Finance and Assets – Deputise for the Finance and Assets Directorate and responsible for the day to day management of the Finance and Payroll function.
- Principal Accountants - Responsible for the day to day management of the Finance function.
- Property Manager – Responsible for property related capital projects.
- Fleet Manager - Responsible for fleet and equipment related capital projects.
- IT Manager - Responsible for ICT related capital projects.

5. Document Content

1. Introduction

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code includes a new 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 Buckinghamshire and Milton Keynes 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.

1.3 It is closely linked to the PSP and Corporate Plan. The PSP sets out our strategic approach to the management of risk in the communities we serve. The Corporate Plan sets out how we intend to equip and develop our organisation and its people to meet the challenges that we face. The MTFP details the resources available to facilitate these plans and how the plans contribute to reducing future operating costs.

1.4 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 the implications for future financial sustainability. It includes an overview of the governance processes for approval and monitoring of capital expenditure.

1.5 This Capital Strategy does not duplicate other documents, but should be read in conjunction with:

- PSP
- Corporate Plan
- Property Strategy
- Fleet Strategy
- Treasury Management Strategy (TMS)
- MTFP
- Prudential Indicators
- Financial Strategy

2 Capital Expenditure

2.1 Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits (greater than 365 days) or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. The Authority's de-minimis level for capital expenditure is £6k.

3 Capital Expenditure Compared to Treasury Management Investments

3.1 This Authority defines its 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 organisation'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 The investment policy objective for this Authority is the prudent investment of its treasury balances. The Authority's investment priorities are the security of capital and liquidity of its investments so that funds are available for expenditure when needed. Both the CIPFA Code and DCLG guidance require the Authority to invest its funds prudently, and to have regard to 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 local authority services is an important, but secondary, objective.

3.4 Performance of the Treasury Management investments is reported to the Overview and Audit Committee on a quarterly basis.

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 from revenue contributions to capital reserves and the Authority no longer receives general capital grant.

4.2 With continuing restrictions still anticipated in funding, the Authority has considered new ways of working to address risks within our communities and collaborating with neighbouring Fire Authorities to achieve value for money and assist in balancing the budget. The purchase of fire appliances and equipment is an example of how Buckinghamshire Fire and Rescue Service have worked collaboratively with neighbouring fire authorities. This is one example of many where collaboration has taken place and the Authority will continue to identify further opportunities in the future.

4.3 The Authority has approximately 400 firefighters operating from 19 fire stations, across Buckinghamshire and Milton Keynes which provide a mixture of Whole-time and On-Call duty cover.

4.4 The Property Team had a full independent survey of the property portfolio carried out, of which the last one was in November 2017. The condition survey provides the Property Manager with a report detailing the current condition of each property and assists in directing the capital programme where investment is most needed. As part of the annual programme, Property are also taking this opportunity to refurbish existing properties and ensuring that the updated facilities can accommodate all capabilities.

4.5 Currently, the Service has 49 Red Fleet Appliances of which many of these have passed their initially anticipated replacement date. There is currently a 5-year rolling programme where Red Fleet appliances are being replaced. The breakdown of our current appliances is shown in Appendix D.

4.6 Prioritisation and allocation on where the capital resources are most needed is vital to ensuring our Estate and Fleet of vehicles are fit for purpose.

5 <u>Project Initiation Document</u>

5.1 The current method for allocating resources is based on the MTFP process. This is facilitated by the Business Transformation Board (BTB) in conjunction with Lead Members prior to seeking Authority approval for the Capital Programme. This approach involves evaluating the case for major capital investments by considering the information set out in the capital growth bid forms (Appendix B) supplied by the project initiator.

5.2 The following strategic requirements need to be considered when evaluating and prioritising each business case:

- What are the outcomes?
- How does it link to corporate priorities?
- Who will benefit?
- Why is it appropriate to progress at this time?
- Any links to existing, previous or planned projects?

5.3 Once capital projects are approved, they are monitored by the Principal Accountant and the relevant budget holder and reported to the Executive Committee every quarter. For larger capital projects, a project manager is assigned to each capital scheme to ensure they are subject to thorough oversight for the duration of the project. The project manager will oversee planning, delivery, management, skills assessment and governance of capital projects.

6 The Capital Programme 2020/21 – 2024/25

6.1 The capital programme for the Authority is considered annually as part of the MTFP process and is set out in the table below:

2020/21 - 2024/25 Medium Term Capital Programme

Capital Scheme	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Property (Note 1)	500	500	500	500	500
Fire Appliances and Equipment	500	750	750	500	750
Equipment (Note 1)	141	155	1,055	155	155
Support (Note 1)	75	75	75	75	75
Slippage (Approved in July 2020 Exec)	1,809				
Slippage Forecast 2021/21	-260	260			
Forecast Overspend	2,284				
Total Expenditure	**5,049**	**1,740**	**2,380**	**1,230**	**1,480**
Funding b/fwd	-1,442	-2,387	-1,931	-1,053	-1,763
Revenue Contribution to Capital	-1,815	-1,284	-1,502	-1,940	-2,403
Other Capital Contributions	-4,179	0	0	0	0
Funding (Available)/Deficit	**-2,387**	**-1,931**	**-1,053**	**-1,763**	**-2,686**

Note 1 – Figures highlighted in blue are currently only indicative for potential future growth bids.

7 Funding the Capital Programme

7.1 Since 2014, Central Government no longer provide general capital grant and the only capital allocation was via the Fire Transformation Fund (FTF). This was a one-off grant to facilitate Fire and Rescue Authorities (FRAs) to carry out projects to improve the efficiency of public services. Buckinghamshire Fire and Rescue Service were allocated a grant via FTF to part-fund the West Ashland Station project. No other capital grants are available and therefore the main sources of funding are through revenue contributions to capital and use of reserves. The Authority currently has no plans to undertake any further borrowing.

8 Revenue Contributions to Capital

8.1 The Authority since 2014, have agreed annually an element within the Revenue budget which will go towards funding the capital programme and this has continued into each subsequent financial year. The amount allocated to assist with the capital programme is based on affordability and is specific to that year. The Capital Programme identifies the amount the Authority is projecting to fund from revenue each year.

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 MRP) 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 the prudential indicators are approved by the Fire Authority annually.

9.3 As at 31 September 2020, the long-term debt currently stands at £6.797m.

10 Reserves

10.1 It has been the strategy of the Authority to utilise revenue contributions to fund capital expenditure. Following approval by Authority, an amount is set aside to transfer into a reserve to fund future capital programme. In addition to this, subject to Authority approval, any in-year or end of year underspends have been set-a-side and moved into a reserve to fund the future capital programme. The amount of earmarked reserve funding identified to fund the Capital programme is shown in the capital programme table in section 6.1.

10.2 The Authority has not taken out additional borrowing since March 2011. Depending on the size of the capital programme, there could be a requirement for new borrowing in future years if the level of revenue funding reduces and results in insufficient funds to fund the Capital Programme, although it is not anticipated this will be required in the foreseeable future.

10.3 Reserves position as at 31st March 2020.

Reserve Balances	£000
General Fund Balance	-1,500
Total Earmarked Reserves - Revenue	-2,197
Total Earmarked Reserves - Capital	-1,442
Total Usable Reserves	**-5,139**

11 Partner Contributions and S106

11.1 The Authority is increasingly engaged in collaborative working with other public sector partners, particularly other emergency services. This includes capital projects and one example of this is the West Ashland Station which is an emergency hub providing Fire, Police and Ambulance services.

11.2 Specific grants for capital funding are no longer available, having been replaced with a capital and revenue grant bidding system open to all fire and rescue services, if and when monies are made available by Government. We do not anticipate any new capital grants for 2021-22. Developer contributions, usually derived from Section 106 agreements, are awarded to mitigate the impact of developments on communities. These contributions are usually earmarked for specific purposes in planning agreements and often relate to infrastructure projects or affordable housing schemes. At the present time the Authority is projecting to receive £136k S106 funding. Further developers' contributions, through the Community Infrastructure Levy, may be available moving forward, but none are held at the current time.

11.3 The Authority will also pursue energy efficient and heat carbonisation funds, in addition to low carbon skills funds via the appropriate agencies. These funds are available to help public sector bodies to engage specialist and expert advice, to identify and develop energy efficiency and low carbon heat upgrade projects for non-domestic buildings

12 Monitoring of Capital Expenditure

12.1 The performance of the capital programme is reported to Officers each Month and to Members each quarter and forms part of the Executive Budget Monitoring Performance and Debt Management Report. For larger capital projects, a project manager assigned to each capital scheme will meet regularly with Finance representatives to provide updates on the project to ensure any variances are picked up early and appropriate action taken.

13 Risk Management

13.1 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."

13.2 Each major capital scheme 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.

13.3 Every item will go through a rigorous justification process so that a greater scrutiny can be achieved over what is included within the capital programme. This will become even more critical if collated bids exceed the available funding. All investment will be aligned to the PSP and the Corporate Plan to ensure that the Service is acquiring or replacing the right assets, at the right time, in the right location to address the risk and at the same time focussing also on our revenue costs to help balance the budget.

13.4 The capital budget requirement is determined on an annual basis. The process starts at the start of the summer with relevant departments determining their requirements. Once formalised, the requirements are discussed and scrutinised with the relevant project sponsor. Following that, they are presented to the BTB in August and December and then the appropriate Member boards in October and January. Once scrutinised by Members, the approved bids are presented to the Authority in February for approval in advance of the financial year to which it relates to.

14 Credit Risk

14.1 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 awarded as part of the procurement process.

15 Liquidity Risk

15.1 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 likely that an increasing number of capital projects will be shared across organisations. Liquidity risk and the impact on cash flows is monitored on daily basis by the Treasury Management function.

16 Fraud, Error and Corruption

16.1 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. There are also policies in place to address some of the risk such as the Whistleblowing Procedure, Counter-Fraud and Corruption Policy and the Declaration of Interests.

17 Legal and Regulatory Risk

17.1 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 in to a capital project, officers will determine the powers under which any investment is made, taking appropriate advice where necessary.

17.2 Capital schemes must comply with legislation (Disability and Discrimination Act, as an example) and also consider Authority Regulations, Service plans and policies such as:

- The Corporate Plan;
- PSP;
- Contract Standing Orders; and
- Financial Regulations.

18 Minimum Revenue Provision

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

18.2 MRP 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 MRP accounting practice requires 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.

18.3 The MRP Policy is reviewed annually and is outlined within the Authority's Prudential Indicators.

19 Affordability of the Capital Programme

19.1 A variety of factors are taken into account when determining the affordability of the Capital programme, including the impact on revenue budgets and reserves:

- MRP

- Interest payable
- Interest receivable
- Revenue contribution to capital

19.2 The most economic 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.

19.3 Historically, the Authority received a Capital Grant of up to £1.2m per year and funded the rest via revenue contributions to capital. This grant is no longer available and it is unlikely that there will be any form of capital grants funded by Central Government and therefore the capital programme will be funded predominantly by revenue contributions in the short–term and if necessary (although not currently anticipated), borrowing in the longer-term.