Nottinghamshire and City of Nottingham
Fire and Rescue Authority

CAPITAL STRATEGY 2019/20

Joint Report of the Treasurer to the Fire Authority and Chief Fire Officer

Date: 14 December 2018

Purpose of Report:

To seek the approval of the Nottinghamshire and City of Nottingham Fire and Rescue Authority for the Capital Strategy 2019/20 and Flexible Use of Capital Receipts Strategy 2019/20.

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1. BACKGROUND

1.1 The Local Government Act 2003 set out a framework for the financing of capital investments in local authorities which came into operation from April 2004. Alongside this, the Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice to support local authorities' decision making in the areas of capital investment and financing. Authorities are required by regulation to have regard to the Prudential Code.

1.2 CIPFA released an updated version of the Prudential Code in December 2017. The revised code is in a similar format to the previous 2011 edition, but included a new requirement for authorities to produce a Capital Strategy with effect from 2019/20.

2. REPORT

CAPITAL STRATEGY

2.1 The purpose of the Capital Strategy is to demonstrate that the Authority takes capital expenditure and investment decisions in line with Service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The strategy forms part of the Authority's integrated revenue and capital planning.

2.2 The Capital Strategy is attached at Appendix A. The main elements of the Strategy are:

- The governance arrangements around capital planning;
- Development of the capital programme; and
- Capital financing.

2.3 The Strategy demonstrates the strong governance arrangements around the capital programme and that the Authority continues to plan for its capital expenditure in such a way that ensures that it is affordable, prudent and sustainable.

2.4 The Fire Authority is also required to approve a Flexible Use of Capital Receipts Strategy for the year which is attached at Appendix B. It is not proposed to fund any transitional projects using capital receipts during 2019/20.

3. FINANCIAL IMPLICATIONS

3.1 The purpose of the Capital Strategy is to ensure that the costs of capital investment of the Authority can be contained with revenue budgets.

3.2 The Capital Programme is approved by Fire Authority as part of the budget setting process in February of each year.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising from this report.

5. EQUALITIES IMPLICATIONS

An initial equality impact assessment has not been prepared in relation to this matter.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

The legal implications and requirements are set out in full within the report.

8. RISK MANAGEMENT IMPLICATIONS

The risk management implications are set out in full in the report and in Appendix A.

9. COLLABORATION

There are no collaboration implications arising from this report.

10. RECOMMENDATIONS

It is recommended that Members:

10.1 Approve the Capital Strategy attached at Appendix A.

10.2 Approve the Flexible Use of Capital Receipts Strategy for 2019/20 attached at Appendix B.

11. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

Charlotte Radford
TREASURER TO THE FIRE AUTHORITY

John Buckley
CHIEF FIRE OFFICER

APPENDIX A

NOTTINGHAMSHIRE
Fire & Rescue Service

CAPITAL STRATEGY 2019/20

Date Approved by Fire Authority: December 2018

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1 INTRODUCTION AND BACKGROUND

1.1 This Capital Strategy is a key corporate document that outlines how the Authority intends to optimise the use of available capital resources to help achieve its objectives. Capital expenditure is a major cost to the Authority and as a result it is necessary to ensure that key programmes of work requiring capital expenditure have been properly identified, evaluated and prioritised.

1.2 This document sets out the framework for planning and financing capital in order to ensure the broad requirements set out above can be consistently met by the Authority. The Strategy sits alongside the Medium Term Financial Strategy (MTFS) and the proposed 10-year capital programme is included in the MTFS. The strategy is supported by the Authority's property strategy, asset management plans and the Capital Programme which, in combination, lay out how the Authority will use its assets and its capital investments in pursuit of the key goals set out in the Strategic Plan 2019-2022.

1.3 There are several influences which feed into the capital investment process, the main ones being:

- Strategic Plan
- Treasury Management Strategy
- Medium Term Financial Strategy
- Property Strategy
- Corporate Asset Management Plans (buildings, vehicles and equipment)
- Procurement Strategy
- ICT Strategy
- Transport Strategy
- Community Safety Strategy
- Human Resources Strategy
- Learning & Development Strategy
- Risk Register

2 GOVERNANCE

2.1 The Local Government Act 2003 sets out a framework for the financing of capital investments in local authorities which came into operation from April 2004. Alongside this, the Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice to support local authorities' decision making in the areas of capital investment and financing. Authorities are required by regulation to have regard to the Prudential Code.

2.2 CIPFA released an updated version of the Prudential Code in December 2017. The revised code is in a similar format to the previous 2011 edition, but included a new requirement for authorities to produce a Capital Strategy with effect from 2019/20.

2.3 The objectives of the Prudential Code are to ensure that the capital investment plans of authorities are affordable, prudent and sustainable. This is achieved through the use of a number of prudential indicators covering affordability, prudence, capital expenditure, debt levels and treasury management. These indicators are included in the Prudential Code for Capital Finance which is approved by the Fire Authority each year and monitored throughout the year by the Finance and Resources Committee. A 10-year Capital Programme is included in the MTFS which includes a projection of future year debt costs to ensure that they are affordable in the long term.

FIRE AUTHORITY

2.4 The Capital Programme is an aggregation of the approved schemes which will help ensure that the Authority can deliver on its strategic objectives. The Capital Programme approved by Fire Authority as part of the annual budget process covers a 3-year period in line with revenue budget forecasting. Estimating expenditure beyond 3 years is more difficult, although still important in determining the affordability of capital expenditure in future years. For this reason, a proposed 10-year Capital Programme is included in the Medium Term Financial Strategy for planning and cost projection purposes.

2.5 The full revenue implications of the Capital Programme are presented to members prior to each financial year within the Revenue Budget. Fire Authority is also responsible for approving the Treasury Management Strategy and Prudential Code prior to the start of each year to ensure that the Capital Programme is affordable, prudent and sustainable.

FINANCE AND RESOURCES COMMITTEE

2.6 The Finance and Resources Committee are responsible for receiving quarterly monitoring reports on the Capital Programme and Prudential Code.

CORPORATE GOVERNANCE

2.7 Corporate Governance is ensured throughout the process through the Authority's:

- Internal Audit;
- Service Plans;
- Performance Management;
- Service Procedures;
- Financial Regulations and Procedures;
- Standing Orders.

STRATEGIC LEADERSHIP TEAM (SLT)

2.8 SLT have oversight of and make appropriate decisions relating to the revenue and capital budgets set by the Fire and Rescue Authority in order to operate within the delegated financial authority agreed by the Authority to deliver a balanced budget position.

EXECUTIVE DELIVERY TEAM (EDT)

2.9 EDT have responsibility for managing project performance and receive regular monitoring updates. EDT also receives project closure reports to ensure that any lessons learned are shared across the organisation.

TREASURER

2.10 Under section 25 of the Local Government Act 2003, the Treasurer is specifically required to report to the Authority regarding the estimates for the purposes of calculations in order that Fire Authority can make informed decisions about future years' budgets. The Treasurer also has responsibility to ensure compliance with regulatory frameworks and to report on unlawful expenditure or on an unbalanced budget.

FINANCE EMPLOYEES

2.11 The Authority ensures that the Finance team contains staff who are appropriately trained in Capital Accounting and Treasury Management. In addition, the service employs external treasury management advisors who provide specialist advice and resources.

3 THE CAPITAL PROGRAMME

3.1 The capital expenditure recommendations are determined from an assessment of the Authority's Asset Management plans for buildings, equipment and vehicles. As the impact of capital expenditure, and associated borrowing, is spread over years, it is important to consider the effects of any proposals in both the forthcoming and future financial years.

3.2 The Authority's approach to developing capital investment is to evaluate projects against criteria such as:

- Fire Authority objectives;
- Funding requirements;
- Statutory obligations;
- Reserve savings and implications;
- Any surplus assets for which a receipt will subsequently be available;
- Any special considerations;
- Affordability;

- Sustainability (by considering whole life costs);
- Evaluation of condition, suitability, and sufficiency information from the Asset Management system;
- Collaborative Opportunities.

3.3 Where there is a possibility to take a collaborative approach to purchasing or using assets it will be pursued providing that the partnership or sharing arrangements are financially viable and in the best interests of Nottinghamshire Fire & Rescue Service.

3.4 Where collaborative projects are undertaken consideration will be given to the most appropriate delivery vehicle, whether it be leasing arrangements or the setting up partnership arrangements such as a Limited Liability Partnership (LLP).

3.5 The purpose of the capital investment programme is to support the strategic plan which at present does not include investment in commercial activities due to the Authority not wishing to undertake undue risk.

3.6 Establishing the level and type of investment available, which is currently projected for up to ten years in advance enables the revenue implications of the capital programme to be considered in detail including repair and maintenance costs, energy efficiencies and economies for scale. The debt charges (Minimum Revenue Provision and interest charges) are built into the revenue budget and monitored to ensure that they remain affordable.

3.7 The Finance and Resources Committee recommend a draft Capital Programme to Fire Authority who approve the final programme at its budget setting meeting in February of each year. Additional approval is sought from Finance and Resources Committee before major building projects are commenced.

3.8 Projects utilise the principles of Prince 2 methodology, where appropriate, and are subject to a review following completion where clients, occupiers and consultants establish how far the project has achieved objectives and outcomes against targets (as detailed in the original investment appraisal) and evaluate areas of good practice/areas for improvement of suitability for purpose, quality, design, sufficiency and flexibility.

4 CAPITAL FINANCING

4.1 The Capital Programme is currently constrained by the availability of finance, which continues at present to be provided by traditional methods including:

- Borrowing under the Prudential Code;
- Revenue Funding;
- Capital Receipts;
- Capital Grant;
- Leasing.

4.2 Funding is expected to be limited in the medium term and the Comprehensive Spending Review (CSR) expected in autumn 2019 will set the funding limits in future years. The capital programme will be updated accordingly as part of a revised Medium Term Financial Strategy.

4.3 Surplus Assets are disposed of and all receipts are treated as a corporate resource and used to underpin and support the Capital Strategy in line with the Flexible Use of Capital Receipts Strategy which will be approved alongside the Capital Strategy.

4.4 The main limiting factor on the Authority's ability to undertake capital expenditure is whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs, after allowing for any support provided by central government.

4.5 Capital financing charges now represent 5.7% (2018/19) of the Authority's revenue budget which is considered within prudent limits. On 24 October 2008, the Finance and Resources Committee set a maximum limit for this ratio of 8% in order to meet the prudential code requirements of affordability and sustainability (as part of the Sustainable Capital Plans Report). This ratio forms one of the Prudential Indicators approved by Fire Authority as part of the Prudential Code for Capital Finance report considered in February of each year. It is not proposed to change the 8% cap on this ratio. The 10 year proposed capital programme included in the MTFS is monitored to ensure it does not exceed this limit.

5 SUMMARY

5.1 This Capital Strategy is a key corporate document that outlines how the Authority intends to optimise the use of available capital resources to help achieve its objectives. Capital expenditure is a major cost to the Authority and as a result it is necessary to ensure that key programmes of work requiring capital expenditure have been properly identified, evaluated, prioritised and authorised.

5.2 Due to the long-term impact of the Capital Programme and the high levels of expenditure involved, strong and effective governance arrangements have been put in place to manage any associated risks.

5.3 The Authority continues to plan for its Capital Expenditure in such a way that ensures that it is affordable, prudent and sustainable.

APPENDIX B

FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY

INTRODUCTION

In the Spending Review 2015, the Chancellor of the Exchequer announced that to support local authorities to deliver more efficient and sustainable services, the government would allow local authorities to spend up to 100% of their capital receipts from the sale of fixed assets on the revenue cost of reform projects. This gives local authorities the power to treat as capital expenditure, expenditure which is incurred in generating on-going revenue savings in the delivery of public services either by way of reducing the cost of or reducing demand for services in future years. This impact of cost or demand reduction can be realised by any public sector delivery partners but must be properly incurred by authorities for the financial years that begin on 1 April 2016, 1 April 2017 and 1 April 2018. Capital receipts used in this way must have been received in these same three years. As part of the provisional funding settlement made on 19 December 2018, this was extended to cover a further 3 years up until 2021/22.

This new power and its guidance is issued under Section 15(1) of the Local Government Act 2003, which requires local authorities to have regard to guidance that the Secretary of State may specify.

APPLICATION

The guidance specifies that authorities may not borrow to finance the revenue costs of service reform, nor may they use capital receipts accumulated from prior years. The key criteria to be used when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate on-going savings to an authority's or several authorities' and / or to another public sector body's net service expenditure.

ACCOUNTABILITY AND TRANSPARENCY

The guidance specifies that authorities must disclose the individual projects that will be funded or part funded through capital receipts flexibility to the full Fire Authority. This requirement can be satisfied as part of the annual budget setting process or through the Medium Term Financial Strategy. It is recommended that the disclosure of projects to be funded in this way should be made prior to the start of each financial year, however if the strategy is updated part way through the year it must be approved by the Fire Authority and notified to central government. A revised strategy must also include the impact on Prudential Indicators. Both the initial strategy and any revised strategy must be made available online to the public.

The strategy must list each project to be funded through capital receipts flexibility, with details of the expected savings and service transformation. With effect from the 2017/18 strategy details must be included of projects approved in previous years and progress against achievement of the benefits outlines in the original strategy.

To date there have been no such projects funded through the use of capital receipts.

CAPITAL RECEIPTS STRATEGY FOR 2019/20

For the financial year 2019/20 it is not proposed to fund any reform projects through the capital receipts flexibility. There are currently sufficient funds held in reserves for this purpose and it is felt that capital receipts would be better used to finance capital expenditure. This will enable the Authority to minimise the use of borrowing which needs to be kept within the affordable limits as set out in the Prudential Code for Capital Finance.

If it is felt in the future that the use of capital receipts flexibility would be beneficial to the Authority then a revised strategy will be reported to the Fire Authority for approval.