

Proposed Capital Strategy

**1. Introduction**

- 1.1 There is a requirement on local authorities (including fire services) to prepare a capital strategy each year, which sets out our approach to capital expenditure and financing at a high level. The requirement to prepare a strategy arises from Government concerns about a small number of authorities borrowing substantial sums (relative to their budget) to invest in commercial property, often outside the vicinity of the authority concerned.
- 1.2 There is also a new requirement on local authorities to prepare an investment strategy, which specifies our approach to making investments other than day to day treasury management investments (the latter is included in our treasury management strategy, as in previous years). As the CFA makes no such investments, a strategy has not been prepared.
- 1.3 This Appendix sets out the proposed capital strategy for the CFA's approval. It incorporates our policy on repaying debt, which used to be approved separately.

**2. Capital Expenditure**

- 2.1 The authority's capital expenditure plans are approved by the CFA, as part of the budget report each year.
- 2.2 The capital programme is usually restricted to:-
  - (a) Investment in operational buildings – e.g. fire stations, workshops, and administrative offices;
  - (b) Renewal of operational fleet;
  - (c) New and replacement firefighting equipment;
  - (d) Investment in ICT.
- 2.3 The budget report each year sets out authorities delegated to the Chief Fire and Rescue Officer. These are subject to the normal requirements of the constitution.
- 2.4 Capital expenditure on **buildings**, where funded from the capital programme, is principally directed to maintaining the fitness of the operational estate. Major property investments are considered as part of the overall estates strategy.
- 2.5 Expenditure on **fleet renewals** is directed by the fleet renewals strategy which has been approved by the CFA.

- 2.6 Capital expenditure on **firefighting equipment** ensures equipment is replaced when it has reached the end of its useful life, or has become technologically obsolescent. It also enables the service to invest in new technology.
- 2.7 Capital expenditure on **ICT** is determined by the Chief Fire and Rescue Officer, based on a small minor provision each year. Significant requirements would be added to the capital programme in their own right.
- 2.8 Monitoring of capital expenditure is carried out by the Corporate Governance Committee. Reports are presented on three occasions during the year, and at outturn.
- 2.9 LFRS does not capitalise expenditure, except where it can do so in compliance with proper practices: it does not apply for directions to capitalise revenue expenditure.
- 2.10 Past and forecast capital expenditure is:-

	<b>£000</b>
19/20	4,941
20/21	2,794
21/22	1,660

### **3. Financing of Capital Expenditure**

- 3.1 It is the CFA's policy to fund all capital expenditure from the revenue budget.
- 3.2 The CFA will, however, consider spending which cannot be financed in this way in strictly limited circumstances. Such spending is termed "prudential borrowing" as we are permitted to borrow money to pay for it. Circumstances in which the CFA may consider "prudential borrowing" are:-
- (a) Where spending facilitates a future disposal, and it is estimated that the proceeds will be sufficient to fully cover the initial costs;
  - (b) For major building projects, which are integral to the IRMP;
  - (c) "Spend to save" schemes where the initial cost is paid back from revenue savings.
- 3.3 LFRS measures its capital financing requirement, which shows how much we would need to borrow if we borrowed for all unfinanced capital spending (and no other purpose). This is shown in the table below:-

<b>End of:</b>	<b>£000</b>
20/21	16,806
21/22	15,982
22/23	15,284

3.4 Projections of actual debt are part of the treasury management indicators at Appendix Three.

#### **4. Debt Repayment**

4.1 As stated above, LFRS pays for capital spending as it is incurred. However, this has not always been the case. In the past, the Government encouraged borrowing and money was made available in Revenue Support Grant each year to pay off the debt (much like someone paying someone else's mortgage payments).

4.2 LFRS makes charges to the budget each year to repay debt incurred for previous years' capital spending. This is known as "Minimum Revenue Provision" (MRP). The general principle is that LFRS seeks to repay debt over the period for which taxpayers enjoy the benefit of the spending it financed. The calculations are:-

- (a) For all past borrowing, MRP will be charged at a rate of 3% of the capital financing requirement each year. This is a weighted rate, reflecting the portfolio of assets purchased by debt;
- (b) For leases, MRP will be charged at a rate equal to the principal element of the rental;
- (c) For any new borrowing, MRP will be charged to revenue such that debt is repaid at the same time as the authority benefits from the capital expenditure. For new appliances, this would be the useful life of the appliance. For works to buildings, it will be the period over which the authority benefits from these works.

#### **5. Commercial Activity**

5.1 Government guidance now requires us to specify our policy towards non-financial investments.

5.2 The CFA makes no such investments.