Capital Strategy 2024-2034

North Wales Fire and Rescue Service

CONTENTS

SECTION

1 Purpose of the Capital Strategy

1.1 The purpose of the Capital Strategy is to set out how North Wales Fire and Rescue Authority (the Authority) proposes to deploy its capital resources in order to assist it to achieve its corporate and service objectives. It takes into account other relevant strategies, policies and plans, and the views of partners and interested parties with whom the Authority is involved. It will serve as a useful point of reference when determining or reviewing the Capital Programme.

1.2 Capital expenditure is where the Authority spends money on assets, such as property or vehicles, that will be used for more than one year.

1.3 This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.4 Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. These decisions are therefore subject to both a national regulatory framework and to local policy framework, as summarised in this report.

1.5 The overall Capital Strategy seeks to assist the delivery of the Authority's Community Risk Management Plan (CRMP) 2024-2029.

1.6 Due to the ongoing impact of higher inflation, higher interest rates, uncertain government policy, and deteriorating economic outlook, additional financial pressures have been placed on the Authority. In consideration of these pressures, a review of the 2023/24 capital programme has been undertaken and priority has been given to the delivery of critical projects. The revised capital programme for 2023/24 totals £5.290m and is summarised below:

Scheme	Original Allocation £m	Revised Allocation £m	Forecast £m
2023/2024			
Fire Appliance replacement	1.430	0.475	0.475
Multi- purpose vans	0.189	0.189	0.269
Electric Van pilot	-	-	0.107
Welfare Units	0.150	0.150	0.150
Command & Control refresh	0.600	0.600	-
Minor Building works	0.483	0.100	0.100
Training Towers	0.250	0.250	-
Fleet - fall arrest system and roof works	0.100	0.126	0.126
Appliance bay doors	0.180	0.180	0.180
Llandudno Heating upgrade	0.150	0.150	-
Dolgellau Smokehouse works	-	0.365	0.256
Proposed training centre land	3.000	3.000	3.000
Unallocated	-	0.947	-
Total : Capital Plan	**6.532**	**6.532**	**4.663**
Rollover 2022/23			
Training Towers	0.307	0.307	0.307
Multipurpose station vans	0.160	0.160	0.162
Builidngs - Minor works	0.158	0.158	0.158
Total: Rollover	**0.625**	**0.625**	**0.627**
Total	**7.157**	**7.157**	**5.290**

2 Key Objectives and Priorities

2.1 One of the key objectives for Fire and Rescue Services in Wales is to continually and sustainably reduce risk and enhance the safety of citizens and communities. A Community Risk Management Plan (CRMP) aims to identify risks facing the community and describes how the Fire and Rescue Authority will manage those risks, and continue to prevent and respond to fires and other emergencies.

2.2 Our Community Risk Management Plan (CRMP) for 2024-2029 is due to go out for public consultation in March. The Community Risk Management Plan contains 5 principles:

- Within each of the principles there are actions/objectives that are required to deliver the CRMP.
- In addition, an Implementation plan has been developed, which highlights the actions that will be taken during 2024/25.
- This information is taken into account when developing the Capital Programme.

2.3 Capital investment projects will be included in the Capital Programme on the basis that they address issues arising from one or more of the principles. New proposals for capital investment will be assessed against the corporate principles and implementation plan to ensure that they will contribute towards achieving the aims expressed. This assessment will be carried out as part of the appraisal process for new projects.

2.4 Where suitable "Invest to Save" projects can be identified the Authority will actively pursue such projects as it recognises the benefits, in the form of reduced costs falling on the General Fund Revenue Account, that can result from such investment.

2.5 The Authority will also endeavour, through its programme of capital investment, to maintain its assets to a standard such that they remain fit for purpose, enabling continuity of service delivery. In particular, it will carry out regular surveys of its stock of buildings and structures to ascertain their state of repair and any remedial works which may be necessary. Repair or improvement works arising from such surveys will be carried out subject to the availability of resources and consideration of the role the building plays in service delivery. If a building is no longer required for service delivery, it will be considered for disposal and the proceeds made available for future capital investment in priority areas. All property assets are held to provide services.

2.6 The Authority will seek, where practicable and economically justifiable, to develop its investment projects having regard to principles of sustainability, for example by considering the materials used, and environmentally friendly modes of operation following construction or purchase.

2.7 Service managers 'bid' annually, in September to include projects in the Authority's capital programme. Bids are collated by the Finance & Procurement Department. For 2024/25 initial bids in excess of £10m was received. The bids are scored based on a variety of factors including meeting the principles in the CRMP, statutory requirement, ability to make savings, and environmental impact.

2.8 Following the review and discussions with service managers, a capital plan of £5.676m was presented to the Budget Scrutiny Working Group, a sub group of the Audit Committee. This group is made up of 6 members, one from each constituent authority. The Budget Scrutiny Working Group was established to provide scrutiny of the budget setting process, including all areas of income and expenditure. The working group agreed for the capital programme to be included in the Fire Authority report.

2.9 The final capital programme is then presented, for approval, to the Fire Authority in January each year.

3 Factors Influencing the Capital Programme

3.1 Projects for inclusion in the capital programme arise from a variety of sources, some of them internally generated and some arising from external factors. The more significant of these can be summarised diagrammatically as follows:

INTERNAL FACTORS	EXTERNAL FACTORS
CRMP Principles and Implementation Plan	Unforeseen emergency work
Investment identified in Strategies, policies and plans	Work required to comply with legislation – e.g. disabled access, health and safety
Work needed to maintain property assets	Availability of external funding
Vehicles, plant and equipment replacement needs	Public expectation that works should be carried out
ICT Investment and replacement	Projects resulting from Partnership Activity
Invest to Save projects	

STRATEGIES, POLICIES & PLANS
Medium Term Resource Strategy
Environment Strategy and Fleet Decarbonisation Plan
Health and Wellbeing Policy
Treasury Management Strategy
Procurement Strategy
Building condition surveys

4 Capital Expenditure and Financing

4.1 The Strategy has been prepared against a background of continuing reductions in funding provided to local authorities by the Welsh Government, and the consequent requirement for the Fire Authority to review its funding requirement. This arises from the need to restrict public expenditure owing to the ongoing economic conditions and to rebalance public finances. The Authority does not receive funding to finance capital projects, therefore the costs are met through borrowing.

4.2 For 2024/25, the Authority has developed a 10 year capital plan and are planning capital expenditure of £5.676m, for 2024/25, as detailed in the Medium Term Resource Strategy approved by the full Authority on 22 January 2024. The 3 years to 31 March 2027 are summarised below

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2022/23 actual	**2023/24 forecast**	**2024/25 budget ***	**2025/26 budget***	**2026/27 budget***
General Fund Services	£3.366m	£5.290m	£5.676m	£6.424m	£4.468m
Leases	0	0	£0.225m	£0.252m	£0.302m
Total	£3.66m	£5.290m	£5.901m	£6.676m	£4.770m

* Change in the accounting for leases, following the implementation of IFRS16.

4.3 The General Fund capital projects include building works at stations, replacement ICT equipment for responding to incidents, infrastructure towards meeting net zero by 2030, and replacement vehicles. The future costs identified in this Strategy do not include the proposed development of a new training centre, as the business case for this will be submitted to the Fire Authority in 2024/25. Further details of those capital project costs included are analysed over the next ten years in the table below:

Project Description	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	2031/32 £m	2032/33 £m	2033/34 £m
ICT upgrades		0.827	0.232	0.495	0.350	-	0.125	0.072	1.827	0.160	0.450
Training towers	0.307	0.305	0.305	0.305	0.305	0.305	0.305	0.305	0.305	0.305	0.305
Station improvements	0.820	1.100	0.485	0.510	3.925	0.500	0.625	0.375	0.225	0.225	0.075
Sustainability works		0.470	-	1.000	-	-	-	-	-	-	-
Training Facilities upgrade		0.300	-	-	-	-	-	-	-	-	-
Fire Appliances	0.475	0.427	0.940	-	-	2.241	4.412	-	-	1.540	-
Specialist Vehicles (Red Flee	0.150	-	2.800	1.350	1.950	0.500	0.975	-	0.650	-	0.300
Light Vehicles	0.538	0.166	0.400	0.447	-	-	-	0.329	0.895	0.447	-
Specialist Light Vehicles		0.632	0.530	0.210	-	0.336	-	0.090	1.289	0.040	0.090
Operational Equipment		0.290	0.595	0.150	0.300	0.100	1.200	-	0.075	-	-
Fleet Equipment		0.050	0.136	-	-	0.033	0.020	-	-	-	-
Training Centre Land	3.000										
Rollover of Funding											
Fire Appliances		0.960	-	-	-	-	-	-	-	-	-
Sustainability works		0.150	-	-	-	-	-	-	-	-	-
Planned Capital Expenditure	**5.290**	**5.676**	**6.424**	**4.468**	**6.830**	**4.015**	**7.662**	**1.171**	**5.266**	**2.717**	**1.220**

4.4 All capital expenditure must be financed, either from external sources (government grants and other contributions), or the Authority's own resources (revenue, reserves and capital receipts), or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2022/23 Actual £m	**2023/24 Forecast £m**	**2024/25 budget £m**	**2025/26 budget £m**	**2026/27 budget £m**
Internal Resources	0.525	0.727	0.000	0.000	0.000
Grant Funding	0.490	0.000	0.000	0.000	0.000
Debt	2.351	4.563	5.901	6.424	4.468
TOTAL	**3.366**	**5.290**	**5.901**	**6.676**	**4.468**

* £0.225m of debt financing in 2024/25 arises from a change in the accounting for leases and does not represent cash expenditure

4.5 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of prior years' debt finance in £ millions

	2022/23 Actual £m	**2023/24 Forecast £m**	**2024/25 budget £m**	**2025/26 budget £m**	**2026/27 budget £m**
Minimum Revenue Provision	1.959	1.902	1.885	2.267	2.601
Capital receipts	0.000	0.000	0.000	0.000	0.000
TOTAL	**1.959**	**1.902**	**1.885**	**2.267**	**2.601**

- The Authority's full minimum revenue provision statement is available in Appendix 1.

4.6 The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2023 actual	**31.3.2024 forecast**	**31.3.2025 budget ***	**31.3.2026 budget**	**31.3.2027 budget**
General Fund services	28.877	32.350	36.391	40.948	42.765
TOTAL CFR	**28.877**	**32.350**	**36.391**	**40.498**	**42.765**

* £0.225m of the CFR increase in 2024/25 arises from a change in the accounting for leases

4.7 **Asset management:** To ensure that capital assets continue to be of long-term use, the Authority is developing an asset management strategy in 2024/25. This will enhance the information already available from the the building condition surveys.

4.8 During 2024/25, a review of light vehicles, i.e. vehicles not used in incident response, will be undertaken. This will ensure that the Service has an effective and efficient fleet, in line with the aspirations of the Fleet Decarbonisation Plan.

4.9 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Authority is not expecting to receive any significant capital receipts in the coming financial year.

5 Treasury Management

5.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term, as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls (referred to as 'internal borrowing') to reduce overall borrowing.

5.2 Due to decisions taken in the past, the Authority as at December 2023 had £21.620m borrowing at an average PWLB interest rate of 2.46% and short-term interest rate of 4.35%. Treasury investments amounted to £7.73m at rates between 4.65% - 5.38%. it is anticipated that the cash balance will be around £2m at year end (31/03/2024), if capital expenditure is as anticipated.

5.3 **Borrowing strategy:** The Authority's main objectives when borrowing is to achieve a low but certain cost of finance, while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.

5.4 The Authority does not borrow to invest for the primary purpose of financial return, and therefore retains full access to the Public Works Loans Board. Projected levels of the Authority's total outstanding debt (which comprises borrowing and leases are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.23 actual £m	**31.3.2024 forecast £m**	**31.3.2025 budget £m**	**31.3.2026 budget £m**	**31.3.2027 budget £m**
Debt	26.460	20.787	24.493	28.508	30.234
leases	0.000	0.000	0.225	0.252	0.302
Total debt	**26.460**	**20.787**	**24.718**	**28.760**	**30.536**
Capital Financing Requirement	28.877	32.350	36.391	40.948	42.765

5.5 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Authority expects to comply with this in the medium term.

5.6 **Liability benchmark:** To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £2m at each year-end. This benchmark is currently £28.750m and is forecast to rise to £41.367m over the next three years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.23 actual £m	**31.3.2024 forecast £m**	**31.3.2025 budget £m**	**31.3.2026 budget £m**	**31.3.2027 budget £m**
Forecast borrowing	26.460	20.787	24.493	28.508	30.234
Liability benchmark	24.283	28.750	33.916	38.800	41.367

5.7 The table shows that the Authority expects to borrow below its liability benchmark, as it utilises internal borrowing, where possible. In 2023/24, borrowing was secured in advance of need, as the Authority took advantage of low interest rates. This borrowing has been used to fund the capital programme for 2024/25. The above table assumes that no further borrowing is actioned in 2023/24, however if there is an opportunity to borrow at a lower rate, before the year end, then as per the advice from the Authority's treasury advisors (Arlingclose), further borrowing will be secured.

5.8 **Affordable borrowing limit:** The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2023/24 limit £m	**2024/25 limit £m**	**2025/26 limit £m**	**2026/27 limit £m**
Authorised limit - borrowing	30.999	38.391	42.948	44.765
Authorised limit - leases	0.000	0.250	0.275	0.330
Authorised limit - total external debt	30.999	38.641	43.223	45.095
Operational boundary - borrowing	28.999	36.391	40.948	42.765
Operational boundary - leases	0.000	0.225	0.252	0.302
Operational boundary - total external debt	28.999	36.616	41.200	43.067

- Further details on borrowing are in the Treasury Management Strategy.

5.9 **Treasury Investment Strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

5.10 The Authority's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash is invested securely, for example with the government, other local authorities, or selected high-quality banks, to minimise the risk of loss.

- Further details on treasury investments are in the treasury management strategy.

5.11 **Risk management:** The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

- The treasury management prudential indicators are on pages 10 to 11 of the treasury management strategy.

5.12 **Governance:** Decisions on treasury management investment and borrowing are made daily, and are therefore delegated to the Assistant Chief Fire Officer (Finance and Resources) and Finance staff, who must act in line with the treasury management strategy and treasury management practices. Quarterly reports on treasury management activity are presented to the Audit Committee. The Audit Committee is responsible for scrutinising treasury management decisions.

6 Revenue Budget Implications

6.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream, i.e. the amount funded from the levy received from constituent authorities and general government grants. The increased financing costs projected below for 2025/26 and 2026/27 could be lower if future interest rates fall below forecast levels.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 Actual £m	**2023/24 Forecast £m**	**2024/25 budget £m**	**2025/26 budget £m**	**2026/27 budget £m**
Financing costs (£m)	2.424	2.600	2.737	3.454	4.081
Proportion of net revenue stream	6.15%	5.85%	5.62%	6.50%	7.47%

- Further details on the revenue implications of capital expenditure in Section 14 of the Medium Term Resource Strategy.

6.2 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Treasurer (S151 Officer) is satisfied that the proposed capital programme is prudent, affordable and sustainable, because the plan has been reviewed and kept in line with previous capital expenditure and borrowing.

7 Knowledge and Skills

7.1 The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Treasurer, Assistant Chief Fire Officer (Finance and Resources), and Head of Finance and Procurement are qualified accountants with many years' experience. In addition, there is consultation with facilities staff via a service level agreement, and the Environment and Climate Change Manager.

7.2 Use is also made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

APPENDIX 1

Minimum Revenue Provision Statement 2024/25

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The *Local Government Act 2003* requires the Authority to have regard to Welsh Government's *Guidance on Minimum Revenue Provision* (the WG Guidance) most recently issued in 2018.

The broad aim of the WG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The WG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance

- For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

- For assets acquired by leases or any Private Finance Initiative (NWFRA has no PFI schemes), MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- Where former operating leases have been brought onto the balance sheet on due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard

Capital expenditure incurred during 2023/24 will not be subject to a MRP charge until 2024/25 or later. Based on the Authority's latest estimate of its capital financing requirement (CFR) on 31st March 2024, the budget for MRP has been set as follows:

	31.03.2024 Estimated CFR £m	2024/25 Estimated MRP £
General Fund	**32.350**	**1.885**