West Yorkshire Fire and Rescue Service

Capital Strategy

2024/25

Contents

1 Purpose

1.1 The purpose of the Capital Strategy is to demonstrate that the Authority takes capital expenditure and investment decisions in line with corporate and service objectives and properly takes account of stewardship, value for money, prudence, sustainability, and affordability. It sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

1.2 Fundamentally, the objective of the code is that the total of an Authority's capital investment remains within sustainable limits, following consideration of the impact on the bottom-line Council Tax.

1.3 Each financial year the Authority produces a rolling five-year capital programme, and owing to the nature of capital expenditure, many schemes slip between financial years.

1.4 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, The Chartered Institute of Public Finance and Accountancy (CIPFA) developed the Prudential Code to support authorities' decision making in the areas of capital investment and financing. In December 2017, CIPFA updated the prudential code, whilst most of the code remains unchanged, there is now a requirement to produce a capital strategy to demonstrate that it takes capital expenditure decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability, and affordability.

2 Capital Strategy

2.1 The Capital Strategy comprises some distinct, but inter-related, elements as follows:

Capital Expenditure

2.2 This section includes an overview of the governance process for approval and monitoring of capital expenditure, including the Authority's policies on capitalisation, and an overview of its capital expenditure and financing plans.

Capital Financing and Borrowing

2.3 This section provides a projection of the Authority's capital financing requirement, how this is impacted by capital expenditure decisions and how it will be funded and repaid. It therefore sets out the Authority's borrowing strategy and explains how it will discharge its duty to make prudent revenue provision for the repayment of debt.

Chief Finance and Procurement Officer (CFPO) statement

2.4 This section contains the Chief Financial Officer's views on the deliverability, affordability and risk associated with the capital strategy.

3 Capital Expenditure

Capitalisation Policy

3.1 Expenditure is classified as capital expenditure when it results in the acquisition or construction of an asset (e.g. land, buildings, vehicles, plant and equipment etc.) that:

3.1.1 Will be held for use in the delivery of services, for rental to others, investment or for administrative purposes.

3.1.2 Are of continuing benefit to the Authority for a period extending beyond one financial year.

3.1.3 Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria are met.

3.1.4 There may be instances where expenditure does not meet this definition but would be treated as capital expenditure, including:

3.1.5 Where the Authority has no direct future control or benefit from the resulting assets but would treat the expenditure as capital if it did control or benefit from the resulting assets. For example, where a grant is provided by the Authority to an external body in order that the body can purchase an asset for its own use. The provision of the grant would be treated as capital expenditure in the accounts of the Authority.

3.1.6 Where statutory regulations require the Authority to capitalise expenditure that would not otherwise have expenditure implications according to accounting rules. For example, where the Government permits authorities, in special circumstances, to treat redundancy costs as capital costs therefore increasing flexibility as such costs can then be met using their existing borrowing powers or capital receipts.

3.2 The Authority operates a de-minimis limit for capital scheme expenditure of £10,000. This means that items below these limits are charged to revenue rather than capital. The capital schemes that tend to be charged to revenue are for the purchase of operational equipment, for example, gas tight suits and water rescue equipment. The annual financial impact in the revenue budget is a maximum of £19,998.

4 Governance

4.1 Capital expenditure is a necessary element in the development of the Authority's services since it generates investment in new and improved assets. Capital expenditure is managed through the five-year Capital Programme which is reviewed annually as part of the budget setting process and reviewed in year as part of financial monitoring arrangements.

4.2 The Authority's Financial Regulations and Contract Regulations provide a framework for the preparation and appraisal of schemes proposed for inclusion in the Capital Plan, these include appropriate authorisations for individual schemes to proceed and facilitate the overall management of the Capital Programme within defined resource parameters.

4.3 The CFPO shall determine the format of the Capital Programme and the timing of reports relating to it. The approved Capital Programme will comprise some individual schemes each of which will be quantified on an annualised basis. Each directorate will submit capital bids to the finance department which are then collated and presented to the Management Board Star Chamber for scrutiny and approval for inclusion on the proposed capital plan. The bids are then collated for submission to the Full Authority meeting in February.

4.4 The capital plan is monitored each month with the provision of detailed budget monitoring reports to managers and is reported quarterly to the Finance and Resources Committee.

4.5 The Budget Management Monitoring Group (BMMG) meet bi-monthly where the capital plan is scrutinised, and managers are required to report on the progress of each capital scheme for which they are responsible. This is chaired by the CFPO.

5 Capital Plan 2024/25 to 2028/29

5.1 The Authority has a five-year capital investment plan of £67.936m which includes expenditure of £35.587m in 2024/2025.

5.2 The largest capital schemes in 2024/25 are the completion of the re-development of FSHQ, the rebuild of Keighley Fire Station, the replacement of the appliance fleet with clean cab technology and the implementation of the new command and control system.

5.3 The 2024/25 capital plan also includes:

5.3.1 Replacement of the mobile phones.

5.3.2 Commencement of the re-build of Huddersfield Fire Station.

5.3.3 Refurbishment of Hunslet Fire Station.

5.3.4 Refurbishment of Illingworth Fire Station.

5.3.5 Refurbishment of Bradford Fire Station dormitories and showers.

5.3.6 Upgrades to fire station boilers.

5.3.7 PC replacements.

5.3.8 Replacement of defibrillators.

5.3.9 Replacement of rescue jackets.

6 Capital Schemes Slipped from 2023/24

6.1 The capital plan includes the cost of capital schemes that have slipped from this financial year. These are the development of FSHQ and the rebuild of Keighley Fire Station, the fleet replacement programme, and the replacement of the command-and-control system. The slippage is primarily due to delays in the tender contract process and supply chain problems.

7 Capital Financing and Borrowing

7.1 All capital expenditure must be financed, there are four main sources of capital finance available; capital grants, capital receipts, internal and external borrowing, and the use of reserves, all of which are explained below.

8 Capital Grants

8.1 The Authority does not anticipate the receipt of any capital grants in 2024/25.

9 Capital Receipts

9.1 Capital receipts are used to either purchase new capital assets or repay outstanding loans. It is expected that the Authority will have capital receipts from the sale of the Service Delivery Centre, Cleckheaton Fire Station and Oakroyd Hall following completion of the FSHQ site re-development.

9.2 The Authority will sell the appliances that will be replaced in the fleet replacement programme; however, the size of the capital receipt is difficult to quantify at this time

10 Borrowing

10.1 The balance of the expenditure will be funded by borrowing and the use of internal reserves, the table shows a total borrowing requirement of £52.695m over the period. The government provides no additional grant to assist the Authority with financing the capital plan.

10.2 Over recent years the Authority has been borrowing internally to fund capital expenditure using its revenue balances and reserves, no new external long-term borrowing has been taken out since December 2011.

10.3 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and Minimum Revenue Provision (MRP, or debt repayments) are charged to revenue, offset by interest receivable. The net annual charges are known as capital financing costs.

10.4 Due to the size of the capital plan over the next four years it is likely that the Authority will be required to take out external borrowing in Summer 2024, the costs of current and future debt servicing costs have been built into the Medium-Term Financial Plan. The Authority does not distinguish between capital and revenue cash.

11 Reserves

11.1 The Authority has an earmarked reserve which is specifically for the funding of capital projects. Due to the nature of capital financing charges in the form of Minimum Revenue Provision (MRP) it is proposed that the purchase of long-life assets is funded from the capital earmarked reserve. This means that the only cost to revenue will be the interest charge on external loans, and taxpayers of West Yorkshire will not be subject to MRP charges over the next forty years (i.e.) the life of the asset. For example, for an asset costing £2m with an estimated life of 40 years, the average annual charge of MRP in revenue would be £67k per annum, this saving means that the Authority can spend this money on other areas.

11.2 To put this into financial context, if the Authority had to borrow in full the cost of the FSHQ development of £31m, the annual cost to revenue would be £2.077m, over the life of the asset which is 40 years this would amount to £83m.

11.3 In addition, revenue underspends are either used to make additional voluntary minimum revenue provision charges or transferred to earmarked reserves to support future expenditure plans.

12 Chief Finance and Procurement Officer

Statement

12.1 The Prudential Code requires the Chief Financial Officer to report explicitly on the affordability and risk associated with the Capital Strategy. The following are specific responsibilities of the Chief Finance Officer:

12.1.1 recommending clauses, treasury management policy/practices for approval, reviewing regularly, and monitoring compliance.

12.1.2 submitting quarterly treasury management reports.

12.1.3 submitting quarterly capital budget reports.

12.1.4 reviewing the performance of the treasury management function.

12.1.5 ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.

12.1.6 ensuring the adequacy of internal audit and liaising with external audit.

12.1.7 recommending the appointment of external service providers.

12.1.8 preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments, and treasury management.

12.1.9 ensuring that the capital strategy is prudent, sustainable, affordable, and prudent in the long term and provides value for money.

12.1.10 ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Authority.

12.1.11 ensure that the Authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing.

12.1.12 ensuring the proportionality of all investments so that the Authority does not undertake a level of investing which exposes the Authority to an excessive level of risk compared to its financial resources.

12.1.13 ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities.

13 Statement of Policy on the Minimum Revenue Provision (MRP)

13.1 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

13.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2008, which came into effect on 31 March 2008, replaced the former statutory rules for calculating MRP with a requirement for each Local Authority to determine a "prudent" provision. The regulations require authorities to draw up a statement of their policy on the calculation of MRP which requires approval by Full Authority in advance of the year to which it applies. The recommended policy statement is detailed at Appendix C.

14 Capital Financing Requirement

14.1 The Capital Financing Requirement (CFR) represents the Authority's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements. An Authority can choose to borrow externally to fund its CFR. If it does this, it is likely that it would be investing externally an amount equivalent to its total reserves, balances, and net creditors.

14.2 Alternatively, an Authority can choose not to invest externally but instead use these balances to effectively borrow internally and minimise external borrowing. In between these two extremes, an Authority may have a mixture of external and internal investments/external and internal borrowing.

Table showing forecasts for CFR as at 31 March 2024

	Estimate 2023/24 £000's	Estimate 2024/25 £000's	Estimate 2025/26 £000's	Estimate 2026/27 £000's
CFR	53,195	79,332	78,162	80,428

Table explaining further movement in the CFR.

	Estimate 2023/24 £000's	Estimate 2024/25 £000's	Estimate 2025/26 £000's	Estimate 2026/27 £000's
CFR b/fwd	41,437	53,195	79,332	78,162
Capital Expt	36,497	35,587	8,249	8,301
Capital Receipts	0	0	-3,500	0
Earmarked Reserve	-20,289	-4,791	-500	-500
Revenue Contribution	-2,000	-1,700	-950	-950
MRP	-2,450	-2,959	-4,469	-4,585
Closing CFR	53,195	79,332	78,162	80,428

14.3 Prior to 2009/10 the Authority's policy had been to borrow up to its CFR and investing externally most of its balances. With the onset of instabilities in the financial markets and the economic downturn, the policy changed to one of ensuring the security of the Authority's balances. This coincided with dramatic falls in investment returns making the budgetary benefit of maximising external borrowing more marginal.

14.4 Over the past few years, the Authority has chosen to finance its capital expenditure by 'borrowing' internally. This has principally been because of the relatively low rates of interest receivable on investments, particularly when compared to the cost of borrowing longer term loans from the Public Works Loan Board (PWLB). Interest received on investments has increased following the increase in bank base rate over the past year with the average rate been at 5.37%, however, there has been an increase in PWLB borrowing rates, which is still at a higher rate than that earned on investments.

15 Prudential Indicators

15.1 The CIPFA Prudential Code requires that local authorities produce some prudential indicators before the beginning of each financial year and have them approved by the same executive body that approves the budget. The purpose of the indicators is to provide a framework for capital expenditure decision making, highlighting the level of capital expenditure, the impact on borrowing levels, and the overall controls in place to ensure the activity remains affordable, prudent, and sustainable.

15.2 Fundamentally, the objective of the Code is that the total of an Authority's capital investment remains within sustainable limits, following consideration of the impact on the "bottom line" Council Tax. Some of the indicators are specific to the Authority's treasury management activity and are set out in the Treasury Management Report. The rest of the indicators are linked to affordability are set out below. These are detailed in Appendix B.

Appendix A

	5 Year Total	2024/25	Slippage to 2024/25	2024/25	2025/26	2026/27	2027/28	2028/29
Property New Builds	£25,461,669	£1,100,000	£12,004,169	£13,104,169	£2,753,750	£3,753,750	£3,096,250	£2,753,750
Transport	£16,604,129	£3,780,000	£7,689,129	£11,469,129	£1,140,000	£1,465,000	£1,765,000	£765,000
Property	£10.994,000	£2,654,000	£350,000	£3,004,000	£,2,320,000	£1,670,000	£2,000,000	£2,000,000
ICT	£4,313,538	£716,000	£632,538	£1,348,538	£1,045,000	£520,000	£1,160,000	£240,000
Operations	£8,544,814	£1,469,000	£4,774,814	£6,243,814	£590,000	£492,000	£648,000	£571,000
Fire Safety	£2,000,000	£400,000	£0	£400,000	£400,000	£400,000	£400,000	£400,000
Employment Services	£17,745	£17,745	£0	£17,745	£0	£0	£0	£0
TOTAL	£67,935,895	£10,136,745	£25,450,650	£35,587,395	£8,248,750	£8,300,750	£9,069,250	£6,279,750
Financed by								
Borrowing (internal/external)	£52,695,336			£29,646,836	£3,298,750	£6,850,750	£7,619,250	£5,279,750
Reserves	£6,790,559			£4,790,559	£500,000	£500,000	£500,000	£500,000
Capital Receipts	£3,700,000			£200,000	£3,500,000		£0	£0
Revenue Contributions	£4,750,000			£950,000	£950,000	£950,000	£950,000	£950,000
TOTAL	£67,935,895	£0	£0	£35,587,395	£8,248,750	£8,300,750	£9,069,250	£6,729,750

The table above provides detailed information on predicted expenditure between 2024/25 and 2028/29 including how it is financed.

Appendix B

Capital Expenditure, Capital Financing Requirement and External Debt

The Authority's capital expenditure projections, impacts directly on the Capital Financing Requirement (CFR) and the Authority's debt position. The CFR is a calculation of the Authority's underlying need to borrow for a capital purpose. When external borrowing is below the CFR, this reveals that the Authority is using some internal balances, such as reserves/creditors, to temporarily finance capital expenditure as is currently the case.

	Estimate 2024/25 £000's	**Estimate 2025/26 £000's**	**Estimate 2026/27 £000's**	**Estimate 2027/28 £000's**
CFR	79,332	78,162	80,428	83,324

The table above shows an estimated borrowing requirement of £83.324m by 2027/28 which reflects the size of the capital plan.

Limits to Borrowing Activity

The first key control over the Authority's borrowing activity is a Prudential Indicator to ensure that, over the medium term, net borrowing will only be for a capital purpose. Net external borrowing should not, except in the short-term, exceed the total Capital Financing Requirement in the preceding year, plus the estimates of any additional capital financing requirement for 2023/24 and the next two financial years. This allows some flexibility for limited early borrowing for future years.

The Authority comfortably complied with the requirement to keep net borrowing below the relevant Capital Financing Requirement in 2023/23, and no difficulties are envisaged for the current or future years.

A further two Prudential Indicators control the overall level of borrowing. These are the Authorised Limit and the Operational Boundary. The Authorised Limit represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which, while not desired, could be afforded in the short-term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.

The Operational Boundary is based on the Authority's plans for capital expenditure and financing and is consistent with its Treasury Management Strategy. It allows for sufficient headroom to switch financing for capital projects from reserves, capital receipts and revenue contributions to external borrowing. The Operational Boundary is based on the probable external debt in the year. It is not a limit and actual borrowing could vary around this boundary for short times during this year.

The Authority is asked to approve the following limits for its total external debt, gross of any investments. These limits separately identify borrowing from other long-term liabilities such as finance leases.

	2024/25 £000's	2025/26 £000's	2026/27 £000's	2027/28 £000's
Authorised Limit for External Debt	76	79	86	94
Operational Boundary for External Debt	71	74	81	89

Table setting out Authorised Limits and Operational Boundary for External Debt

Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators but within this framework a prudential indicator is required to assess the affordability of the capital investment plans. The following indicator provides an indication of the capital investment plans on the overall finances of the Authority:

Ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital against the net revenue stream (amounts met from Revenue Support Grant, local taxpayers, and balances):

	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27	Estimate 2027/28
Ratio of Financing to Net Revenue Stream	5.81%	6.02%	5.87%	5.98%	6.08%

Table showing trend in the cost of capital against the net revenue stream.

It is accepted practice that this should not exceed 10%, this is due to the inability to influence capital financing charges once the capital investment has been committed. Other expenditure in the revenue budget can be reduced in the short to medium term if required, but there is very little flexibility to do the same with capital financing charges.

Appendix C

Statement Of Policy on the Minimum Revenue Provision (Repayment of Debt)

Background

The Local Authorities (Capital Finance and Accounting) (England)Regulations 2008 which came into force on 31 March 2008, replaced the detailed statutory rules for calculating Minimum Revenue Provision (MRP) with a requirement to make an amount of MRP which the Authority considers“prudent”.

Prudent Provision

The regulation does not itself define “prudent provision”. However,guidance issued alongside the regulations makes recommendations onthe interpretation of that term.

The guidance provides two basic criteria for prudent provision.

- Borrowing not supported by government grant (prudential borrowing) – the provision for repayment of debt should be linked to the life of the asset.
- Borrowing previously supported by revenue support grant (supported borrowing) – the provision should be in line with the period implicit within the grant determination (4% reducing balance).

MRP Overpayments

As defined in the Code the Authority has always set aside additional funding, on top of the regulated MRP, to repay the borrowing of money to fund capital. This additional funding that is set aside is called a Voluntary Revenue Provision (VRP). A change introduced by the revised Department for Levelling Up, Housing and Communities (DLUHC) MRP Guidance, allows for any charges made over the statutory minimum revenue provision (MRP), to be reclaimed, if required, for use in the budget. These revised guidelines came into effect from 1st April 2019. Up until 31 March 2023 the total VRP overpayments were £6.7m. These overpayments have allowed for prudent voluntary repayments to reduce the indebtedness of the Authority within a shorter timescale providing greater financial stability in the long term.

Proposed policy for 2024/25

The Authority has always been prudent when making provision for the repayment of debt. In addition to the minimum revenue provision of 4% of debt outstanding previously required, the Authority had regularly made additional voluntary contributions. These voluntary contributions have been calculated to reflect asset life. Thus, for example, debt used to finance vehicles and many types of operational equipment has been fully provided for over a 10 to 13 year period and all new buildings over 40. These additional voluntary contributions covered all debt, not just unsupported,and have been calculated using an annuity method with reference to asset lives.

It is proposed that if any MRP/Interest budget becomes available due to for example, capital schemes being re phased, a reduction in the capitalprogramme or the receipt of additional capital receipts, the Authority may choose to make additional MRP payments providing the financial position remains in line with the approved financial plan. In addition, any revenue budget savings identified during the year may also be used to make one off MRP payments or be transferred to the earmarked capital finance reserve.

It is recommended that this policy is adopted for 2024/25. The features of the policy can be summarised as follows:

- Provision to be made over the estimated life of the asset for which borrowing is undertaken (maximum asset life of 40 years / 50 years on Land).
- To be applied to supported and unsupported borrowing.
- Provision will increase over the asset life using sinking fund tables.
- Provision will commence in the financial year following the one in which the
- expenditure is incurred.

The proposed medium term financial plan includes budget provision to meet the MRP and interest payments based on historicand planned future capital spend. The Authority in the past has determined it can afford and sustain prudential borrowing to allow the required level of investment in the infrastructure and assets of the Authority to deliver a modern well-equipped fire and rescue service.