<u>This message is sent on behalf of Mr Mark Nolan, Clerk and Monitoring Officer to Lancashire Combined Fire Authority</u>

Dear Chief Executive,

To enable the capital budget consultation to take place, please find below the initial draft budget. Please note that the capital budget at this stage has not been considered by the Lancashire Combined Fire Authority. It would be helpful if you could let me have any comments you wish to make on the revenue budget proposals by no later than 10 February 2022. This will enable your views to be tabled for consideration by the Authority at its budget setting meeting on 21 February 2022.

<u>Capital Budget Strategy</u>

The Authority's capital strategy is designed to ensure that the Authority's capital investment:

- assists in delivering the corporate objectives
- provides the framework for capital funding and expenditure decisions, ensuring that capital investment is in line with priorities identified in asset management plans
- ensures statutory requirements are met, i.e., Health and Safety issues
- supports the Medium-Term Financial Strategy by ensuring all capital investment decisions consider the future impact on revenue budgets
- demonstrates value for money in ensuring the Authority's assets are enhanced/preserved
- describes the sources of capital funding available for the medium term and how these might be used to achieve a prudent and sustainable capital programme.

Managing capital expenditure

The Capital Programme is prepared annually through the budget setting process and is reported to the Authority for approval each February. The programme sets out the capital projects taking place in the financial years 2022/23 to 2026/27 and will be updated in May to reflect the effects of the final level of slippage from the current financial year (2021/22).

The majority of projects originate from approved asset management plans, subject to assessments of ongoing requirements. Bids for new capital projects are evaluated and prioritised by Executive Board prior to seeking Authority approval.

A budget manager is responsible for the effective financial control and monitoring of their elements of the capital programme. Quarterly returns are submitted to the Director of Corporate Services on progress to date and estimated final costs. Any variations are dealt with in accordance with the Financial Regulations (Section 4.71). Where expenditure is required or anticipated which has not been included in the capital programme, a revision to the Capital Programme must be approved by Resources Committee before that spending can proceed.

Proposed Capital Budget

Capital expenditure is expenditure on major assets such as new buildings, significant building modifications and major pieces of equipment/vehicles.

The Service has developed asset management plans which assist in identifying the long-term capital requirements. These plans, together with the operational equipment register have been used to assist in identifying total requirements and the relevant priorities.

Slippage from 2021/22

The 2022/23 programme includes various items of estimated slippage expected from the 2021/22 programme, previously agreed by Resources Committee: -

Table 2 Details of Slippage from previous year

Item	Budget £m
Pumping appliances x 7	1.490
Command support units x 2	0.580
Turn table ladder (TTL) x 1	0.675
Water Tower x 2	1.000
Prime mover x 1	0.215
Pod x 1	0.028
CCTV on appliances	0.100
Enhanced station facilities at Blackpool	0.200
Drill tower replacements	0.150
ESMCP	1.000
Various ICT systems/hardware	0.755
Total	6.193

Vehicles

The Fleet Asset Management plan has been used as a basis to identify the following vehicle replacement programme, which is based on current approved lives:-

Table 3 Vehicle Requirements (Numbers and cost by type per year)

	No of Vehicles				
Type of Vehicle	**2022/23 (inc Slippage)**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Pumping Appliance	7	6	5	6	6
Command Unit	2	-	-	-	-
Water Tower	-	2	-	-	-
Aerial appliance	1	-	-	-	-
All-Terrain Vehicle	1	-	-	-	-
Prime mover	2	-	-	-	-
Pod	1	-	-	-	-
Operational Support Vehicles	16	16	18	11	12
	32	**22**	**23**	**21**	**18**
	Budget (£m)				
Pumping Appliance	1.490	1.337	1.156	1.421	1.457
Command Unit	0.580	-	-	-	-
Water Tower	-	1.000	-	-	-
Aerial appliance	0.750	-	-	-	-
All-Terrain Vehicle	0.016	-	-	-	-
Prime mover	0.215	-	-	-	-

Pod	0.028	-	-	-	-
Operational Support Vehicles	0.359	0.459	0.504	0.260	0.353
	3.437	**2.795**	**1.660**	**1.682**	**1.810**

Numbers are based on anticipated delivery dates, not order date. Several of the vehicles have long lead times, and stage payments, hence the actual timing of spend is subject to change, with any deliveries spanning across years inevitably resulting in the need to move spend between years, usually this will be in the form of slippage into subsequent years, but occasionally there will be a need to pull budget forward to reflect an earlier delivery/stage completion date. This will be reported to Resources Committee as delivery dates are agreed.

Both the Water Towers and Aerial Appliance requirements have been approved previously by CFA. With the exception of the these, all other vehicles are replacements.

It is worth noting that LFRS currently has several vehicles provided and maintained by Government under New Dimensions (5 Prime Movers and 1 Utility Terrain Vehicle), which under LFRS replacement schedules would be due for replacement during the period of the programme. However, our understanding is that Government will issue replacement vehicles if they are beyond economic repair, or if the national provision requirement changes. Should LFRS be required to purchase replacement vehicles, grant from Government may be available to fund them. Based on the current position, we have not included these vehicles (or any potential grant) in our replacement plan.

In addition, Fleet Services continue to review future requirements for the replacement of all vehicles in the portfolio, hence there may be some scope to modify requirements as these reviews are completed, and future replacement programmes will be adjusted accordingly.

Operational Equipment

With the exception of CCTV on appliances, which is an existing project that has previously been approved, all other requirements are replacements for existing end of life equipment:

Table 4 Equipment Requirements (Cost per year)

	2022/23 (inc Slippage)	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	£m	**£m**	**£m**	**£m**	**£m**
Thermal Imaging Cameras	-	0.250	-	-	-
Breathing Apparatus (BA) and Telemetry equipment	-	-	0.550	-	-
Cutting and extrication equipment	1.500	-	-	-	-
CCTV on appliances	0.100	-	-	-	-
	1.600	**0.250**	**0.550**	**-**	**-**

The cost of replacing cutting and extrication equipment will vary dependent upon whether these are battery operated or not, and we are currently awaiting the evaluation and a decision on this. As such further work is required to refine the £1.5m estimate.

Each of these groups of assets is subject to review prior to replacement, which may result in a change of requirements or the asset life.

ICT

The majority of the spend is on replacement/upgraded systems, with the exception of:-
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- Data Warehouse, which will extract data from our business systems and create common data sets to aid performance management, data analysis and enable users to have self-service access
- Dynamic cover tool, which supports the Service in determining optimum appliance configuration based on available resources
- Digitisation of Fire appliances - additional Vehicle Mounted Data Systems (VMDS) units, to improve connectivity and accessibility for Service Delivery staff outside of the office based environment

All replacements identified in the programme will be subject to review, with both the requirement for the potential upgrade/replacement and the cost of such being revisited prior to any expenditure being incurred.

Table 5 ICT Requirements (Cost per year)

	2022/23 (inc Slippage)	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	£m	**£m**	**£m**	**£m**	**£m**
New Systems					
Data Warehouse	0.100	-	-	-	-
Dynamic Cover Tool	0.150	-	-	-	-
Replace Existing Systems					
Performance management	0.100	-	-	-	-
Hydrant Management system	0.025	-	-	-	-
Incident Command system	0.100	-	-	-	-
Asset Management system	0.050	-	-	-	0.100
HFSC referral system	0.100	-	-	-	-
Pooled PPE system	-	0.080	-	-	-
Community Fire Risk Management Information System (CFRMIS)	-	0.100	-	-	-
Rota management package (WT/On call)	-	-	0.100	-	-
Storage Area Network	-	-	0.120	-	-
GIS Risk Info (Cadcorp)	-	-	-	0.100	-
WAN (Intrinsic)	-	-	-	0.450	-
IRS/MIS (3TC)	-	-	-	0.050	-
New Operational Communications					
Digitisation of Fire appliances - additional VMDS units	0.254	-	-	-	-
Replace Operational Communications					
ESMCP (Airwave replacement – assumed fully funded by government grant)	1.000	-	-	-	-
VMDS replace existing kit	0.361	-	-	-	-
Incident Ground Radios	0.180	-	-	-	-
Total ICT Programme	**2.420**	**0.180**	**0.220**	**0.600**	**0.100**

(Note HR & Payroll and the Finance system are both outsourced and form part of on-going SLAs, as such no allowance has been made for their future replacement, as it is assumed that any replacement costs are covered by the existing SLA. If at some point the Service moved away from the current SLAs, then we will incur costs in implementing new systems. We have not allowed for this.)

Buildings

The only new scheme included in the above programme is STC Props, which reflects the need to upgrade/replace some of the training props at STC which are nearing end of life. This scheme is at the initial design/feasibility stage with a considerable amount of work required to develop this into a more detailed scheme with more accurate costings.

Table 6 Building Requirements (Cost per year)

	2022/23 (inc Slippage)	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	£m	**£m**	**£m**	**£m**	**£m**
New Schemes					
STC Props	-	-	-	5.000	-
Existing Schemes					
SHQ relocation	0.250	3.000	8.750		-
C50 – Preston replacement station	0.250	7.750	-	-	-
C52 Fulwood replacement station	-	-	-	2.500	-
W30 – Blackpool Welfare	0.450	-	-	-	-
S56 – Skelmersdale Community Room	-	0.150	-	-	-
P73 - Bacup Extension	-	0.150	-	-	
Drill tower replacements (notional 2 per year)	0450	0.300	0.300	0.300	0.300
	1.400	**11.350**	**9.050**	**7.800**	**0.300**

In terms of all the building proposals it must be noted that we are still developing requirements/designs hence costings and timing are to provide some context for decision making. All works shown can be amended but ultimately the limiting factor remains capacity to undertake and manage works, not only these capital works but the day-to-day issues that arise as well as new initiatives that are identified at a later date.

Total Capital Requirements

The following table details capital requirements over the five-year period:

Table 7 Summary Capital Requirements

	2022/23 (inc Slippage)	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**TOTAL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Vehicles	3.437	2.795	1.660	1.682	1.810	**11.385**
Operational Equipment	1.600	0.250	0.550	-	-	**2.400**
IT Equipment	2.420	0.180	0.220	0.600	0.100	**3.520**
Buildings	1.400	11.350	9.050	7.800	0.300	**29.900**

	8.857	**14.575**	**11.480**	**10.082**	**2.210**	**47.205**

Capital Funding

Capital expenditure can be funded from the following sources:

Prudential Borrowing

The Prudential Code gives the Authority increased flexibility over its level of capital investment and much greater freedom to borrow, should this be necessary, to finance planned expenditure. However, any future borrowing will incur a financing charge against the revenue budget for the period of the borrowing.

Given the financial position of the Authority we have not needed to borrow since 2007 and repaid a large proportion of our borrowing in October 2017.

Capital Grant

Capital grants are received from other bodies, typically the Government, in order to facilitate the purchase/replacement of capital items.

There is an expectation that the ESMCP project costs carried forwards from 2021/22 will receive £1.0m grant funding which is included in the programme, however we have not had any confirmation that LFRS costs will be met from grant. To date no other capital grant funding has been made available for 2022/23, nor has any indication been given that capital grant will be available in future years, and hence no allowance has been included in the budget.

Capital Receipts

Capital receipts are generated from the sale of surplus property and vehicle assets, with any monies generated being utilised to fund additional capital expenditure either in-year or carried forward to fund the programme in future years.

The Authority expects to hold £1.7m of capital receipts as at 31 March 2022. This will be fully utilised during the 5-year programme.

Anticipated sale proceeds of £2m have been included in respect of the potential sale of the existing Fulwood site, reflecting the relocation of SHQ and the development of Fulwood Fire Station.

Capital Reserves

Capital Reserves have been created from under spends on the revenue budget in order to provide additional funding to support the capital programme in future years. The Authority expects to hold £16.7m of capital reserves as at 31 March 2022, after allowing for the transfer of the year end revenue underspend of £0.4m and the transfer of £0.4m of earmarked reserves into this (as referred to in the reserves and balances policy elsewhere on this agenda). Over the life of the programme we anticipate utilising all these reserves.

Revenue Contribution to Capital Outlay (RCCO)

Any revenue surpluses may be transferred to a Capital Reserve in order to fund additional capital expenditure either in-year or carried forward to fund the programme in future years.

The revenue contribution in 22/23 has been increased to £3.0m reflecting the significant increase in staffing vacancy factors currently being experienced (as referred to in the Revenue Budget report elsewhere on this agenda). The contribution has been reduced to £2.25m in future years reflecting the anticipated short-term nature of this position.

Drawdown of Earmarked Reserves

£0.25m has been drawn down from the Innovation Reserve to fund the digitisation of fire appliances project.

Drawdown of General Reserves

No allowance has been made for the drawdown of any of the general reserve.

Total Capital Funding

The following table details available capital funding over the five-year period:

Table 8 Summary Capital Funding

	2022/23 (inc Slippage)	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**TOTAL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Capital Grant	1.000	-	-	-	-	**1.000**
Capital Receipts	-	1.389	0.292	-	2.000	**3.681**
Capital Reserves	4.603	10.936	1.143	-	-	**16.682**
Earmarked Reserves	0.254	-	-	-	-	**0.254**
Revenue Contributions	3.000	2.250	2.250	2.250	2.250	**12.000**
	8.857	**14.575**	**3.686**	**2.250**	**4.250**	**33.617**

Summary Programme

Based on the draft capital programme as presented we have a shortfall of £11.6m:

Table 9 Summary Capital Requirements and Funding Available

	2022/23 (inc Slippage)	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**TOTAL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Capital Requirements	8.857	14.575	11.480	10.082	2.210	**47.205**
Capital Funding	8.857	14.575	3.686	2.250	4.250	**33.617**
Surplus/(Shortfall)	**-**	**-**	**(7.794)**	**(7.832)**	**2.040**	**(13.587)**

This a very large funding gap, demonstrating that the programme as set out is not achievable without significant borrowing.

Impact on the Revenue budget

The capital programme shows the Authority utilising all of its capital reserves and receipts part way through 2024/25, meaning that the remainder of the capital programme will need to be met from either capital grant (if available), additional revenue contributions or from new borrowing.

Any borrowing will impact the revenue budget as capital financing (interest payable and Minimum Revenue Provision - MRP) charges. As we have already set aside funds (prepaid MRP) to offset our existing £2.0m of PWLB borrowing we would need to take out new borrowing of £11.5m. This has a significant impact on the revenue budget, in terms of interest payments and setting aside a sum equivalent to the Minimum Revenue Provision (MRP). Two examples are provided below showing the position over a 20 and a 50-year period, based on current long-term interest rates (note these may change over the course of the programme).

Table 10 Cost of Borrowing

	20 Year	50 Year
	1.85%	1.60%
Interest per annum	£215k	£185k
MRP	£575k	£230k
	£790k	**£415k**

The revenue budget, reported elsewhere on the agenda, incorporates £0.4m in future years budgets reflecting the need to borrow.

Programme Assumptions

It is also worth highlighting that the programme is based around a number of assumptions which could change: -

- All costings are subject to refinement during the design and procurement phases;
- Vehicle replacements are based on the Fleet Asset management Plan, however the scale of replacements in 22/23 is extremely high and hence some slippage is likely
- New Dimensions vehicle replacements are expected to be carried out by Government, however this position may change;
- No allowance has been made for developments in operational equipment, which may justify future investments. At the present time this would need to be met from the Innovation reserve, of which we have £0.25m remaining, or from the revenue budget (there is £0.2m of funding available for this type of R&D investment);
- ICT software replacements are subject to review prior to replacement, which has led in the past to significant slippage;
- Operational Communications replacements (ESMCP) are subject to a great deal of uncertainty in terms of both timing and costs as they are related to a national replacement project, in addition there may be grant funding available for this which is also unknown at this time;
- The costs and timing for investment in STC Props and replacement of Preston and Fulwood Fire Stations and SHQ relocation are estimates only at this stage, based on current information, but clearly if/when any of these go ahead this will create a need for external borrowing;
- Capital grant may be made available in future years, in order to assist service transformation and greater collaboration, although this is felt to be unlikely.

Summary

Without borrowing the current programme is not balanced, as such the Authority will need to borrow £11.5m over the life of the programme. The cost of this borrowing is incorporated into the revenue budget in future years. Whilst this results in a funding gap in future years, it is felt that this will be easily offset by future savings targets, resulting in a balanced budget in future years. Therefore, the Treasurer considers that the programme is prudent, sustainable, and affordable.

As noted above, should any of the funding assumptions or expenditure items within the programme change, this will have an impact on the overall affordability of the programme.