ANNEX H

SOUTH YORKSHIRE FIRE & RESCUE AUTHORITY

THE CAPITAL INVESTMENT STRATEGY 2024/25

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1 EXECUTIVE SUMMARY

1.1 This Capital Investment Strategy is prepared in accordance with the CIPFA Prudential Code 2021 which local authorities must 'have regard to' when carrying out their duties in England under Part 1 of the Local Government Act 2003.

1.2 The Capital Investment Strategy guides the Authority's capital planning process, ensuring capital investment decisions are aligned over a medium term planning period with the Authority's Service Plan and the Community Risk Management Plan.

1.3 This Capital Investment Strategy should be read in conjunction with the Treasury Management Strategy, which was approved by the Fire and Rescue Authority (FRA) in January 2024.

1.4 The objectives of the Capital Investment Strategy are to:

- to ensure that all new funding meets priorities within the Authority's Community Risk Management Plan and Service Plan;
- Set out how the Authority identifies, programmes and prioritises funding requirements and proposals;
- Consider options available for funding investment;
- Identify the resources available for capital investment over the planning period;
- Ensure the programme consider the balance of risk;
- Establish effective arrangements for the management of capital projects.

2. STRATEGY FRAMEWORK

2.1 The Capital Investment Strategy fits into the Authority's planning process as set out in the diagram below.

3 CAPITAL EXPENDITURE

What is Capital Expenditure?

3.1 The Authority defines capital expenditure/investment as “Expenditure on the acquisition, creation, or enhancement of non-current assets”. Non-current assets include those items of land, property and plant/equipment, which have a useful life of more than one year.

3.2 Capital may fall into the following categories:

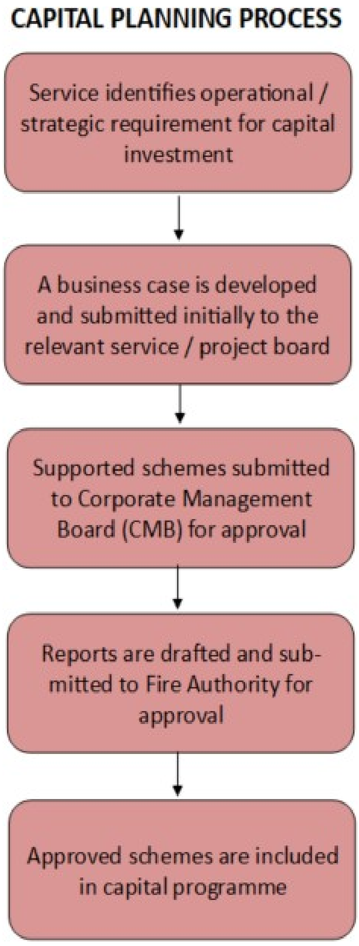
- The acquisition or enhancement of land, buildings or other structures;
- The acquisition or replacement of fleet;
- The acquisition or replacement of operational equipment
- The acquisition or enhancement of information technology.
- If SYFRA were to provide grants or make long term investments these may also be capital.

3.3 Enhancement of an asset means:

- To lengthen the useful life of the asset; or
- To increase substantially the open market value of the asset; or
- To increase substantially the extent to which the asset can be used to meet the objectives of the Authority.

Capital Programme Governance & Prioritisation Process

3.4 For any new schemes, the Function or Service Lead will need to work with Financial Services to prepare a Business Case for consideration and support initially by a relevant Service or Project Board and then by the Asset Management Board and if supported, the Executive Team. If supported by Executive Team supported, the scheme will be presented to Members for consideration and included in the Capital Programme. This is illustrated in the diagram below:



3.5 The Authority has a rolling four year capital programme, subject to an annual update process. This annual review is completed as part of the Medium Term Financial Planning process and involves confirming that items on the capital programme are aligned to the CRMP and the Service Plan. This is carried out in a special meeting of the Asset Management Board.

3.6 Once on the programme and the capital budget is approved, each scheme is monitored by the relevant Committee and Asset Management Board. Capital spend compared to plan is also reported via CMB to the FRA.

3.7 The Authority's capital investment programme is summarised in the table below, which includes capital schemes that are put forward for approval as part of the budget setting report and future indicative proposals.

	23/24	23/24 YE Adj	Adj'd 23/24	24/25	25/26	26/27
	£'000	£'000	£'000	£'000	£'000	£'000
New Builds & Major Refurbishment	4,400,000	-3,501,207	898,793	4,500,000	4,100,000	4,800,000
Station Improvement Programme	1,425,000	711,310	2,136,310	1,000,000	1,200,000	1,200,000
TOTAL PREMISES	**5,825,000**	**-2,789,897**	**3,035,103**	**5,500,000**	**5,300,000**	**6,000,000**
Appliances	1,740,000	1,108,778	2,673,778	1,500,000	3,110,000	1,512,000
Ancilliary Vehicles	601,500	490,000	1,266,500	30,000	212,000	398,000
TOTAL TRANSPORT	**2,341,500**	**1,598,778**	**3,940,278**	**1,530,000**	**3,322,000**	**1,910,000**
ICT Development	655,000	299,855	954,855	1,681,849	200,000	200,000
Control Collaboration Project	0	45,000	45,000	0	0	0
ESMCP System	33,000	-33,000	0	33,000	0	0
TOTAL INFORMATION & COMMUNICATIONS	**688,000**	**311,855**	**999,855**	**1,714,849**	**200,000**	**200,000**
Op Equip & Personal Protective Equip (PPE)	796,690	159,062	955,752	217,000	117,000	400,000
MTA PPE & Equipment						
TOTAL OPERATIONAL EQUIPMENT	**796,690**	**159,062**	**955,752**	**217,000**	**117,000**	**400,000**
TOTAL CAPITAL SPEND	**9,651,190**	**-720,202**	**8,930,988**	**8,961,849**	**8,939,000**	**8,510,000**

4 THE AUTHORITY'S CAPITAL ASSETS & MANAGEMENT OF THOSE ASSETS

What Type of Capital Asset Does The Authority Control?

4.1 The Authority is responsible for a wide variety of capital assets located throughout South Yorkshire. These assets will all be controlled but may not be legally owned. Assets include:

- assets inherited them as part of local government reorganisation;
- leased assets; and
- owned assets purchased or enhanced through a capital investment.

4.2 These assets are shown in the table below, with their respective value to the Authority as at the 31 March 2022. The values reflect current existing use value, depreciated over the assets useful life, not what was paid for the asset. Below the table is a brief description of each category of asset.

Asset Category	Value as at 31 March 2022 £M
Land & Buildings (Inc. Under Construction)	50.147
Vehicles, Plant, Furniture & Equipment	7.112
Surplus & Held for Sale Assets	-
Intangible Assets	0.174

Land & Buildings

4.5 Land and buildings represent other operational assets of the Authority, used in the provision of services, with the main category being obviously fire stations.

Vehicles, Plant, Furniture & Equipment

4.6 The vehicles, plant, furniture & equipment category is relatively self-explanatory and includes both leased and owned assets including fire engines and pump equipment.

Surplus & Held for Sale Assets

4.7 Surplus assets are assets that are deemed surplus insofar as they are no longer providing services on the Authority's behalf, but they are not designated held for sale.

4.8 Assets Held for Sale are assets that are, in financial reporting terms, designated held for sale which means they are actively being marketed and there is an expectation that these assets will be sold within the next 12 months.

Intangible Assets

4.9 Intangible assets are non-physical; capital assets held by the Authority; examples include software packages. The Service has an ICT asset management strategy to cover these types of assets.

The Authority's Asset Management Strategy

4.10 Each service areas which owns assets, Estates, Transport, ICT and Operational Equipment) prepare a strategy for their asset type. These strategies and supporting plans reflect the CRMP and Service Plan. The four capital requests are compiled to develop the capital programme. Asset Management Board will consider the capital programme against capital investment criteria to prioritise projects for investment. Asset Management will challenge and review plans to ensure assets are fully utilised and adequately maintained to extend life and meet asset needs in the most efficient way.

5 CAPITAL FUNDING

How is Capital Expenditure Funded?

5.1 The Authority's Capital can be funded from several sources as described below.

Capital Receipts

5.2 The Authority can generate capital receipts through the sale of surplus assets such as land and buildings. These receipts have no restrictions on their use.

Reserves

5.3 Reserves can be used to fund / support any type of expenditure, but the Authority follows an 'in principle' approach of using its 'one off' reserves to fund one off expenditure.

5.4 The Authority's Reserves Strategy adopts this principle and allocates its reserves on the following basis:

- Establish a Minimum Working Balance as a contingency for unforeseen events as determined by the S151 officer. This is currently £5.0m; then

- ‘Ringfenced’ until such time as the Authority is in a position to present and approve a prudently balanced MTFP 2024-2027; then

- Subject to the above, support new capital investment schemes which minimises / avoids the ‘need to borrow’.

Revenue Funding (RCCO)

5.5 The Authority can use revenue resources to fund capital projects on a direct basis and ordinarily, this is done on a specific scheme/project basis, usually of relatively small scale. Due to reduced revenue budgets there are limited options in this area.

Capital Grants

5.6 Where the Authority receives capital grants, usually from Central Government, these may have conditions and restrictions regarding what it can be used on and the time limit in doing so. Capital grants to FRAs have been reducing though there may be some grants available to fund sustainability projects.

5.7 *Grants with Restrictions* –grants must be spent on schemes that satisfy the conditions of the grants.

5.8 *Grants with No Restrictions* – can be spent on any of the Authority’s corporate capital priorities.

Capital Contributions

5.9 The Authority may receive capital contributions that fund elements of the capital programme. These may be subject to conditions.

Leasing

5.10 Leasing allows those capital costs to be spread over a number of years where prudent and affordable to do so and should be compared to other funding options in a value for money assessment over the life of a scheme. Since the adoption of IFRS16 there is no distinction between leases and all leases over 12 months create assets.

Prudential Borrowing

5.11 The introduction of the Prudential Code in 2004 allowed the Authority to undertake government funded borrowing itself. This borrowing is subject to the requirements of the Prudential Code for Capital Expenditure for Local Authorities, which ensures that any unsupported borrowing is affordable, prudent and cost effective. This type of borrowing has revenue implications for the Authority in the form of financing costs from both an MRP and interest point of view. The Authority’s Reserves Strategy is to ostensibly fund new capital requirements rather than borrow in the first instance.

Capital Funding Approach

5.12 The Authority will look to actively follow an approach to capital funding as set out below, although may make changes to this approach if it is deemed necessary in order to deliver priority outcomes and/or maximise its resources.

- Time limited funding – funding that must be used within a specified time period will usually be applied first, assuming that there is expenditure that it can be legitimately be applied to. This is subject to any requirements for match funding.

- Ring-fenced funding – funding linked to a particular scheme or type of scheme will be allocated in full to the relevant capital projects.

- Where the Authority has discretion over how the funding can be spent, including non-restricted grants and contributions and its internally generated resources (capital receipts, revenue contributions, reserves etc.), these resources are considered holistically together and prudently used against the Authority's corporate priorities.

- Match funding – where match funding of the Authority's own resources is required to lever in external funding, the match element will be considered as a capital priority in its own right and is therefore subject to the same capital prioritisation process as other capital priorities.

6 TREASURY MANAGEMENT

What is Treasury Management?

6.1 CIPFA defines treasury management as:

"*The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"*

6.2 The definition above immediately explicitly links this Capital Investment Strategy ("*capital market transactions*") to the Authority's Treasury Management Strategy ("*Borrowing, investment and cash flows*"). The Capital Investment Strategy and Capital Programme determines the borrowing need of the Authority, essentially the longer term cash flow planning, to ensure that the Authority can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet Authority risk or cost objectives.

The Treasury Management Strategy

6.3 The Authority's Treasury Management Strategy, which is prepared in accordance with the requirements of the Local Government Act 2003, that stipulates that local authorities must 'have regard to' a number of statutory codes, including the CIPFA Prudential Code & Treasury Management Code, is approved annually by full Authority as part of the budget setting process.

6.4 In broad terms, the TM Strategy sets out the following:

- the Authority's Treasury Management Policy (the key objectives for its treasury management activities);
- the Authority's capital expenditure plans and related indicators;
- the Authority's MRP Policy (how its debt repayments will be provided for over time);
- the Authority's borrowing strategy (how the Authority's borrowings are to be organised);
- the Authority's Annual Investment Strategy (the parameters on how investments are to be managed); and
- the Authority's Prudential and Treasury Indicators (the limits and indicators designed to help monitor and control TM risk)

The Authority's Borrowing Need, The External Debt Position & Associated Debt Limits

<u>The Authority's Borrowing Need (The CFR)</u>

6.5 The measure that the Authority assesses its debt position is the Capital Financing Requirement (CFR), which is essentially a measure of the Authority's underlying borrowing need. Included in the Treasury Strategy, Members are asked to approve the CFR projections below, which include both approved and anticipated capital expenditure that are not financed by using available resources i.e. Prudential Borrowing:

Estimated CFR	2023/24 (£M)	2024/25 (£M)	2025/26 (£M)	2026/27 (£M)
Opening Balance	31.564	39.940	48.216	56.386
Add Net Financing Need	8.819	8.829	8.839	8.410
Less Amounts Set Aside to Repay Debt	(0.443)	(0.553)	(0.668)	(0.788)
Closing Balance	**39.940**	**48.216**	**56.386**	**64.008**

6.6 By the end of the 2026/27 financial year, it is estimated that the Authority's debt requirement will total £64m, an overall net increase of £24m from the estimated closing 2023/24 position.

6.7 The capital expenditure decisions that are made in the context of this Capital Investment Strategy inform the estimated CFR position in future years, which are only approved if they meet the prudent and affordable criteria.

External Debt

6.8 The table below measures the Authority's overall external debt position (including leasing) against its underlying estimated borrowing need or CFR.

	2023/24 (£M)	2024/25 (£M)	2025/26 (£M)	2026/27 (£M)
Closing CFR	39.940	48.216	56.386	64.008
Gross Borrowing	(23.168)	(22.168)	(20.259)	(18.809)
Under-Borrowed Position	**16.772**	**26.048**	**36.127**	**45.199**
Support from Usable Reserves	(18.551)	(17.677)	(16.597)	(15.187)
External Borrowing Requirement	**(1.779)**	**8.371**	**19.530**	**30.012**

6.9 This measure is designed to ensure that total debt does not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

Debt Limits

6.10 *The Operational Boundary* is the Authority's limit beyond which external debt is not normally expected to exceed. This limit is set to match the Capital Financing Requirement as shown above:

Operational Boundary	2023/24 (£M)	2024/25 (£M)	2025/26 (£M)	2026/27 (£M)
Debt	39.940	48.216	56.386	64.008

6.11 *The Authorised Limit* represents a control on the maximum level of borrowing and provides an absolute limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Authority. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The Authorised Limit has been set at £4M above the Operational Boundary. This is the statutory limit determined under Section 3 (1) of the Local Government Act 2003.

Authorised Limit	2023/24 (£M)	2024/25 (£M)	2025/26 (£M)	2026/27 (£M)
Debt	43.940	52.216	60.386	68.008

Borrowing Strategy

6.12 The Authority's general policy objective is to ensure its level of debt is prudent, affordable and sustainable over the longer term (i.e. **keeping financing costs to a minimum** whilst **addressing the key associated risks**):

- Interest Rate Risk
- Refinancing Risk

6.13 In previous years, the strategy has been to maintain a 70% fixed rate borrowing target to create cost certainty and limit interest rate risk. However, as borrowing costs have risen over the last 18 months it has not been considered cost-effective to enter in expensive long-term loans. The Authority has used temporary reserves and balances in lieu of external borrowing.

6.14 Borrowing rates are forecast to begin to fall over the next 2 years, and the recommended strategy is to hold off long-term borrowing until this time. Therefore flexibility in terms of the interest rate exposure target is considered the most prudent approach. Interest rates will continue to be closely monitored to manage risks and caution will be adopted with the 2024/25 treasury operation.

Debt Repayment Policy

6.15 The method by which the Authority's underlying borrowing requirement is reduced over time, is through the Authority's adopted minimum revenue provision policy.

Minimum Revenue Provision (MRP)

6.15 The Minimum Revenue Provision (MRP) is a charge to the revenue account in relation to (current and residual) General Fund capital expenditure financed by borrowing, as required by the Local Authorities (Capital Finance and Accounting) Regulations 2003. The Authority is required to determine an amount of MRP, which it considers prudent - this amount reduces the CFR.

6.16 The Authority has to approve the MRP Policy on an ongoing, annual basis which sets out the rationale and approach to the MRP charge, which is submitted as an appendix to the Treasury Management Strategy and considered accordingly.

Other Long-Term Liabilities

6.17 The Authority does not hold any other long-term liabilities on its balance sheet.

6.18 In accounting terms, finance leases would be accounted for as 'on balance sheet', which means that the Authority, though not legally owning the associated assets, would recognise them on its balance sheet as they have deemed control – which would increase the CFR as they would not have been financed fully.

6.19 What the accounting rules also requires is that a liability is recognised at the time of control to recognise that these arrangements are effectively funding the capital cost of the asset over the length of the lease. In effect, the long-term liability is a credit facility in its own right.

7 COMMERCIAL ACTIVITY / INVESTMENTS & RISK APPETITE STATEMENT

Commercial Activity

7.1 Fire Authorities have been encouraged to identify commercial opportunities to help balance their budgets. Commercial activity can be undertaken in a trading arm. SYFR has not currently got any commercial activities in place but will continue to evaluate options as part of the Efficiency long list. Any new initiative would require FRA approval under Financial Regulations.

Risk Appetite Statement

7.2 South Yorkshire Fire and Rescue Authority's risk appetite for investment and commercial activities has been developed with reference to the Orange Book (UK government publication on the strategic management of risk within government)

7.3 The following points give indication of the Authority risk appetite:

- The Authority does not invest in any assets / investments purely for commercial return.

- The Authority does not invest in any assets / investments that are outside of South Yorkshire with all investments contributing towards the corporate priorities for the residents of South Yorkshire.

Treasury Management Investments

7.4 The investments made in respect of the Treasury Management Strategy relate to ones that assist the Authority in managing timing issues concerning general, day-to-day management of its cash and bank balance positions. These investments are not included within the Authority's capital programme and therefore do not form part of the capital financing requirement.

7.5 The Authority's general policy objective is to invest its surplus funds prudently, which involves managing a number of associated risks. The Authority's investment priorities (in order) are as follows:

- the security of capital;
- the liquidity of investments; and
- optimum yield commensurate with the above.

Non-Treasury Investments

7.6 On the contrary to the treasury management investments, the non-treasury investments are included in the Authority's capital programme and are subject to the capital financing regulations as set out in law. If such investments are funded from borrowing, then like any other scheme, they would increase the Authority's capital financing requirement and the revenue budget would incur an ongoing obligation for both MRP and the interest charge over the long term.

8 SKILLS & KNOWLEDGE

In House Resources

8.1 The successful implementation of the Capital Investment Strategy necessitates the availability of people with the necessary experience of:

- developing capital projects;
- acquiring and selling properties;
- commissioning partners to deliver the capital programme;
- managing properties as a landlord;
- sourcing suitable opportunities that match the criteria set under

the adopted strategy.

8.2 The Fire Service's Asset Management team covers a number of sections that reflects its operational and non-operational asset portfolio. This team comprises:

- Estates & Facilities Management;
- Joint Head of Vehicle Fleet Management;
- ICT and Digital Manager; and
- Group Manager – Operational Support & Technical Services.

Internal Finance Team

8.4 The Capital Programme is managed and monitored by South Yorkshire Fire and Rescue Service's finance team, which is headed up by the Director of Finance and Procurement and consists of:

- Financial Services Manager;
- Accountancy Manager;
- Two Finance Business Partners; and
- Assistant Accountant

8.5 The internal finance team is led by two CCAB Qualified professionals who together have a significant number years of finance experience in the public sector.

Externally Available Resources

8.6 The Authority's Section 151 Officer is the officer with overall responsibility for the financial stewardship of the Authority and is a professionally qualified accountant and follows an ongoing Continuous Professional Development programme.

8.7 The Authority's Treasury Management operational and strategic activities are carried out by the Barnsley MBC finance team which comprise of professionally qualified accountants with extensive Local Government finance experience between them. They all follow a Continuous Professional Development Plan and attend courses on an ongoing basis to keep abreast of new developments and skills.

8.8 The Authority (via Barnsley MBC) also uses external treasury management advisors, Link Asset Services for bespoke advice and guidance.

Members

8.9 Members are familiar with the budget process and approve the Treasury Management Strategy and overall Authority Budget. Any additional training requirements will be discussed with the Authority's Governance team.

8.10 Internal and external training is offered to members on an annual basis to ensure they have up to date skills to make capital and treasury decisions. A register is also kept on member attendance.

8.11 The knowledge and skills of officers and members are commensurate with the Authority's risk appetite.

9 REFERENCES

DOCUMENT
1.1 **Budget Papers:**
Community Risk Management Plan (CRMP) 2021-2024
2024 - 2027 Capital Programme
Reserves Strategy
Treasury Management Strategy
1.2 **Asset Management Strategies:**
Estates Plan
Vehicle Management Plan
ICT & Digital Strategy
Operational Equipment Strategy
1.3 **Other Financial Documents:**
2021/22 Statement of Accounts