Essex County
Fire & Rescue Service

Essex County Fire and Rescue Service Capital Strategy and MRP Policy

2024/25

Last updated on 12 February 2024

Contents

1. Background

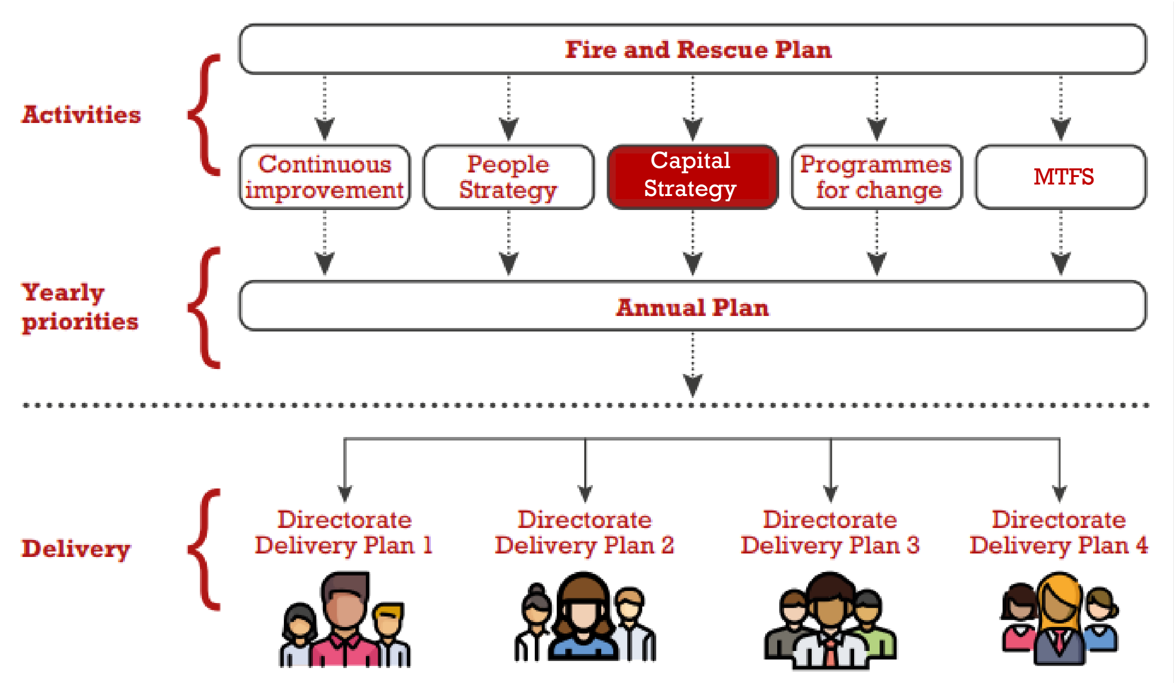
A Capital Strategy is a high-level overview of how planned capital expenditure and capital financing contribute to the Provision of Fire Services, along with an overview of how associated risk is managed and the implications for future financial sustainability.

The (CIPFA) Prudential Code for Capital Finance in Local Authorities 2017 requires local authorities to produce a Capital Strategy to support the delivery of their corporate objectives. Authorities are required by regulation to have regard to the Prudential Code.

The objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent, and sustainable.

The Capital Strategy is one of several key strategic financial documents utilised by the Authority to deliver its corporate objectives. The Capital Strategy, alongside The Medium-Term Financial Strategy, Treasury Management Strategy and Reserves Strategy underpin the Fire and Rescue Plan 2019-24.

Strategic Direction:



The Capital Strategy has direct links to other key departmental Strategies and Plans which include:

- Property and Estates Strategy
- Digital and Data Strategy
- Fleet and Equipment Strategy

These are referred to in further detail in Section 3.

The core principals of the Capital Strategy are:

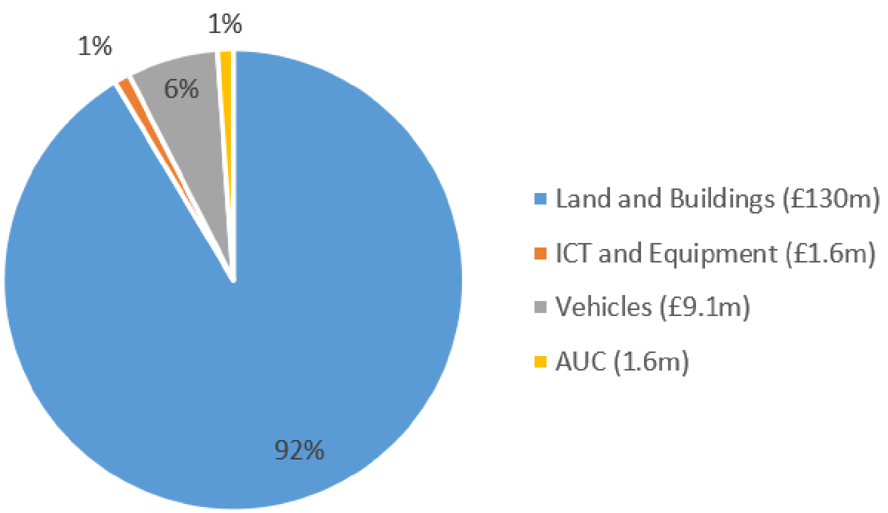
- The Capital Strategy is **affordable** in line with the Medium Term Financial Strategy.
- The Capital Strategy **supports the outcomes** of the Fire and Rescue Plan and Annual plan.
- **Value for money** is achieved, while maximising the Authority's ability to deliver against is objectives.
- Where borrowing is required, it is undertaken in line with CIPFA's prudential code and the Service's Treasury Management Strategy.

Non-Current Asset Base as of 31st March 2023

The Authority's non-current asset base comprises land and buildings, vehicles, plant and equipment, and assets under construction.

Land and buildings are subject to an annual valuation as part of the year end process. At 31st March 2023, the Authority had 56 properties valued at more than £129m – these properties are continually maintained through revenue repairs and capital investment (see capital expenditure below). The Authority also maintains a sizable fleet of operational assets and vehicles, as well as ICT assets and infrastructure. The fixed asset base on the Authority is detailed below.

Graphic 1 – Fixed Asset Base 31st March 2023:



Note – AUC refers to assets under construction, which consist of capital expenditure not yet brought into operational use before the end of the year.

2. Capital Expenditure and Capitalisation Policy

In contrast to revenue expenditure which is spending on the day to day running costs such as staff costs, capital expenditure seeks to provide long-term solutions to priorities and operational requirements.

Capital expenditure is technically described as expenditure on the acquisition, creation, or enhancement of 'non-current assets' i.e., items of land, property and plant which has a useful life of more than one year. Expenditure for capital purposes therefore gives rise to new assets, increases the value or useful life of existing assets, or generates service potential for the Authority.

The following costs can be capitalised:

- The costs attributable to the asset, being purchase price plus any costs directly attributable to bring it into initial use, including implementation costs.
- The de-minimus for capitalisation is £7.5k for vehicles and £10k for all other assets.
- There is no de-minimus for purchases of land and buildings.
- Consultancy support may be capitalised only where part of a major project over, where an external resource is needed and adds value to the project.
- Design and development costs may be capitalised, from the point that it is reasonably certain the project will be delivered. Research costs cannot be capitalised.
- Staff costs can be capitalised where there is sufficient evidence that the resource adds value to the project (supported by time sheets, and prior approval of the Chief Finance Officer).
- Training costs cannot be capitalised.

Capitalisation of Software as a Service (SaaS) Implementation Costs
The statutory basis for treating expenditure as capital is set out in section 16 of the Local Government Act 2003. Per section 16(1), capital expenditure is primarily defined as expenditure which falls to be capitalised in accordance with proper practices, therefore implementation costs of software are generally not treated as capital where the entity cannot demonstrate control of the software.

However, the Secretary of State has powers under section 16(2)(a) to extend this definition by making regulations that provide that expenditure that does not meet the section 16(1) criterion shall be treated as being capital expenditure. These powers have been used variously to extend the scope to expenditure that has wider public benefit but does not result in an authority being able to recognise an asset or to remove uncertainties in the accounting-based definition.

For SaaS implementation costs, the relevant exercise of this power is represented by regulation 25 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003 No 3146), which allows for expenditure incurred on the acquisition or preparation of a computer program, including expenditure on the acquisition of a right to use the program, to be treated as capital if the authority acquires the program for use for a period of at least one year.

The Authority has therefore chosen to treat software implementation costs as capital expenditure and will depreciate costs over the initial software licencing period.

3. Capital Strategy and Departmental Delivery Strategies

The table below sets out the projected capital expenditure from 2024/25 to 2028/29. The expected funding streams are also set out with the consequent funding gap, assumed to be financed by internal borrowing (minimum revenue provision).

Summary Capital Programme	2024-25 Total £'000s	2025-26 Total £'000s	2026-27 Total £'000s	2027-28 Total £'000s	2028-29 Total £'000s	5 Year Total £'000s
New Premises						
Service Workshops	247	1,319	6,603	665	-	**8,835**
Existing Premises						
Asset Protection	957	1,000	1,000	1,000	1,000	**4,957**
Asset Improvement Works						
Training works/BA Chambers	176	-	-	-	-	**176**
Fire Training Facilities	250	4,250	5,500	-	-	**10,000**
Total Property	**1,630**	**6,569**	**13,103**	**1,665**	**1,000**	**23,968**
Equipment	**1,765**	**1,515**	**1,080**	**1,560**	**120**	**6,040**
Information Technology						
Device Refresh	160	198	330	468	198	**1,352**
Other Projects	950	500	-	-	-	**1,450**
Total Information Technology	**1,110**	**698**	**330**	**468**	**198**	**2,802**
Vehicles						
New Appliances	3,674	-	4,095	2,671	-	**10,440**
Other Vehicles	746	936	2,920	1,781	912	**7,295**
Total Vehicles	**4,420**	**936**	**7,015**	**4,452**	**912**	**17,735**
Total Capital Expenditure	**8,925**	**9,718**	**21,528**	**8,145**	**2,229**	**50,544**
As Funded By:						
Capital Receipts Reserve	1,800	4,250	5,500	3,100	-	**14,650**
Earmarked Reserves	150	-	-	-	-	**150**
Capital Financing Requirement	6,975	5,468	16,028	8,145	2,229	**38,844**
Total	**8,925**	**9,718**	**21,528**	**11,245**	**2,229**	**53,644**

Note: Capital Finance Requirement - Revenue funding charged through the minimum revenue provision (see section 5).

The Capital Programme is linked to departmental strategies, explored in more detail in 3.1 to 3.4 below.

3.1 Estates Strategy

Link:
https://www.essex.pfcc.police.uk/wp-content/uploads/2022/02/PFCCFRA-057-21-Estates-Strategy.pdf?x22148

Strategy Overview:

Investment	Overview
Fleet Workshops	The current Service workshops are reaching end of life. To ensure the fleet is appropriately maintained, new facilities need to be developed.
Asset Protection	The estate requires continuous investment to maintain its condition and functionality.
Collaboration	Collaborative opportunities are continually explored and progressed where appropriate and viable.
Environmental	Incorporate energy reduction technologies in line with the Environmental Strategy 2020-2030 (see 3.4).
Modernisation	Ensure that our estate is modern and fit for purpose.
Training Facilities	Ensure that the Authority continues to provide hot fire training facilities.

Pictured - The recently refurbished Shoeburyness Fire Station:

3.2 Digital & Data Strategy

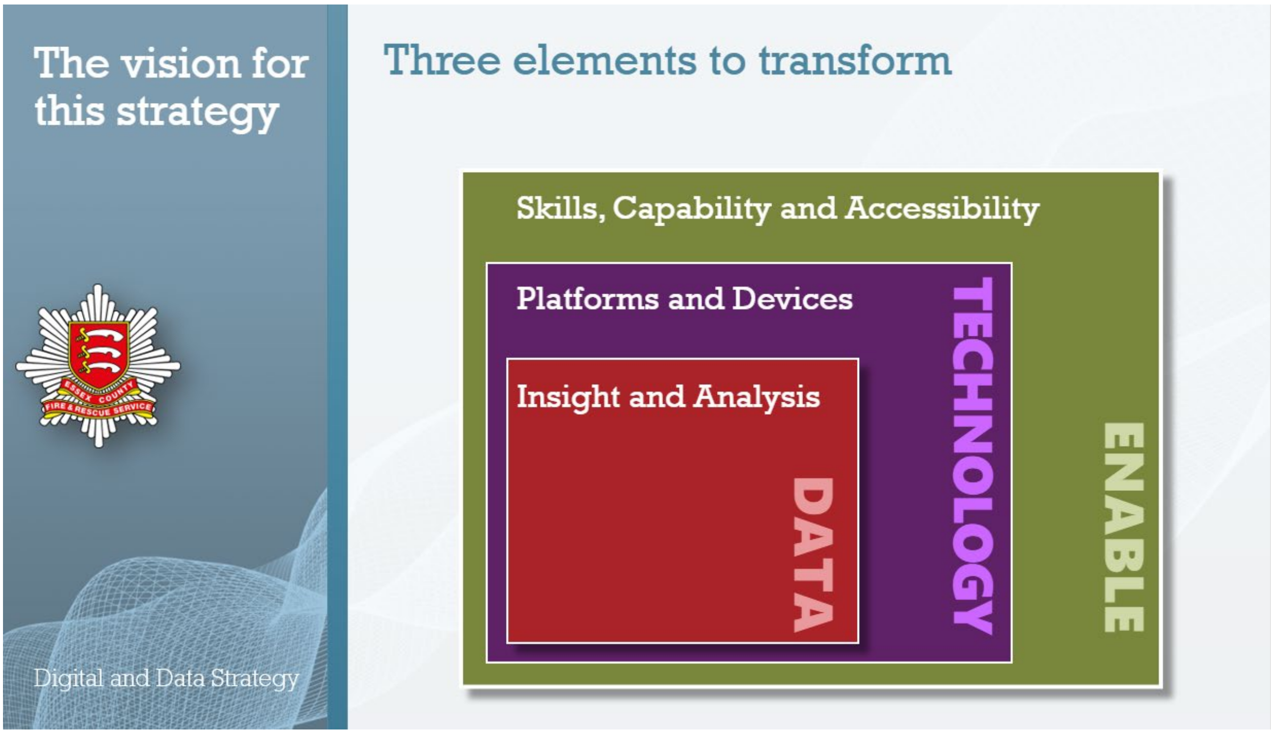
Link:
https://www.essex.pfcc.police.uk/wp-content/uploads/2021/05/PFCCFRA-009-21-Digital-Data-Strategy.pdf?x22148

Priorities:
The priorities of the Digital & Data Strategy are:

- Create a more agile working environment for the Authority.
- Create efficiencies through platform and infrastructure modernisation.
- Replace paper-based processing to provide improved resilience, availability, and accessibility.
- Empower users with improve digital skills to improve productivity and insight across the Authority.
- Provide a foundation for future technologies which is sustainable going forward.

Strategy Overview:

Investment	Overview
Digital & Data Strategy	The Digital & Data Strategy aims to use new technology to make better use of resources in line with the Fire & Rescue Plan. The Strategy brings together multiple projects to support the workforce in flexible and remote working.
Other Projects	Other ICT projects include the Control project, which focuses on key infrastructure upgrades to the Emergency Services Network. These are vital to the delivery of services.



3.3 Fleet and Equipment Strategy

Priorities:
The priorities of the Fleet and Equipment Strategy are:

- To effectively manage the Fleet and Operational equipment of the Authority in support of the Fire and Rescue Plan.
- To ensure all vehicles and equipment are maintained to the required standards.
- To manage asset replacements and disposals when assets reach the end of their useful lives.

Strategic Overview:

Investment	Overview
Equipment	The forecast expenditure is in line with the replacement strategy for operational equipment. This expenditure is required to maintain the delivery of services in line with the Fire & Rescue Plan.
New Appliances	The forecast expenditure is in line with the replacement strategy for appliances. Appliances are maintained to a high standard – the strategy must provide a balance of regular replacement to provide the latest technology to improve the efficiency of response.
Other Vehicles	The Fleet Services team maintain a wide range of vehicles including pool cars, off road vehicles and specialist equipment. The capital strategy above sets out the requirements of the Authority over the next four years in the delivery of the Fire and Rescue Plan.

3.4 Environmental Strategy

Following the collaboration of Essex Police and Essex County Fire and Rescue Service, an environmental strategy was produced to ensure that both organisations are aligned with other blue light services to reduce their carbon footprint and expenditures on budgets.

The Authority must comply with the Government’s target of bringing all greenhouse gas emissions to net zero by 2050. To reach this target significant investment is required in both building and vehicle assets. New technologies will be adopted that fulfil our operational duties and are approved in an adequate timescale to fulfil the net zero target.

4. Funding

All capital expenditure must be financed from either internal sources (revenue budget via MRP or reserves), or external sources (grants or borrowing). These sources are explained below:

4.1 Internal Funding

Capital Receipts - Capital receipts arise from the sale of surplus assets. As capital receipts are a limited source of funding, the Authority should consider sustainable use for financing capital expenditure in the long term. The allocation of this funding was agreed as part of the 2024/25 Budget.

Earmarked Reserves (EMR) - The Authority has established specific reserves to manage key financial risks and to support service transformation to ensure it is fit for the future and will deliver on the priorities in the Fire and Rescue Plan.

There are clear policies in place to set out any additions to, or subsequent use of each earmarked reserve. This includes the requirement for the submission of a business case, which must be approved by the Commissioner on the advice of the Chief Finance Officer.

Each reserve is reviewed on a regular basis, at least annually. Reviews of reserves are also conducted as part of the annual budget, annual accounts, and the Medium-Term Financial Strategy.

Grant Funding - The Authority can utilise certain types of grant funding for the financing of capital expenditure.

Capital Financing Requirement - Remaining capital investment will be charged to the revenue account through the minimum revenue provision (see section 5).

The proposed internal funding is set out below:

Summary Capital Programme	2024-25 Total £'000s	2025-26 Total £'000s	2026-27 Total £'000s	2027-28 Total £'000s	2028-29 Total £'000s	5 Year Total £'000s
As Funded By:						
Capital Receipts Reserve	1,800	4,250	5,500	3,100	-	**14,650**
Earmarked Reserves	150	-	-	-	-	**150**
Capital Financing Requirement	6,975	5,468	16,028	8,145	2,229	**38,844**
Total	**8,925**	**9,718**	**21,528**	**11,245**	**2,229**	**53,644**

4.2 External Funding

External Borrowing - In the past, the Authority has financed capital expenditure through borrowing from the Public Works Loan Board (PWLB). The Authority's approach to external debt is set out in the Treasury Management Strategy.

The Authority's debt profile is set out below:

Debt profile as at 31st March 2023:

Total capital repayable	£Million
Repayable within 1 year	0.0
Repayable within 2-5 years	2.0
Repayable within 5-10 years	15.0
Repayable within 10-15 years	6.5
Total	**23.5**

The asset base of the Authority is supported by loans of £23.5m from the Public Works Loan Board (PWLB). The Authority's borrowing strategy is set out in the Treasury Management Strategy 2024/25.

Assumed Borrowing – The Authority has progressed with a full business case for the collaborative design and build of a join fleet workshops with Essex Police. This project assumes part of the expenditure is funded by external borrowing:

Borrowing Forecast	Forecast 2022/23 £Million	Forecast 2023/24 £Million	Forecast 2024/25 £Million	Forecast 2025/26 £Million	Forecast 2026/27 £Million	Forecast 2027/28 £Million
Existing Borrowing	(23.5)	(23.5)	(22.5)	(21.5)	(21.5)	(21.5)
Assumed Borrowing - Fleet Workshops	0.0	0.0	0.0	(0.2)	(1.6)	(8.2)
Total External Borrowing	**(23.5)**	**(23.5)**	**(22.5)**	**(21.7)**	**(23.1)**	**(29.7)**

The financial impact of this borrowing is considered in Section 9 – Prudential Indicators, as well as the Treasury Management Strategy 2024/25.

5. Minimum Revenue Provision (MRP) Policy and Statement

The minimum revenue provision is charged to the revenue account each year to represent the financing of capital assets over their useful economic lives.

Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended (Statutory Instrument (SI) 3146/2003) requires the Authority to approve a Minimum Revenue Provision (MRP) Statement setting out the policy for making MRP and the amount of MRP to be calculated which the Service considers to be prudent.

The Authority uses the depreciation method for calculating the minimum revenue provision.

Statutory Guidance under the Local Government Act 2003:

MRP is deemed to be equal to the provision required in accordance with deprecation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment charged to the income and expenditure accounts.

For this purpose, standard depreciation accounting procedures should be followed, except in the following respects:

- MRP should continue to be made annually until the cumulative amount of provision made is equal to the expenditure originally financed by borrowing or credit arrangements. Thereafter the authority will cease to make MRP.
- On disposal of the asset, the charge should continue in accordance with the depreciation schedule as if the disposal had not taken place. This does not affect the ability to apply capital receipts or other funding sources at any time to repay all or part of the outstanding debt.

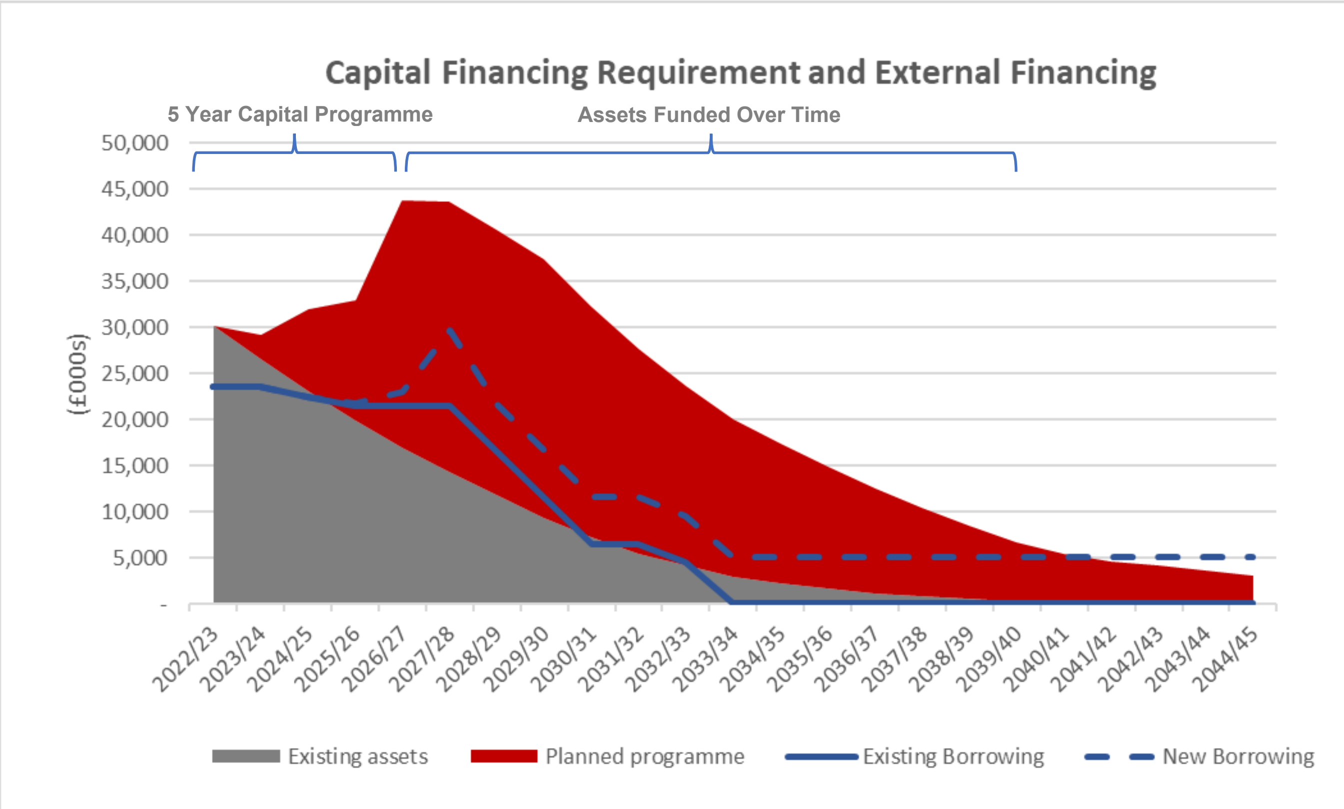
Where the percentage of the expenditure on the asset financed by borrowing or credit arrangements is less than 100%, MRP should be equal to the same percentage of the provision required under depreciation accounting.

Useful economic lives for MRP purposes are as follows:

Class of Asset	**Asset life for Minimum Revenue Provision**
Land and buildings	5 to 46 years
Asset protection works	15 - 20 years
Fire appliances	15 years
Other vehicles	3 - 6 years
Operational equipment	8 - 15 years
IT equipment	3 - 7 years

6. Capital Financing Requirement and MRP Forecast

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for capital purposes, i.e., its borrowing requirement. The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue. The projected CFR for the 5 year capital programme is shown in the graph below, and excludes future capital expenditure after this period:



The table above shows the CFR increasing to over £44m in the next five years. This is supported by existing borrowing and new borrowing assumed for the Joint Fleet Workshops project. The remainder is funded through internal borrowing – resulting in a higher minimum revenue provision charged to the revenue budget. MRP is budgeted at £4.2m for 2024/25.

Capital Financing Requirement Forecast and MRP Forecast

Summary CFR Forecast	Actual 2022-23 £000s	Forecast 2023-24 £000s	Forecast 2024-25 £000s	Forecast 2025-26 £000s	Forecast 2026-27 £000s	Forecast 2027-28 £000s	Forecast 2028-29 £000s
Opening CFR	31,734	32,103	29,149	31,914	33,003	43,853	43,943
Capital Expenditure	4,843	5,518	8,925	9,718	21,528	8,145	2,229
Funding Applied	(374)	(4,479)	(1,950)	(4,250)	(5,500)	(3,100)	-
MRP	(4,100)	(3,994)	(4,209)	(4,379)	(5,177)	(5,205)	(5,369)
Closing CFR	**32,103**	**29,149**	**31,914**	**33,003**	**43,853**	**43,694**	**40,804**

*2022/23 Figures based on Unaudited Financial Statements

The Authority includes a prudent Minimum Revenue Provision in the budget each year, which is supported by a detailed forecast. This forecast is updated regularly throughout the year with updates provided in the financial forecasts. The Medium Term Financial Strategy has been updated to reflect the MRP charge reflected above.

7. Governance

The Capital Programme is approved annually by the Police, Fire and Crime Commissioner for Essex, as part of the annual budget setting process. The Portfolio Management Board provides scrutiny to projects, which require a formal business case to ensure they meet Authority objectives, while achieving value for money. The role of the board is also to monitor and assess the effectiveness and delivery of the capital programme. These roles are set out in the board's terms of reference.

The services Portfolio Management Board (PMB) agrees in-year variations to the capital programme up to the value of £250k, with variations above £250k approved by the Police, Fire and Crime Commissioner.

An update on the capital programme is included within the monthly financial pack presented to the Service Leadership team. This is further scrutinised by the PFCC through the monthly Performance and Resources Board.

Strategic Sub-Groups have been established to discuss the operational needs of the Authority in the delivery of its objectives. These include:

- Digital & Data Strategy Board
- Strategic Fleet Sub-Group
- Estates Board

These boards scrutinise new proposals and provide recommendations for approval at the Portfolio Management Board.

8. Leases

Leasing obligations are similar to borrowing as they have an ongoing revenue budget commitment. Leasing will be considered following due diligence over the life of the asset, comparing the financial and non-financial benefits and risks compared to the Authority owning such asset itself.

From 1 April 2024 the accounting standard which sets out the guidelines for recognising and disclosure requirements for accounting for leases changes from IAS 17 (International Accounting Standard) to IFRS 16 (International Financial Reporting Standard). This means from this date the way the Authority accounts for assets it leases will change. Under these changes a right of use asset will be shown on the balance sheet except for leases of 12 months or less or if the asset is of low value. This has not been included in the capital financing requirement above, as it is not expected to be significant to the overall CFR.

When the asset is recognised in the balance sheet a corresponding liability is then created, representing the obligation to make lease payments. When the Authority makes a lease payment, rather than it showing as an expense against the relevant cost centre, it is split between paying off this liability and interest payments. The asset is depreciated in the same way as similar assets of that class, usually over the life of the lease unless the asset useful life is lower.

The Authority has engaged with stakeholders and produced working papers in anticipation of these changes and will adopt IFRS 16 from 1st April 2024.

9. Prudential Code, Affordability and Sustainability

The Chief Finance Officer should report explicitly on the affordability and risk associated with the Capital Strategy. The Prudential Indicators linked to affordability and sustainability are:

Borrowing as a multiplier of net revenue budget – used to assess if the level of external debt of the Authority is sustainable.

Net capital finance as a % of net revenue budget – used to assess if the capital programme is affordable in comparison to the funding of the Authority.

Interest cost as a % of net revenue budget – used to assess the impact of the cost to finance the Authority's external debt.

Net Revenue Budget = Taxation and non-specific grant income in the Financial Statements

Prudential Indicators	Actual 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28
Borrowing as multiplier of revenue budget	0.3 times	0.3 times	0.2 times	0.2 times	0.2 times	0.3 times
MRP as % of net revenue budget	5%	5%	4%	5%	5%	5%
Interest cost as % of net revenue budget	1%	1%	1%	1%	1%	2%

The forecast above includes additional borrowing for the joint fleet workshops project only.

Borrowing as a multiplier of net revenue budget is forecast to remain stable at between 0.2 and 0.3 times.

Interest cost as a percentage of net capital financing is forecast to remain stable at between 1% and 2%.

Minimum Revenue Provision (MRP) as percentage of net revenue budget is forecast to remain stable at between 4% and 5%.

The impact on the Authority's revenue budget is considered in the Medium Term Financial Strategy.

10. Knowledge and Skills

The Finance Team has responsibility for the preparation and ongoing management of the Capital Strategy. The team is staffed by professionally qualified accountants that adhere to continuing professional development as part of their accreditation. The team attends all relevant training courses and events to ensure that their knowledge and skills are up to date.

The overall responsibility for the Capital Strategy lies with the Chief Finance Officer (S.151) who is professionally qualified and suitably experienced to carry out the role.

The Authority also engages with professional treasury management advisors, Arlingclose Ltd, for support in production of key strategies such as the Treasury Management Strategy, and professional bodies such as CIPFA for technical advice when required.

11. Risks

Elements of the capital programme could impact on the strategic risks of the Authority; these risks are recorded on the Strategic Risk Register. Risk is continuously monitored as part of the Authority's risk management process. Furthermore, the capital programme is authorised annually, and subject to regular review by the Police, Fire and Crime Commissioner at the Performance and Resources Board.

The service will continue to review its capital plan along with its Treasury management position as additional borrowing is will be required to deliver the current capital plan. The Authority is also currently developing a Strategic Asset Management Plan. It is anticipated that taking a more strategic approach to the management of its assets will enable future revenue savings to be identified and made. This may also lead to the identification of opportunities to raise capital receipts which would be used to invest directly back into the Services capital programme and may reduce any future need to borrow. It is expected that this will be available towards the end of Q2 in 2024/25. The MTFS is updated quarterly and will be updated as appropriate for key changes.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985	
List of background documents – none.	
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