

Decision title

Capital Strategy 2019-20 and Future Years

Recommendation by
Assistant Director, Finance

Decision Number
LFC-0134-D

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Summary

The CIPFA Prudential Code 2017 sets out a new requirement for Local Authorities to produce a Capital Strategy, to form part of an authority's integrated revenue, capital and balance sheet planning. The Capital Strategy is to be published for the 2019/20 financial year and requires formal approval by the London Fire Commissioner (LFC). This will be an annual requirement and will form part of the budget setting process.

Decision

The London Fire Commissioner:

1. Agrees the Capital Strategy at Appendix 1;
2. Notes the five year capital plan, to 2022/23, with the capital financing costs and prudential indicators are reflected in the budget and treasury management reports agenda;
3. Notes the further 15 years from 2023 to 2038 that form the 20 year plan required by the Mayor's Budget Guidance, that lead to a funding gap.



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Date 27/3/2019.

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Report title

Capital Strategy 2019-20 and Future Years

Report to	Date
Commissioner's Board	27 March 2019
Report by	Report number
Assistant Director – Finance	LFC- 0134

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[The report will be published when it comes back to CB in March]

Summary

The CIPFA Prudential Code 2017 sets out a new requirement for Local Authorities to produce a Capital Strategy, to form part of an authority's integrated revenue, capital and balance sheet planning. The Capital Strategy is to be published for the 2019/20 financial year and requires formal approval by the London Fire Commissioner (LFC). This will be an annual requirement and will form part of the budget setting process.

Recommended decision

1. That the Commissioner's Board:
 - a. Agrees the Capital Strategy at Appendix 1;
 - b. notes the five year capital plan, to 2022/23, with the capital financing costs and prudential indicators are reflected in the budget and treasury management reports also on today's agenda;
 - c. Notes the further 15 years from 2023 to 2038 that form the 20 year plan required by the Mayor's Budget Guidance, that lead to a funding gap;
 - d. Note that the Capital Strategy will be reported to the Fire & Resilience Board and then come back to Commissioner's Board on 27 March before final approval by LFC by 31 March 2019.

Background

1. A revision to the CIPFA Prudential Code for Capital Finance in Local Authorities was issued in December 2017. It set key objectives to ensure that decisions made around the capital programme are affordable, prudent and sustainable. A new requirement of the Code is that authorities should produce a Capital Strategy and it outlines the reporting requirements that should be included.

2. The Mayor's Budget Guidance for 2019/20 also set out further requirements on the Capital Strategy and this included the requirement for a 20 year capital ambition, investment and funding plan.
3. The LFC Capital Strategy 2019-20 and Future Years is attached at Appendix 1. The 20 year capital ambition programme has been based on the LFC's current capital programme plus the on-going future capital requirements to keep the business operating at current levels. The plan includes the capital investment requirements to ensure that the LFC's fleet meets the new ultra low emissions zone requirements (ULEZ) and replacement of vehicles as they come to the end of their useful life. Ongoing capital expenditure on the LFC's estate is included to maintain the condition and functionality of fire stations. There are also estimates for spend on ICT replacement and upgrade.
4. The first five years of the Capital Strategy, to 2022/23, are to be included in the Mayor's Capital Spending Plan, and are funded with capital financing costs reflected in the LFC budget. The years from 2023 to 2038, that complete the Capital Strategy as set out in the Mayor's Budget Guidance, lead to a funding gap and work will be undertaken to address this.

Chief Finance Officer approval

5. The Director of Corporate services confirms that the five year capital programme, to 2022/23, is deliverability, affordability and that the risks associated with this have been considered, and these are addressed in further detail in the Capital Strategy at Appendix 1.

Finance comments

6. This report is prepared by the Assistant Director - Finance and as such Finance comments have been incorporated into the report.

Workforce comments

7. No Workforce implications have been identified therefore no formal consultation has been undertaken.

General Counsel comments

8. The report confirms the Capital Strategy 2019/20 has been prepared in accordance with best practice and guidance set out in the CIPFA Prudential Code 2017.
9. The Capital Strategy 2019/20 assists with the budget setting process, ensures capital assets are used to support corporate priorities under the London Safety Plan, and aims to improve overall service delivery, thereby ensuring economy, efficiency and effectiveness is achieved.
10. Whilst financial management responsibilities are delegated to the Director of Corporate Services, approval of the Capital Strategy 2019/20 by the London Fire Commissioner is required in line with Part 6 of the London Fire Commissioners Scheme of Governance (Financial Regulations).
11. Individual projects incurring spend may be subject to further reporting and agreement in line with the Scheme of Governance.

Sustainability Implications

12. There are no direct sustainability implications arising from this report

Equalities Implications

13. The Public Sector Equality Duty applies to the London Fire Brigade when it makes decisions. The duty requires us to have regard to the need to:

a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act. In summary, the Act makes discrimination etc. on the grounds of a protected characteristic unlawful.

b) Advance equality of opportunity between people who share a protected characteristic and those who do not.

c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

14. The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, gender, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

15. There are no specific equalities implications arising from this report.

Appendices

1. Capital Strategy

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London Fire Commissioner

Capital Strategy 2019-20 and Future Years

London Fire Commissioner - Capital Strategy 2019/20 and Future Years

Introduction

1. The Capital Strategy outlines the London Fire Commissioner's (LFC) approach to capital investment, ensuring that it is in line with corporate priorities. These priorities are set out in the London Safety Plan (LSP), and detail how the Brigade will deliver and shape services to provide London with a world class fire and rescue service. The Brigade wants London to be the safest global city and the Capital Strategy will contribute to that ambition, and support delivery of the Mayor's priorities.
2. The Capital Strategy sets out a framework for the management of capital finance and along with the LFC Treasury Management Strategy covers the following areas:
 - Capital Expenditure and Investment Plans;
 - Prudential Indicators;
 - External Debt; and
 - Treasury Management.
3. The Capital Strategy addresses the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code, which sets out a new requirement for local authorities to produce a Capital Strategy to form part of its integrated revenue, capital and balance sheet planning, from the 2019/20 financial year.
4. The Mayor's Budget Guidance 2019/20 also includes specific requirements in relation to the Capital Strategy, not least of which to have 20 year capital ambition, investment and funding plan.
5. The Capital Strategy has been prepared as part of the budget setting process, and was submitted to the Mayor as part of the budget submission, approved by the LFC. The final Capital Strategy is approved by the LFC in March. This will form an annual requirement, and the capital strategy will be published in draft as part of the budget submission to the Mayor in November, and as a final Capital Strategy following approval by the LFC in March.

Benefits

6. The Capital Strategy demonstrates that the LFC takes capital expenditure and investment decisions in line with service objectives, and properly takes account of stewardship, value for money, prudence, sustainability, risk and affordability.
7. The key benefits of the Capital Strategy are to deliver a capital programme that;
 - ensures the LFC's capital assets are used to support the delivery of services according to the priorities within the London Safety Plan;
 - links to the LFC's Asset Management Plan and other LFC Strategies/Plans, such as the sustainability strategy;

- is affordable, financially prudent and sustainable;
- ensures the most cost effective use is made of the existing assets and new capital expenditure; and
- supports delivery of the Mayoral policies and objectives.

Approach

8. The London Safety Plan sets out the London Fire Brigade's core purpose to help make London the safest global city. This is to be delivered by the Brigade's vision 'to be a world class fire and rescue service for London, Londoners and visitors'. The LSP details the Brigade's commitments in delivering fire safety, responding to emergencies, and how it will use its resources to be successful. The LSP also sets out how the Brigade supports delivery of the Mayor's priorities.
9. The Capital Strategy underpins the London Safety Plan, and is designed to enable the LFC to deliver on the commitments in the LSP. The Strategy has been derived largely from the Asset Management Plan, the ICT Strategy, the Fleet Replacement Plan, LFB's Sustainability Strategy and the Treasury Management Strategy. It has been developed to ensure that it reflects the LFC's ambitions to both drive and take advantage of innovations that can help improve both service delivery and value for money.
10. The Asset Management Plan seeks to align the asset portfolio to best support service delivery by the Brigade. It reflects the requirements of the London Safety Plan, the review undertaken by Anthony Mayer into the Brigade's resources, the terror preparedness review undertaken by Lord Harris, the LFC's inclusion strategy and the Mayor's Homes for Londoners agenda. A condition survey has been undertaken for all LFC properties, and the current condition and functional suitability of the property has been assessed against the LFC's requirements for a modern fire service.
11. The ICT Strategy seeks to ensure that the technologies available to the Brigade, via a range of ICT solutions, are fit for purpose, affordable and sustainable, that they are responsive to business need and valued by staff and stakeholders, and are delivered in a cost effective and efficient way, including collaboratively where appropriate.
12. The Fleet Replacement Plan will meet the Brigade's fleet requirements over the coming years, and address the fleet commitments made under the Mayor's London Environment Strategy (LES). This requires LFC to achieve the following targets:
 - all cars in support fleets to be zero emission capable by 2025;
 - all new cars and vans (less than 3.5 tonnes), including response vehicles, being zero emission capable from 2025;
 - all heavy vehicles (greater than 3.5 tonnes) to be fossil fuel- free from 2030; and
 - zero emission fleet by 2050.

13. The Sustainability Strategy sets out ten objectives to achieve the Brigade's vision of being the leaders on sustainable development within the UK Fire and Rescue Service. The three main focus areas of this strategy are, environment and climate change; economic value; and equality and inclusion.
14. The Treasury Management Strategy sets out the treasury management arrangements in place to manage the LFC's borrowing and cash balances, and deliver best practice. It covers the management of LFC's 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. This is delivered as part of the GLA Group Investment Syndicate (GIS).

Influences

15. The main influences on the Capital Strategy are set out below.
 - The age of the estate - 37% of fire stations are over 60 years old and 29% fire stations are listed, locally listed and/or are in a conservation area.
 - The layout and design of the majority of fire stations creates challenges in meeting the needs of a modern service.
 - Changing operational requirements – developing response to changes in the type of incidents, including terrorism related, and fire safety particularly in the post Grenfell period.
 - Population growth and locating resources to address developing needs
 - New fleet requirements due to the changing needs of the service and the new ultra low emission zone.
 - Current shortage of availability for zero emission capable HGVs and new technology regarding electric/hybrid vehicles.
 - The shortage of affordable new sites for new or re-located fire stations, together with the aim to ensure that future developments take account of both the Mayor's Homes for Londoners agenda and local planning policies.
 - Fire stations operating 24/7 making major refurbishments/extensions difficult to undertake as operational cover has to be maintained. This is coupled with a lack of suitable/affordable sites for fire stations to operate from on a temporary basis whilst the works are undertaken.
 - Ensuring that opportunities to benefit from developments in technology are maximised, including the ability to provide positive changes in the delivery of services such as cloud computing.
 - The reduction in the level of funding from capital receipts and grants and the ongoing affordability of funding capital expenditure through borrowing.

Mayoral Policies

16. The Capital Strategy strives to address Mayoral policies as follows.

Ensuring London is:

- a) A city that meets the challenges of economic and population growth in ways that ensure a sustainable, good and improving quality of life and sufficient high quality homes and neighbourhoods for all Londoners and help tackle the huge issue of deprivation and inequality among Londoners, including inequality in health outcomes.

The Capital Strategy will support this policy as follows.

- To ensure that our fire stations are well placed to meet the needs of Londoners, attending incidents effectively and to the attendance standards set.
 - Looking to open up fire stations so that they become community assets/hubs. For example, using stations as blood donation centres, meeting spaces for healthy eating groups, health outreach or screening services, coffee mornings, social contact groups for the elderly and meeting space for community volunteers. Ensure that the design of new fire stations will enable them to be community hubs.
 - Identifying potential opportunities that the estates can offer to provide accommodation to further our prevention priorities with local authorities e.g. the health agenda and crime prevention (cadet training)
 - To contribute to the Mayor's Homes for Londoner's agenda so that where LFC land can be released for development, the requirements for affordable housing are considered.
- b) A city that becomes a world leader in improving the environment locally and globally, taking the lead in tackling climate change, reducing pollution, developing a low carbon economy, consuming fewer resources and using them more effectively.

The Capital Strategy will support this policy as follows.

- Upgrading our fleet to meet the Ultra Low Emission Zone requirements and to assess and adopt new technologies as and when they become available.
- Aligning our estates strategy with other emergency services and using every opportunity to share buildings through co-location and integrating estate services.
- To improve the energy efficiency of our estates and to continue to take steps to reduce our carbon footprint through sustainable development.
- To continue to unlock the potential latent value in our estate, through engaging private sector developer partnerships on appropriate sites.

20 Year Capital Ambition

17. The 20 year capital ambition programme has been based on the LFC's current capital programme plus the on-going future capital requirements to keep the business operating at current levels.
18. The LFC capital spending plans for the five years to 2022/23 are approved as part of the budget process, and are funded with capital financing costs reflected in the revenue budget. The is set out in the table 1 below.

Table 1: Capital budgets and financing 2018/19 to 2022/23

Project	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Capital Schemes					
Estates					
Major Refurbishments	0.011	0.705	0.000	0.300	1.500
New developments	0.009	3.626	5.300	11.000	8.555
Minor Works	1.928	2.948	4.071	3.355	2.680
Sustainability Works	0.426	2.474	1.580	0.175	1.815
Appliance Bay Doors	0.444	0.981	0.414	0.000	0.400
Development Costs	0.250	0.000	0.000	0.000	0.000
Estates Total	3.068	10.734	11.365	14.830	14.950
Fleet Replacement Plan	8.343	25.346	22.223	7.606	2.276
ICT Projects	0.647	4.796	4.584	3.210	4.739
Total Capital Expenditure	12.058	40.876	38.172	25.646	21.965
Capital Financing					
Capital Receipts	11.899	39.631	35.000	15.000	12.000
Capital Grants	0.159	0.120	0.000	0.000	0.000
3rd Party Contribution	0.000	0.000	2.123	0.000	0.000
External Borrowing	0.000	1.125	1.049	10.646	9.965
TOTAL Funded Financing	12.058	40.876	38.172	25.646	21.965

19. The further 15 years, from 2023 to 2038, to complete the 20 year capital ambition have been prepared on the basis of maintaining the asset base at its current level, with updates/replacements as necessary. The further element is has some funding identified, however there is a funding gap to be addressed. The element of the capital spending plans is set out in the table 2 below.

Table 2: Capital Ambition 2023/24 to 2037/38 and Ambition Gap

Project	Years 2023 - 2028	Years 2028- 2033	Years 2033- 2038
	£m	£m	£m
Capital Schemes			
Estates			
Major Refurbishments	14.278	12.843	14.889
New developments	32.948	18.551	21.506
Minor Works	18.169	18.551	21.506
Sustainability Works	14.502	11.773	13.648
Appliance Bay Doors	2.462	1.427	1.654
Development Costs	0.000	0.000	0.000
Estates Total	82.359	63.145	73.203
Fleet Replacement Plan	9.200	110.637	7.690
ICT Projects	16.304	12.685	9.548
Total Capital Expenditure	107.863	186.467	90.441
Capital Financing			
Capital Receipts	0.000	0.000	0.000
Capital Grants	0.000	0.000	0.000
3rd Party Contribution	0.000	0.000	0.000
External Borrowing	48.000	37.000	37.000
TOTAL Funded Financing	48.000	37.000	37.000
Unfunded Capital Expenditure	59.863	149.467	53.441

20. The programme includes the capital investment requirements to ensure that the LFC's fleet meets the new ultra low emissions zone requirements (ULEZ) and replacement of vehicles as they come to the end of their useful life. Ongoing capital expenditure on the LFC's estate is included to maintain the condition and functionality of fire stations. There are also estimates for spend on ICT replacement and upgrade. The programme does not include the additional costs for the LFC fleet to be zero emission compliance by 2030 as it is not possible to predict the impact this will have on costs and the level of additional infrastructure at this time.
21. The capital requirement for the LFC estate has been based on analysis that has been undertaken which assesses the condition and functional suitability for all existing fire stations. 75% percent of fire stations are classified as being in a satisfactory or good condition. A recommendation for each fire station has been made based on its condition, functional suitability, development value and location, and classified as follows.

- Fire stations requiring replacement and relocation.
 - Fire stations identified for re-development
 - Fire stations identified for major refurbishment/rebuild
 - Fire stations requiring minor capital works
 - Fire stations where no works are required.
22. The Asset Management Strategy identified that 11 fire stations require replacing and relocation, 11 fire stations identified for re-development, and seven fire stations identified for major refurbishment/rebuild. In addition, 13 'Middlesex' style fire stations are the subject of a feasibility study to identify if they are to be replaced, redeveloped or a major refurbishment should take place, taking into account whether location improvements could be achieved. When locations are being considered the Brigade works in partnership with local councils, residents, businesses, emergency services and other partners who work to improve safety and wellbeing to explore the options.
23. In addition to the above, the LFC is committed to providing
- A new Training Centre which includes a multi story fire house;
 - A new Operations Support Centre; and
 - A new London Fire Brigade Museum (at the former Albert Embankment HQ site).
24. The Ultra Low Emission Fleet (ULEF) Programme sets out the steps to be taken to plan, develop, test, procure and deploy new vehicle technologies within the LFC fleet to achieve the targets set out above. It focuses on the process for heavy frontline vehicles, given the current lack of low/zero emission capable HGVs and the technological challenges in developing them.
25. Government advocates a 'cloud first' approach when considering options for new ICT systems and infrastructure improvements. With this the funding model shifts from capital to revenue based expenditure, which presents challenges to LFC, due to the increasing pressure on revenue funding and budgets. At present the ICT Strategy does not plan a radical change to the ICT infrastructure in the short term as this would consume significant resources and generate risk in the transitional phase. Instead, a 'cloud' based approach to new systems will be adopted as and when current systems are being replaced which would allow the Brigade to explore new ways for ICT delivery, whilst minimising risk and disruption.

Available Capital Funding

26. There is a variety of ways in which capital expenditure can be financed, but the main sources are often from a combination of revenue resources/reserves, capital grants, capital receipts and borrowing. A brief explanation for each of these options is described below.

- **Prudential Borrowing** - The LFC ensures that the level of borrowing is affordable, prudent and cost effective. Borrowing is subject to the requirements of the Prudential Code and is managed through the Treasury Management Strategy. Borrowing has a long-term impact on the revenue budget, through the interest payable on the loan and the annual charge for the repayment of the sum borrowed (MRP). Loans are sourced from the Public Works Loan Board (PWLB).
- **External Capital Grants** - Grants are awarded to the LFC from Central Government and other third parties. Most grants are now policy specific and are awarded through a bidding process. The LFC bids for grant funding as and when opportunities arise.
- **Capital Receipts** - The LFC is able to generate capital receipts through the sale of surplus assets. This is a limited resource as the majority of the LFC's assets are currently in operational use as part of front line service delivery and response. The programme includes the sale of the former Southwark fire station and the former Clerkenwell fire station. A development agreement has been signed for the former Headquarters at Albert Embankment but the timing and value of the receipt is yet to be finalised. There is the risk that some of the planned capital disposals will not complete. The timing and value of the capital receipts may also be further delayed or reduced due to planning requirements and changes in market conditions.

The LFC aim, wherever possible, is that all large developments are self funding through the release of land/buildings for sale and the opportunity of sale and leaseback arrangements.

- **Revenue Funding** - LFC can use revenue resources to fund capital projects on a direct basis, however, current funding projections which point to a revenue budget gap from 2021/22 onwards mean that the capacity for this is very limited. Invest to save projects that result in additional revenue savings in future years are the best option for funding by this method.

27. The LFC's level of borrowing is increasing as reductions from the use of capital receipts come to an end, and expenditure increases, such as on fleet with the LFC now owning its fire appliances, etc, resulting in additional revenue costs through MRP and the interest charged on outstanding loans. The revenue budget plans included in the revenue budget 2022/23 (LFC-0039) include budget provision to fund the Capital Strategy for the first five years. From year 6, 2023/24, or earlier depending on the timing and the actual capital receipts received, it is expected that the Capital Strategy will be entirely reliant on borrowing, with the additional capital financing costs adding to the pressure on the revenue budget. The gap in funding is shown the table below as the Ambition Gap.

Ambition Gap

Table 3: Capital Ambition Gap

Year	2018/19	2019/20	2020/21	2021/22	2022/23	2023/28	2028/33	2033/38
	£m	£m	£m	£m	£m	£m	£m	£m
20 year Capital Ambition	12.058	40.876	38.172	25.686	21.965	107.863	186.467	90.441
Funding (excl. borrowing)	12.058	39.751	37.123	15.000	12.000	0	0	0
Funded from borrowing	0	1.125	1.049	10.646	9.965	48.000	37.000	37.000
Shortfall	0	0	0	0	0	59.863	149.467	53.441

28. The table below summarises capital expenditure and debt charges (loan interest and annual MRP change) compared to the estimated debt charges budget from 2023/24 onwards. The future debt charge budgets have been based on the 2022/23 budget of £12.353m and increased by RPI estimated at 3% per annum. Maturing loans and the associated MRP charges reductions have been taken into account, to show the budget requirement and resulting budget pressure each year in the calculation of the required level of debt charges.

Table 4: Capital Expenditure Financed from borrowing and Forecast Revenue costs for Interest and MRP Charges 2023/24 to 2037/38

Future Years	Capital Expenditure £m	Financed from external borrowing £m	Debt Charges* £m	Budget £m	Budget Pressure £m
2023/24	16.632	16.632	10.200	12.724	-2.524
2024/25	15.732	15.732	11.768	13.105	-1.338
2025/26	37.495	37.495	13.065	13.498	-0.434
2026/27	19.154	19.154	16.390	13.903	2.487
2027/28	18.851	18.851	18.165	14.321	3.844
2028/29	33.922	33.922	19.845	14.750	5.095
2029/30	51.311	51.311	22.965	15.193	7.773
2030/31	35.530	35.530	27.774	15.648	12.126
2031/32	40.510	40.510	31.096	16.118	14.979
2032/33	25.195	25.195	35.020	16.601	18.419
2033/34	18.498	18.498	36.855	17.099	19.755
2034/35	15.558	15.558	34.328	17.612	16.715
2035/36	20.378	20.378	35.163	18.141	17.022
2036/37	19.592	19.592	36.967	18.685	18.282
2037/38	16.416	16.416	38.080	19.246	18.835

- Minimum Revenue Provision and interest has been calculated at 3% and MRP has been estimated on a 15 year asset life for the purposes of the above calculations.

29. Based on current estimates, the level of debt charges is expected to steadily increase over the period, resulting in a substantial increase in debt charges by 2037/38 of circa £38m, resulting in a budget pressure approaching £19m.
30. The projected budget pressure of £19m is based on current capital spend projection which is based on inflation at 3% per annum and the current forecast for the capital receipts. This figure will change with the following risk items.
- The level and timing of capital receipts.
 - The effect of Brexit and impact on the cost of purchases/delivery of projects.
 - The potential of future interest rate rises.
 - The availability of resources to delivery the capital programme .
31. The table indicates a revenue pressure from additional borrowing costs of £19m in the absence of alternative funding sources. The level of capital spend is largely driven by the need to maintain and replace the fleet, fire stations and ICT that support the current level of service delivery and front line response. It is therefore difficult to reduce spend without changes to front line service delivery.

Options to bridge funding gap

32. The LFC will need to consider options on how to bridge the funding gap and ensure that future years capital expenditure is affordable. Possible options to consider are provided below.
- Provide a revenue contribution to fund the capital programme.
 - Pursue possible alternative funding/service delivery options.
 - Reduce the level of the capital programme.
 - Secure additional resources – GLA/Government.

External Debt

33. All borrowings are from the Public Works Loan Board (PWLB) and LFC's current and forecast outstanding debt, excluding the borrowing requirements of the capital strategy is as follows.

Table 5: External Debt

As 31 March	2019	2020	2021	2022	2023	2028	2033	2038
	£m	£m	£m	£m	£m	£m	£m	£m
	66.73	60.73	55.73	52.73	48.73	32.5	23.5	20.5

Other Long Term Liabilities

34. LFC has other long term liabilities which include PFI contracts for fire stations and a finance lease for the Merton Control centre. The current and forecast outstanding long term liabilities is as follows.

Table 6: Other Long Term Liabilities

As 31 March	2019	2020	2021	2022	2023	2028	2033	2038
	£m	£m	£m	£m	£m	£m	£m	£m
PFI	46.89	45.62	44.28	42.91	41.46	31.37	12.46	0.00
Finance Lease	18.43	18.43	18.43	18.43	18.43	16.24	6.61	0.00
Total	65.32	64.05	62.71	61.34	59.89	47.61	19.07	0.00

The repayment of the existing other long term liabilities is calculated through financial models – such as the PFI model which is audited each year.

35. There are no plans for any future finances leases/PFI arrangements at the current time. The contract register is regularly reviewed to ensure that no finance leases have been entered into without the Finance Department's knowledge. This is also further managed by the Assistant Director - Finance reviewing all reports to LFC to include financial implications.
36. The above table does not take into account the effects of implementing the new accounting standard IFRS16, where all leases/contracts that conveys the right to use an asset will be brought onto the balance sheet and long term liabilities will be created for the future rentals under these leases. The new accounting standard is expected to come into effect from 1st April 2020.

Risk Assessment

37. The LFC has a financial plan in place to deliver the capital programme over the coming years, which includes the use of capital receipts, borrowing, grants and third party contributions. A potential risk to future funding could arise from the outcome of two Government reviews during 2019, namely the Fair Funding Review and the Spending Review, the outcome of which will undoubtedly have an impact on funding from 2020/21 onwards. The Fair Funding review will examine the distribution methodology of available funding, whilst the Spending review determines the value of the total funding available to Fire and Rescue Authorities. If any revised calculation impacts negatively on the LFC's funding then it could have an impact on the funds available to support debt charges in relation to borrowing to finance the capital programme.
38. The Capital Programme is subject to the following specific risks.
- A lack of affordable sites for new developments.
 - Increased cost in delivering the capital programme due to inflation pressures/Brexit/limited number of suppliers that can provide specialist equipment/vehicles.
 - The potential requirement to fund the replacement of National New Dimensions Assets which currently has not been factored in the capital requirements.
 - Additional costs required to deliver Zero Emission Pumping Appliances (ZEPA)

- Difficulty in obtaining planning consent for new developments and refurbishments.
- Third party collaboration and contractor capacity to deliver, as all capital projects will require varying collaboration with external parties over the project life.
- The risk that the planned capital disposals will not realise the projected capital receipts income or may not come to fruition thus resulting in additional borrowing costs.
- Additional revenue budget pressures resulting from increased revenue impact of borrowing.
- Interest rate increases for borrowing.
- Changes in government funding, policy and legislation.
- Availability and speed of developments in technology.
- Recruitment and retention of key skilled staff and significant staff resource to deliver the capital schemes.

39. The risks are being managed by as follows.

- Maximising, where possible, the redevelopment of existing sites through developers to reduce capital borrowing and to realise any potential capital receipts released through latent estate value.
- Investing in invest to save projects where the outcome of these projects will result in revenue savings to LFC.
- Ensuring the capital governance framework, including regular monitoring and review of the capital programme, is in place.
- Ensuring that all planning applications consider all relevant local/Mayoral planning and listed building requirements. Pre-discuss all planning applications prior to submission with the local planning officers to mitigate against planning refusals and completing public consultation in good time for those development projects that affect the public.
- Re-allocating key resources to development projects as required to meet the capital programme.
- Promoting collaboration with other emergency services and the GLA Group.
- Limit the risk of contract failure by effectively managing contracts and learning from past lessons in project delivery.
- The ability to flex the capital programme and re-phase capital expenditure so as not to result in additional external borrowing and the resulting increase in debt charges.

Knowledge and Skills

40. The capital programme and the responsibility for management of a service level agreement (SLA) for the treasury management function is managed by a team of professionally qualified accountants with extensive local government financial management knowledge. Continuous professional development (CPD) is a requirement of various professions and courses are attended to update knowledge on a regular basis.

41. The SLA for treasury management services is with the Greater London Authority (GLA) where there is a dedicated team of treasury management specialists who provide the main treasury management function service to the LFC.
42. All project teams consist of various professionals, such as surveyors and accountants, and outside professional advice is bought in when required. Periodically those charged with governance are provided with relevant training on a range of financial topics, which is provided by specialist external organisations as appropriate.

Governance and Monitoring

43. An important part of the governance arrangements is the frequent monitoring of the agreed capital programme. The capital is reviewed monthly with budget holders, and a quarterly basis with senior management. The capital monitoring is reported alongside revenue monitoring in the monthly financial position report which is reported to the Directorate Board and Commissioner's Board on a monthly basis. Additional quarterly monitoring reports are also presented to the Fire and Resilience Board and are published. The published reports are used to support scrutiny by the London Assembly's Fire, Resilience and Emergency Planning (FREP) and Budget and Performance (BPC) Committees.
44. New, or changes to existing, capital projects are dealt with as part of the capital monitoring process and budget holders are required to submit a request outlining the key scheme information, costs both capital and revenue and associated risks.
45. Where a new scheme or a budget change is required which is greater than £150k, a separate report is prepared and additional governance arrangements are in place. The reports are considered by the Corporate Services Directorate Board and Commissioner's Board, and the Deputy Mayor through the Fire and Resilience Board, as required, before final approval by the London Fire Commissioner.
46. The Capital Programme is agreed by the CAPS Group, (Capital Approvals, Planning and Strategy Group) and approved by the London Fire Commissioner before submission to the Mayor as part of the annual budget submission. This CAPS group meets quarterly, where new projects are discussed together with the delivery of, and any changes to, the current capital programme. The progress of capital disposals is also reviewed together with the level of required external borrowing.
47. When proposing capital projects for inclusion into the programme, the responsible department will undertake an assessment/evaluation as to how the project:
 - ensures LFC's capital assets are used to support the delivery of services according to the priorities within the London Safety Plan and Corporate Vision;
 - links to LFC's Asset Management Plan and other LFC Strategies/Plans;
 - is affordable, financially prudent and sustainable;
 - ensures the most cost effective use is made of the existing assets and new capital expenditure; and

- supports the Mayor of London in meeting the approved objectives and strategic plans.

Officers' Responsibilities

48. The LFC has overall responsibility for the Capital Strategy, with support from senior management with the strategic development and monitoring of the capital programme through Commissioner's Board and Directorate Boards. The Capital Strategy will also be subject to consultation with the Deputy Mayor, and submission to the Mayor as part of the budget submission. Wherever appropriate to do so, and more specifically for the larger projects, project boards are established, which consist of a wide range of professional expertise. These boards meet regularly to assess and monitor the progress of the projects to ensure the delivery of the defined capital investment.

Chief Finance Officer Sign Off

49. The Chief Finance Officer is to report explicitly on the deliverability, affordability and risk associated with the Capital Strategy. The capital Strategy was presented to the Commissioner's Board, and the Fire and Resilience Board, alongside reports for approval of the Budget and Treasury Management Strategy.

Appendices

Appendix A – LFC Capital Investment and Financing Requirements

Appendix B – Mayoral Policies and Objectives

Appendix A – LFC Capital Investment and Financing Requirements

Project	2018/19	2019/20	2020/21	2021/22	2022/23	Years 2023 - 2028	Years 2028- 2033	Years 2033- 2038	TOTAL
	£m	£m	£m	£m	£m	£m	£m	£m	
Capital Schemes									
Estates									
Major Refurbishments	0.011	0.705	0.000	0.300	1.500	14.278	12.843	14.889	44.526
New developments	0.009	3.626	5.300	11.000	8.555	32.948	18.551	21.506	101.495
Minor Works	1.928	2.948	4.071	3.355	2.680	18.169	18.551	21.506	73.208
Sustainability Works	0.426	2.474	1.580	0.175	1.815	14.502	11.773	13.648	46.393
Appliance Bay Doors	0.444	0.981	0.414	0.000	0.400	2.462	1.427	1.654	7.782
Development Costs	0.250	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.250
Estates Total	3.068	10.734	11.365	14.830	14.950	82.359	63.145	73.203	273.654
Fleet Replacement Plan	8.343	25.346	22.223	7.606	2.276	9.200	110.637	7.690	193,321
ICT Projects	0.647	4.796	4.584	3.210	4.739	16.304	12.685	9.548	56.513
Total Capital Expenditure	12.058	40.876	38.172	25.646	21.965	107.863	186.467	90.441	523.488
Capital Financing									
Capital Receipts	11.899	39.631	35.000	15.000	12.000	0.000	0.000	0.000	113,530
Capital Grants	0.159	0.120	0.000	0.000	0.000	0.000	0.000	0.000	0.279
3rd Party Contribution	0.000	0.000	2.123	0.000	0.000	0.000	0.000	0.000	2.123
External Borrowing	0.000	1.125	1.049	10.646	9.965	48.000	37.000	37.000	144,785
TOTAL Funded Financing	12.058	40.876	38.172	25.646	21.965	48.000	37.000	37.000	260.717
Unfunded Capital Expenditure	0.000	0.000	0.000	0.000	0.000	59.863	149.467	53.441	262.771

Appendix B – Mayoral Policies and Objectives

Mayoral Policies

Ensuring London is:

1. **A city that meets the challenges of economic and population growth** in ways that ensure a sustainable, good and improving quality of life and sufficient high quality homes and neighborhoods for all Londoners and help tackle the huge issue of deprivation and inequality among Londoners, including inequality in health outcomes.
2. **An internationally competitive and successful city** with a strong and diverse economy and an entrepreneurial spirit that benefit all Londoners and all parts of London; a city which is at the **leading** edge of innovation and research and which is comfortable with – and makes the most of – its rich heritage and cultural resources.
3. **A city of diverse, strong, secure and accessible neighborhoods** to which Londoners feel **attached**, which provide all of its residents, workers, visitors and students – whatever their origin, background, age or status – with opportunities to realise and express their potential and a high quality environment for individuals to enjoy, live together and thrive.
4. **A city that delights the senses** and takes care over its buildings and streets, having the best of modern architecture while also making the most of London's built heritage, and which makes the most of and extends its wealth of open and green spaces, natural environments and waterways, realising their potential for improving Londoners' health, welfare and development.
5. **A city that becomes a world leader in improving the environment** locally and globally, taking the lead in tackling climate change, reducing pollution, developing a low carbon economy, consuming fewer resources and using them more effectively.
6. **A city where it is easy, safe and convenient for everyone to access jobs, opportunities and facilities** with an efficient and effective transport system which actively encourages more walking **and** cycling, makes better use of the Thames and supports delivery of all the objectives of this Plan.

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