

Capital Strategy

Introduction

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities establishes a framework that supports local strategic planning, asset management and appropriate options appraisal.
2. The objectives of the Code are to ensure that the capital plans of an organisation are affordable, prudent and sustainable and the treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

Definition

3. To utilise the full extent of the Code and its framework, it is essential that there is a clear understanding of what capital expenditure is. Unless expenditure qualifies as capital it will normally fall outside the scope of the Code and its framework and be charged to revenue in the period in which the goods or services were received. If expenditure does qualify as capital, there are opportunities to finance such spend from any capital receipts held or to spread the cost over future years in line with the life of the asset(s) purchased/created.
4. In the main, expenditure must meet one or more of the following conditions for it to be classified as capital:
 - Spend results in the acquisition, construction or enhancement of an asset (tangible or intangible) in accordance with 'proper practices'.
 - Spend meets one of the definitions specified in regulations made under the 2003 Local Government Act.
 - The Secretary of State makes a direction that the expenditure can be treated as capital.

Context

5. The capital expenditure plans are largely limited to replacing and upgrading essential operational assets (e.g. Estate Facilities, Vehicles, Equipment, Communications Infrastructure).
6. This Capital Strategy forms part of our financial strategies, these are one of six core strategies that set out how we will provide services in line with the following priorities in our five-year Community Risk Management Plan (CRMP):
 - Valuing our people so they can focus on making Lancashire safer.
 - Preventing fires and other emergencies from happening.
 - Protecting people and properties when fires happen.
 - Responding to fires and other emergencies quickly and competently.

- Delivering value for money in how we use our resources.
7. The Authority is committed to having rolling medium term revenue and capital plans (summarised in a Medium Term Financial Strategy – MTFS) that extends for up to five years. The plans are drawn up, reassessed and extended annually and if required re-prioritised to enable the Authority to achieve its aims and objectives established in the CRMP.
 8. In the past, general capital grant funding was received each year from the Government, which helped to fund replacement of vehicles, IT, operational equipment and capital maintenance of buildings. This general capital grant funding ended in 2014/15. As a result, all capital investment since then has been funded from the Authority's own resources unless specific funding was available. No further government capital grant funding is anticipated going forward. The level of reserves currently held will not be sufficient to fund the proposed capital works over the medium term and borrowing will therefore be required going forward to meet the capital programme. Borrowing incurs on-going costs of interest payments and the funding that is set aside to repay the loan in due course.
 9. The Authority has not utilised borrowing to fund its capital programme and thus has one of the lowest levels of borrowing of all fire services in the country. However, the necessary investment in the estate cannot be delivered without borrowing.
 10. Key focuses of the Capital Programme plans, all aligned to achieving the Authority's priorities are:
 - To ensure the property estate remains fit for purpose, identifying opportunities to streamline assets and develop the estate infrastructure, maintaining core sites and improving core training facilities.
 - The replacement of other core assets where necessary, including, vehicles, operational equipment and communication infrastructure.
 - Development of improved capability.
 - To ensure provision is made for ICT to maintain and develop the existing infrastructure and invest in the core technologies required to provide innovative and efficient digital services, whilst at the same time ensuring all our systems are cyber secure, mitigating the threat of cyber crime.
 - Invest to Save Schemes.
 11. The plans must consider the constrained financial position of the Authority and the need to maximise both the available financial resources and the capacity that the Service must manage change projects.

Governance

12. The annual budget setting process is an ongoing process managed by the Authority's Executive Board. Capital projects are considered by the Executive Board, they include a business case that identifies the organisational requirement, rationale, deliverables, benefits, links to the Authority's priorities and costs in terms of both capital investment and ongoing revenue consequences.
13. The delivery of capital projects is overseen by the Capital Projects Programme Board (CPPB) and reported to the Service Management Team – Corporate Programme Board (CPB). Capital budget monitoring reports are presented to the Resources Committee to monitor progress.
14. A Member Capital Projects Working Group has also been established to oversee the development and delivery of our major capital projects and progress is also reported to the Resources Committee that considers any slippage, variances and accelerated spend.
15. An updated MTF5 and Capital Strategy, including a recommended Capital Programme for the next year, is then presented to the Authority, providing views on affordability, potential funding issues and options.
16. To evaluate the success and outcomes of capital projects a post project review is carried out. The depth of this review is proportionate to the scale of the project and the benefits set out in the initial Project Initiation Documentation. This review focuses on the outcomes achieved, the extent to which the benefits claimed are being realised, the actual costs, both revenue and capital, and the impact of other funding and partnership working. This information can then be used to learn lessons and make any improvements during subsequent projects. The post project report is reviewed by the CPPB and escalated to the CPB if required.

Funding Streams

17. Capital expenditure can be funded from a number of sources as set out below:
 - Government Grants – these are either general grants which can be used to fund any capital spend approved by the Authority or specific grants which can only be used to fund specific projects in line with any conditions placed with the grant. The Authority has not received an annual government capital grant allocation since 2014/15.
 - Capital Receipts – when an asset held by the Authority is sold, the proceeds are held in reserve to be used either to fund future capital expenditure or to repay debt. They cannot be used to fund revenue expenditure.
 - Reserves – funds can be set aside and held in earmarked reserves if known expenditure is to be incurred at a future date. These reserves can then be used to fund such expenditure be it capital or revenue. In terms of capital expenditure, it may be known that a specific asset may need replacing in 10 years and therefore funds are set-aside each year to build

up the reserve to fund the replacement. Details of the reserves held are found within the Authority's Reserves Strategy.

- External Contributions – these are funds or grants provided by external organisations such as collaboration partners or local authorities for specifically agreed capital expenditure.
- Borrowing – the Authority is permitted in law to take out loans or financing to fund capital expenditure. The Prudential Code sets out the requirements under which such borrowing must be undertaken including affordability, prudence and cost effectiveness. Any borrowing will incur costs for interest payable and the need to set-aside sufficient funds to repay the loan. These costs impact on the revenue budget.

Capital Programme

18. The Authority has a ten-year capital programme, from 2026/27 to 2035/36. This reflects the Authority's capital aspirations in the Fleet, Estates and ICT strategies. The first five years of the strategy are more detailed, but work is ongoing to develop a more detailed ten year strategy, in particular with detailed condition and environmental surveys across our estate.
19. Table 1 shows the Authority's first five years of the Capital Programme and how it is anticipated that it will be funded. The detailed ten-year capital programme is set out in Appendix 1 of this paper.

£ million	26/27	27/28	28/29	29/30	30/31
Vehicles	4.046	2.933	2.650	3.455	2.338
Operational Equipment	1.753	0.174	0.123	0.523	0.109
Buildings	1.066	5.600	14.600	18.500	18.500
ICT	2.376	1.200	0.333	0.723	1.853
Inflation	0.000	0.106	0.166	0.349	0.437
Total	9.241	10.012	17.873	23.550	23.236
Funding					
Revenue Contributions	3.500	4.500	4.500	4.569	4.592
Capital Reserve	5.741	0.912	(0.227)	1.481	1.144
Capital Receipts	0.000	0.000	0.000	0.000	0.000
Grants	0.000	4.600	13.600	17.500	17.500
Total	9.241	10.012	17.873	23.550	23.236

Table 1 - The Authority's first five years of the Capital Programme

20. The 2025/26 five-year capital programme approved by the Authority in February 2025 included four major projects; Leadership and Development Centre Training Facilities (£18 million), Headquarters and Stores relocation (£18 million), Fulwood replacement station (£7 million) and Preston replacement station (£10 million). The focus during 2025/26 has been to obtain planning approval for the Chorley Masterplan. Due to new Biodiversity Net Gain (BNG) planning legislation requirements additional studies, which can

only be undertaken during Spring, and changes to the designs are required. The result is that the masterplan has been delayed by approximately one year with planning approval now sought in late summer 2026.

21. Progress with the Leadership and Development Centre training facilities will continue in tandem with the masterplan application to ensure development is not unduly delayed. The Preston, Fulwood and Headquarters and Stores relocation projects have been programmed for years four and five of the capital programme so the scope can be considered as part of the Service Review during 2026.
22. A summary of the major projects is reflected in the updated 2026/27 10-year capital programme, these include:
 - Leadership and Development Centre Training Facilities – A modern and progressive service requires high quality facilities to help in the initial training and ongoing maintenance of competency requirements across a broad spectrum of operational activities. The existing facilities were reviewed alongside more modern facilities in the region. The review identified that greater investment is required to meet our requirements and an estimate of £18 million is included in the programme between 2027/28 and 2028/29.
 - The following major projects are programmed for 2029/30 to 2030/31, however the scope and timing of these major schemes will be considered as part of the Service Review that is due to be finalised in early 2027.
 - The Preston replacement project involves one of the busiest stations in Lancashire and which is in a very poor condition, the budget is £10 million.
 - The Headquarters and Stores relocation project combines the Headquarters and Training Facility and relocates the Stores at the Leadership and Development Centre, replacing the current Headquarters at Fulwood and office / training / catering space in Lancaster House. The budget is £18 million.
 - The relocation of Headquarters necessitates the need to invest in a new station to replace Fulwood either on the existing site or at an alternative location. The budget is £7 million.
23. To fund the Capital Programme table four shows that in addition to utilising the Capital Reserve and revenue contributions, also £51.2 million of new borrowing is required to fund the major schemes. The long-term revenue costs of this borrowing is £4.1 million per annum, this will need to be met from revenue resources. The scope and timing of these major projects will be considered as part of the Service Review.
24. Following the capital investment set out above the Authority's reserves and borrowing levels would be commensurate with similar sized fire services based on current levels across services.

Affordability

25. Capital expenditure plans are a key driver of treasury management activity. The funding of such plans impacts on cash balances and borrowing requirements in the short and longer terms. The on-going consequences of these decisions have a direct impact on the annual revenue budget. As such, having regard to the CIPFA Prudential Code for Capital Finance in Local Authorities, the Authority sets and reviews several prudential indicators providing context for proposed capital expenditure plans: how they are to be funded, the impact on the organisation's finances; and their affordability in terms of the impact on revenue budgets.
26. Full details and commentary on the prudential indicators are found within the Authority's Treasury Management Strategy 2026/27. Along with controls and limits relating to levels of capital expenditure and resulting borrowing requirements, these prudential indicators also include a specific affordability indicator, shown below, which provides an indication of the impact of the above capital expenditure plans and their financing proposals on the overall finances

Risk Management

27. Risk is the threat that an event or action will adversely affect the Authority's ability to achieve its desired outcomes and ability to execute its strategies successfully. Risk management is the process of identifying risks, evaluating their potential consequences, and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the elements of risk in all their activities.
28. The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties. The corporate risk register sets out the key risks to the successful delivery of corporate aims and priorities and outlines the key controls and actions to mitigate and reduce risks or maximise opportunities.
29. To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced, and monitored. It is important to identify the appetite for risk for each scheme and for the capital programme, especially when investing in complex business change programmes. Where greater risks are identified as necessary to achieve desired outcomes, the organisation will seek to mitigate or manage those risks to a tolerable level. All key risks identified as part of the capital planning process are considered for inclusion in the corporate risk register.
30. The Treasurer will report on the deliverability, affordability and risk associated with this Capital Strategy and the associated capital programme. Where appropriate they will have access to specialised advice to enable them to reach their conclusions.

- **Credit Risk** - The risk that an organisation with which we have contracted to deliver capital projects becomes insolvent and cannot complete the agreed contract. We will ensure that robust due diligence procedures cover the appointment of partners and contractors relating to capital programme delivery. Where possible contingency plans will be identified at the outset.
- **Liquidity Risk** - This is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. There is also a risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes and mitigating actions taken promptly where appropriate.
- **Interest and Exchange Rate Risk** - This is the risk that interest rates or exchange rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary, contract re-negotiations.
- **Inflation Risk** - This is the risk that rates of inflation will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates of inflation will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary, contract re-negotiations.
- **Legal and Regulatory Risk** - This is the risk that changes in laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before making capital investments, the Authority will understand the powers under which the investment is made. Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.
- **Fraud, Error and Corruption** - This is the risk that financial losses will occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the agreed Code of Corporate Governance. Lancashire Combined Fire Authority has a strong ethical culture which is evidenced through its values, principles, and appropriate behaviour. This is supported by a Code of Ethics and detailed policies such as Anti-Fraud and Corruption and processes such as that in relation to declaration of interests.

Future Actions

31. This Capital Strategy looks ahead over the next 10 years to 2036 and will be refined considering emerging and changing issues, circumstances and

Appendix B

priorities. Based on the current projections the capital programme is balanced, however there are a number of key assumptions, including:

- Funding uncertainty – unpredictable multi-year funding and budget pressures threaten long-term deliverability.
- Ageing estate and assets – deteriorating buildings and equipment increase operational and financial risk.
- Cost inflation and supply chain issues – rising construction and materials costs disrupt affordability and timelines.
- Technology obsolescence and integration risks – legacy systems, outdated software, and challenges integrating new digital platforms can disrupt operational effectiveness and delay capital project delivery.
- Limited delivery capacity – insufficient internal skills/resources and reliance on external partners can slow progress.
- Interdependencies with other programmes – estate, fleet, sustainability or digital programmes can impact sequencing and cost.
- Regulatory and community impacts – planning, environmental compliance, and local consultation requirements may delay projects .

Appendix B

£ million	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	34/35	35/36	Total
Double Cab Van				0.038	0.075		0.150				0.263
Beavertail Collection Vehicle				0.175					0.175		0.350
Pick up			0.045	0.225			0.045				0.315
Telehandler	0.045										0.045
Forklift	0.040						0.040				0.080
Rescue Team Van	0.075								0.225	0.075	0.375
Mini bus			0.080							0.080	0.160
Welfare Unit											
Van - Catering Unit					0.075						0.075
Van - Dog Unit						0.080					0.080
Van - Large	0.075			0.075	0.150	0.150	0.225	0.075			0.750
Van - Small							0.055				0.055
Van - Large EV						0.065					0.065
Subtotal	4.046	2.933	2.650	3.455	2.338	3.403	2.610	2.505	3.403	2.295	29.636
Operational Equipment											
Light Portable Pumps							0.033				0.033
CCTV on appliances (future Firefighting)											
Thermal Imaging Cameras			0.016	0.404				0.016	0.404		0.838
Breathing Apparatus sets and telemetry	1.512										1.512
Breathing Apparatus compressor		0.023	0.068	0.068	0.023	0.090	0.023				0.293
Road Traffic Collision Cutting Equipment											
Ballistic Vest and Helmet										0.300	0.300

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£ million	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	34/35	35/36	Total
Server replacement	0.150		0.080								0.230
Replacement Public Switched Telephone Network	0.070										0.070
Further digitisation of the appliances	0.095										0.095
North West Fire Control (NWFC) Computer Aided Design Capital Contribution	0.886										0.886
ICT Indicative Future Development and Replacement Budget					0.300	1.000	1.000	1.000	1.000	1.000	5.300
Service desk improvement	0.030										0.030
M365 and Azure	0.020										0.020
National Fire Chiefs Council (NFCC) digital and technology programmes											
Cyber Security	0.050	0.050	0.050	0.050	0.050						0.250
Desktop Provision	0.080		0.053	0.053	0.053						0.240
Firefighting Robot											
MDT replacement		0.100			0.500						0.600
Primary UPS replacement (SHQ and LDC)	0.020	0.200									0.220
Appliance iPads				0.050				0.060			0.110

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£ million	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	34/35	35/36	Total
Station end		0.600									0.600
Digital signage	0.090										0.090
SHQ, LDC and Station Teams rooms equipment	0.120										0.120
Desktop end user compute (EUC) refresh					0.200						0.200
Fallback phones		0.040									0.040
Subtotal	2.376	1.200	0.333	0.723	1.853	1.100	1.100	1.160	1.100	1.100	12.046
total capital requirement	9.241	9.906	17.707	23.201	22.799	5.677	4.823	4.815	5.967	4.728	108.862
Inflation at 2% on projects funded from revenue		0.106	0.166	0.349	0.437	0.799	0.608	0.716	1.024	0.922	5.128
Total capital requirement (including inflation)	9.241	10.012	17.873	23.550	23.236	6.475	5.431	5.530	6.991	5.650	113.990
Funding											
Revenue Contributions	3.500	4.500	4.500	4.569	4.592	4.730	4.872	5.018	5.168	5.323	46.772
Capital Reserves	5.741	0.912	(0.227)	1.481	1.144	1.746	0.560	0.513	1.823	0.327	14.018
Capital Grant											
Earmarked Reserves											
Capital Receipts						2.000					2.000
Unfunded											
Borrowing		4.600	13.600	17.500	17.500	(2.000)					51.200
Totals	9.241	10.012	17.873	23.550	23.236	6.475	5.431	5.530	6.991	5.650	113.990

Note: The 2026/27 capital programme includes slippage from the 2025/26 capital programme approved by the Resources Committee during the year and the following additional slippage items totalling £5.5 million due to timing delays: Vehicles and Equipment including Fire Appliance Type B of £1.7 million, Fire Appliance Type A of £0.5 million, Breathing Apparatus sets and telemetry of £0.8 million, ICT projects including Wide Area Network telecommunications of £0.5 million, NWFC Computer Aided Design Capital Contribution of £0.5 million and Storage Area Network of £0.3 million. These will be delivered in the first quarter of the 2026/27. The resulting revised capital programme for 2025/26 is £6.990 million.