



Meeting	Performance & Resources Board	Agenda no.	9
	31 March 2022		
Report Authors:	Karl Edwards, Director of Corporate Services		
Presented By	Karl Edwards, Director of Corporate Services		
Subject	Capital Spend – Risk/Potential impact		
Type of Report:	Information		
Action Point No.		For Publication	Yes

RECOMMENDATIONS

Members of the Performance and Resources Board are asked to note the report and approach being undertaken by ECFRS to address the concerns raised regarding the impact of reduced capital expenditure.

EXECUTIVE SUMMARY

Following discussion at February 2022 Performances & Resources Board, it was highlighted that there may be a potential risk to the service if it were to continue on the trajectory of current Capital expenditure. This was highlighted following the presentation of the monthly financial report, which indicated an annual Capital underspend which had formulated a trend over previous years. This mainly related to Property Capital expenditure against the annual Capital Asset Management Programme.

Capital projects are often a good measure of whether a progressive organisation is achieving transformation in the right way and at the right pace. Organisations that spend 100% of their capital budget, often demonstrates that it is on track to achieve its growth and ambitions.

Historically ECFRS has only spent 70-80% of the capital budget each year leaving a proportion of capital that is not being returned into improving the asset growth and development required.

Following a review, some of the contributing factors have been identified below:-

- **over-optimistic project timelines**, resulting in spending often being delayed by taking longer than expected to complete the end-to-end planning i.e. achieving the design/specification/requirements, tendering and awarding of contracts and moving to construction phase.
- **The construction sector is under increasing pressure.** It is becoming more evident that there is increasing challenge to agree contracts with private construction companies due to trying to transfer excessive risk to them. Equally construction companies are advising that they are having to increase costs of materials and skilled posts such as, engineers, project managers and construction workers to complete a given project.
- **Departmental Design & Delivery** – There is a requirement to ensure that a service has the right skills, in the right place to effect the right change. It is essential that the resource meets the delivery requirements i.e. project delivery specialists to write business cases, strategic investment of roles to specifically manage capital projects and procurement specialists to deliver the right specification/requirements tenders, assess bids and manage contract implementation.
- **Capital projects have a very low initial spend** – usually only around 1-5% is spent on the development phase and is not until implementation that the capital expenditure starts to accelerate.
- **Capital projects tend to start at the same time** and therefore most of the spend will be gathered around year end, which means it is often rushed and can be inefficient to try to get projects in under the year-end threshold. There is also a challenge that contractors are unable to resource all of the required work in the last quarter of the year.
- **Carryover projects create a backlog.** These projects start the year in flight, at a far faster spending velocity than new projects which help to address cashflow at the portfolio level, but then impact on new Capital expenditure. Performing a regular portfolio health check is vital

BACKGROUND

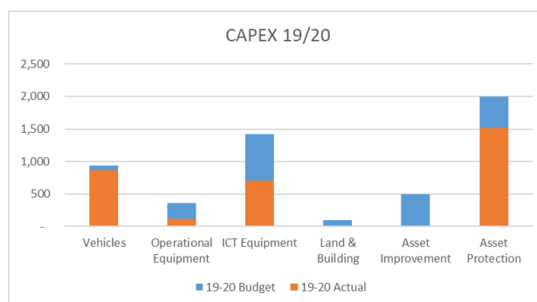
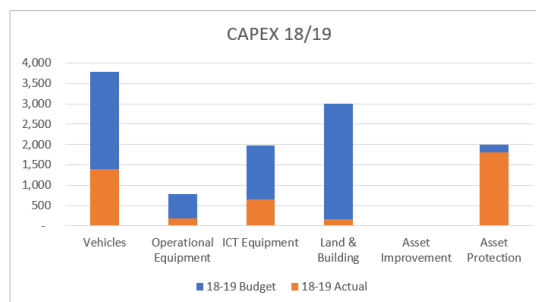
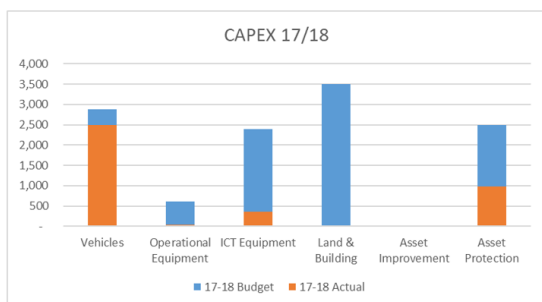
The Capital Programme is approved annually by the Police, Fire and Crime Commissioner for Essex, as part of the annual budget setting process.

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 Service priorities and operational requirements.

The Capital Programme is underpinned by departmental strategies of which the majority relates to the delivery of the strategies outlined below

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

Capital Expenditure Trends



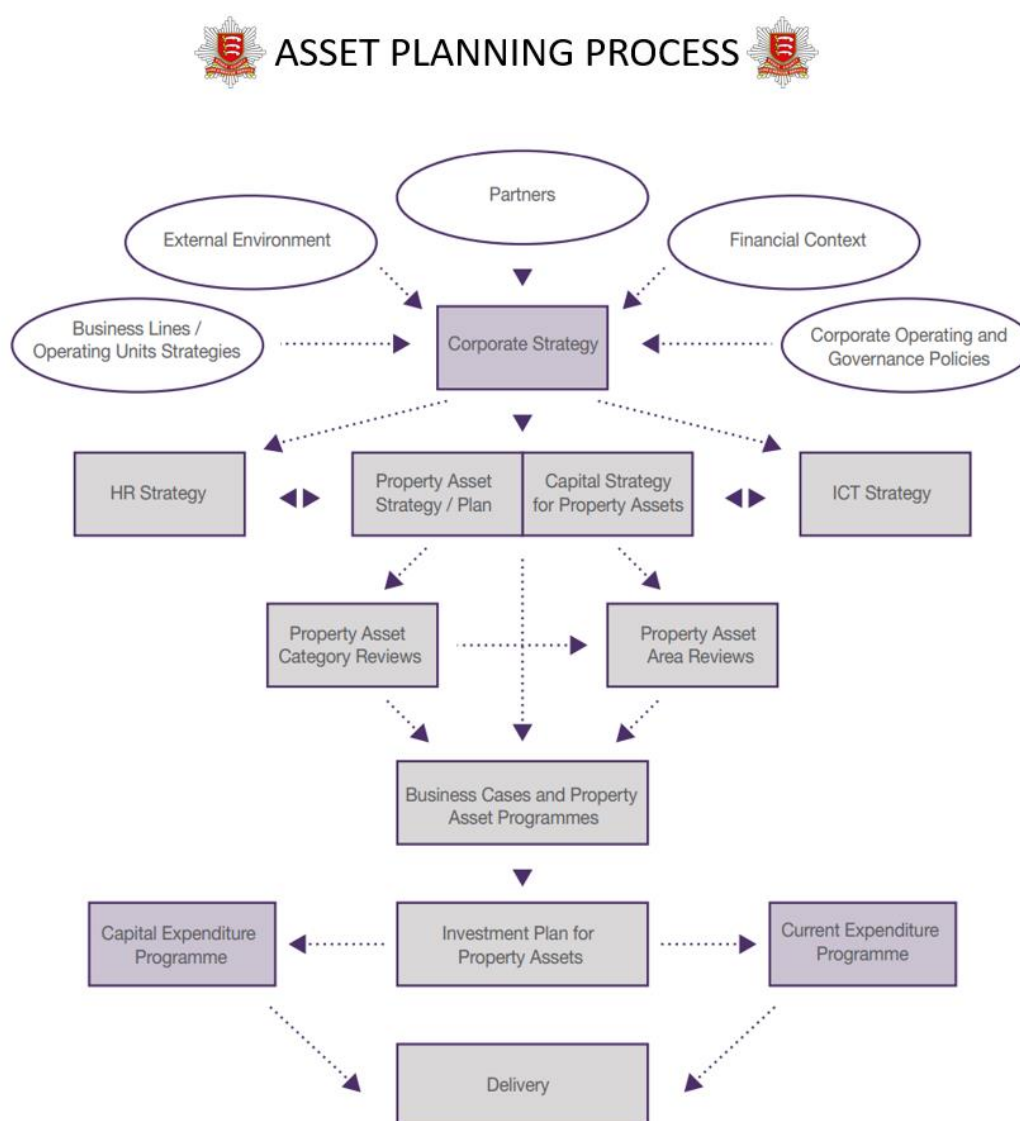
It is recognised that the current trend of Capital underspend needs to be addressed in order to ensure that we deliver against our key strategic objectives. Continuation of Capital underspend could lead to the following as currently identified within the services Strategic Risk Register.

- The inability to deliver effective training facilities resulting in the need to outsource training to external bodies, such as the fire service college, which could increase costs and reduce efficiency of being able to deliver training in County.
- Deterioration of current buildings and infrastructure that could lead to poor quality workplace environments that are not conducive to staff morale and wellbeing and not in-keeping with the services vision and values.
- Lack of Capital expenditure in modernisation, transformation and net carbon zero efficiencies leading to inadequate fit for future buildings and other key assets such operational equipment and ICT infrastructure.
- Lack of investment Capital expenditure on Vehicle replacements and increased lead in times for supply would impact on the services ability to have modern and reliable fleet, particularly that of specialist vehicles.
- Lack of continued and future funding and investment opportunities due to a lack of evidence-based delivery against current capital budget allocation. This can also create lack of credibility in the MTFS and the overall plan if the allocation is not managed correctly.

OPTIONS AND ANALYSIS

These examples of Capital underspend risks have enabled the service to review capital expenditure and ensure that we have a well embedded Capital Strategy.

In order to ensure that the Capital expenditure is achieved, it is essential that we follow a robust asset planning process that takes into consideration a range of areas that enable us to mitigate against the contributing factors that were outlined in the Executive Summary. The diagram below gives an overview of what the asset planning process may look like as we move forwards into the forthcoming years which will help to ensure that we maintain a good oversight and most importantly planning of Capital Projects upstream of the implementation phase.



It is also recommended that we look to learn from other public sector organisations and seek some commercial expertise and reviews with the intention to forecast and plan capital spending priorities that are not all set to commence and deliver in the last quarter of the financial year and avoid carryover.

There is equally a reliance and a need to ensure that there is good visibility of data relating to each capital project that allows accurate monitoring and scrutiny. This will enable earlier intervention and earlier planning to either correct or stop and particular project and bring forward other planned projects that are in a “ready to go” phase but sit within the future capital years. It is essential that the service can be adaptive rather than reactive. This is reliant on having the right software systems in place that allow effective management. This has been recently proven with the introduction of a new platform for the monitoring, recording and delivery of ICT key performance indicators (Fresh works – diagram 1). Equally the service is looking to move to a new platform to measure and monitor estates asset management and strategic projects (Diagram 2.)

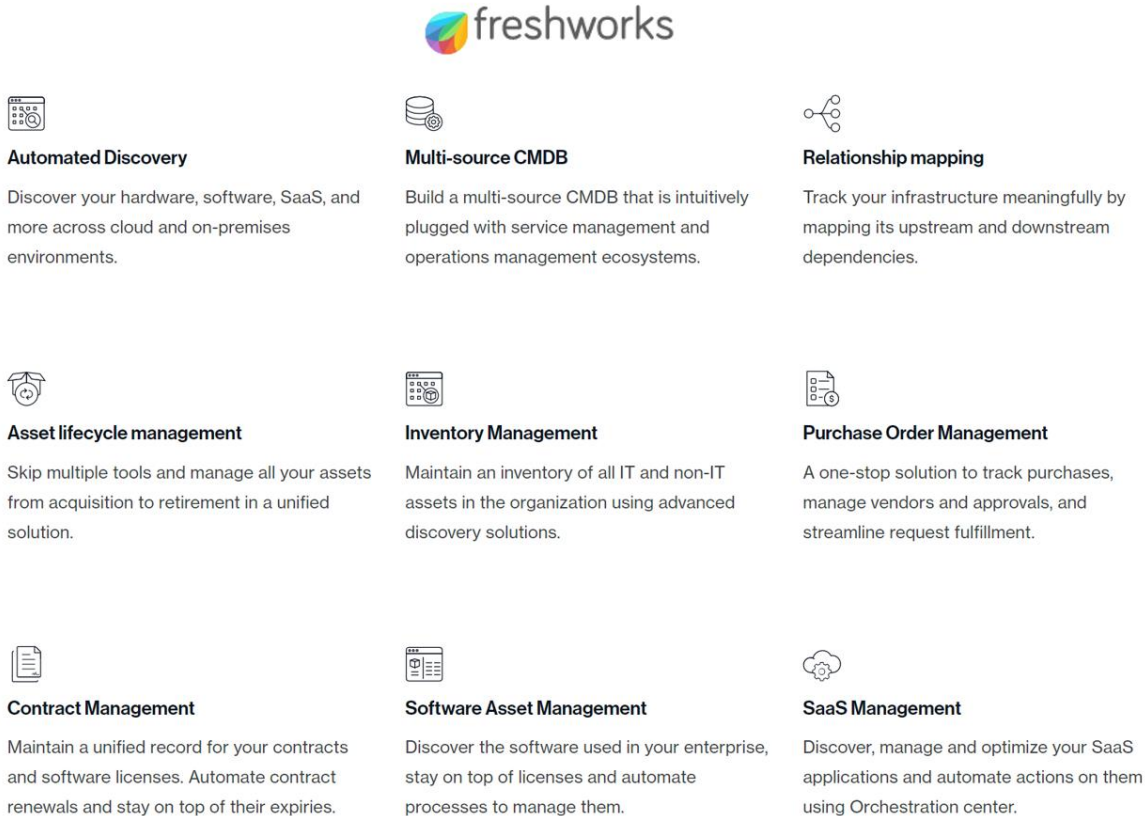


Diagram 2.



It is acknowledged that the service requires robust strategies and delivery plans which will be monitored and challenged through the services internal governance arrangements, such as Continuous Improvement Board (CIB) and Portfolio Management Board (PMB).

With the inception of recent strategies, for example the Estates Strategy, Digital and Data Strategy, Training Strategy etc, it is clear that ECFRS has the underpinning improvement roadmaps that clearly articulate the need for future Capital Investment, which will ensure that we minimise and reduce the examples of risks indicated earlier in the Background section of this report.

In summary, it is essential, now more than ever that the service invests in ensuring that it spends against the capital strategy and delivers the key capital investment programmes to mitigate, potential future risks and impact of underspend as outlined in page 3 of this report.

RISKS AND MITIGATIONS

Elements of the capital programme could impact on the strategic risks of the Service; these risks are recorded on the Strategic Risk Register, as shown in Appendix D. Risk is continuously monitored at Strategic Asset Groups and Asset Board. 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.

LINKS TO FIRE AND RESCUE PLAN

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

FINANCIAL IMPLICATIONS

As identified in the attached appendices.

LEGAL IMPLICATIONS

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

STAFFING IMPLICATIONS

Where there are Capital Projects that impact on our people, there is a specific and individual communication strategy in place to ensure that all staff are kept informed and are engaged with the opportunity to provide feedback as well as frequently asked question sets.

EQUALITY AND DIVERSITY IMPLICATIONS

We have considered whether individuals with protected characteristics will be disadvantaged as a consequence of the actions being taken. Due regard has also been given to whether there is impact on each of the following protected groups as defined within the Equality Act 2010:

Race	Y	Religion or belief	Y
Sex	Y	Gender reassignment	Y
Age	Y	Pregnancy & maternity	Y
Disability	Y	Marriage and Civil Partnership	Y
Sexual orientation	Y		

The Core Code of Ethics Fire Standard has been fully considered and incorporated into the proposals outlined in this paper.

HEALTH AND SAFETY IMPLICATIONS

There are currently no Health and Safety implications identified within this paper, however this continues to be monitored and escalated where required through the Strategic Risk Register and Health & Safety Board.

CONSULTATION AND ENGAGEMENT

Where there are Capital Projects that have a people impact and wider service delivery impact, representative bodies are engaged with to ensure there is effective communication and awareness.

FUTURE PLANS

The future plans are identified within the service strategies which provide a clearly defined set of deliverables that enable improvement, transformation and risk mitigation enabling the service to deliver the best standard of service to the communities of Essex. The delivery of these strategies will be continually monitored through the internal governance forums and the PFCC Performance and Resources Board. Where there are specific business case needs, requiring high level Capital Investment, these will be taken through the PFCC Strategic Board.

LIST OF BACKGROUND PAPERS AND APPENDICES

- Appendix A - Historic capex – detailed summary of actual vs. budget
- Appendix B - Budgeted Capital programme
- Appendix C - Capex review by asset class
- Appendix D – Strategic Risk Register