Item 19/07 Appendix C

CAPITAL STRATEGY 2019-20

1. Introduction

The Community Safety Plan gives an overview of the priorities and plans of the Service. The five key priorities are:

1. Making safer and healthier choices
2. Protecting you and the environment from harm
3. Being there when you need us
4. Making every penny count; and
5. Supporting and development our people.

The Medium Term Financial Plan, including the Capital Strategy, sets out the financial and investment strategy required to meet these strategic priorities.

Capital expenditure represents investment in new, enhanced or replacement assets such as buildings, vehicles, operational and other equipment and information technology (both hardware and software).

2. Aims of the Capital Strategy

The principle aims of this Capital Strategy are to:

- provide a framework for capital funding and expenditure decisions, ensuring that capital investment is in line with the Authority's priorities, supports service provision to the communities of Dorset and Wiltshire, and is managed effectively

- ensure that the value of the Authority's existing assets is enhanced/preserved

- explain how the Authority will identify and evaluate bids for capital resources and any implications for the revenue account

- describe the sources of capital funding available for the medium term and how these might be used to achieve a sustainable capital programme.

3. Managing Capital Expenditure

The Capital Programme is prepared annually through the budget setting process and reported to the Authority for approval in February each year. The programme sets out the capital projects taking place in the financial years 2018-19 to 2022-23. The capital programme is updated in June (to reflect the outturn of the previous financial year and any slippage, as well as adding any new requirements) and December (reflecting progress in the current year and adding any further new requirements).

All projects within the programme will be financed in accordance with the agreed funding strategy. Within the available resources, bids for new capital projects are evaluated and prioritised by the Strategic Leadership Team prior to seeking Authority approval.

A budget manager is responsible for the effective financial control and monitoring of each element of the programme. Budget variances are reported to the Treasurer, and where corrective action cannot be taken to bring overspends back within budget, the additional costs will be reflected in the next update of the capital programme. Additionally, where expenditure is required or anticipated which has not been included in the Capital Programme, then a revision to the Capital Programme is required before that spending can proceed.

Any changes or revisions to the Capital Programme must be approved firstly by the Strategic Leadership Team, then by the Authority. The Chief Fire Officer and the Treasurer may approve an increase in the capital programme of up to £50,000 and the Chief Fire Officer and Treasurer, in consultation with the Chairman of the Authority, may approve an increase of up to £100,000. In both cases the approved expenditure must be reported to the Authority. Revisions to the Capital Programme will generally be taken to Authority only in June and December each year, unless there are exceptional circumstances.

4. Capital Expenditure Programme to 2022-23

The forecast capital expenditure requirements for 2018-19 to 2022-23 are shown in the table below. The revised capital programme for 2018-19 as approved by the Authority in December 2018, totalled £8.306m. The capital budget for 2019-20 recommended for approval is £8.404m.

	Estimate 2018-19 £000	Estimate 2019-20 £000	Estimate 2020-21 £000	Estimate 2021-22 £000	Estimate 2022-23 £000
Property/Estates	2.129	1.329	1.288	1.238	1.150
Vehicles	4.240	5.608	4.111	3.681	1.687
Equipment	1.026	0.918	0.105	0.105	1.756
Information Communication Technology	0.911	0.549	1.246	0.225	0.560
Total Capital Programme	**8.306**	**8.404**	**6.750**	**5.249**	**5.513**
Prudential Borrowing	-3.512	-8.137	-6.468	-5.216	-5.513
Capital Reserves	-3.691	0.000	0.000	0.000	0.000
Capital Receipts	-1.103	0.000	0.000	0.000	0.000
Other Earmarked Reserves	0.000	-0.267	-0.282	-0.033	0.000
Total Capital Financing	**-8.306**	**-8.404**	**-6.750**	**-5.249**	**-5.513**

Property / Estates - Station Improvements

The 2019-20 programme includes the outcomes of a property condition survey, identifying the property assets in most need of attention now and over the next few years, based on risk and priority. Current property budgets will not include any major station replacements or enhancements until officers have reviewed fire cover arrangements.

Vehicles

Vehicles are regularly reviewed and are subject to the long-term vehicle replacement policy. The 2019-20 capital programme includes the replacement requirements for 15 large fire appliances.   A further 14 large fire appliances are due for replacement over the following three years. A wider review of fleet has been completed to update the current vehicle replacement plan. Similar to the property estates review, the programme for 2019-20 is based on immediate requirements and future years are likely to changes subject to the reviews.

Equipment

The programme for equipment is made up of operational equipment and personal protective equipment (PPE) requirements, alongside additional training equipment and equipment for the reserve vehicles.   2019-20 is the second year of a major refresh of PPE costing approximately £1.63m. Breathing Apparatus will also be required to be replaced in a major refresh in 2022-23 at a similar cost of circa £1.6m.

Information Technology and Communications (ICT)

Ongoing ICT requirements are determined by the ‘ICT Roadmap’ and this includes IT hardware and software replacements, communications equipment, systems and infrastructure. The next iteration of the ICT Roadmap has been developed and provides an indicative cost plan to 2022-23.

5. Financing the Capital Programme

Capital expenditure is generally funded by a number of sources, namely capital receipts, revenue contributions, specific grants and contributions and through prudential borrowing.

Capital Receipts

Capital receipts from the disposal of existing capital assets can only be used to fund expenditure on new capital assets. As at 31 March 2018 the Authority held capital receipts to the value of £1.103m. These capital receipts had been earmarked to support the development of a ‘Skills for Life’ centre but following the decision to deliver the intended outcomes of this project in a different way, the capital receipts have now been released to support the financing of the 2018-19 capital programme.

Revenue contributions

The Authority can make revenue contributions to the cost of its capital expenditure, either direct from its revenue budget or from reserves earmarked for capital schemes. At 1 April 2018 the Service had earmarked capital reserves of £3.690m and expects to use all of this to help finance the 2018-19 capital programme. £100k is included in the revenue budget as an ongoing contribution to capital reserves.

Specific grants and contributions

Specific grants for capital funding are no longer available, having been replaced with a capital and revenue grant bidding system open to all fire and rescue services (FRS), if and when monies are made available by Government. We do not anticipate any new capital grants for 2019-20.

Developer contributions, usually derived from Section 106 agreements, are awarded to mitigate the impact of developments on communities. These contributions are usually earmarked for specific purposes in planning agreements and often relate to infrastructure projects or affordable housing schemes. At the present time the Authority is holding S106 funding totalling £407k.

Further developers' contributions, through the Community Infrastructure Levy, may be available moving forward, but none are held at the current time.

Prudential borrowing

The Authority will first utilise all of the funding streams highlighted above as the cheapest form of funding, but any shortfall of funding has to be made up from prudential borrowing.

The Prudential Code for Capital Expenditure for Local Authorities allows local authorities to undertake unsupported borrowing. This type of borrowing has revenue implications for the Authority in the form of financing costs, which vary depending on the amount and the length of any loan taken out. The Authority looks to match its borrowing with the lifespan of assets purchased.

The capital financing budget includes provision for prudential borrowing of £8.137m in respect of 2019-20 programme, with a further £17.2m to borrowed over the following three years to 2022-23.

Leasing

Leases are currently classified in accounting terms as either finance or operating leases. This distinction is important because it dictates whether the lease must be classified as capital (finance leases) or revenue (operating leases), and different accounting treatment is required for each. However, changes in the classification of leases are due to be introduced in 2019-20, and we are currently assessing the impact.

At the present time, finance leases are not recommended as a source of capital funding unless there are exceptional circumstances. This is because other sources of finance usually offer greater benefits, especially in terms of cost.

6. Debt and Borrowing

Capital financing and debt

The Authority has used internal borrowing for the financing the capital programme for a number of years, i.e. rather than borrowing we have used internal cash flows as this has been more efficient and economical, particularly as investment returns have been at such low levels. This has resulted in an under borrowing position of £13m at 31 March 2018, and we estimate this has resulted in annual budget savings in excess of £450k. Such a position is not sustainable in the longer term, particularly as our reserves and balances are utilised to support the medium term finance plan, eroding the level of cash balances we hold. For medium term planning purposes, we have included the impact of borrowing an additional £7m in January 2019 to reduce the level of under borrowing.

The Authority is expected to set its own borrowing limits based on revenue affordability and risk. The table below shows the authorised borrowing limits, which are in line with the outstanding unfinanced capital described as the Capital Financing Requirement (CFR). The difference between the CFR and Gross Debt amounts indicates the level of under borrowing, and these can be seen to be reducing over the next four financial years.

	Estimate 2018-19 £m	Estimate 2019-20 £m	Estimate 2020-21 £m	Estimate 2021-22 £m	Estimate 2022-23 £m
Authorised limit	33.607	40.083	45.562	49.869	52.048
Operational boundary	31.107	37.583	43.062	47.369	49.548
Capital financing requirement	38.535	44.549	48.257	50.264	51.994
Gross debt	29.583	36.761	42.269	44.547	48.290

Other long term liabilities

The Authority has other long term financial liabilities in the form of one lease that is accounted for as a finance lease, although this agreement is ending in 2018-19, and funding requirements of the PFI. These represent liabilities inherited from the two former authorities and are included in the amounts for the capital financing requirement and gross debt in the table above.