

## **Capital Strategy 2020-21**

### **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 developing our people.

The Medium-Term Finance Plan (MTFP), 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 are 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 scheduled to take place in the financial years 2019-20 to 2023-24. 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. 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 Chair 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 2023-24

The forecast capital expenditure requirements for 2019-20 to 2023-24 are shown in the table below. The revised Capital Programme for 2019-20 as approved by the Authority in December 2019, totalled £4.7m. The capital budget for 2020-21 recommended for approval is £10.394m.

|   | Estimate<br>2019-20<br>£000 | Estimate<br>2020-21<br>£000 | Estimate<br>2021-22<br>£000 | Estimate<br>2022-23<br>£000 | Estimate<br>2023-24<br>£000 |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Property/Estates                        | 1,758                       | 2,087                       | 923                         | 1,150                       | 1,140                       |
| Vehicles                                | 946                         | 6,906                       | 4,581                       | 3,269                       | 2,148                       |
| Equipment                               | 1,198                       | 229                         | 405                         | 114                         | 1,801                       |
| Information Communication<br>Technology | 798                         | 1,172                       | 530                         | 565                         | 275                         |
| <b>Total Capital Programme</b>          | <b>4,700</b>                | <b>10,394</b>               | <b>6,439</b>                | <b>5,098</b>                | <b>5,364</b>                |
| Prudential Borrowing                    | 3,208                       | 9,922                       | 6,406                       | 5,098                       | 5,364                       |
| Capital Reserves                        | 0.000                       | 0.000                       | 0.000                       | 0.000                       | 0.000                       |
| Capital Receipts                        | 0.000                       | 0.000                       | 0.000                       | 0.000                       | 0.000                       |
| Other Earmarked Reserves                | 1.492                       | 0.472                       | 0.033                       | 0.000                       | 0.000                       |
| <b>Total Capital Financing</b>          | <b>4,700</b>                | <b>10,394</b>               | <b>6,439</b>                | <b>5,098</b>                | <b>5,364</b>                |

## Property/Estates - Station Improvements

The 2020-21 programme includes the outcomes of a property conditions 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 do not include any major station replacements or enhancements until such time as the Communities Programme have reviewed fire cover arrangements, which may require significant infrastructure investment. This will be highlighted in future reports if required.

## Vehicles

Vehicles are regularly reviewed and are subject to the long-term vehicle replacement policy. The 2020-21 Capital Programme includes the completion of the project to replace nineteen large fire appliances. A further seventeen large fire appliances and four 4x4 fire appliance are due for replacement over the following three years. A provisional sum of £662k is included in 2022-23 for the purchase of a fourth aerial appliance.

## Equipment

The programme for equipment is made up of operational equipment and personal protective equipment (PPE) requirements. 2019-20 sees the completion of the major refresh of PPE costing approximately £1.6m. Breathing Apparatus will also be required to be replaced in a major refresh at a similar cost of circa £1.6m although this has been pushed back to 2023-24 financial year.

## Information Technology and Communications

Ongoing Information and Communication Technology (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 2023-24.

## **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 2019 all available capital receipts of the Authority had been used to finance previous capital expenditure programmes.

## Revenue contributions

The Authority can make revenue contributions to the cost of its capital expenditure, either direct from its revenue budget or from earmarked reserves. During 2018-19 the Service used earmarked capital reserves of £3.690m to help finance its Capital Programme. For 2019-20 other earmarked reserves of £742k will be used to finance specific projects in the Capital Programme and Members approved an additional revenue contribution of £750k, funded from one-off savings in the year. £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, if and when monies are made available by Government. We do not anticipate any new capital grants for 2020-21.

Developer contributions, usually derived from Section 106 (s106) 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 £9.9m in respect of 2020-21 programme, with a further £16.9m to be borrowed over the following three years to 2023-24.

## Leasing

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 £13.1m at 31 March 2019, 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 MTFP, eroding the level of cash balances we hold. The Authority borrowed £4.4m in August 2019, and for medium term planning purposes, we have included the impact of borrowing an additional £3m before the end of the 2019-20 financial year to support cashflow.

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 three financial years.

|                               | <b>Estimate<br/>2020-21<br/>£m</b> | <b>Estimate<br/>2021-22<br/>£m</b> | <b>Estimate<br/>2022-23<br/>£m</b> |
|-------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Authorised limit              | 41.162                             | 46.869                             | 48.048                             |
| Operational boundary          | 38.662                             | 44.369                             | 45.548                             |
| Capital financing requirement | 44.568                             | 48.019                             | 49.788                             |
| Gross debt                    | 37.869                             | 41.547                             | 44.290                             |

### Other long-term liabilities

The Authority has other long-term financial liabilities relating to the funding requirements of the Dorset Emergency Services Partnership Initiative (DESPI) Private Finance Initiative. The liability is included in the amounts for the capital financing requirement and gross debt in the table above.