Item 23/08 Appendix C

CAPITAL STRATEGY 2023-24

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 choice
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.

The Capital Strategy is informed by the our six key strategies covering Asset Management Strategy, Community Safety Strategy, Environmental Sustainability Strategy, Equality, Diversity and Inclusion Strategy, ICT Strategy and People Strategy.

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 principal 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 taking place in the financial years 2022-23 to 2026-27. 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 £250,000. In both cases the approved expenditure must be reported to the Authority. Revisions to the Capital Programme will be taken to Authority as and when required.

4. Capital expenditure programme to 2026-27

The forecast capital expenditure requirements for 2022-23 to 2026-27 are shown in the table below. The revised capital programme for 2022-23 as approved by the Finance and Audit Committee in December 2022 totalled £5.81m. The capital budget for 2023-24 recommended for approval is £7.1m.

	Estimate 2022-23 £000	Estimate 2023-24 £000	Estimate 2024-25 £000	Estimate 2025-26 £000	Estimate 2026-27 £000
Property/Estates	1.928	1.715	7.305	1.678	1.382
Vehicles	2.100	4.337	2.466	2.627	2.453
Equipment	0.478	0.185	1.013	0.425	1.390
Information Communication Technology	1.305	0.856	1.210	1.455	0.710
Total Capital Programme	**5.811**	**7.093**	**11.994**	**6.185**	**5.935**
Prudential Borrowing	2.566	5.379	10.310	3.668	4.791
Revenue contributions/ reserves	3.245	1.714	1.684	2.517	1.143
Total Capital Financing	**5.811**	**7.093**	**11.994**	**6.185**	**5.935**

Property / Estates

The 2022-23 programme includes the outcomes of independently undertaken property conditions survey, identifying the property assets in most need of attention now and over the next few years, based on risk and priority, and reflects a 7-year refresh cycle. The Estates programme also includes the required investment to deliver the project to provide future-proofed operational training facilities at Devizes Training Centre and Weymouth Fire Station.

Vehicles

Vehicles are regularly reviewed and are subject to the long-term vehicle replacement policy. After some significant investment over the past few years the 2023-24 capital programme includes replacement of five large fire appliances, four water carriers, three incident command support vehicles and a number of other smaller vehicles. Over the following 5 years there is provision to replace a further twenty-two large fire appliances, four 4x4 fire appliances and a specialist off-road vehicle. The requirements for specialist and general vehicles are all reviewed through the Resourcing and Savings Programme. Each project looks at the best way of providing the required functions, and covers consideration of vehicles, equipment, technology and crewing requirements.

Equipment

The main focus of the programme for equipment in 2023-24 is to support operational equipment requirements linked to the vehicle replacement programme. This includes supporting the specialist response reviews outlined above.

Information Technology and Communications

Ongoing ICT requirements are aligned to the plans set out in the ICT Strategy 2021-2024 and this includes information governance and security, operational communications, ICT resilience, technology management, digital transformation, and business intelligence and data management. The capital programme includes the equipment and systems requirements to support the strategy including investment required to replace the mobilising system used in Fire Control.

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. At the current time all available capital receipts of the Authority have 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. Previously the Authority has been able to use some reserves to offset long term borrowing in supporting its capital investment plans. Savings planned in the revenue budget from 2021-22 have allowed the Authority set aside approximately £7m to support future capital investment and reduce borrowing costs. We now plan to transfer a further £3.4m into the Capital Replacement Reserve to further support capital investment. The revenue budget also includes an annual contribution of £100k to support the financing of the capital programme.

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 FRSs, if and when monies are made available by Government. We do not anticipate any new capital grants for 2023-24.

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 currently includes provision for prudential borrowing of £5.4m in respect of 2023-24 programme, with a further £18.8m to be borrowed over the following three years to 2026-27. The estimated total over the four years is therefore £24.2m, which compares to £29.8m in the previous capital strategy when you include the required training centre investment.

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. Changes in the classification of leases have been proposed for some time now but their introduction has been delayed a number of times. The changes will now take effect from 1 April 2024, and whilst this will require the reclassification of costs associated with leases that the Authority holds, the net financial impact is cost neutral.

At the present time, new 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 £16m at 31 March 2022, and we estimate this strategy has resulted in annual budget savings in excess of £500k. Such a position is not sustainable in the longer term, and needs to be balanced with how we utilise our reserves and balances and ensuring that our cash balances are adequate. The Authority undertook long-term borrowing of £5m in November 2021 and £3m of short-term borrowing in June 2023 to support cashflow. No further borrowing is expected before the end of the 2022-23 financial year, although a contingency sum of £2m has been allowed for.

The savings made in capital financing costs allow the Authority to set aside £500k each year to reduce the long-term capital financing and borrowing requirements. This is a sensible strategy to reduce the pressure on future budgets from unsustainable rises in capital financing costs.

The Authority is expected to set its own borrowing limits based on revenue affordability and risk and these are shown in the table below. The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. It includes other long-term liabilities, such as PFI debt and finance leases, although these liabilities include their own borrowing facilities so the Authority is not required to separately borrow for these schemes. The difference between the CFR and Gross Debt amounts indicates the level of under borrowing, and this difference can be seen to be reducing over the next three financial years.

	Estimate 2022-23 £m	Estimate 2023-24 £m	Estimate 2024-25 £m
Authorised limit	30.839	33.582	40.935
Operational boundary	28.339	31.082	38.435
Capital financing requirement	42.160	44.399	51.379
Gross debt	27.081	30.435	37.784