Item 18/06 Appendix C

CAPITAL STRATEGY 2018/19

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 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 2017/18 to 2020/21. 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 Director of Finance, 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 2020/21

The forecast capital expenditure requirements for 2017-18 to 2020-21 are shown in the table below. The revised capital programme for 2017-18 as approved by the Authority in December 2017 totalling £9.334m. The capital budget for 2018-19 recommended for approval is £9.632m.

	Estimate 2017/18 £000	Estimate 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000
Capital Expenditure				
- Property/Estates	1,336	1,695	5,107	1,082
- Vehicles	6,165	6,219	5,041	1,836
- Equipment	249	1,026	918	105
- Information Communication Technology	1,584	692	320	550
Total Capital Programme	**9,334**	**9,632**	**11,386**	**3,573**
Financed by:				
Direct revenue financing	9.161	0.431	2.861	0.000
Grants/receipts/reserves	0.173	0.250	1.027	0.000
Prudential borrowing	0.000	8.951	7.498	3.573
Total Capital Financing	**9.334**	**9.632**	**11.386**	**3.573**

Property / Estates - Station Improvements

The 2018-19 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, including programmes that slipped from 2017-18. Current property budgets do not include any major station replacements or enhancements until such time as the Communities Programme has reviewed fire cover arrangements, which may require station moves.

Vehicles

Vehicles requirements are regularly reviewed and are subject to the long-term vehicle replacement policy. The 2018-19 capital programme includes the replacement requirements for one 42m aerial ladder platform (ALP) appliance (£768k) and 10 large fire appliances (£3.08m). A further 20 large fire appliances are due for replacement over the following three years. A wider review of fleet will be completed to update the current vehicle replacement plan. Similar to the property estates review, the programme for 2018-19 is based on immediate requirements and future years are subject to review through the Communities Programme.

Equipment

The programme for equipment is made up of Operational Equipment and Personal Protective Equipment (PPE) requirements for the next few years, alongside additional training equipment and equipment for the reserve vehicles. A major refresh of PPE is planned, stretching over the two years 2018-19 and 2019-20, with costs estimated at £1.63m (half in each year). 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

Ongoing ICT infrastructure requirements as part of the ICT Roadmap and include hardware and software replacements, mobile communications work, and the harmonisation of asset management systems.

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 2017 the Authority had exhausted all of its capital receipts in supporting the financing of the 2016/17 capital programme. A further capital receipt from the sale of the Manor House has been received during 2017/18 and this is currently earmarked to support the development of the new Safety Centre.

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 2017 the Service had capital reserves of £3.991m, and as part of the finance principles agreed by Members, £5m of general balances will used to fund the capital programme. These amounts will be used to help finance the 2017-18 and 2018-19 capital programmes.

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 2018-19, but we do retain transformation grant funding to support the provision of safety centre facilities as per the original transformation bid.

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 £181k.

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 £8.951m in respect of 2018-19 programme, £7.498m in respect of the 2019-20 programme, and £3.573m in respect of the 2020-21 programme.

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. The impact if these changes will be assessed in due course.

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, and the two former authorities, have 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 forecast to be at £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 October 2018 to reduce the level of under borrowing. This position will need to be reviewed further in the coming months.

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.

	Estimate 2018/19 £m	Estimate 2019/20 £m	Estimate 2020/21 £m
Authorised limit	39.607	45.083	47.762
Operational boundary	37.107	42.583	45.262
Capital financing requirement	43.974	48.773	49.077
Gross debt	35.583	41.761	44.469

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 and the funding requirements of the Private Finance Initiative. 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.