Item 21/10 Appendix C

Capital Strategy 2021-22

1. Introduction

The Community Safety Plan (CSP) 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 2020-21 to 2024-25. 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 2024-25

The forecast capital expenditure requirements for 2020-21 to 2024-25 are shown in the table below. The revised capital programme for 2020-21 as approved by the Finance and Audit Committee in December 2020 totalled £7.36m and the current estimate of spend is £7.04m. The capital budget for 2021-22 recommended for approval is £9.068m.

	Estimate 2020-21 £000	**Estimate 2021-22 £000**	**Estimate 2022-23 £000**	**Estimate 2023-24 £000**	**Estimate 2024-25 £000**
Estates	1.019	1.136	0.750	0.750	0.750
Vehicles	4.706	6.382	2.139	2.055	5.510
Equipment	0.269	0.526	0.114	0.150	0.150
Information Communication Technology	1.045	1.024	0.636	0.275	0.325
Total Capital Programme	**7.039**	**9.068**	**3.639**	**3.230**	**6.735**
Prudential Borrowing	6.884	8.912	3.639	3.230	6.735
Capital Reserves	0.000	0.000	0.000	0.000	0.000
Other Earmarked Reserves/ Unapplied Grants	0.155	0.156	0.000	0.000	0.000
Total Capital Financing	**7.039**	**9.068**	**3.639**	**3.230**	**6.735**

4.1 Estates

The 2021-22 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. This reflects a 7-year refresh cycle, increased from the previous 5-year refresh cycle, but still within professional guidelines. The current Estates programme does not include any provision for major station replacements/enhancements or make any provision for our vision of a centralised training centre.

4.2 Vehicles

Vehicles are regularly reviewed and are subject to the long-term vehicle replacement policy. The 2021-22 capital programme includes the completion of the project to replace nineteen large fire appliances, which has been delayed as a result of the pandemic. Over the next 5 years there is provision to replace a further twenty-five large fire appliances and eight 4x4 fire appliances. The programme takes account of the reviews in the Resourcing and Savings Programme presented at the recent Members seminar. This included not replacing some second away appliances and removing the cost of purchasing a fourth new aerial appliance, estimated at £715k. The new programme assumes no ‘white’ fleet replacements over the next two financial years as we look to reduce the capital programme and re-assess our requirements post-pandemic.

4.3 Equipment

The programme for equipment is made up of operational equipment and personal protective equipment (PPE) requirements. 2020-21 has seen the final completion of the major refresh of PPE costing approximately £1.6m. We had been planning for a major breathing apparatus (BA) replacement for 2023-24 at a similar cost of circa £1.6m, but this can now be significantly reduced. Carrying out a BA refresh during 2021-22 at a cost of £60k will extend the life of our current BA sets to 2031.

4.4 Information Technology and Communications

Ongoing ICT requirements are aligned to the ICT Strategy and this includes IT hardware and software replacements, communications equipment, systems and infrastructure. The current iteration of the ‘ICT Roadmap’ provides the indicative cost plan to 2024-25.

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.

5.1 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.

5.2 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. There is no current base budget allocation for direct revenue contributions and earmarked capital reserves stood at £1m at 31 March 2020. Planned savings in the revenue budget allow us to release £2.7m from our Transformation Reserve to support capital financing. We are also able to release £319k from other reserves that are no longer required for their original purpose. Along with £100k that included in the revenue budget as an ongoing contribution to capital reserves we are able to create a capital reserve fund of just over £4m to support future capital investment and reduce borrowing costs. We will also look to add to this reserve where we are able to find additional revenue budget savings.

5.3 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 2021-22.

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 and this in included in our capital reserve.

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

5.4 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 £8.9m in respect of 2021-22 programme, with a further £13.6m to borrowed over the following three years to 2024-25. We hope to reduce this borrowing requirement through the use of the new capital reserve funds that we are setting aside.

5.5 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 by a further year, to start from 1 April 2022. We are continuing to assess the impact of the changes.

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

6.1 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 £9.7m at 31 March 2020, and we estimate this strategy has resulted in annual budget savings in excess of £450k. 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 borrowed £4.4m in August 2019, and for medium term planning purposes, we have included the impact of borrowing an additional £4m before the end of the 2020-21 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.

	Estimate 2020-21 £m	Estimate 2021-22 £m	Estimate 2022-23 £m
Authorised limit	32.662	39.869	41.048
Operational boundary	30.162	37.369	38.548
Capital financing requirement	40.522	46.816	47.316
Gross debt	29.369	34.547	37.290

6.2 Other long-term liabilities

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