Item 25/07 Appendix C

CAPITAL STRATEGY 2025-26

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.

The Capital Strategy is informed by the 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 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 2024-25 to 2028-29. 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 2028-29

The forecast capital expenditure requirements for 2024-25 to 2028-29 are shown in the table below. The capital budget for 2025-26 recommended for approval is £10.7m.

	Estimate 2024-25 £000	Estimate 2025-26 £000	Estimate 2026-27 £000	Estimate 2027-28 £000	Estimate 2028-29 £000
Property/Estates	1,099	4,928	9,747	1,351	1,082
Vehicles	3,154	2,367	2,464	5,737	1,869
Equipment	846	777	3,045	3,034	473
Information Communication Technology	1,060	2,617	1,271	1,744	457
Total Capital Programme	**6,159**	**10,689**	**16,526**	**11,866**	**3,881**
Prudential Borrowing	4,606	6,177	6,484	9,239	2,355
Revenue contributions/ reserves	1,553	4,512	10,042	2,627	1,526
Total Capital Financing	**6,159**	**10,689**	**16,526**	**11,866**	**3,881**

Property / Estates

The 2025-26 programme includes the outcomes of property conditions surveys, identifying the property assets in most need of attention now and over the next few years, based on risk and priority, and generally reflects a 7-year refresh cycle.

The Estates programme also includes the historic funding allocation to deliver the project to provide future-proofed operational training facilities at Devizes Training Centre and Weymouth Fire Station. The budgetary provision is currently being reviewed, since its last full review in October 2023. A revised budget is being considered taking account of the wider national and global economic situation, further detailed designs; taking account of planning clauses as well as inflationary costs since the last review. An update will be provided to Members once this review has been completed.

Vehicles

Vehicles are regularly reviewed and are subject to the long-term vehicle replacement policy. The 2025-26 capital programme includes replacement of four large fire appliances, seven officer response vehicles and a number of other smaller vehicles. Over the following four years there is provision to replace a further sixteen large fire appliances, four 4x4 fire appliances and a number of other specialist and smaller vehicles. 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 focus of the programme for equipment in 2025-26 is split between the need to support operational equipment requirements linked to the vehicle replacement programme and the provision of Firefighter helmets. This vehicle replacement programme 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, which 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 the ongoing 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 previous revenue budgets and changes to the reserves strategy have allowed the Authority set aside funds to support future capital investment and reduce borrowing costs. The revenue budget also includes an annual contribution of £1.78m to support the financing of the capital programme.

Specific grants and contributions

Specific grants for capital funding have not been provided by the Government since 2013/14. We do not anticipate any new capital grants for 2025-26, but are hopeful that this position will be considered as part of the proposed multi-year settlement for 2026-27.

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 £6.2m in respect of 2025-26 programme, with a further £18.1m to be borrowed over the following three years to 2028-29. The estimated total over the four years is therefore £24.3m.

Leasing

The long-promised change to the classification of lease requirements was introduced from 1 April 2024. The Authority now needs to account for leases in accordance with IFRS16. Instead of having to classify a lease arrangement as finance or operating, almost all lease assets must now be recognised alongside a lease liability. These are accounting adjustments so have a net nil financial impact on the Authority.

At the present time, new 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 when investment returns have been at historically low levels. This has resulted in an under borrowing position of £17.5m at 31 March 2024, 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 last undertook long-term borrowing of £5m in November 2021 and have utilised short-term borrowing in the period since to support day-to-day cashflow where needed due to the increase in borrowing rates available. The Authority does not expect to borrow before the end of the 2024-25 financial year due to prudent cashflow planning.

The savings made in capital financing costs allow the Authority to set aside funding 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. It would be prudent for the Authority to set aside further sums when circumstances allow.

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 Private Finance Initiative (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 2024-25 £m	**Estimate 2025-26 £m**	**Estimate 2026-27 £m**
Authorised limit	28.354	31.352	40.317
Operational boundary	25.854	28.852	37.817
Capital financing requirement	44.836	47.605	50.373
Gross debt	24.853	27.817	36.843