DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**DSFRA/09/2**
MEETING	**DEVON & SOMERSET FIRE & RESCUE AUTHORITY (BUDGET MEETING)**
DATE OF MEETING	**16 FEBRUARY 2009**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2009/10 TO 2011/12**
LEAD OFFICER	**Head of Physical Assets and Treasurer**
RECOMMENDATIONS	***That the revised Capital Programme 2009/12 to 2011/12 as set out in this report***
EXECUTIVE SUMMARY	This report details the proposed capital programme for the Authority for the period 2009/10 to 2011/12. In essence, it is the same report as submitted to the meeting of the Resources Committee held on 4 February 2009 and should be read in conjunction with the recommendation of that Committee (Minute RC/19 refers) and the paper elsewhere on this agenda dealing with the associated Prudential Indicators. Appendix B illustrates the existing approved 2008/09 to 2010/11 capital programme. Appendix A illustrates the proposed 2009/10 to 2011/12 capital programme, which includes elements of the aforementioned programme already approved, but additionally includes further proposals to meet ongoing fleet and equipment replacement programme needs and ongoing estates development and maintenance needs. A prudent approach has been taken to the proposals as fully explained within the report.
RESOURCE IMPLICATIONS	A full financial appraisal is contained within the report.
EQUALITY IMPACT ASSESSMENT	No potentially negative impact sufficient enough to warrant a full impact assessment has been identified in the content of this report.
APPENDICES	A. Proposed 2009/10 to 20011/12 Capital Programme. B. Existing approved 2008/09 to 2010/11 Capital Programme.
LIST OF BACKGROUND PAPERS	Report RC/09/10 – "Affordable Capital Investment Plans for 2009/10 to 2011/12" – submitted to the meeting of the Resources Committee on 8 December 2008:

1. INTRODUCTION

1.1 This report is essentially the same as that submitted to the meeting of the Resources Committee held on 4 February 2009 and should be read in conjunction with the recommendation of that Committee (Minute RC/19 refers) and with the paper elsewhere on the agenda for this meeting dealing with the associated Prudential Indicators.

1.2 Each year, as part of the annual budget setting process, the capital programme for the next three years needs to be reviewed and updated to include projects and schemes which are deemed essential for either the normal replacement cycle of assets or for major business development in line with structured asset management planning.

1.3 Since programmes are set down on a three year rolling programme basis, the remaining two years from the previously approved programme are still extant. These two years are updated to include any new proposals and a new third year introduced. This gives rise to a situation where part of the capital programme has been previously approved. Appendix B illustrates the previous capital programme 2008/09 to 2010/11, originally approved by the Authority at its budget meeting on 15 February 2008, for which the latest revised edition was approved by the Resources Committee at its meeting on 3 October 2008 (Minute *RC/11 refers).

1.4 Appendix A represents the proposed capital programme 2009/10 to 2011/12, which includes the elements already approved in the Appendix B table plus the newly introduced elements. The newly introduced elements are fully explained below.

1.5 The debt charges and prudential indicators are necessarily revised as a consequence of the proposals and these are fully illustrated within the report.

1.6 The report 'Affordable Capital Investment Plans 2009/10 to 2011/12' was endorsed by the Resources Committee at its meeting on 8 December 2008 (Minute *RC/15 refers). This report illustrated the significant capital investment needs of a large rural fire and rescue authority such as the Devon & Somerset Fire & Rescue Authority (DSFRA) and the inability of the Authority to fund those requirements due to financial constraints. The report illustrated the inequity in the calculation of revenue grant support for capital expenditure (SCE(R)) from the Authority's viewpoint on sparsity grounds and its representations to CLG on the matter. The report also detailed the Authority's capital investment pressures and how it would require an additional £37m over the next three years to meet the ongoing full replacement programme needs.

1.7 For reasons of affordability, however, the report was only able to recommend a minimum spend in support of capital requirements. Fortunately, the Department for Communities and Local Government (CLG) has approved an additional injection of £2m debt free capital support for the next two years, principally to address equality and diversity issues on stations. The Resources Committee endorsed a proposal for an additional £7m over the next three years. These two elements, together with the previously approved capital programme, give rise to overall proposed programme in Appendix A. It may be observed, therefore, that this falls considerably short of the full requirement illustrated above, but necessarily addresses the immediate affordability issues facing the Authority. For the first time in several years there are no new major builds being planned within the programme. This will, however, allow a full review of station requirements and disposition in terms of local risk, whilst being mindful of recommendations within the recent Audit Report 'Rising to the Challenge'.

2. BACKGROUND

2.1 Capital finance costs principally involve debt charges resulting from borrowing, but there are some historic lease charges relating to the fleet portfolio. Operational Leasing is no longer being used by the Authority for capital financing following the introduction of the Prudential Borrowing Code.

2.2 Debt charges impact on the revenue budget, but timing and term of the borrowing vary according to category of borrowing, the point at which expenditure occurs and the bank balance. For these reasons the impact of the proposals in this report will largely take effect from financial year 2010/11 onwards. A detailed financial appraisal is given in sections 4 and 5.

2.3 For similar reasons any slippage in the previously approved capital programme will impact the 2009/10 revenue budget as debt charges will be less than planned, resulting in a revenue budget saving in that year. Current slippage is documented in Section 3 and the financial consequences are included within section 4.

2.4 Financing costs associated with the programme approved on 3 October 2008 are used as a base comparison in the financial analysis in section 4.

3. PROGRAMME AND PROPOSALS

Estate Development

Exeter Middlemoor and Exeter Danes Castle

3.1 There are no changes to these already approved schemes. Good progress is being made with the schemes considered to be ahead and in excess of forecast budget cashflow at financial year end. The schemes will remain within budget overall.

Other Projects

3.2 The ongoing sums approved by the Authority in February 2008 in respect of ring-fenced maintenance have been increased by inflation to £750,000.

3.3 The proportion of the two year £2m government capital grant allocated to 2009/10 is £870,000. Although there are no absolute constraints concerning its use, there is an assumption that facilities on station will be brought into line with equality and diversity requirements. The Service has many shortcomings in this respect and therefore the funds will be widely deployed to address some of these issues.

3.4 The currently planned projects covering the two budgets totalling £1.62m in total is shown below, but this is subject to amendment where blocking factors arise, albeit the overall budget will be adhered to.

Taunton	Phase 2 of internal refurbishment	150,000
Yeovil	Phase 2 of internal refurbishment	100,000
New drill tower	Teignmouth, Exmouth, Dulverton, Totnes, Shepton Mallet or Crownhill	60,000
Station extensions	Ivybridge Dawlish Street Bovey Tracey	160,000 160,000 160,000 160,000

DDA, DAW, BA, Drying Room, Community access works	Honiton Lynton Martock Chumleigh plus new roof Sidmouth STC Phase 2	60,000 100,000 30,000 60,000 120,000 65,000
Torquay	Phase 2 of training structure	175,000
New boiler	Crownhill, Camels Head or Torquay	45,000
Total		**1,605,000**

2008/09 Slippage

3.5 Slippage at financial year end is a regular phenomenon in major capital projects due to the inability to control certain external factors, examples of which are the planning process and conveyance transactions. In these circumstances it becomes difficult to fully complete 'other project' schemes within the financial year that they are approved.

3.6 Slippage on the major schemes is dealt with by re-profiling the scheme, whilst maintaining the originally approved threshold, albeit at the moment the Exeter schemes are generally performing ahead of profile. Slippage in other projects totalling an estimated £231,700 has occurred, however, but again, originally approved thresholds are held. Progress on Exeter stations ahead of October's revised schedule has compensated for this slippage.

3.7 Slippage does not necessarily have a major detrimental impact on the scheme as the prudential code financial guidelines now allow for greater flexibility in roll over between financial years. The originally projected debt charges are affected, however, in that there will be less revenue spend than originally planned in the relevant year. The final slippage figure may vary when the outturn report is completed following year end.

Fleet and Equipment

Replacement Appliances

3.8 The Authority approved a programme which allowed for the replacement of 9 appliances at its meeting of 30 May 2007 and these are due for delivery in April this year. No new appliances were approved in the 2008/09 budget year as the programme was effectively frozen. This currently results in a backlog in the replacement programme of 6 appliances overdue from 2007/08 and 8 from 2008/09. A further 9 are due for replacement in 2009/10, 13 in 2010/11 and potentially around 12 (the average figure) in 2011/12. This would give an overall total requirement of 48 appliances by 2011/12 if appliances were replaced 'like for like' in line with the current replacement policy. The endorsed proposal in Appendix A allows for an additional £6m to be spent on vehicle replacements over the next three years. This would need to cover the requirements of special vehicles and aerials in addition to appliances. For comparison purposes, these funds would allow for 21 appliances to be replaced with £1.17m spent on specials. The current euro currency exchange rate would impact on this, however, as a significant proportion of equipment is necessarily sourced from continental Europe.

3.9 As noted in previous reports, the Authority has the second largest fleet in England and failure to abide by the replacement schedules leads to significant problems in future years such as increased maintenance costs, less operational availability due to breakdown failures and difficulties in maintaining legislative and health and safety compliance. Furthermore, new vehicles are far more energy and environmentally efficient with significant ergonomic advantages, which take account of equality and diversity considerations, thereby encouraging use by a more diversified workforce, some of whom would feel disadvantaged and discouraged from working with old vehicles.

3.10 This rising backlog is perturbing, but in line with current best practice, as advocated in the recent Audit Report 'Rising to the Challenge' the Service is reviewing resource requirements and disposition in line with local risk. Hence it is considering a wider portfolio of vehicles specially targeted to meet these local risks. These vehicles are generically referred to as Targeted Response Vehicles (TRVs). A typical TRV is significantly less expensive than the traditional appliance and therefore it may be possible to achieve a wider replacement programme through a mixture of appliances and TRVs as appropriate to the defined risks.

3.11 It is likely, however, that there will still be an overall medium term funding deficit to meet full operational needs unless more stringent measures are put into place and/or other funding support realised through efficiency savings.

Aerial replacement

3.12 The Authority approved a programme which allowed for the replacement of 3 aerials and refurbishment of a further 2 aerials at its meeting of 30 May 2007. As was always the intention, subject to containment within the funding envelope, this was revised in October 2008 to allow the 2 refurbished aerials to become new ones through efficiencies in the procurement programme throughout. The aerials will be delivered in the first quarter of 2010 and there will be a degree of compatibility within the region. There are three further aerials within the Service due for replacement within timescales of this programme and these would be reviewed as part of asset review process and the total funding envelope available.

Specialist Operational Vehicles

3.13 The Authority approved a programme which allowed for the replacement of certain special operational vehicles at its meeting of 30 May 2007. The programme is in varying degrees of completion due to the bespoke nature of these vehicles. There is a backlog of 4 replacement vehicles due for 2008/09 and a further 10 or so are due over the next three years. As explained above the replacement programme was frozen in 2008/09 and new vehicles will have to be funded within the funding envelope proposed for vehicles in total. The new TRV concept may also impact on the specials programme as vehicle scope of operations become more flexible due to increased versatility of use and location.

Equipment

3.14 The previously approved equipment replacement budget has been updated in line with inflation only.

2008/09 Slippage

3.15 Slippage occurs due to the inability to control certain external factors, an example of which is the manufacturer's build schedule slots for vehicles.

3.16 Slippage inevitably occurred with the aerial replacement programme and there has been a minor delivery delay of appliances to April 2009, resulting in final payment being in the next financial year. Such delays may be managed within the prudential code financial guidelines. The originally projected debt charges are affected, however, in that there will be less revenue spend than originally planned in the relevant year. Slippage for fleet and equipment is estimated at £700,000, largely as a result of the 9 new appliances being slightly late in delivery and slipping into the 2009/10 financial year as stated.

4. FINANCING OF THE PROPOSED REVISED CAPITAL PROGRAMME

4.1 The amount of capital expenditure borrowing that is supported through the Revenue Support Grant and known as Supported Capital Expenditure (SCE(R)) for 2009/10 is £1,757,000. The SCE(R) is based on population (as it is for County Councils) and not on asset base as it is for Metropolitan Fire Authorities. This fails to take account of the need to provide significantly more assets in sparsely populated areas than in urban areas. This "sparsity" factor is well recognised but as yet receiving insufficient funding support from government. It has a particularly significant impact on Devon and Somerset. The Authority has made representations to government on this aspect, but without any positive outcome to date.

4.2 Borrowing in excess of the SCE(R) is permitted through the Prudential Code and classed as unsupported borrowing. These borrowing requirements are controlled by the approval and monitoring of the prudential indicators, and through the adoption of the Authority's treasury management strategy and practices.

4.3 There are projected overall slippages in the 2008/09 Capital programme will result in the debt charges appertaining to those schemes being lower in 2009/10 than originally forecast.

4.4 The schedule in Appendix A illustrates the revised spending profiles for 2009/10 through to 2011/12. The estimated debt charges emanating from this revised spending profile are illustrated in Table 1 below. These figures have been included in the 2009/2010 revenue budget and Medium Term Financial Plan (MTFP).

TABLE 1 – SUMMARY OF ESTIMATED CAPITAL FINANCING COSTS

	2008/09	2009/10	2010/11	2011/12
	£m	£000	£000	£000
Base budget for Capital Financing Costs – debt charges and operating leasing rentals	4.413	4.544	4.971	5.355
Increase over previous year		0.131	0.427	0.384

5. REVISED PRUDENTIAL INDICATORS

5.1 In considering the original capital programme for the years 2008/2009 to 2010/2011 at the February budget meeting (revised in October 2008), the Authority also approved the prudential indicators associated with the proposed level of spending. These are the indicators required to be set, by the Authority, under the Prudential Code for Capital Financing, to ensure that capital spending plans are affordable, prudent and sustainable. Given the revised capital programme included in this report it is necessary for those indicators to be revised based upon the new proposed level of spending. These revised indicators form the basis of a separate report elsewhere on the agenda for this meeting.

6. CONCLUSION AND RECOMMENDATION

6.1 This report has built upon the report "Affordable Capital Investment Plans for 2009/10 to 2011/12" as submitted to the previous meeting of the Committee.

6.2 Both this and the previous report have emphasised the pressure a Service of the size of DSFRS puts upon its capital programme requirements. It is clearly necessary that an affordable proposal is put in place, however, and both reports have recommended the same prudent solution.

6.3 It is clear, however, that the solution does not fully address the needs of the Service either now or in the future. With budget settlements set to become even more stringent in future years as a consequence of the economic downturn, it is apparent that it will become extremely difficult to address the backlog in asset replacement and maintenance that is accruing. The CLG grant has 'softened the blow', but it perhaps seems unlikely that this will be continued beyond the initial two year period. It would be prudent for the Service to seek to review its asset base for the future to consider more flexible, economic and targeted resources to meet local risk requirements. Preliminary studies are underway in this respect.

6.4 The proposed capital programme as set down in Appendix A is now recommended for approval.

DEREK WENSLEY **Head of Physical Assets**	**KEVIN WOODWARD** **Treasurer**

Proposed Capital Programme (2009/10 - 2011/12)

PREV YEARS (£000)	2008/09 (£000)	PROJECT	2009/10 (£000)	2010/11 (£000)	2011/12 (£000)	Project Total incl. prev years (£000)
		Estate Development				
661	1,522	Exeter Middlemoor	1,769	150		4,102
61	1,187	Exeter Danes Castle	1,692	103		3,043
	469	Other Projects				
		Funded Capital grant	870	1,193		2,063
		Allocation			1,000	1,000
	483	Maintenance ring fenced	750	750	750	2,733
		2008/09 slippage	231			231
	624	2007/08 slippage				
	4,285	**Estates Sub Total**	**5,312**	**2,196**	**1,750**	
		Fleet & Equipment	-			
	1,155	Appliance replacement	1,675	880		3,710
	200	Specialist Operational Vehicles	368			568
		Vehicle replacement programme	870	3,140	2,000	6,010
	259	Equipment	319	319	319	1,216
26	55	Asset Management Plan (Miquest) software	144			225
		2008/09 slippage	50			50
	400	2007/08 slippage				
	170	BA cylinder replacement				
	2,239	**Fleet & Equipment Sub Total**	**3,426**	**4,339**	**2,319**	
	6,524	**Overall Capital Totals**	**8,738**	**6,535**	**4,069**	

Note that the total of £25,866 for 2008/09, 2009/10, 2010/11 and 2011/12 equates directly with the sums presented to Resources Committee on 8 December 2008 in the report: Affordable Capital Investment Plans 2009/10 to 2011/12. The only movement is that the overall slippage for 2008/09 has been updated from £655,000 to £536,000, but the totals remain the same.

Revised Capital Programme (2008/09 - 2010/11)

PREV YEARS (£000)	2007/08 (£000)	PROJECT	2008/09 (£000)	2009/10 (£000)	2010/11 (£000)	Project Total incl. prev years (£000)
		Estate Development				
52	609	Exeter Middlemoor	1,450	1,841	150	4,102
	61	Exeter Danes Castle	864	2,015	103	3,043
	1,019	SHQ building	449			1,468
	1,310	USAR Project	20			1,330
		Maintenance ring fenced	714	714	714	2,142
		2007/08 slippage	525			525
		2006/07 slippage	99			99
		Estates 2008 - 2010 Sub Total	**4,121**	**4,570**	**967**	
		Fleet & Equipment	-			
		Appliance replacement	1,760	1,950		3,710
		Specialist Operational Vehicles	200	368		568
		Equipment	309	309	309	927
		BA cylinder replacement	170			170
	26	Asset Management Plan (Miquest) software	100	99		225
		2007/08 slippage	234			234
		2006/07 slippage	166			166
		Fleet & Equipment 2008 - 2010 Sub Total	**2,939**	**2,726**	**309**	
		Overall Capital 2008 - 2010 Totals	**7,060**	**7,296**	**1,276**	