DEVON & SOMERSET FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/08/10**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**8 DECEMBER 2008**
SUBJECT OF REPORT	**AFFORDABLE CAPITAL INVESTMENT PLANS FOR 2009/2010 TO 2011/2012**
LEAD OFFICER	**Treasurer and Head of Financial Management and Head of Physical Assets**
RECOMMENDATIONS	***That, subject to further consideration as part of the budget setting process for 2009/2010, the provisional capital investment limits for 2009/2010 to 2011/2012, as set out in paragraph 7.6 of this report, be endorsed.***
EXECUTIVE SUMMARY	This report builds upon previous reports to the Authority highlighting the significant capital investment needs of a large rural fire and rescue authority (such as Devon & Somerset Fire & Rescue Authority - DSFRA) and the inability of the Authority to fund those requirements as a consequence of financial restraints. For planning purposes, this report sets out what are considered to be affordable capital spending limits for the next three year period. A further report will be brought back to the next meeting of the Resources Committee in February 2009 on final proposals it is felt can be funded from the approved limits.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	This report has undergone an initial Equality Impact Assessment (EIA) screening which has not identified any potential negative impact that would warrant a full impact assessment on this occasion.
APPENDICES	A. Existing Capital Programme for 2008/2009 to 2010/2011
LIST OF BACKGROUND PAPERS	Capital Programme Report to Shadow Devon and Somerset Fire and Rescue Authority (SDSFRA/07/8) on 12 February 2007. Capital Programme Report to Devon and Somerset Fire and Rescue Authority (DSFRA/07/6) on 30 May 2007. Capital Programme Report to Devon and Somerset Fire and Rescue Authority (DSFRA/08/3) on 15 February 2008. Capital Monitoring Report to Resources Committee (RC/08/8) on 3 October 2008.

1. INTRODUCTION

1.1 The purpose of this report is to consider what is affordable in terms of capital investment over the next three-year period covering 2009/2010 to 2011/2012. Contained within this report are recommendations as to affordable levels of capital spending over the next three years. Subject to the approval of those limits, a further report will be brought back to the Resources Committee on 4 February 2009, with detailed proposals for new capital spending in 2009/2010 to 2011/2012. Any proposals for new capital spending will ultimately be subject to approval of the Devon and Somerset Fire and Rescue Authority at its budget setting meeting on 16 February 2009.

2. BACKGROUND

2.1 The current capital programme has been set at £7.060m for 2008/2009, £7.296m for 2009/2010, and £1.276m for 2010/2011 (see Appendix A). These levels were approved by the Resources Committee at its last meeting (Minute *RC/11 refers) and reflect a revision to the original programme as set in February 2008 as part of the budget setting for the current financial year. This programme makes provision for the completion of two new stations in Exeter, a 'ring fenced' provision for smaller improvements, the completion of the 2007/2008 and 2008/2009 replacement appliance programme, and provision for the replacement of obsolete operational equipment e.g. road traffic collision equipment.

2.2 Whilst it is recognised that the current level of programme is much healthier than it would have been prior to the introduction of the Prudential Code, when the amount of new capital spending was constrained by a government set borrowing limit, the current approved programme is still well short of the levels of capital spending needed for this Authority. The combination of Devon and Somerset Fire and Rescue Services has resulted in an organisation that is amongst the largest fire and rescue authorities (FRAs) in the country, and is the second largest to London in terms of the number of fire stations and vehicle fleet. This places significant financial pressures on the Authority in terms of supporting the asset replacement needs as identified in the Asset Management Strategy over the medium to long term. The capital investment needs of the Authority are further explored in Section 5 of this report.

2.3 Current estimates are that the capital programme for the next three years would need to be increased in total by approximately £37m to provide an adequate replacement programme for fire stations, appliances and equipment, whilst also providing sufficient provision for 'ring fenced' smaller improvements and maintenance. As is illustrated within this report, this level of spending is clearly not affordable to this Authority, and therefore a balance has to be struck between an assessment of minimum levels of capital investment and what is affordable.

3. CAPITAL RESOURCES AVAILABLE

3.1 The financing options available for capital investment can be summarised as follows:

- Borrowing
- Capital Receipts
- Revenue Contributions
- Capital Grants
- Leasing

Borrowing

3.2 Whilst it would be the absolute wish of any local authority not to have to borrow to fund capital investment, because of the significant impact on the revenue budget and council tax, the reality for all fire and rescue authorities is that - in the absence of any other significant funding streams for capital spending - borrowing is the only significant funding option available. The full year effect of borrowing £1m to fund capital spending on property related issues is typically £85,000 (assuming current borrowing rates of 4.5%), and £128,000 to fund £1m capital spending on replacement fire appliances.

3.3 The Prudential Code has introduced two categories of borrowing, namely supported and unsupported. Supported borrowing represents the amount to which notional revenue resources are included in the Revenue Support Grant (RSG) allocation, to support the revenue consequences of borrowing. The amount of supported borrowing for each local authority is determined by the allocation by the government of what is called Supported Capital Expenditure (SCE (R)). The allocation to the Devon & Somerset Fire & Rescue Authority (DSFRA) for 2009/2010, as included in the indicative 2009/2010 grant settlement, is £1.757m. The distribution of the total of SCE(R) amongst combined fire and rescue authorities is based on population and not on asset base (as it is for Metropolitan Fire Authorities). An allocation based on population is totally flawed as it takes no account of the significant numbers of fire stations and appliances within a rural fire and rescue authorities (FRAs) such as Devon and Somerset. For example, because Essex FRA and Hampshire FRA have similar populations to ourselves, they have been allocated almost identical SCE (R) allocations as DSFRA, even though we have 64% more fire stations than those two FRAs. This Authority has challenged the government on numerous occasions to seek a more equitable distribution of SCE(R), but to no avail.

3.4 Unsupported borrowing is the sum over and above the supported borrowing that the Authority chooses to utilise for capital investment purposes. Under the Prudential Code the Authority can incur unsupported borrowing to any level that it wishes, as long as it is assured of affordability implications to its revenue budget in the current and subsequent years. The Prudential Indicators, which are required to be set by the authority each year alongside capital investment plans, provide the measure of affordability, prudency and sustainability.

Capital Receipts

3.5 A capital receipt arises when a capital asset such as a building is sold. The sum received must be treated as a capital receipt. This can only be used for two specific purposes - either to repay existing debt or to invest in new capital spending. The extent to which this Authority has been able to utilise such a funding option has been extremely limited given that it has very few assets which are not used for operational purposes.

Revenue Contributions

3.6 Whilst the Authority is perfectly at liberty to make contributions directly from the revenue budget to fund capital spending, the reality is that the extent to which contributions are made will very much depend on the affordability within the Medium Term Financial Plan (MTFP). In recent years this Authority has used opportunities from in-year underspends on the revenue budget to fund individual capital schemes, e.g. replacement breathing apparatus and flood damage to Brixham station.

Capital Grants

3.7 Where capital grants are made available by the government, the amount of grant will be used directly to fund capital spending therefore avoiding the need to borrow for that amount. Traditionally in the fire and rescue service there has not been significant amounts of capital grants made available but that trend has started to change, recognising to some extent the inability of FRAs to afford adequate capital investment strategies. For example, the government has recently announced that it will be allocating new capital grant monies totalling £78m to be distributed to FRAs over 2009/2010 and 2010/2011. Whilst this is welcome news, it is disappointing that it seems likely that the distribution of the total amount of £78m will again take no account of asset base. Indications are that this Authority will be granted approximately £2m over the two years, based upon the government preferred option for distribution. If it were to be allocated based upon numbers of fire stations, this Authority's grant allocation would increase to just over £3.5m over the next two years. Representations on this issue have been made to the government, as part of the consultation process to this grant allocation, but it is not anticipated that the distribution basis will change.

3.8 The award of the capital grant mentioned in paragraph 3.7 is an example of a grant that is not ring fenced i.e. it can be used to fund any capital investment that the authority so chooses. From time to time, the government will also award ring fenced capital grants to fund a specific project or initiative. Recent examples of such grants include the Urban Search and Rescue (USAR) grant awarded to fund the provision of the USAR infrastructure at Service Headquarters and grant allocations targeted at the installation of smoke alarms.

Leasing

3.9 Prior to the introduction of the Prudential Code in 2004, the amount of capital investment was very much constrained by the government limit set for each local authority. Given these constraints, many local authorities used leasing as a means of funding replacement vehicles and equipment programmes. Leasing was, and still continues to be, a perfectly legitimate means of funding replacement vehicles and equipment. The reason that it was widely used prior to 2004, however, was that it did not count against the borrowing limit. This was because leasing was regarded as 'off balance sheet' funding as the ownership of the assets never transferred to the authority. The disadvantage of using leasing was that the whole life cost of financing was typically more expensive than borrowing, as the lessor would seek a return on the transaction which would be included in the annual rental payments made.

3.10 The abolition of the old borrowing limits in 2004 has meant that many local authorities have moved away from leasing as a mainstream funding mechanism. Some leasing (namely operating leases) is, however, still regarded as 'off balance sheet' and not regarded as a borrowing arrangement, thereby making it still an attractive means of funding in the future when borrowing limits are deemed restrictive. Both Devon FRS and Somerset FRS had extensively used leasing to fund the replacement appliance programme prior to 2004 and subsequently changed to borrowing following the introduction of the Prudential Code.

4. SPENDING AGAINST THE EXISTING CAPITAL PROGRAMME

4.1 The existing capital programme for the years 2008/2009 to 2010/2011 is included with this report as Appendix A. Table 1 below summarises the impact of additional debt charges emanating from this level of spending over and above the existing base budget for 2008/2009.

TABLE 1- SUMMARY OF ESTIMATED CAPITAL FINANCING COSTS FROM EXISTING CAPITAL PROGRAMME			
	2008/09 £m	**2009/10 £m**	**2010/11 £m**
2008/2009 Base Budget for Debt Charges and Leasing Costs.	4.413	4.413	4.413
Debt charges and leasing budget required to fund current capital programme (as per Appendix A)	4.144	4.762	5.257
Variation from 2008/2009 Base Budget	**(0.269)**	**0.349**	**0.844**

4.2 The increase in debt charges for 2009/2010 and 2010/2011, indicated from Table 1, have previously been considered by the Authority (most recently at the last meeting of this Committee) and deemed to be affordable in the context of its impact on the MTFP and the exposure to borrowing

Progress of Spending Against Existing Programme

4.3 A full progress report of spending against the existing programme was considered at the last meeting of Resources Committee. A further update is provided below.

Estates

4.4 Within the Estates component there has been no significant change and the schemes, including the Exeter stations, are proceeding to plan.

Fleet and Equipment

4.5 Within the Fleet and Equipment component there have been some revisions. As previously reported there were international pressures regarding slots for vehicle chassis. This revised timing has resulted in the final completion of 8 'B' type appliances slipping into April in the next financial year as a consequence of which it is estimated that £0.605m expenditure will slip into the next financial year. With regard to the equipment line, £0.234m slippage was brought forward from 2007/08. This is programmed to be fully spent. Of the current year's allocation of £0.309m, however, it is estimated than an amount of £0.050m will slip into the next financial year.

5. CAPITAL INVESTMENT PRESSURES

5.1 The pressures on the capital programme, particularly following combination, have been reported to the Authority on several occasions. DSFRA is the second largest fire service asset portfolio holder in the country but its capital grant support is disadvantaged due to the sparsity factor not being adequately taken into account. Some pressures on the asset portfolio include:

Estates

- 83 stations;

- Diversity and Equality requirements at all premises/stations;
- All stations require upgrading to minimum standard facilities;
- Maintenance backlog is significant and increases when insufficient replacement/ refurbishment
- Capital and Revenue budgets were not uplifted proportionately following combination. A fully subscribed capital programme (as reported to the Authority at its meetings in January 2007 and 2008) would amount to some £8.3m pa;
- Energy efficiency considerations, including mandatory energy certification;
- Sustainability agenda;
- Legislative requirements, including the Disability Discrimination Act (DDA);
- No new major schemes approved in 2008/09;
- Staff welfare and Health & Safety considerations;
- Community use of fire stations;
- Further development at SHQ to house increased staff numbers and replace 'temporary' buildings;
- Replacement of unsuitable and deteriorating training facilities.

Fleet & Equipment

- No appliance replacements approved in 2008/09 – programme effectively frozen. On average 12.75 appliances would come up for replacement each year (cost £3m) and various special operational vehicles as required;
- 23 appliance replacements outstanding by 2009/10;
- Diversity and Equality requirements – latest vehicles / stowage have taken diversity into consideration;
- Energy efficiency – latest vehicles much more fuel efficient;
- Emission standards – latest vehicles much cleaner – Euro 4/5 emission standards;
- Maintenance becomes more expensive and time consuming as the fleet deteriorates;
- Increased risk of not making attendances due to breakdown;
- Appliances available less for front line duty due to increased time at workshop for repair;
- Legislative requirements;
- Health & Safety considerations;
- Reputation / public image considerations.

5.2 If the asset portfolio deteriorates through lack of investment then cost and risk factors start to escalate. Some fire and rescue services have chosen to address the lack of investment problem through the Private Finance Initiative (PFI). In the recent 2008 announcements PFI allocations were: Surrey £35m; Staffs £30m; and £60m Cleveland/Durham/Northumberland. DSFRA has not considered this route to date due to cost effectiveness issues regarding size of bid (min £10m recommended) long-term tie in and potential expense and inflexibility (adverse feedback).

5.3 It may be seen from the fully subscribed estate capital requirements and the average vehicle replacement per annum costs quoted above, together with backlog data, that an additional £37m would be required over a three-year period to meet the full capital requirements in supporting the asset portfolio as illustrated in Table 5 of this report.

6. PRUDENTIAL INDICATORS - AFFORDABILITY

6.1 As is stated earlier in this report, the Prudential Code and consequent abolition of the government imposed borrowing limits has introduced a new regime whereby it is for each local authority to decide for itself as to what levels of capital spending is affordable.

6.2 The fundamental objective in the consideration of the affordability of the Authority's capital spending plans is to ensure that the level of investment in capital assets proposed means that the total capital investment remains within sustainable limits and in particular to consider its impact on the 'bottom line' Council Tax. Affordability is ultimately determined by a judgement about how much of the authority's total revenue budget can be used to pay for the debt charges emanating from capital spending, given the many competing pressures on the revenue budget. The three affordability prudential indicators required to be agreed by the authority alongside capital investment plans are:

- Ratio of financing costs to net revenue stream
- Change in Band D equivalent Council Tax
- Capital Financing Requirement

Ratio of financing costs to net revenue stream

6.3 This shows the proportion of the income received from council tax and government grant that is spent on paying the consequences of borrowing undertaken to finance the capital programme. The approved ratios relating to the existing capital programme are shown in Table 2 below, with a comparison against other FRA averages;

TABLE 2 – PRUDENTIAL INDICATOR – RATIO OF FINANCING COSTS TO REVENUE STREAM			
	2008/09 Estimate	**2009/10 Estimate**	**2010/11 Estimate**
Devon and Somerset FRA	2.48%	3.24%	3.73%
Average for Combined FRAs[1]	2.01%	2.23%	Not available
Average for Metropolitan FRAs	5.29%	5.31%	Not available

6.4 Whilst the figures in Table 2 illustrate that the ratio for DSFRA is higher than the average for all combined FRAs, it has to be emphasised that this is inevitable given that this Authority has the largest asset base of all combined FRAs in the country. For instance, DSFRA has 83 fire stations to maintain and replace compared to the average number for all Combined FRAs of just 31. It should also be noted that, whilst above the average, this Authority is currently well below the highest. For instance, the average figure of 2.23% for all combined FRAs for 2009/2010 ranges from 0.65% to 7.28%.

[1] Estimates per CIPFA Prudential Indicators 2007

6.5 The figures in Table 2 also illustrate that this Authority's ratio is currently well below the average for all Metropolitan FRAs, however it should be noted that this comparison is misleading, as combined FRAs have only been in existence since 1998 and have consequently only been able to borrow since that time.

Change in Band D equivalent Council Tax

6.6 This prudential indicator is required in order that the Authority can consider the impact on the Council Tax in setting its forward capital investment plans. It is a requirement that this indicator is expressed as the cash amount which relates to the incremental impact on council tax from a revision in the programme. The figure does not therefore represent the impact to Council Tax of the total programme, only the incremental impact from an authority decision to revise capital spending plans. The approved figures for DSFRA are provided in Table 3 below. No comparators to other FRAs are available for this indicator.

TABLE 3 – PRUDENTIAL INDICATOR – CHANGE IN BAND D EQUIVALENT COUNCIL TAX			
	2008/09 Estimate £ p	**2009/10 Estimate £ p**	**2010/11 Estimate £ p**
Devon and Somerset FRA	£(0.10)	£0.14	£0.20

Capital Financing Requirement (CFR)

6.7 The CFR measures the underlying need to borrow for capital investment purposes, and is therefore different than the actual borrowing at any time, which includes day-to-day treasury management activities, and therefore the consequences of revenue transactions as well as capital. The approved CFR figures for this authority, based upon the existing programme, are illustrated in Table 4. This indicates that borrowing to fund capital spending will have reached £28.5m by the end of 2009/2010.

TABLE 4 – PRUDENTIAL INDICATOR – CAPITAL FINANCING REQUIREMENT			
	2008/09 Estimate £m	**2009/10 Estimate £m**	**2010/11 Estimate £m**
Devon and Somerset FRA	22.842	28.581	27.923
Average for Combined FRAs[2]	11.589	13.093	Not available
Average for Metropolitan FRAs	39.589	40.786	Not available

6.8 Whilst the figures in Table 4 illustrate that the CFR for this Authority is above the average for all combined FRAs, again this has to be assessed in the context that DSFRA has significantly more capital investment needs than the average combined FRA, and its borrowing figure will inevitably be higher. It should also be noted that whilst above the average, it is not the highest. For instance, the average figure for 2009/2010 of £13.093m for all combined FRAs, ranges from £2.417m to £55.810m.

[2] Estimates per CIPFA Prudential Indicators 2007

7. AFFORDABLE CAPITAL INVESTMENT LIMITS 2009/2010 TO 2011/012

7.1 As is highlighted from Section 5 above, the capital investment needs of the Authority are far in excess of existing programme levels. The award of new grant monies for 2009/2010 and 2010/2011 will, of course, provide some welcome new funding to address some of these issues but the reality is that the Authority will continue to rely heavily on its ability to borrow to fund the majority of its future capital investment needs. This, of course, has the most significant impact in terms of the debt charges incurred which have to be funded from the revenue budget, not just for year one but for many years to come.

7.2 As is stated earlier in the report, current estimates are that the Authority would need to invest an additional £37m over the next three financial years, over and above existing commitments, to provide an adequate capital programme, to bring a total required capital programme for 2009/10 to 2011/12 to £44.2m, as summarised in Table 5 below.

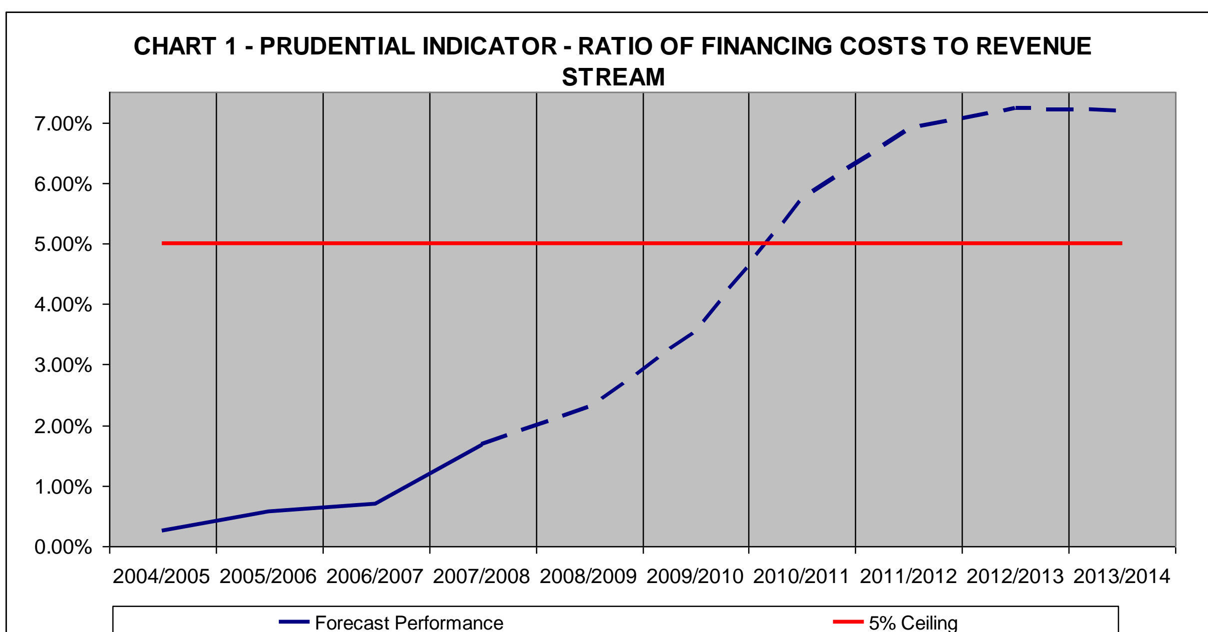
TABLE 5 – FULL CAPITAL PROGRAMME	**2009/10 £m**	**2010/11 £m**	**2011/12 £m**	**TOTALS 2009-2012 £m**
Committed Schemes – e.g. 2 x Exeter stations, completion of 2007/2008 and 2008/2009 replacement appliance programme	**6.048**	**1.133**		**7.181**
New Starts				
Estates Schemes	8.210	8.210	8.210	24.630
Vehicle and Equipment Replacement Programme	5.959	4.129	2.319	12.407
Sub total – New Starts	**14.169**	**12.339**	**10.529**	**37.037**
TOTAL PROGRAMME	**20.217**	**13.472**	**10.529**	**44.218**

7.3 Table 6 below provides a summary of the financial impact, in terms of additional debt charges and revised prudential indicators, emanating from a total programme of £44.2m.

TABLE 6- SUMMARY OF FINANCIAL IMPACT FROM A FULL CAPITAL PROGRAMME			
	2009/10 £m	**2010/11 £m**	**2011/12 £m**
1) Impact to Revenue Budget			
Capital Financing budget required to fund a full capital programme (as per Table 5)	4.794	6.285	7.230
Capital Financing budget required to fund existing capital programme (as per Appendix A)	4.762	5.257	5.283
Increase in Capital Financing Costs	**0.032**	**1.028**	**1.947**
2) Prudential Indicators	**2009/10**	**2010/11**	**2011/12**
Ratio of Financing Costs to Revenue Stream	3.53%	5.70%	6.84%
Incremental change in Band D equivalent Council Tax	£0.05	£1.691	£3.19
Capital Financing Requirement	40.036	49.687	56.902

7.4 Whilst there is no one single absolute measure for determining an affordable amount of capital investment, ultimately the extent to which the Authority can afford new capital spending will be constrained by its ability to meet the additional debt charges from the annual revenue budget, when balanced against other MTFP priorities. With this in mind, the figures illustrated in Table 6 clearly demonstrate that a capital programme of £44.2m over the next three years is not an affordable option, particularly when considering the impact from 2010/2011 onwards in terms of the significant increases in debt charges. For instance, to support this level of additional spending will require an increase in the 2010/2011 revenue budget of £1.028m, over and above the debt charges figure currently included in the MTFP to fund the existing capital programme, equivalent to approximately 2.6% on the Council Tax. In the context of the existing MTFP, which includes provision for other commitments on the revenue budget (such as pay and prices increases) an increase in Council Tax of 2.6% to support additional debt charges is not affordable unless further efficiency savings can be identified to offset the additional debt charges.

7.5 Analysis of the prudential indicators emanating from a total programme of £44.2m also provides further evidence that this level of capital investment is not affordable, in particular the ratio of financing costs to revenue stream. Whilst the amount of borrowing that the Authority is being exposed will always be of concern, it is the ratio of financing costs to net revenue stream that provides a good measure of the Authority's exposure to debt. This is because it provides a guide as to how much of the total revenue budget is being spent on debt repayments, in the same way as an individual would want to know how much of his/her disposable income would be committed on monthly mortgage repayments before agreeing to a mortgage amount. The figures in Table 6 indicate that a capital programme of £44.2m over the next three financial years would increase this ratio to 5.70% in 2010/11 and to 6.84% in 2011/12. As is indicated from Table 2 of this report, whilst a ratio of this level would not be the highest of all combined FRAs, it would certainly be above the average and place the Authority in the upper quartile. In the context of the size of this Authority and its significant capital investment needs, as outlined in this report, it is my view that, as a measure of debt exposure, a ratio of financing costs to revenue stream should be held at, or below, 5% over the period 2009/10 to 2011/12. Chart 1 overleaf illustrates the forecast ratio up until 2013/2104 emanating from a total capital programme of £44.2m for the period 2009/10 to 2011/12.



7.6 Given that a capital investment programme of £44.2m is not affordable, the Head of Physical Assets has been asked to consider the priorities as contained in the Asset Management Strategy and consider what would be the minimum requirement in terms of additional capital investment for the period 2009/2010 to 2011/2012. Table 7 below provides a summary of that assessment of a minimum requirement.

TABLE 7 – MINIMUM ASSESSMENT OF CAPITAL PROGRAMME REQUIREMENT				
	2009/10 £m	**2010/11 £m**	**2011/12 £m**	**TOTALS 2009-2012 £m**
Committed Schemes – e.g. 2 x Exeter stations, completion of 2007/2008 and 2008/2009 replacement appliance programme	**6.048**	**1.133**		**7.181**
New Starts				
Estates Schemes	1.620	1.943	1.750	5.313
Vehicle Replacement Programme	0.870	3.140	2.000	6.010
Equipment Replacement Programme	0.319	0.319	0.319	0.957
Sub total – New Starts	**2.809**	**5.402**	**4.069**	**12.280**
TOTAL PROGRAMME	**8.857**	**6.535**	**4.069**	**19.461**

7.7 A new starts programme of £12.280m would provide funding for:

- The continuation of the ring fenced structural maintenance programme at £0.750m per annum i.e. £2.250m over three years;
- Provision of £3.063m to enable small improvement schemes (£2m to be funded from capital grants);
- The continuation of a replacement programme for operational equipment at £0.319m per annum, i.e. £0.957 over three years; and
- Provision of £6m for a minimum replacement appliance programme.

7.8 In relation to the capital grant of £2m to fund estates projects it should be emphasised that, at the time of writing this report, the actual amount of allocation has not been confirmed and the figure of £2m is based on the indicative allocation for this Authority included in the consultation document issued by the government. As is highlighted in paragraph 3.7 of this report, the preferred distribution methodology of the government, takes no account of the asset base of each FRA, resulting in an inequitable distribution of the total grant available amongst FRAs. Whilst a response to this document has been issued to the government to challenge their preferred option, it is not anticipated that the distribution methodology will be changed. Notification of the actual grant allocations is expected in the next few months and any changes will need to be considered before final decisions are made on the capital investment programme.

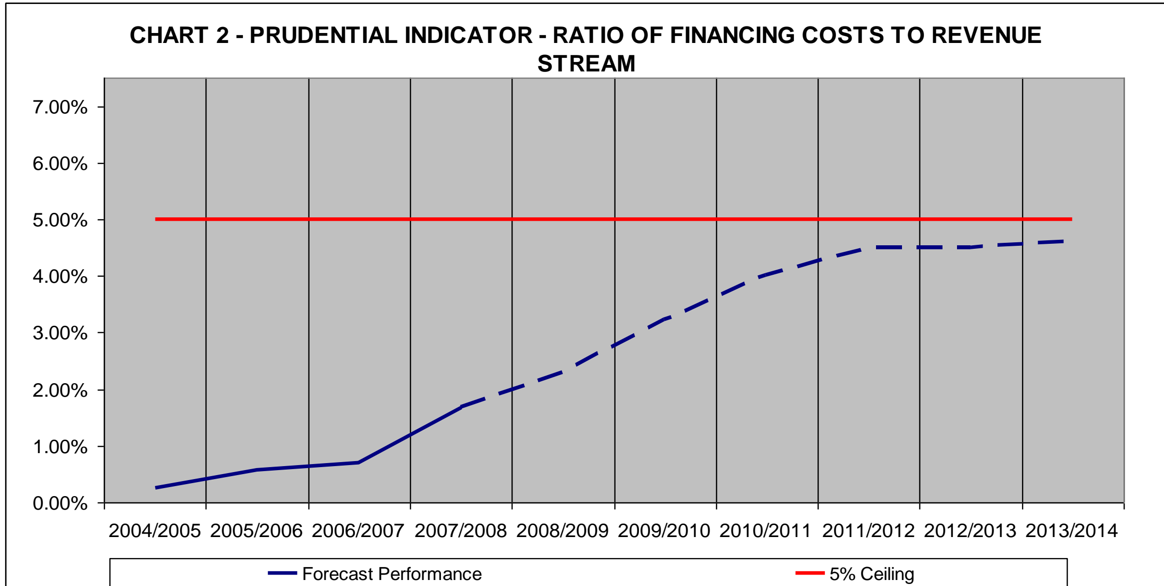
7.9 It should be noted that, whilst the minimum capital investment assessment includes an additional £6m for a replacement appliance programme, the additional borrowing costs from this spending will be partly offset by a reduction in the leasing budget as a consequence of the expiry of leasing contracts from replacement appliance spending years prior to 2004, when both ex-Devon and ex-Somerset FRS used leasing to fund its appliance replacement programme. It should also be noted that the provision of £6m over three years is less than the typical combined provision made within Devon FRS and Somerset FRS separately, prior to combination.

7.10 Table 8 below provides a summary of the financial impact, in terms of additional debt charges and changes to the prudential indicators, emanating from a total capital programme of £19.4m over the three years.

TABLE 8- SUMMARY OF FINANCIAL IMPACT FROM A MINIMUM CAPITAL PROGRAMME REQUIREMENT			
	2009/10 £m	**2010/11 £m**	**2011/12 £m**
1) Impact to Revenue Budget			
Capital Financing budget required to fund a minimum capital programme (as per Table 7)	4.538	4.972	5.356
Capital Financing budget required to fund existing capital programme (as per Appendix A)	4.762	5.257	5.283
Variance in Capital Financing Costs	**(0.224)**	**(0.285)**	**0.073**
2) Prudential Indicators	**2009/10**	**2010/11**	**2011/12**
Ratio of Financing Costs to Revenue Stream	3.18%	3.96%	4.44%
Incremental change in Band D equivalent Council Tax	(£0.37)	(£0.47)	£0.12
Capital Financing Requirement	28.676	32.051	33.763

7.11 The figures shown in Table 8 illustrate that a capital programme of £19.4m, covering the three years 2009/2010 to 2011/2012, is affordable in the context of its impact on the MTFP over the same period. Whilst approval of this level of spending will incur additional debt charges of £0.073m in 2011/2012, the estimated debt charges for 2009/2010 and 2010/2011 will reduce by £0.224m and £0.285m, respectively, when compared against those debt charges included in the MTFP to fund the existing capital programme. This reduction in costs reflects the slippage in capital spending against the existing programme, as identified in paragraph 4.5 of this report, a reduction in interest rates, and an assessed impact of the reduction in leasing costs as existing leasing contracts expire over the three year period. In relation to the reduction in interest rates, a prudent assumption has been made that borrowing requirements can be secured at an average 4.50% over the three year period. On the debit side, of course, the levels of investment income currently included in the MTFP will be adversely impacted by the assumed reductions in interest rates. Given the current volatility in the financial markets and the possibility that rates may again be reduced in the coming months, assumptions on interest rates will be reviewed before any final decisions over capital spending are made at the budget meeting in February 2009.

7.12 The sustainability of this level of capital spending is evidenced by the revised prudential indicators illustrated in Table 8 - particularly the ratio of financing costs to revenue stream which would remain below 5% for the three year period. Chart 2 overleaf illustrates the forecast ratio up the financial year 2013/2014 based upon a total programme of £19.4m for the period 2009/2010 to 2011/2012.



8. SUMMARY

8.1 It is evident that a fire and rescue authority the size of DSFRA, with 83 fire stations to maintain and periodically replace and a fleet of 199 fire appliances to replace - typically every 12 years, or 17 years for an aerial appliance - will require continual investment in its capital assets so that those assets are fit for purpose. As is highlighted from this report, under the Prudential Code, the extent to which the Authority can afford capital investment is ultimately constrained by its ability to meet the additional debt charges from the annual revenue budget and its consequential impact on Council Tax levels.

8.2 As previously reported the capital investment needs of this Authority far exceed that which is affordable. To inform the MTFP for the next three year period, covering the financial years 2009/2010 to 2011/2012, this report asks this Committee to set affordable capital investment limits for those three years. If the Committee is minded to approve these limits then a further report will be brought to the next meeting to consider final proposals within these limits.

KEVIN WOODWARD	**DEREK WENSLEY**
Treasurer and Head of Financial Management	**Head of Physical Assets**

APPENDIX A TO REPORT RC/08/10

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**	