M. Pearson
CLERK TO THE AUTHORITY

To: The Chair and Members of the Resources Committee (see below)

SERVICE HEADQUARTERS
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RESOURCES COMMITTEE

(Devon and Somerset Fire and Rescue Authority)

8 December 2008

A meeting of the Resources Committee will be held on the above date, **commencing at 14:00 hours in Conference Room B in Somerset House, Service Headquarters** to consider the following matters.

M. Pearson
Clerk to the Authority

A G E N D A

1. **Apologies**

2. **Minutes** of the meeting of the Committee held on 3 October 2008 attached (Page 1).

3. **Items Requiring Urgent Attention**

Items which, in the opinion of the Chair, should be considered at the meeting as matters of urgency.

4. **Declarations of Interest**

Members are asked to consider whether they have any **personal/personal and prejudicial interests** in items as set out on the agenda for this meeting and declare any such interests at this time. *Please refer to the Note 2 at the end of this agenda for guidance on interests.*

National
Training Awards

PART 1 – OPEN COMMITTEE

5. **Revenue Budget Monitoring Report 2008/2009**

Report of the Treasurer and Head of Financial Management (RC/08/9) attached (Page 4).

6. **Affordable Capital Investment Plans For 2009/2010 To 2011/2012**

Joint Report of the Treasurer and Head of Financial Management and Head of Physical Assets (RC/08/10) attached (Page 11)

7. **Provisional Grant Settlement 2009/10**

2009/2010 is the second year of a three-year grant covering the period 2008/2009 to 2010/2011. On 26 November 2008 the Local Government Minister announced details of the provisional Local Government Finance Settlement for 2009/2010, which confirms that for 2009/2010 the grant figures for local authorities will be as announced in the original three-year grant announcement, made in January 2008. He also stated that, in relation to 2010/2011, there is no intention to revise the original grant figures. For the Devon and Somerset Fire and Rescue Authority (DSFRA) this announcement confirms that the grant figures for 2009/2010 and 2010/2011 are as below. These have already been accounted for in the Authority's Medium Term Financial Plan (MTFP) and therefore the provisional settlement announcement has no immediate impact in terms of financial planning.

2009/2010	£30.529m (2.1% increase over 2008/2009)
2010/2011	£31.245m (2.3% increase over 2009/2010)

This announcement is provisional at this stage subject to a formal consultation period which ends on the 7 January 2009.

PART 2 – ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF THE PRESS AND PUBLIC

Nil.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Gordon (Chair), Yeomans (Vice Chair), Fry, Healey, B. Hughes, Lewis, Way

Substitute Members

Members are reminded that, in accordance with Standing Order 30, the Clerk (or his representative) MUST be advised of any substitution prior to the start of the meeting.

NOTES

1. ACCESS TO INFORMATION

Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact Sam Sharman on the telephone number shown at the top of this agenda.

2. DECLARATIONS OF INTERESTS BY MEMBERS

What Interests do I need to declare in a meeting?
As a first step you need to declare any personal interests you have in a matter. You will then need to decide if you have a prejudicial interest in a matter.

What is a personal interest?
You have a personal interest in a matter if it relates to any interests which you must register, as defined in Paragraph 8(1) of the Code.

You also have a personal interest in any matter likely to affect the well-being or financial position of:-

(a) you, members of your family, or people with whom you have a close association;
(b) any person/body who employs/has employed the persons referred to in (a) above, or any firm in which they are a partner or company of which they are a director;
(c) any person/body in whom the persons referred to in (a) above have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
(d) any body of which you are a Member or in a position of general control or management and which:-
- you have been appointed or nominated to by the Authority; or
- exercises functions of a public nature (e.g. a constituent authority; a Police Authority); or
- is directed to charitable purposes; or
- one of the principal purposes includes the influence of public opinion or policy (including any political party or trade union)

more than it would affect **the majority** of other people in the Authority's area.

Anything that could affect the quality of your life (or that of those persons/bodies listed in (b) to (d) above) either positively or negatively, is likely to affect your/their "well being". If you (or any of those persons/bodies listed in (b) to (d) above) have the potential to gain or lose from a matter under consideration – to a **greater extent** than **the majority** of other people in the Authority's area - you should declare a personal interest.

What do I need to do if I have a personal interest in a matter?
Where you are aware of, **or ought reasonably to be aware of**, a personal interest in a matter you must declare it when you get to the item headed "Declarations of Interest" on the agenda, or otherwise as soon as the personal interest becomes apparent to you, UNLESS the matter relates to or is likely to affect:-

(a) any other body to which you were appointed or nominated by the Authority; or
(b) any other body exercising functions of a public nature (e.g. membership of a constituent authority; other Authority such as a Police Authority);

of which you are a Member or in a position of general control or management. In such cases, provided you do not have a prejudicial interest, you need only declare your personal interest if and when you speak on the matter.

Can I stay in a meeting if I have a personal interest?
You can still take part in the meeting and vote on the matter unless your personal interest is also a prejudicial interest.

What is a prejudicial interest?
Your personal interest will also be a **prejudicial** interest if **all** of the following conditions are met:-

(a) the matter is not covered by one of the following exemptions to prejudicial interests in relation to the following functions of the Authority:-
- statutory sick pay (if you are receiving or entitled to this);
- an allowance, payment or indemnity for members;
- any ceremonial honour given to members;

- setting council tax or a precept; **AND**

(b) the matter affects your financial position (or that of any of the persons/bodies as described in Paragraph 8 of the Code) or concerns a regulatory/licensing matter relating to you or any of the persons/bodies as described in Paragraph 8 of the Code); **AND**

(c) a member of the public who knows the relevant facts would reasonably think your personal interest is so significant that it is likely to prejudice your judgement of the public interest.

What do I need to do if I have a prejudicial interest?

If you have a prejudicial interest in a matter being discussed at a meeting, you must declare that you have a prejudicial interest (and the nature of that interest) as soon as it becomes apparent to you. You should then leave the room unless members of the public are allowed to make representations, give evidence or answer questions about the matter by statutory right or otherwise. If that is the case, you can also attend the meeting for that purpose.

You must, however, leave the room **immediately after you have finished speaking (or sooner if the meeting so decides)** and you cannot remain in the public gallery to observe the vote on the matter. Additionally, you must not seek to **improperly influence** a decision in which you have a prejudicial interest.

What do I do if I require further guidance or clarification on declarations of interest?

If you feel you may have an interest in a matter that will need to be declared but require further guidance on this, please contact the Clerk to the Authority – preferably before the date of the meeting at which you may need to declare the interest. Similarly, please contact the Clerk if you require guidance/advice on any other aspect of the Code of Conduct.

RESOURCES COMMITTEE
(Devon and Somerset Fire and Rescue Authority)

3 October 2008

Present:-

Councillors Fry, Gordon (Chairman), Healey, Way and Yeomans

Apologies:-

Councillors B. Hughes and Lewis

***RC/8. Minutes**

RESOLVED that the Minutes of the meeting held on 21 July 2008 be signed as a correct record.

***RC/9. Declarations of Interest**

Members of the Committee were invited to declare any personal/personal and prejudicial interests they may have in any item(s) to be considered at the current meeting in accordance with the Authority's approved Code of Conduct.

No interests were declared.

RC/10. Revenue Budget Monitoring Report 2008/09

The Committee considered a report of the Treasurer and Head of Financial Management (RC/08/7) that set out projections of income and expenditure for the first five months of the financial year against the approved Revenue Budget for 2008/09 and which detailed any significant variations against individual lines.

At this stage it was projected that spending would be £0.703m (0.99%) less than the approved revenue budget, largely accounted for by underspends on the wholetime salary budget (planned to facilitate the introduction of dual crewing of aerial appliances; the reduction in Area Managers; and also because of higher than expected retirements), retained pay costs and non-uniformed pay. The report also indicated overspends on transport related costs (arising from increases in fuel costs and insurance premiums) and equipment and furniture costs (relating to additional training consumables), although the latter overspend would be more than off-set by additional training income generated from external organisations.

Some £0.246m less than was originally budgeted for to cover debt charges in 2008/09 was predicted arising from slippage in the approved capital programme.

Given the current indicative position, the report proposed:-

(a) that the sum of £0.153m approved for transfer from the General Reserve to assist in setting a balanced budget for 2008/09 be retained in the General Reserve; and

(b) that, in accordance with Financial Regulations, the Committee approve the virement of £60,000 from wholetime pay costs to the equipment and furniture budget line to accelerate purchase of technical rescue and personal protective equipment (PPE) required to enhance the technical rescue (including water and rope rescue) capability.

RESOLVED

(a) That, in light of the indicative underspend position, the Authority be recommended to retain in its General Reserve the sum of £0.153 initially approved as a contribution to help in the setting of a balanced budget for 2008/09;

(c) That, in accordance with Financial Regulations, the virement of £60,000 from the wholetime pay budget line to the equipment and furniture budget line to enable accelerated purchase of technical rescue and personal protective equipment (PPE), be approved;

(c) that, subject to (a) and (b) above, the report be noted.

***RC/11. <u>Capital Programme Monitoring Report 2008/09 To 2010/11</u>**

The Committee considered a report of the Head of Physical Assets (RC/08/8) proposing a revised capital programme for 2008/09 to 2010/11 to reflect changes in the spending profile of individual schemes initially approved by the Authority. The revised programme did not increase the overall programme and had no adverse impact on the Authority's borrowing requirement or prudential indicators.

The programme had been revised in light of actual capital spend for 2007/08 (rather than estimated spend on which it had initially been based) and also to reflect that certain projects were now further advanced enabling a more accurate forecast of spend in the current financial year.

RESOLVED that the revised capital programme 2008/2009 to 2010/2011, as set out in the Appendix to these Minutes, be approved.

The meeting started at 10.00hours and finished at 11.05hours.

APPENDIX TO THE MINUTES OF THE RESOURCES COMMITTEE MEETING HELD ON 3 OCTOBER 2008

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**	

DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/08/9**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**8 DECEMBER 2008**
SUBJECT OF REPORT	**REVENUE BUDGET MONITORING REPORT 2008/2009**
LEAD OFFICER	**Treasurer and Head of Financial Management**
RECOMMENDATIONS	***(a) That, given the indicative underspend against the Revenue Budget for 2008/09, the Devon and Somerset Fire and Rescue Authority be recommended to approve the following:*** ***(i) in accordance with Financial Regulations, the virement of £0.211m from wholetime pay costs to fund in the current financial year the one-off purchase of replacement alerter transmitters, as outlined in paragraph 8.8 of this report, and;*** ***(ii) the establishment of an earmarked reserve of £0.175m to fund the de-commissioning costs associated with the existing radio systems, as outlined in paragraph 8.9 of this report;*** ***(b) That, subject to (a) above, the revenue budget monitoring position as outlined in this report be noted.***
EXECUTIVE SUMMARY	This report provides Members with a further revenue budget monitoring report for the current financial year. It provides projections of spending against individual budget lines and explanations of any significant variations. At this stage, projections indicate that spending will be £0.887m less than the approved revenue budget, equivalent to 1.26%. The main reason for such an underspend position is as a consequence of a higher number of vacancies than anticipated resulting in savings on pay costs. A summary of the main variations from individual budget lines are provided within the report.
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	Appendix A – Revenue Budget Monitoring Report.
LIST OF BACKGROUND PAPERS	Nil.

1. INTRODUCTION

1.1 This report provides the Committee with an update of projected spending against the 2008/2009 revenue budget. Monitoring of income and expenditure for the first seven months of the financial year (to the end of October 2008) would indicate that total revenue spending will be £69.415m, against an approved budget of £70.302m, resulting in an underspend position of £0.887m, equivalent to 1.26% of budget. This compares to the previous projection of an underspend of £0.684m, as reported to the last meeting of the Resources Committee, held on the 3 October 2008. This latest projection is based upon spending to date, historical trends, and information from budget managers on known commitments. It should be noted that whilst every effort is made for projections to be as accurate as possible, some budget lines are susceptible to significant change during the year, such as retained pay costs, and it is inevitable therefore that final spending figures for the financial year will differ than those projected in this report. It is important therefore that regular reports are brought to this Committee during the course of the financial year to highlight those changes and consider any management action where significant variations are identified.

1.2 As has been reported previously, the main reason for such an underspend position is as a consequence of a higher level of uniformed retirements than had been anticipated, resulting in one-savings against pay costs. Savings against retained pay costs from reduced activity, a reduction in training costs, and savings on debt charges, from slippage in the capital programme, had also been highlighted.

1.3 Appendix A to this report provides a subjective analysis of projected spending against each individual budget line, and more detailed explanations of the significant variations (in excess of £50,000) from budget are provided below.

2. EMPLOYEE COSTS

Wholetime Pay

2.1 At this time it is projected that spending against wholetime pay costs will be £0.792m less than budget, or just 2.44% of the wholetime pay budget, primarily as a consequence of vacancies across the Service. The Human Resources Management and Development Committee, held on the 12 September 2008, was advised that the Service is currently well below the full establishment, albeit that most of this has been planned in order to facilitate the introduction of dual crewing of the Aerial appliances and also for the reduction in Area Managers. In addition, the number of vacancies has increased as a consequence of a higher than expected number of retirements during the first half of the financial year.

Retained Pay Costs

2.2 At this stage retained pay costs are projected to be £0.220m less than budget, primarily as a consequence of fewer calls than had been anticipated. In addition, the number of retained firefighters opting to join the new Firefighter Pension Scheme is less than had been anticipated resulting in reduced employer’s pension contributions. It should be emphasised that by its very nature retained pay costs can be subject to significant variations, dependant on activity levels during the course of the year, e.g. volatility caused from spate weather conditions.

Control Room Staff

2.3 As a consequence of a higher level of sickness absence within the control room and the need to maintain cover arrangements, it is projected that the budget for control room pay costs will be overspent by £0.119m.

Training Expenses

2.4 At this stage, it is anticipated that spending against the training budget will be £0.150m less than budget, primarily as a consequence of further economies of scale in training delivery being achieved from combination, and the impact on training requirements from the relatively high level of vacancies across the organisation.

Fire Service Pensions

2.5 Based upon current information it is anticipated that there will be fewer ill-health retirements in the current financial year than had been budgeted for, resulting in savings against pension costs of £0.129m.

3. TRANSPORT RELATED COSTS

3.1 At this time, it is estimated that spending on overall transport costs will be £0.186m more than budget, primarily as a consequence of the significant increases in fuel costs over and above budget provision, and increases in insurance premiums.

4. SUPPLIES AND SERVICES

Equipment and Furniture

4.1 Whilst spending on equipment and furniture is projected to be £0.106m more than budget, the additional spending, in the main, relates to training equipment and consumables required to cover additional courses scheduled for the year, which is more than offset by additional training income generated from external organisations.

5. ESTABLISHMENT COSTS

Insurances

5.1 The mutual insurance company, FRAML, suspended trading in light of a recent legal judgement, as reported to the meeting of Devon and Somerset Fire and Rescue Authority held on 31 July 2008. As a consequence of that decision it is projected that non-fleet insurance costs will be £0.075m more than had been budgeted. This includes, not only the additional premium cost from the alternative insurance provider, but also a prudent assumption relating to premiums which are due to be refunded by FRAML, which may not be received in the current financial year.

6. CAPITAL FINANCING COSTS

Capital Charges

6.1 As was reported by the Head of Physical Assets at the meeting of Resources Committee in July 2008, there has already been some slippage in the 2008/2009 to 2010/2011 capital programme, resulting in savings against the debt charges budget. For 2008/2009, this revised assessment indicates that debt charges for 2008/2009 will be £0.269m less than that budgeted.

Revenue Contribution to Capital Spending

6.2 Given the savings on debt charges highlighted in paragraph 6.1, it was agreed at the meeting of Resources Committee held on the 21 July 2008, that an amount of £0.170m be utilised to fund the urgent purchase of replacement Breathing Apparatus cylinders, therefore avoiding the need to borrow for this spending. In addition, an amount of £0.013m has been utilised to fund the purchase of vehicles which had originally been funded from leasing, and which have now come to the end of the lease period.

7. INCOME

Other Income

7.1 At this stage, it is anticipated that the Other Income budget will be over achieved as a consequence of two main issues. Firstly, additional training income will be achieved from the delivery recruit training for other Fire Services, and secondly, the Service has recently signed a Memorandum of Undertaking with the South Western Ambulance NHS Trust (SWAT) relating to the co-responder arrangements, which will result in the Service receiving additional income from the SWAT, based on performance levels.

Contribution from Reserves

7.2 At the previous meeting of Resources Committee, held on the 3 October 2008, it was agreed, that in light of the underspend position, the contribution from the General Reserve of £0.153m, originally agreed as part of the of the budget setting process for 2008/2009, is no longer required.

8. ADDITIONAL SPENDING PRESSURES

8.1 Whilst this report relates to spending against the current year budget, work is well underway in terms of considering the compilation of the revenue budget for 2009/10 and its associated impact on the level of Council Tax. This will involve consideration of potential new projects or initiatives, as identified by departmental heads in compiling their individual Area/Department/Section Plans, that can be supported financially. Early consideration of those projects suggests that approximately £0.940m will be required to be included in the base budget for 2009/2010 to fund only those projects which are considered to be essential. This does not include any provision for a number of other projects which, whilst have been identified as desirable; have not, at this stage been included in the Medium Term Financial Plan, subject to further consideration relating to affordability. Two such issues identified as requiring funding in 2009/2010 relate to;

- the replacement of alerter base station transmitters (£0.211m)
- the de-commissioning of legacy radio systems following the introduction of Firelink (£0.175m)

Alerter Base Station Transmitters

8.2 The method of mobilising retained fire-fighters to incidents is via an electronic communications system that is initiated in the Control room, routed to the relevant retained fire station and then routed via a paging mechanism to all local retained fire-fighters employed at that station. The electronic 'routing box' at the station is referred to as an alerter base station transmitter. These items have been in use within Devon and Somerset for 12 – 15 years and are now due for replacement. The equipment is obsolete and the Service is relying on a dwindling pool of spare parts and maintenance expertise currently. This equipment falls outside the scope of the regional FiReControl project. There are certain considerations with regard to the timing of the replacement. The equipment needs to be fully compatible with the new FiReControl protocols. Included 'in scope' and funded by the FiReControl project is the 'Station End Equipment' (SEE). This is the equipment used to communicate mobilising information from Control for both Wholetime and Retained requirements. The programme for installation of SEE is underway with station surveys having commenced in November 2008. Equipment will commence installation in about three months' time. As surveys, rewiring considerations and station visits pertain to both SEE and alerter base station transmitters, it clearly makes sense to plan and install the two items of equipment together as this will save considerable costs. This is the plan being adopted.

8.3 The costs associated with this replacement are £0.306m for the initial purchase and £0.055m for additional maintenance costs per annum. In relation to the funding of the initial purchase costs, an amount of £0.095m has already identified from within the ICT budget, leaving a residue of £0.211m required to fund the complete replacement programme.

De-commissioning of Legacy Radio systems

8.4 The decommissioning of the legacy radio microwave transmitting system to hill top masts throughout Devon and Somerset is a cost that falls to the Service. This radio scheme was shared with Devon & Cornwall Constabulary in the case of most Devon sites and Avon & Somerset Constabulary in the case of most Somerset sites. These police forces have ceased usage of the facility as they have already migrated to the new Airwave Tetra radio system that is now the core of the Firelink project for the fire service. Upon cessation by the police service, different agreements were left in place with each force regarding decommissioning.

8.5 The decommissioning project will need to be planned to follow on from when the new Firelink radio scheme is in operation. The planned date for this is May 2009. It is currently documented that payment for the new airwave radio system will not commence until the Service commences operation with the Regional Control. Dependant on the speed at which the decommissioning exercise can be completed, there is an opportunity saving on license costs between the old and new radio scheme charges being levied.

8.6 The costs associated with this issue had originally been estimated to be £0.250m, however through further negotiation with the police over certain aspects of the arrangement, the estimated cost has been reduced to £0.175m.

8.7 Both of the two spending issues identified above are mandatory projects which will require additional financial provision to be made. Given that the majority of the costs associated with both projects are 'one-off' (£0.211m for the alerter base stations, and £0.175m for the decommissioning costs), it is recommended that funding for the 'one off' element of the costs is earmarked from the underspend against the current years budget, as identified in this report. This approach would be extremely helpful in terms of the setting of the revenue budget for 2009/10, as it will remove £0.386m from the base budget requirement.

8.8 In relation to the replacement of the alerter base station transmitters, if approval can be given to the costs being funded from the underspend in 2008/09, then arrangements can be made for the installations to take place in this financial year. The Committee is asked to approve the recommendation that a budget virement of £0.211m be made from the savings against wholetime pay costs.

8.9 In relation to the decommissioning costs of existing radio systems, as these costs will fall in 2009/2010, it is recommended that an earmarked reserve of £0.175m be established, to be funded from the underspend in 2008/09, to provide the funding specifically for these costs when they occur.

8.10 Financial Regulations require the approval of the Fire and Rescue Authority for any virements on items over £0.150m. The Committee is asked to approve the recommendations, outlined in paragraphs 8.8 and 8.9 above, to the next meeting of the Fire and Rescue Authority, to be held on the 18 December 2008.

9. <u>CONCLUSION</u>

9.1 Whilst this report has been prepared at month 7 and projections of spending will inevitably change during the remaining five months of the financial year, at this time spending against the revenue budget is anticipated to be well within the approved budget. Given this position and the pressures on future budget requirements as identified in the Medium Term Financial Plan, it is considered prudent that the Authority considers to what extent this one-off underspend could be utilised to fund known spending items, that are one-off in nature, and would have been required to be included in setting the 2009/2010 revenue budget. The Committee is therefore asked to recommend the Devon and Somerset Fire and Rescue Authority to approve:

(i) in accordance with Financial Regulations, the virement of £0.211m from wholetime pay costs to fund the one-off purchase of replacement alerter transmitters in the current financial year, as outlined in paragraph 8.8 of this report, and;

(ii) the establishment of an earmarked reserve of £0.175m to fund the de-commissioning costs associated with the existing radio systems, as outlined in paragraph 8.9 of this report.

9.2 Further budget monitoring reports will be presented to each meeting of the Resources Committee held during the financial year, to provide an update to this position together with officer recommendations as to how any variances from budget are to be managed.

KEVIN WOODWARD
Treasurer and Head of Financial Management

Revenue Budget Monitoring Report 2008/09

Line No		2008/09 Budget £000 (1)	Year To Date Budget £000 (2)	Spending to Month 7 £000 (3)	Projected Outturn £000 (4)	Projected Variance over/ (under) £000 (5)
	SPENDING					
	EMPLOYEE COSTS					
1	Wholetime uniform staff	32,502	18,784	18,312	31,710	(792)
2	Retained firefighters	12,339	6,732	6,081	12,119	(220)
3	Control room staff	1,827	1,053	1,100	1,946	119
4	Non uniformed staff	7,675	4,464	4,045	7,653	(22)
5	Training expenses	1,192	695	736	1,042	(150)
6	Fire Service Pensions recharge	1,797	1,198	1,175	1,668	(129)
		57,332	**32,926**	**31,449**	**56,138**	**(1,194)**
	PREMISES RELATED COSTS					
7	Repair and maintenance	874	510	513	894	20
8	Energy costs	469	273	195	494	25
9	Cleaning costs	383	223	75	395	12
10	Rent and rates	1,248	889	842	1,258	10
		2,974	**1,895**	**1,625**	**3,041**	**67**
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	506	295	235	498	(8)
12	Running costs and insurances	1,127	665	682	1,237	110
13	Travel and subsistence	999	518	573	1,083	84
		2,632	**1,478**	**1,490**	**2,818**	**186**
	SUPPLIES AND SERVICES					
14	Equipment and furniture	1,874	1,096	1,021	1,980	106
15	Hydrants-installation and maintenance	151	88	37	74	(77)
16	Communications	1,214	831	641	1,220	6
17	Uniforms	767	447	368	785	18
18	Catering	118	69	99	144	26
19	External Fees and Services	98	57	7	94	(4)
20	Partnerships & regional collaborative projects	172	100	53	172	0
		4,394	**2,688**	**2,226**	**4,469**	**75**
	ESTABLISHMENT COSTS					
21	Printing, stationery and office expenses	408	253	234	417	9
22	Advertising	59	35	33	79	20
23	Insurances	326	319	327	401	75
		793	**607**	**594**	**897**	**104**
	PAYMENTS TO OTHER AUTHORITIES					
24	Support service contracts	623	340	315	608	(15)
		623	**340**	**315**	**608**	**(15)**
	CAPITAL FINANCING COSTS					
25	Capital charges	4,413	1,627	1,251	4,144	(269)
26	Revenue Contribution to Capital spending	0	0	0	183	183
		4,413	**1,627**	**1,251**	**4,327**	**(86)**
27	**TOTAL SPENDING**	**73,161**	**41,561**	**38,950**	**72,298**	**(863)**
	INCOME					
28	Treasury management investment income	(352)	(205)	(307)	(381)	(29)
29	Grants and Reimbursements	(1,336)	(680)	(1,125)	(1,336)	0
30	Other income	(965)	(563)	(697)	(1,113)	(148)
31	Internal Recharges	(53)	(31)	(22)	(53)	0
32	Contribution from Reserves	(153)	(89)	0	0	153
33	**TOTAL INCOME**	**(2,859)**	**(1,568)**	**(2,151)**	**(2,883)**	**(24)**
34	**NET SPENDING**	**70,302**	**39,993**	**36,799**	**69,415**	**(887)**

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.

<u>Fleet & Equipment</u>

- 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

[1] Estimates per CIPFA Prudential Indicators 2007

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%.

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

[2] Estimates per CIPFA Prudential Indicators 2007

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.

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.

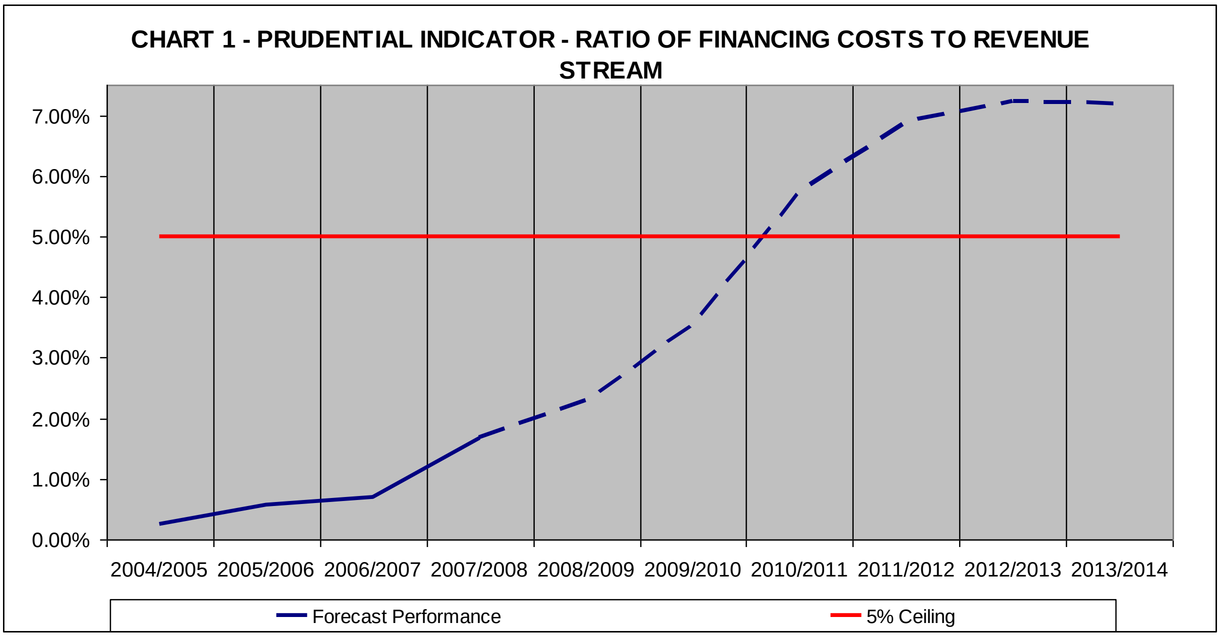
TABLE 5 – FULL CAPITAL PROGRAMME	**2009/10 £m**	**2010/11 £m**	**2011/12 £m**	**TOTALS 2009-2012 £m**
Committed Schemes – e.g. 2 x Exeter stations, completion of 2007/2008 and 2008/2009 replacement appliance programme	**6.048**	**1.133**		**7.181**
New Starts				
Estates Schemes	8.210	8.210	8.210	24.630
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.

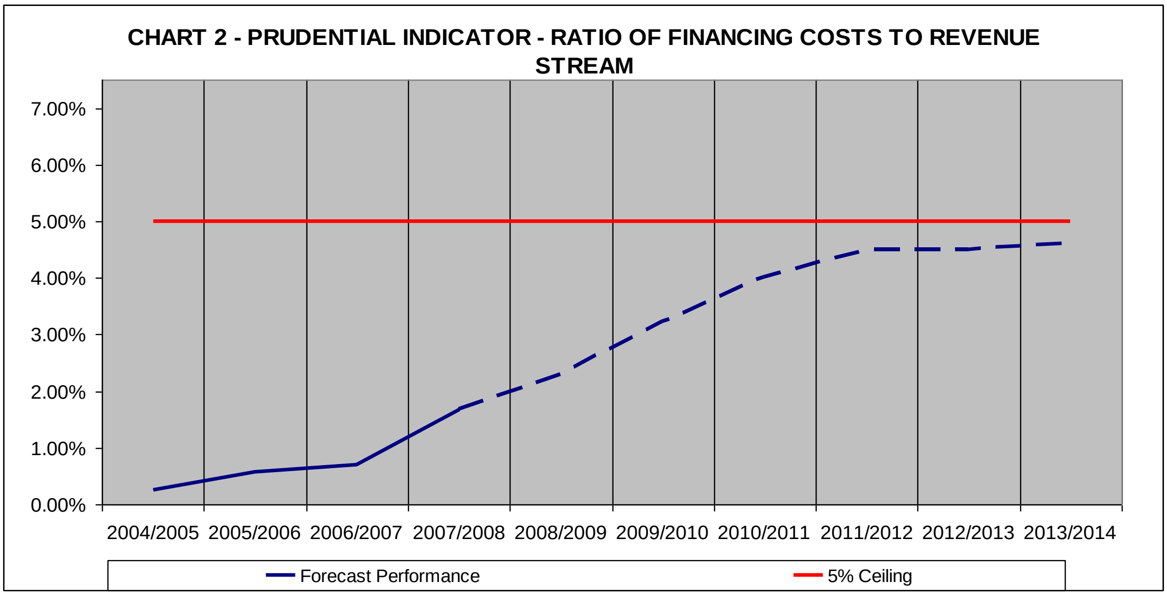
7.10 Table 8 below provides a summary of the financial impact, in terms of additional debt charges and changes to the prudential indicators, emanating from a total capital programme of £19.4m over the three years.

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.

7.12 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.

7.13 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
Treasurer and Head of Financial Management

DEREK WENSLEY
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**	