DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/11/3**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**28 JANUARY 2011**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2011/12 – 2013/14**
LEAD OFFICER	**Director of Service Support, and Treasurer**
RECOMMENDATIONS	***That the Devon and Somerset Fire and Rescue Authority at its budget meeting on the 14th February 2011 be asked to :*** ***(a) Approve, in accordance with Financial Regulations, a contribution of £1.5million from the Revenue Budget to part fund the proposed enhancement to the training facilities at Exeter Airport; and*** ***(b) Subject to (a) above, approves the revised Capital Programme 2011/12 to 2013/14 and the associated prudential indicators as set out in this report.***
EXECUTIVE SUMMARY	Each year the Capital Programme is reviewed in line with the Service budget preparations. This review takes account of the normal replacement cycle for appliances, equipment and work in support of maintaining the Authorities building stock, along with new projects. As previously reported to Members, the capital allocation for an Authority of this size remains insufficient and any review requires careful understanding of the different priorities in allocating funds. The enhancement to the training facilities at Exeter has been included for 2011/12 and 2012/13 and this has required the re-profiling of funds for both fleet and estates to support this build programme. The commitments for 2010/11 period, as approved, have been progressed. Whilst this report details the adjusted three year capital programme for the period 2011/12 to 2013/14, Appendix A illustrates the existing approved 2010/11 alongside the 2011/12 to 2012/13 capital programme.
RESOURCE IMPLICATIONS	A full financial appraisal is contained within the report.
EQUALITY IMPACT ASSESSMENT	No potentially negative impact sufficient enough to warrant a full impact assessment has been identified in the content of this report.

APPENDICES	A. Proposed 2011-12 to 2013-14 Capital Programme. B. Prudential Indicators 2011-12 to 2013-14
LIST OF BACKGROUND PAPERS	Report CPWP/09/3 – "Affordable Capital Investment Plans for 2010/11 to 2011/12" – submitted to the meeting of the Capital Programme Working Party on 5 November 2009.

1. INTRODUCTION

1.1 Members will be aware that each year the capital programme is reviewed and adjusted to include new projects or those that have been carried forward, allowing the capital investment needs of the Service to be understood over the next three years. Appendix A represents the proposed programme for 2011/12 to 2013/14, which also includes those projects already approved and new proposals which are referenced further in the report.

1.2 The matter of Capital expenditure remains an issue for this Authority given the size of Devon and Somerset. We have a continuing backlog of work for estates and the appliance replacement programme has slipped due to allocation of funds, which for 2009/10 and 2010/11 were directed towards the build of Danes Castle and Middlemoor fire stations. This position continues to place pressure on the Authorities investment programme which requires significant investment.

1.3 In 2008 this position was eased by the Department for Communities and Local Government (CLG) approved grant of £2m debt free capital support spread over 2009/10 to 2010/11, principally to address equality and diversity issues on stations including dignity at work as identified by the Health and Safety Executive. These funds have been fully committed to these projects and are no longer available.

1.4 Whist this report provides options for the next three years, it should be recognised that future capital programmes may be adjusted significantly against such recommendations made as a result of the two reviews of Service Delivery and Service Support, or changes in funding arrangements e.g. allocation of specific grants, or changes in interest rates.

2. FINANCING OF THE PROPOSED REVISED CAPITAL PROGRAMME

CIPFA Prudential Code for Capital Financing

2.1 Whilst it is recognised that this Authority faces significant pressures in terms of maintaining and replacing its capital assets so as those assets are 'fit for purpose', this has to be balanced against what it is affordable in terms of its exposure to external borrowing now and into the future, particularly in light of current financial constraints within the public sector.

2.2 The tests of affordability are measured by compliance with the CIPFA Prudential Code for Capital Financing for Local Authorities. Under the Code the Authority is required to set a suite of Prudential Indicators to provide assurance that capital spending plans are prudent, affordability and sustainability. These indicators, which are reviewed each year and are typically set for a three-year period, include the setting of maximum borrowing limits to provide assurance around prudence, and the setting of maximum debt ratios to provide assurances in relation to affordability and sustainability.

2.3 In relation to borrowing, up until now, the government has provided some financial support to capital expenditure borrowing within the Revenue Support Grant (RSG), by the allocation of what is known as the Supported Capital Expenditure (SCE(R)). The allocation for Devon and Somerset FRA for 2010-11 is £1.808m, which means that borrowing up to this figure is supported within RSG to fund the debt charges emanating from this level of borrowing. Under the Prudential Code borrowing in excess of the SCE(R) is permitted and classified as unsupported borrowing, but in the knowledge that the resultant debt charges emanating from unsupported borrowing will have to be funded from council tax. However, this support has now been removed as part of the 2011-12 Local Government Finance Settlement, with the abolition of SCE (R) from all local authority grant allocations. This means that all future debt charges emanating from borrowing to support capital spending will need to be funded from council tax.

2.4 The issue of affordable capital spending has been subject to several reports to Members, the most recent being the report 'Affordable Capital Investment Plans 2010/2011 to 2011/2012' presented to the meeting of the Capital Programme Working Party held on the 5 November 2009. That report indicated that based on existing capital spending plans external borrowing will reach £36.7m by the end of the financial year 2013/2014. The external borrowing figure at the end of 2010/2011 is forecast to be £28.6m.

2.5 Whilst a debt level of £36.7m is not considered excessive for this size authority, it is evident that the Authority will need to monitor its exposure to further debt levels as we move forward in the next 3-5 years, to ensure that the debt levels are affordable in the context of the ability of the revenue budget to service debt repayments.

2.6 In report RC/08/10 "Affordable Capital Investment Plans for 2009-2010 to 2011-12" as submitted to the meeting of the Resources Committee on 8 December 2008, the Treasurer advised that debt repayments should be kept within 5% of the total revenue budget during the period 2010-11 to 2013-14 (paragraph 7.5 refers). This advice was reiterated to Members of the Capital Programme Working Party at its meeting in November 2009.

2.7 Based on the current capital programme, it is now forecast that this ceiling will be breached in 2012-13 (5.13%). This breach is not as a result of borrowing being in excess of agreed limits, it is as a consequence of future revenue budgets being lower than originally forecast following the CSR 2010 announcement, which for fire and rescue authorities included reductions in government grants of 25% by 2014-15. The proposed revision to the capital programme, as included in Appendix A, has been constructed on the basis that the debt ratio is brought back within the 5% ceiling.

3. SERVICE ESTATES

3.1 The property portfolio for DSFRS extends to more than 100 buildings across the two Counties. Sixty Percent of these are now in excess of 40 years old and despite concerted efforts to improve and replace buildings over the last ten years the Service is still faced with a substantial backlog to support ongoing maintenance and repairs. The programme for estates is assessed against industry models for repair and maintenance. For 2011/12 the budget was £2.070. However, this figure does not reflect the true cost which is in the region of £5m annually.

3.2 Whilst the remainder of the £2m government capital grant allocated to 2010-2011 (£1,193m) has alleviated some of these issues, this has been fully allocated on stations into line with the Disability Discrimination Act, Dignity at Work requirements, community access and partnership co-location. These funds have provided the basic provision for modern day standards such as showers and changing facilities. If capital funding is maintained going forward by the end of 2013 we will have brought 95% of our stations up to an acceptable Dignity at Work standard and 75% up to full use under Discrimination and Disability Act for community use.

3.3 It is proposed that the capital programme for 2011/12 is £5.208 to support slippage and the enhancement of training arrangements at Exeter Airport. For 2012/2013, there is an allocation £3.650, which includes phase 2 of the Exeter Airport project and £1.750m for 2013/14. This however, will need to be reviewed in twelve months time when setting 2012/2013 budget levels, dependent on affordability issues, and Authority decision regarding the procurement of Light Rescue Pumps and any outcomes from both Service reviews. The Service Property Management Plan for 2011/12 will be revised subject to available funds and reported to Members.

Slippage for 2010/11

3.4 Slippage at financial year end is a regular occurrence in major capital projects due to the inability to control certain external factors, examples of which are the planning process and conveyance transactions. In these circumstances it becomes difficult to fully complete some schemes within the financial year, as approved. Slippage on the major schemes is dealt with by re-profiling the scheme, whilst maintaining the originally approved threshold. For 2010/11 the total slippage on estates is forecast to be £2.384m. Some of this can be attributed to the RCC project and associated work proposed for SHQ, along with decisions required for the development of the Exeter Airport project, plus a number of contractors going into liquidation, the biggest being ROK.

3.5 Of the forecast slippage in spending of £2.384m an amount of £0.246m has been identified as savings on projects cost. The remaining value of £2.138m is carried forward into the 2011-12 capital programme to fund the completion of committed schemes.

4 SERVICE FLEET AND EQUIPMENT

Vehicle Replacements

4.1 The Authority has the second largest fleet in England and slippage with replacement schedules can lead to problems in future years such as increased maintenance costs, less operational availability due to breakdowns The profile for appliance purchase for 2010/11 is within scope and at varying stages of build.

4.2 However, due to other pressures covered elsewhere in this paper, it is proposed to suspend the fire appliance replacement programme for 2011/12. This will leave only a budget allocation of £1.294m to support slippage from 2010-11, and equipment. The proposal is to re-profile funding to support the capital build for Exeter Airport whilst maintaining the revenue implications of borrowing below the 5% threshold.

4.3 Members will be aware of proposals coming forward for lighter, more manoeuvrable fire appliances which are more cost effective to those currently being procured. This will allow us to mitigate against any backlog of replacement appliances in a planned manner. The Service is currently reviewing resource requirements and the disposition of appliances and equipment in line with local risk. These vehicles are referred to as Light Rescue Pumps. The current programme provides for the purchase of four appliances which are to be piloted during 2011/12. Given the cost incentive, the LRP is some £50/£60k less expensive than the traditional fire appliance, there is the opportunity to procure a more appropriate vehicle in future years with a significant cost reduction and will reduce the backlog.

5 REGIONAL FIRE CONTROL PROJECT

5.1 With the demise of the Regional Fire Control Project consideration is being given to an alternative fire control solution for the Authority. In determining this solution, further work will be undertaken to consider the financial options alongside guidance for project closure recommended by CLG. Dependent upon the final outcome DSFRA may have to fund a new building to house our command and control arrangements which may commence during 2012/13.

6 ENHANCED TRAINING FACILITIES – EXETER AIRPORT

6.1 The original training facility was established at Exeter Airport in 2000 as a joint venture with Exeter Airport operators. In October the Service entered into a formal 5 year licence with the new owners of the airport, Exeter and Devon Airport Limited. DSFRS has been reviewing their training facilities across the two Counties and with the increasing need for realistic fire behaviour training, including comprehensive breathing apparatus training, has concluded that an enhanced centralised capability at the airport was appropriate. This facility will offer training in specific skills with the ability to trade and best meet the future needs of the Service.

6.2 The estimated capital borrowing in support of this project is approximately £2.9m over two years and it is proposed that this is part funded from existing capital borrowing (£1.4m) and a contribution from revenue (£1.5m) on an invest to save basis by reducing our borrowing and subsequent debt charge from 2011-12. It is proposed that the revenue contribution of £1.5m is phased over the next two financial years requiring a contribution from the revenue budget of £0.750m in both 2011-12 and 2012-13. These contributions have been included in the revenue budget proposals report considered elsewhere on the agenda. The contribution from revenue will require the approval of the Fire & Rescue Authority in accordance with Financial Regulations.

7. REVISED CAPITAL PROGRAMME 2011-12 to 2013-14

7.1 The proposed revision to the capital programme, as included in Appendix A, has been constructed on the basis that the debt ratio is brought back within the 5% ceiling. This is achieved by reducing the original spending total for the three year period 2010-11 to 2012-13 from £15.934m to £14.940, utilising £1.500m from the revenue budget over 2011-12 and 2012-13 to part fund the Exeter Airport development, and including a reduced programme of £3.650m for 2013-14. The reduction in the programme is illustrated in Table 1 below.

TABLE 1	Estates	Fleet and Equipment	Total
	£m	£m	£m
CURRENT PROGRAMME			
2010/2011	3.425	4.051	7.476
2011/2012	2.070	2.319	4.389
2012/2013	1.750	2.319	4.069
Total 2010/11 TO 2012/13	**7.245**	**8.689**	**15.934**
PROPOSED PROGRAMME			
2010/2011 (forecast spending)	1.061	2.127	3.188
2011/2012	5.208	1.294	6.502
2012/2013	3.650	1.600	5.250
Total 2010/11 TO 2012/13	**9.919**	**5.021**	**14.940**
2013/2014	1.750	1.900	3.650

7.2 The schedule in Appendix A illustrates the revised spending profiles for 2011/12 through to 2013/14, and Appendix B provides a summary of the Prudential Indicators associated with this level of spending. Approval of this programme will reduce the original external borrowing figure in 2013-14 from £36.7m to £34.6m. It is forecast that this reduced borrowing requirement will achieve annual savings of £0.427m in debt charges by 2013-14.

7.3 The estimated debt charges emanating from this revised spending profile are illustrated in Table 2 below.

TABLE 2 – SUMMARY OF ESTIMATED CAPITAL FINANCING COSTS

	2010/11	2011/12	2012/13	2013/14
	£m	£m	£m	£m
Base budget for Capital Financing Costs – debt charges and operating leasing rentals	4.969	5.162	5.277	5.373
Increase over previous year		0.193	0.115	0.096
Debt Ratio	*4.01%*	*4.29%*	*4.49%*	*4.93%*

8. <u>CONCLUSION AND RECOMMENDATION</u>

8.1 This report and previous reports to this Committee has emphasised the difficulties in meeting the full capital expenditure requirement for the Service. In recognising the revenue costs associated with servicing debt through borrowing it is clearly necessary that affordable and prudent proposals are put in place.

8.2 The proposals for 2011/12 do not fully address the needs of the Service either now or in the future. With public finances set to become even more stringent in future years addressing the backlog of replacement and maintenance will become extremely difficult to address.

8.3 As a consequence the Service is reviewing its asset base for the future to consider more flexible, economic and targeted resources to meet local risk requirements, for example the introduction of smaller fire appliances.

8.4 The proposed capital programme as set down in Appendix A is recommended for approval, on the basis that it goes some way to addressing the Service capital investment needs, whilst also providing the funding for the development at Exeter Airport and the introduction of a smaller, and cheaper, type of fire appliance (LRPs), whilst also keeping borrowing costs within the set limit of 5% of the total revenue budget.

TREVOR STRATFORD
Director of Service Support

KEVIN WOODWARD
Treasurer

				APPENDIX A TO REPORT		
Proposed Capital Programme (2011/12 to 2013/14)						
	2010/2011 predicted outturn (£000)	**Item**	**PROJECT**	**2011/12 (£000)**	**2012/13 (£000)**	**2013/14 (£000)**
			Estate Development			
	-24	1	Exeter Middlemoor			
	44	2	Exeter Danes Castle			
	35	3	SHQ major building works	100		
		4	Major Projects - Training Facility at Exeter Airport	1,000	1,900	
	882	5	Minor improvements & structural maintenance	1,750	1,750	1,750
	80	6	Welfare Facilities			
	34	7	Diversity & equality			
	10	8	USAR works	460		
		9	Minor Works slippage from 2010-11	1,898		
	1,061		**Estates Sub Total**	5,208	3,650	1,750
			Fleet & Equipment			
	1,628	10	Appliance replacement	411	1,400	1,700
	344	11	Specialist Operational Vehicles	619		
	44	12	Vehicles funded from revenue			
	98	13	Equipment	125	200	200
	13	14	Asset Management Plan (Miquest) software	139		
	2,127		**Fleet & Equipment Sub Total**	1,294	1,600	1,900
	3,188		**SPENDING TOTALS**	**6,502**	**5,250**	**3,650**
			Programme funding			
	1,807		Main programme	5,245	4,500	3,650
	144		Revenue funds	797	750	
	1,237		Grants	460		
	3,188		**FUNDING TOTALS**	**6,502**	**5,250**	**3,650**

APPENDIX B TO REPORT RC/11/3

PRUDENTIAL INDICATOR	**2011/12 £m estimate**	**2012/13 £m estimate**	**2013/14 £m estimate**
Capital Expenditure			
Non - HRA	6.502	5.250	3.650
HRA (applies only to housing authorities)	0	0	0
TOTAL	6.502	5.250	3.650
Ratio of financing costs to net revenue stream			
Non - HRA	4.29%	4.49%	4.93%
HRA (applies only to housing authorities)	0%	0%	0%
Capital Financing Requirement as at 31 March			
CFR – external borrowing Non – HRA	31.154	33.434	34.671
HRA (applies only to housing authorities)	0	0	0
CFR – other long term liabilities	1.885	1.847	1.836
TOTAL	33.039	35.281	36.507
Annual change in Cap. Financing Requirement			
Non – HRA	3.114	2.242	1.226
HRA (applies only to housing authorities)	0	0	0
TOTAL	3.114	2.242	1.226
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**
Increase/(decrease) in council tax (band D) per annum	(£0.47)	(£0.39)	(£0.47)
TREASURY MANAGEMENT PRUDENTIAL INDICATORS			
	£m	**£m**	**£m**
Authorised Limit for external debt -			
borrowing	36.229	37.885	39.251
other long term liabilities	1.930	1.917	1.856
TOTAL	38.159	39.802	41.107
Operational Boundary for external debt -			
borrowing	34.671	36.213	37.517
other long term liabilities	1.836	1.825	1.766
TOTAL	36.507	38.038	39.283