DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/12/4**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**3 FEBRUARY 2012**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2012-13 TO 2014-15**
LEAD OFFICER	**DIRECTOR OF SERVICE SUPPORT AND TREASURER**
RECOMMENDATIONS	***That the Devon and Somerset Fire and Rescue Authority at its meeting on 17 February 2012 be asked to:*** ***(a) Approve, in accordance with Financial Regulations, a contribution of £1.850m from the 2012-2013 Revenue budget to part fund the 2012-13 capital programme, and*** ***(b) Subject to (a) above approves the Capital Programme and associated prudential indicators for the years 2012-2013 to 2014-2015, as included within report RC/12/x; and*** ***(c) Subject to (a) and (b) above, the report be noted.***
EXECUTIVE SUMMARY	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 a three year rolling programme. Capital expenditure remains an issue for this Authority given the size of the property portfolio and the Service's growing maintenance obligations – a position made worse by the 25% reduction in fire grant funding announced in the Comprehensive Spending Review 2010. The consequence of a reducing revenue budget will impact on borrowing limits for this Authority and, whilst the Service has maintained expenditure within limits, certain projects and opportunities have been revised accordingly.
RESOURCE IMPLICATIONS	As indicated within the Report
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.

APPENDICES	Appendix A – Summary of Proposed Capital Programme 2012/13 – 2014/15 Appendix B – Prudential Indicators 2012/13 – 2014/15
LIST OF BACKGROUND PAPERS	None

1. INTRODUCTION

1.1 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 a three year rolling programme. Appendix A represents the proposed programme for 2012/13, including years 2013/14 and 2014/15.

1.2 Capital expenditure remains an issue for this Authority given the size of the property portfolio and our growing maintenance obligations. A position made worse by the 25% reduction in Fire grant funding announced in the Comprehensive Spending Review 2010.

1.3 The programme continues to be adjusted annually, to meet the pressing needs of this Authority, which in the past has been met from the reduction of the vehicle replacement programme to accommodate projects such as the new fire stations builds and the more recent Training Academy development at Exeter Airport. However, there are a number of essential projects pending, such as the harmonisation of breathing apparatus equipment and the need to reinstate the vehicle replacement programme in full by 2013/14. These projects put significant pressure on the capital programme and the ability to keep borrowing costs within the 5% prudential indicator previously recommended to the Authority.

1.4 For 2012/13 this position has, in part, been eased by the allocation of £2.021m direct grant funding from the Department for Communities and Local Government (CLG) as part of the £70m allocated nationally to Fire. For 2013-14 and beyond, this grant will be subject to a new distribution formula, which will involve only part of the £70m being allocated direct to individual FRAs, the remainder being subject to some form of bidding process. The criteria to be applied to the bidding process is yet to be announced but it is anticipated that successful bids will be those that can demonstrate the delivery of efficiencies.

1.5 This report therefore proposes a programme for 2012/13 to 2014/15 whilst recognising that this Authority faces significant pressure in balancing what is affordable in terms of its exposure to external borrowing, particularly in light of the current economic position and changing interest rates and ensuring our assets remain ‘fit for purpose’.

2. FINANCING OF THE PROPOSED CAPITAL PROGRAMME

2.1 In 2010/11, a report RC/08/10 - “Affordable Capital Investment Plans for 2009-2010 to 2011-12” was submitted to the Resources Committee regarding the instigation of a principle that debt repayments be kept below 5% of the total revenue budget. It was subsequently identified that this may be breached in 2012/13, although this is not as a consequence of borrowing being in excess of agreed limits, but future revenue budgets being lower than originally forecast following the Comprehensive Spending Review (CSR) 2010 announcement. This resulted in a 25% reduction in government grant by 2013/14 and consequently, the Capital Programme going forward will be affected.

2.2 The tests of affordability are measured by compliance with the CIPFA Prudential Code for Capital Financing for Local Authorities. Under this code, the Authority is required to set a suite of indicators to provide assurance that capital spending is prudent, affordable and sustainable. The indicators are reviewed annually, although set for the three year period. They also include setting 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 The issue of affordable capital spending has been the subject of several reports to both this Committee and the Authority in recent years. The most recent report was considered in February 2011 (report DSFRA/11/1 refers) when setting the existing capital programme, which was approved in the knowledge that external borrowing would need to increase to £33.6m by 2013/14, which would increase the debt ratio to 4.93%. The external borrowing requirement figure at the end of 2011/12 is forecast to be £27.0m.

2.4 Whilst a debt of £33.6m is not considered excessive for this size Authority, it is evident that the Committee will want to monitor its exposure to further debt levels as the Service moves forward in the next 3-5 years, to ensure that the debt levels are affordable in the context of the ability to service debt repayments through the revenue budget.

2.5 The focus of this Authority has been to control spending within the 5% limit. To achieve this, the Service has, over recent years, reduced the spend on the appliance replacement programme to support estates projects, and utilised revenue funding wherever possible. It has always been intended to replace the fleet programme in full by 2013/14, however, the extent to which this can be achieved will always be subject to affordability issues as measured by the Prudential Indicators.

2.6 The revised programme proposed in this report has again been constructed on the basis of keeping the debt ratio within the 5% limit by 2014/15. This inevitably means that not all of the Service's capital investment backlog can be delivered in this period, and the position will need to be reviewed in twelve month's time when a clearer picture is available as to the extent of the revenue grant reductions for 2013/14 and 2014/15.

3. SERVICE ESTATES

3.1 The current budget for Estates remains consistently insufficient for the extensive property portfolio and associated maintenance requirements, the budget, outside of specific projects is normally in the range of £1.75 - £2m. However, this figure does not reflect the true costs which are in the region of £5m. Whilst combination provided many benefits, the Estates department inherited additional building stock with no increase in budget or staffing. In recognising the additional pressures over the next few years, the estates function is currently being reviewed by Atkins consultants, the aim of which is to identify where improvements can be achieved whilst maximising our current building stock for the benefit of the Service. The outcome of which will be reported to Members in due course.

3.2 It is proposed that the capital programme for 2012/13 is £6.062m to support slippage from 2011/12 and Phase 2 of the training arrangements at Exeter Airport, as approved by the Authority. The remaining budget reflects the normal annual allocation for minor works, improvements and structural maintenance. For 2013/14 this budget is significantly reduced, to an allocation of £1.750m. The Service Management Property Plan will be revised and reported to the Committee in due course.

4. EXETER AIRPORT TRAINING CENTRE

4.1 Negotiations regarding the lease have been protracted, delaying the commencement date of this project. Whilst these have now concluded there remain some outstanding conditions yet to be met. It is expected that work will commence early in March 2012 and the contract period for the build of 45 weeks should see the project complete by December 2012.

SERVICE FLEET AND EQUIPMENT

Vehicle Replacements/Equipment

5.1 The Authority has the second largest fleet of all fire and rescue services in England. Over the last four years, finances have been reallocated away from the annual fleet replacement programme in support of other projects elsewhere across the Authority, such as Middlemoor and Danes Castle fire stations and the development of the training academy at Exeter Airport. The slippage in replacing vehicles, particularly fire appliances, is becoming increasingly difficult to manage especially with increases in on-going maintenance costs. Although this situation is not ideal, the re-investment in the fleet replacement programme for 2013/14, through the LRP programme will greatly reduce any backlog.

5.2 Whilst this difficulty is recognised, it has been partially addressed in 2011/12 by utilising some of the specialist vehicles budget to appliances, although it is proposed to further suspend the fire appliance replacement programme during 2012/13 leaving a budget allocation of £2.535m, including slippage. This will support the harmonisation of specialist appliances and equipment replacement. Subject to the appropriate approvals it is proposed to increase the budget for 2013/14 to £2.7m to support the introduction of the Light Rescue Pump.

Light Rescue Pumps

5.3 The Light Rescue Pump (LRP) project pilot will be completed shortly. The Service is also considering options for a ‘self build’ programme and is in the process of building two LRP’s (proof of concept), which subject to satisfactory outcome is likely to form part of the procurement arrangements during 2012/13. All these matters will be reported to the Committee in due course.

5.4 Given the cost incentive, the LRP is likely to be £50,000 less than the conventional fire appliance, this is a unique opportunity to procure a more appropriate operational vehicle commencing in 2013/14 with a significant cost reduction. This approach will also go some way to reducing the backlog accrued over recent years through the reallocation of capital budget.

BA Replacement Programme

5.5 There is, amongst other matters such as age, maintenance and contracts an operational need to harmonise the breathing apparatus equipment between Somerset (Scott Sabre) and Devon (InterSpiro). As this is a matter of firefighter safety and therefore risk critical, it is proposed subject to the business case, to enter into a full procurement during 2012/13. It is estimated that £1.4million will be required in 2013/14 to fund this replacement programme.

6. REVISED CAPITAL PROGRAMME FOR 2011/12 – 2014/15

6.1 Appendix A provides an analysis of the proposed programme contained in this report. This programme represents an increase in spending of £2.5million over the previously agreed programme, as illustrated in Table 1 below.

TABLE 1	**Estates**	**Fleet and Equipment**	**Total**
	£m	**£m**	**£m**
EXISTING AGREED PROGRAMME			
2011/2012	5.1	2.2	7.3
2012/2013	3.7	1.6	5.3
2013/2014	1.7	1.9	3.6
2014/2015 (provisional)	1.7	1.9	3.6
Total 2011/12 TO 2013/14	**12.2**	**7.6**	**19.8**
PROPOSED PROGRAMME			
2011/2012 (forecast spending)	2.7	1.4	4.1
2012/2013	6.1	2.5	8.6
2013/2014	1.7	4.1	5.8
2014/2015	1.7	2.1	3.8
Total 2011/12 TO 2013/14	**12.2**	**10.1**	**22.3**
PROPOSED INCREASE	**0.0**	**2.5**	**2.5**

6.2 To fund all of this additional spending from external borrowing would breach the 5% debt ratio ceiling in 2014-15 (5.21%). Elsewhere on the agenda is the report “2012-2013 Revenue Budget and Council Tax Levels” for consideration. Included in the draft 2012-13 revenue budget is provision for a direct revenue contribution of £1.850m towards capital spending which would be required to keep the debt ratio within the 5% limit. The contribution from revenue will require the approval of the Fire & Rescue Authority in accordance with Financial Regulations.

6.3 The schedule in Appendix A illustrates the revised spending profiles for 2011/12 through to 2014/15, and a summary of the Prudential Indicators associated with this level of spending is included as Appendix B.

6.4 The estimated debt charges emanating from this revised spending profile are illustrated in Table 2 overleaf. These amounts are included in the 2012-13 revenue budget proposal and Medium Term Financial Plan 2012-13 to 2015-16.

TABLE 2 – SUMMARY OF ESTIMATED CAPITAL FINANCING COSTS

	2011/12	2012/13	2013/14	2014/15
	£m	£m	£m	£m
Base budget for Capital Financing Costs – debt charges and operating leasing rentals	5.162	4.753	4.950	5.425
Change over previous year		(0.409)	0.197	0.475
Debt Ratio	*4.14%*	*3.98%*	*4.32%*	*4.99%*

7 CONCLUSION

7.1 This report emphasises the difficulties in meeting the full capital expenditure requirement for the Service, given the size and the large numbers of fire stations and appliances required to be maintained and eventually replaced. The Committee has been advised over recent years of the difficulties in maintaining a programme that is affordable within the 5% Prudential Indicator. It was previously reported that the consequence of a reducing revenue budget will impact on borrowing limits for this Authority and that it was highly likely that we would breach the 5% ceiling. Whilst the Service has maintained expenditure within limits, certain projects and opportunities have been revised accordingly.

7.2 Restricted borrowing will affect many aspects of this Authority, including the roll out of the LRP, fire control and general maintenance of the current building stock. The review of both Fleet and Estates may go some way to understanding how to improve future arrangements, addressing the backlog of replacement and maintenance.

7.3 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 some funding towards 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

Capital Programme (2011/12 to 2014/15)

2011/12 Budget (£000)	2011/12 predicted outturn (£000)	Item	PROJECT	2012/13 (£000)	2013/14 (£000)	2014/15 (£000)
			Estate Development			
30	30	1	Exeter Middlemoor	0		
10	3	2	Exeter Danes Castle	0		
96	96	3	SHQ major building works	0		
1,000	196	4	Major Projects - Training Facility at Exeter Airport	2,804		
		5	Minor improvements & structural maintenance	1,650	1,750	1,750
37	37	6	Welfare Facilities	0		
		7	Diversity & equality	0		
610	552	8	USAR works	58		
1,689	1,346	9	Minor Works slippage from 2010-11	343		
1,667	460	10	Minor Works 2011-12	1,207		
5,139	2,720		**Estates Sub Total**	6,062	1,750	1,750
			Fleet & Equipment			
397	780	11	Appliance replacement	700	1,900	1,900
1,315	177	12	Specialist Operational Vehicles	920	600	0
84	84	13	Vehicles funded from revenue			
127	127	14	Equipment	160	200	200
129	0	15	Asset Management Plan (Miquest) software			
180	180	16	Systems integration			
		17	BA replacement		1,400	
		18	Appliance and Specialist Operational Vehicles slippage	755		
2,232	1,348		**Fleet & Equipment Sub Total**	2,535	4,100	2,100
7,371	**4,068**		**SPENDING TOTALS**	**8,597**	**5,850**	**3,850**
			Programme funding			
3,507	204		Main programme	3,976	5,350	3,350
1,333	1,333		Revenue funds	2,600		
2,531	2,531		Grants	2,021	500	500
7,371	**4,068**		**FUNDING TOTALS**	**8,597**	**5,850**	**3,850**

PRUDENTIAL INDICATORS

PRUDENTIAL INDICATORS - CAPITAL

	2012/13 £m estimate	2013/14 £m estimate	2014/15 £m estimate
Capital Expenditure			
Non - HRA	8.597	5.850	3.850
HRA (applies only to housing authorities			
Total	8.597	5.850	3.850
Ratio of financing costs to net revenue stream			
Non - HRA	3.98%	4.32%	4.99%
HRA (applies only to housing authorities	0.00%	0.00%	0.00%
Capital Financing Requirement as at 31 March	£000	£000	£000
Non - HRA	28,403	31,744	32,739
HRA (applies only to housing authorities	0	0	0
Other long term liabilities	1,558	1,532	1,509
Total	29,961	33,276	34,248
Annual change in Capital Financing Requirement	£000	£000	£000
Non - HRA	2,001	3,315	972
HRA (applies only to housing authorities	0	0	0
Total	2,001	3,315	972
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase/(decrease) in council tax (band D) per annum	-£0.32	-£0.35	£0.09

PRUDENTIAL INDICATORS - TREASURY MANAGEMENT

Authorised Limit for external debt	£000	£000	£000
Borrowing	34,159	35,875	37,313
Other long term liabilities	1,587	1,521	1449
Total	35,746	37,396	38,762
Operational Boundary for external debt	£000	£000	£000
Borrowing	32,739	34,288	35,676
Other long term liabilities	1,509	1,444	1,374
Total	34,248	35,732	37,050

TREASURY MANAGEMENT INDICATOR

	Upper Limit %	Lower Limit %
Limits on borrowing at fixed interest rates	100%	70%
Limits on borrowing at variable interest rates	30%	0%
Maturity structure of fixed rate borrowing during 2012/13		
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	50%