DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/13/03**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**4 February 2013**
SUBJECT OF REPORT	**DRAFT CAPITAL PROGRAMME 2013-14 TO 2015-16**
LEAD OFFICER	**DIRECTOR OF SERVICE SUPPORT AND TREASURER**
RECOMMENDATIONS	***That the following recommendations of the Capital Programme Working Party be approved:*** ***(a) that the report and specifically the potential impact of the proposed Capital Programme, from 2016-17 onwards, on the 5% Prudential Indicator be acknowledged;*** ***(b) that, nonetheless, the Resources Committee be recommended to commend to the full Authority:*** ***(i) that the draft Capital Programme 2013-14 to 2015-16 and associated Prudential Indicators, as detailed in the report and summarised at Appendices A and B to the report, be approved; and*** ***(ii) that the indicative Capital Programme 2016-17 to 2018-19 and associated Prudential Indicators, as summarised in Appendices A and B to the report, be accepted in principle***
EXECUTIVE SUMMARY	This report sets out the proposals for the 2013-14 to 2015-16 Capital Programme and also details the difficulties in meeting the full capital expenditure requirement for this Authority, given its size, number of fire stations and fire 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 against a reducing revenue budget. All aspects of the programme have been considered. It is proposed to significantly reduce the Estates budget for 2013/14, along with slippage from 2012/13 to keep within the 5% limit. The fleet budget for the same period has also been adjusted to support the introduction of the Light Rescue Pump (LRP).

	The Prudential Indicator has been profiled over 6 years instead of the usual 3 years to ensure sufficient funds are available for the LRP programme pending approval for contract award. Whilst the proposed Capital Programme, as set down in Appendix A, is recommended for approval, this programme comes with some risks to this Authority in maintaining the 5% ceiling for the Prudential Indicator. Nonetheless, following consideration at its meeting on 21 January 2013, the Capital Programme Working Party agreed to recommend that the Committee commend the Capital Programme as detailed to the Authority for approval.
RESOURCE IMPLICATIONS	As indicated within the Report
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	An initial assessment has not identified any equality issues emanating from this report sufficient to warrant undertaking a full ERBA.
APPENDICES	A. Summary of Proposed Capital Programme 2013/14 –2015/16 (and indicative Capital Programme 2016/17 to 2018/19). B. Prudential Indicators 2013/14 – 2015/16 (and indicative Prudential Indicators 2016/17 to 2018/19).
LIST OF BACKGROUND PAPERS	None

1. INTRODUCTION

1.1 Each year the Capital Programme is reviewed and adjusted to include new projects and those carried forward, allowing the capital investment needs of the Service to be understood over a three year rolling programme. Each year considerable effort is made to ensure that the impact of borrowing is maintained below the 5% ratio of financing costs to net revenue stream – one of several Prudential Indicators previously approved by the Authority. The impact of a reducing revenue base on the Service's ability to borrow whilst maintaining debt charge below this ceiling has, however, made the allocation of funds between the main cost centres of fleet and estates increasingly difficult.

1.2 In the last two financial years this Authority has been in receipt of approximately £2m grant from the Department for Communities and Local Government (CLG). From 2013/14 and going forwards, however, CLG has revised the capital funding process to provide for part to be by allocation and part subject to a bidding process. The Authority previously approved submission of a bid by the Service of £4.760m to support the introduction of the Light Rescue Pump. The bid was not successful and the remaining distribution of grant (based on population) has been reduced by over 30% to £1.4m.

1.3 Over the last 4 years funds have been directed towards specific Estates projects culminating in the Training Academy build at Exeter Airport, reducing the available budget for the vehicle replacement programme, thereby creating a significant backlog. There is an increasing need to reinstate this programme in the next financial year, with the proposed introduction of the Light Rescue Pump.

1.4 Whilst this report proposes a programme for 2013/14 to 2015/16, balancing what is affordable in terms of its exposure to external borrowing and taking account of the current economic position, a reducing budget and changing interest rates, it does come with some risk in terms of progression of the Programme from 2016/17 onwards which may require a reconsideration by the Authority of its previous stance on the 5% Prudential Indicator.

1.5 A draft version of this report was submitted to the meeting of the Capital Programme Working Party on 21 January 2013. Following consideration of the issues raised in the report, the Working Party agreed to recommend:

"(a) that the report and specifically the potential impact of the proposed Capital Programme, from 2016-17 onwards, on the 5% Prudential Indicator be acknowledged;

(b) that, nonetheless, the Resources Committee be recommended to commend to the full Authority:

(i) that the draft Capital Programme 2013-14 to 2015-16 and associated Prudential Indicators, as detailed in the report and summarised at Appendices A and B to the report, be approved; and

(ii) that the indicative Capital Programme 2016-17 to 2018-19 and associated Prudential Indicators, as summarised in Appendices A and B to the report, be accepted in principle"

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. This may be breached in future years, although will not be as a consequence of borrowing being in excess of agreed limits, but future revenue budgets being lower than originally forecast at the time following the Comprehensive Spending Review (CSR) 2010 announcement. This, along with the reduction in government grant has a direct impact on the Capital Programme going forward.

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 2012 (report DSFRA/12/2 refers) when setting the existing capital programme. The proposed programme contained in this report increases the external borrowing requirement to £31m by 2015/16, which would increase the debt ratio to 4.43%. The external borrowing requirement figure at the end of 2012/13 is forecast to be £27.2m.

2.4 Whilst a debt of £31m is not considered excessive for this size Authority, given the large size of the asset portfolio, it is clear that the Committee will want to monitor its exposure to further debt levels as the Service moves forward in the next 3 to 5 years, to ensure that the debt levels are affordable in the context of reducing budget and the ability to service debt repayments.

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

2.6 The revised programme has again been constructed on the basis of keeping the debt ratio within the 5% limit by 2015/16. 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 months' time when a clearer picture is available as to the extent of the future revenue grant reductions for 2015/16 once the next CSR announcement is known.

3. SERVICE ESTATES

3.1 Whilst combination provided many benefits, the Estates department inherited additional building stock with no increase in budget or staffing, limiting the ability of the department over recent years. Last year the department was subject to a review and has been re-structured, which will provide improved efficiencies and ways of working.

3.2 The budget for Estates remains, however, insufficient for the Authority's extensive property portfolio and associated maintenance requirements. Outside of specific projects the budget is normally in the range of £1.75 - £2m. This figure does not reflect the true costs which should be in the region of £5m per annum. Whilst the temporary increase in recent years, to meet specific Service projects, has proved successful; the level of future funding will only exacerbate this problem.

3.3 In seeking to present the Authority with an affordable programme it is proposed to cease all new projects for 2013/14 leaving a budget of £0.315m to complete the Service's Carbon Management Project. It is also proposed to limit those projects that will slip into the 2013/14 to £2.2m, providing a further saving of £1.1m. This will complete projects already committed, which include the shared use of Axminster fire station with Devon & Cornwall Police, along with essential works to Hartland fire station. This moratorium will be reviewed in 12 months' time. The maintenance budget, funded from revenue, remains in place.

3.4 Throughout 2013/14 it is intended to undertake a comprehensive review of the Authority's property portfolio, looking at what future professional and commercial opportunities may best be developed into a medium to longer term plan. The Service Management Property Plan will be revised and reported to the Committee in due course.

Training Academy - Exeter Airport

3.5 Following protracted lease negotiations and extensive site investigation works, the contract was awarded to 'Interserve' with a total project cost of £3.5m. The negotiation of contract delayed the original start date and as such they did not commence work on site until September 2012, resulting in slippage on spending of £0.760m into 2013-14. The inclement wet weather has further delayed works, although completion of the project is programmed for May 2013.

3.6 The Committee has been informed that planning consent for the Training Academy at Exeter Airport included an appliance bay for all training vehicles, a training tower and a facility for confined space training. Adjustments made to the original plan in reconciling the final project costs against available funding at the time, however, resulted in the removal of these elements. In rationalising the estates budget for 2013/14 there is an opportunity to replace these elements, at a cost of £0.340m. This will improve training capacity and commercial income potential for the future.

Fire Control

3.6 The contract for the refurbishment of fire control was awarded to Morgan Sindall and work has commenced on Phase 2. This second phase principally involves the construction of a new server room plus general refurbishment and improvements to the Control building. Authority funding for the project was identified in the 2012-13 budget process with some additional funds made available from the central government grant following the cancellation of the Regional Control Centre (RCC) project.

4. OPERATIONAL ASSETS

Vehicle Replacements/Equipment

4.1 The Authority has the second largest fleet of all fire and rescue services in England. Over the last four years, this budget has been reduced in support of the Estates programme, creating a significant backlog in vehicle replacement. This is becoming increasingly difficult to manage especially with increases in associated maintenance costs. Whilst this situation is far from ideal, the proposed re-investment in the Light Rescue Pump (LRP) programme, commencing in 2013/14, will help reduce this. The Authority has previously consulted on these vehicles and over the last twelve months the LRP has been subject to a pilot and a full procurement exercise.

4.2 There has however, been slippage within the Fleet replacement programme from 2012/13 of £1m resulting from the alignment of the Specialist Vehicle replacement with the Tiered Approach at Tier 3. Such slippage is not unusual and remains within the arrangements for a three rolling capital programme. The vehicles are, however, essential to the programme and include, Environmental Units, Incident Command Units, Prime Movers and 4 x 4 capability recognising the need to have improved arrangements for flooding and snow. Also included are vehicles for the Training Academy at Exeter Airport. These vehicles are all in various stages of build and the slippage reflects the continuations payments which allow the vehicles to be completed during 2013/14.

However, given the difficulties in proposing an affordable capital programme the replacement of both the foam tender and water bowsers have been slipped from 2013/14 and have been programmed to commence in 2016/17.

The equipment replacement needs for the Service have been set at £0451m, which incorporates equipment for the LRP Programme.

Light Rescue Pumps

4.3 It was planned that funding for the introduction of the Light Rescue Pump (LRP) would be part funded from government grant. The Minister reported last year that the grant would be:

- an efficiency fund, administered as a capital grant via a bidding process, and
- a pro-rata distribution using the current distribution method.

4.4 The Service submitted a bid for £4,760m over a two year period to offset future borrowing costs. It has now been confirmed that the Service has been unsuccessful in its application for funding and that the distribution of remaining grant has been reduced by over 30% to £1.4m. It is very disappointing that our bid of £4.760m has not been successful as this adversely impacts on our ability to roll out the LRP programme over the next 4 years. However given that the £4.760m will now need to be funded from external borrowing it is proposed that this programme takes place over a 6 year period. This additional borrowing runs the risk that the 5% Prudential Indicator will be breached at some point in the next 6 years. This report provides indicative prudential indicator figures beyond the normal 3 year period which highlights that the indicator is likely to be breached in 2016-17 (5.08%).

4.5 This risk will be offset to the extent that additional income is achieved from commercial activities during this period. It has been agreed in principle by the Authority that additional income, over and above current levels, will be utilised to fund capital projects in order to contain external borrowing as much as possible.

4.6 Despite this, the LRP programme remains the bedrock of the Authority's future fleet replacement strategy for introducing 'Tiered Response'; meeting future service delivery arrangements with a more cost effective vehicle, improved service to local communities, along firefighter safety. The capital programme has been adjusted to support this proposal over a six year term. The procurement timetable will provide for the introduction of 6 LRP's in 2013-14 requiring a financial commitment of £1.015m and 16 vehicles, per annum, in future years.

Breathing Apparatus Replacement Programme

4.7 There is an operational need to harmonise the breathing apparatus equipment between Somerset (Scott Sabre) and Devon (InterSpiro) and a full business case has been developed to consider the most appropriate and cost effective options. The programme for 2012/13 indicated that an estimated £1.4m would be required for the harmonisation Breathing Apparatus (BA) equipment in 2013/14.

4.8 However, again recognising the financial constraints on the Capital Programme, the purchase of BA has been slipped to 2014/15 subject to future decisions regarding "4G" technology which supports the use of telemetry and understanding the consequences, the next Comprehensive Spending Review may have on future operational arrangements. This position will be reviewed in 12 months' time. The figure for the purchase of BA has also been revised to £0.884m reflecting the outcome of the Business Case.

5. REVISED CAPITAL PROGRAMME FOR 2013/14 – 2015/16

5.1 Appendix A provides an analysis of the proposed programme for the three years 2013/14 to 2015/16 as contained in this report. This programme represents a decrease in spending of £2.5m over the previously agreed programme as illustrated in Figure 1 below.

	Estates £m	Fleet & Equipment £m	Total £m
EXISTING PROGRAMME			
2012/2013	7.7	2.9	10.6
2013/2014	1.7	4.1	5.8
2014/2015	1.7	2.1	3.8
2015/2016 (provisional)	1.7	2.3	4.0
Total 2012/13 to 2015/16	12.8	11.4	24.2
PROPOSED PROGRAMME			
2012/2013 (forecast spending)	4.4	1.5	5.9
2013/2014	2.5	2.5	5.0
2014/2015	2.0	3.7	5.7
2015/2016	1.7	3.4	5.1
Total 2012/13 to 2015/16	10.6	11.1	21.7
PROPOSED CHANGE	**-2.2**	**-0.3**	**-2.5**

Figure 1

5.2 The schedule in Appendix A also provides indicative capital requirements beyond 2015/16 up to 2018/19.

5.3 Appendix B provides a summary of the Prudential Indicators associated with this level of spending over this period. It is forecast that total external debt will have increased from current levels of £27m to £36m by 2018/19. Figure 2 below provides further analysis for each year.

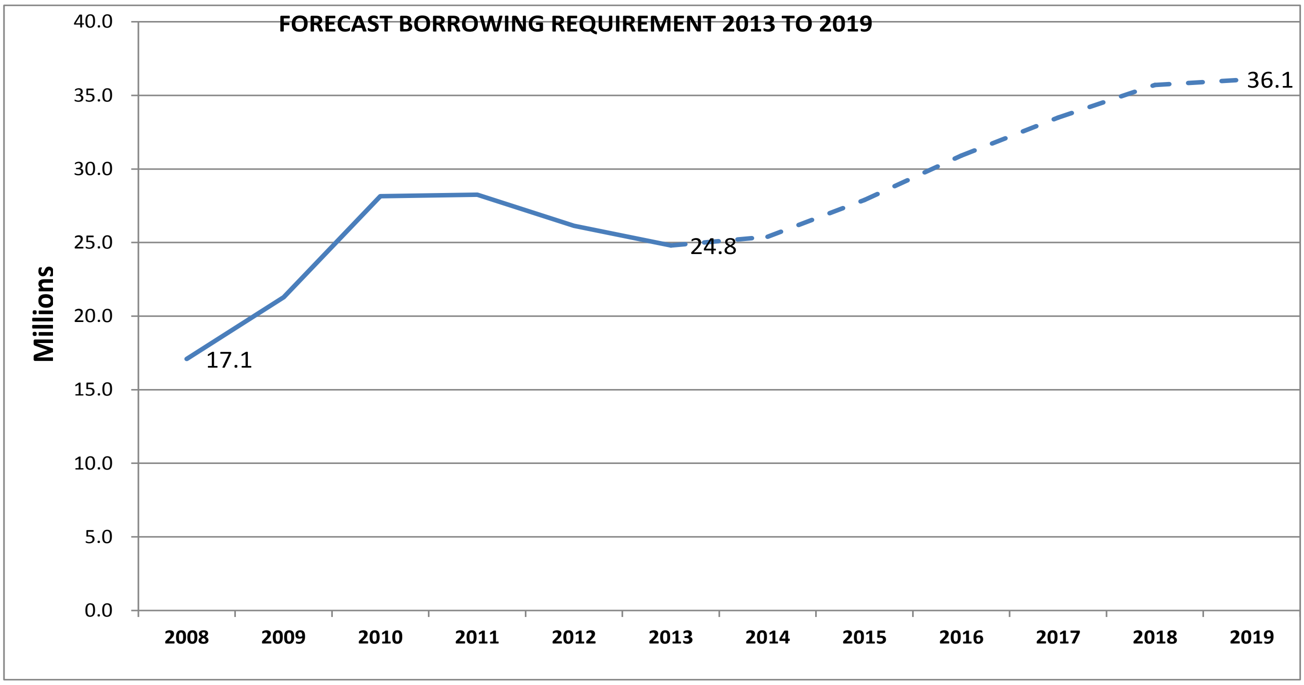

Figure 2

5.4 The estimated debt charge emanating from this revised spending profile is illustrated in Figure 3. These amounts are included in the 2013/14 revenue budget proposal and Medium Term Financial Plan 2013/14 to 2017/18.

<u>Summary of Estimated Capital Financing Costs</u>

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Base budget for Capital Financing costs Debt charges and operating leasing rentals	4.753	4.625	4.398	4.660	4.848	5.206	5.535
Change over previous year		-0.128	-0.227	0.262	0.188	0.358	0.329
Debt ratio	***3.71%***	***3.76%***	***3.81%***	***4.43%***	***5.08%***	***5.65%***	***6.17%***

Figure 3

5.5 The forecast figures for external debt and debt charges beyond 2015/16 are based upon the indicative programmes as included in Appendix A for the years 2016/17 to 2018/19, and exclude any additional income from the Commercial Trading Arm which has been agreed will be utilised to fund capital spending during this period. The affordability of these programmes will need to be subject to annual review based upon the financial position of the Authority at the time given that the next CSR announcement is expected to announce further significant reductions in our revenue funding over this same period.

6. PRUDENTIAL INDICATOR

6.1 The reducing revenue budget impacts significantly upon the borrowing capacity of this Authority. Whilst the programme now presented maintains borrowing within 5% to 2015/16, it does come with a risk that this could be breached from 2016/17 onwards albeit that the Service considers it has measures in place to mitigate against this. Previous Capital programmes and the borrowing profile has been reasonable and affordable.

6.2 The Treasurer has reported previously that the borrowing profile for 2012/13 at £33m was not excessive for this Authority, given the size of our asset portfolio. Reducing the programme for the next three years however, keeps the consequences of borrowing below 5% and reduces the Service debt exposure to £31m by 2015/16.

6.3 The LRP project is now planned to be rolled out over 6 years and the prudential indicator has been profiled beyond 2015/16 to reflect the on-going impact. This is mainly to provide reassurance that the replacement programme for vehicles keeps the overall programme within 5% for the first three years.

6.4 Whilst the budget for Estates has been increased in recent years, this has been for specific projects, such as the Training Academy at Exeter Airport. It has been reported previously that the Authority has a property portfolio that requires significant investment, with a backlog of some £16m. Whilst reducing this budget for one year will assist pump priming the introduction of the LRP and stabilise the backlog of for Medium Rescue Pump (MRP – the more traditional size appliance) replacement, the moratorium will have a significant impact on Service fire stations and difficulty in maintaining these properties with a reducing revenue budget.

7. CONCLUSION

7.1 This report emphasises the difficulties in meeting the full capital expenditure requirement for the Service, given the geographical size, number of fire stations and fire 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. The consequence of a reducing revenue budget and the impact on borrowing limits was reported to the Authority last year when it was also indicated that it was becoming increasingly likely that, in light of these factors, the Authority may need to breach the 5% ceiling at some point in the future. While the Service has proposed a programme that maintains expenditure within current limits at present, the risk of breaching the 5% ceiling from 2016/17 is also indicated.

7.2 It is very disappointing that the Service capital bid of £4.760m was not successful as this would have provided much needed funding to enable the roll out the LRP programme as planned. The roll out is now planned over a 6 year period which will help to keep within the 5% limit over the next 3 years. As is indicated in this report, however, the ability to address the significant capital investment needs of the Service and keep within the limit is becoming increasing difficult. Indications are that there is a risk this limit is breached by 2016/17 (5.08%). It is, however, anticipated that profits from commercial activities will be used to mitigate this risk beyond 2015/16.

7.3 The impact of restricting borrowing will affect many aspects of this Authority, the general maintenance of the current building stock in particular which has returned to pre-2009 levels and the opportunity to harmonise BA equipment in support of firefighter safety.

7.4 The proposed capital programme for 2013-14 to 2015-16 as set down in Appendix A limits future spending whilst providing some funding towards reducing the fire appliance replacement backlog. The programme is therefore recommended for approval.

TREVOR STRATFORD
Director of Service Support

KEVIN WOODWARD
Treasurer

APPENDIX A TO REPORT RC/13/03

Capital Programme (2013/14 to 2017/18)

2012/2013 Revised Programme (£000)	2012/2013 Predicted outturn (£000)	Item	PROJECT	PROPOSED PROGRAMME 2013-14 TO 2015-16 2013/14 (£000)	2014/15 (£000)	2015/16 (£000)	INDICATIVE PROGRAMME 2016-17 TO 2018-19 2016/17 (£000)	2017/18 (£000)	2018/19 (£000)
			Estate Development						
92	77		SHQ major building works	15					
3,284	2,184		Major Projects - Training Facility at Exeter Airport	1,100					
			Minor improvements & structural maintenance	300	2,050	1,750	1,750	1,750	1,750
15	15		Welfare Facilities						
105	105		USAR works						
343	343		Minor Works slippage from 2010-11						
1,674	1,063		Minor Works slippage from 2011-12	566					
2,140	530		Minor Works slippage from 2012-13	530					
52	52		STC ship structure						
7,705	4,369		**Estates Sub Total**	2,511	2,050	1,750	1,750	1,750	1,750
			Fleet & Equipment						
			Appliance replacement	1,015	2,480	3,125	2,480	2,480	1,395
			Specialist Operational Vehicles				400	400	
177	177		Vehicles funded from revenue						
242	91		Equipment	451	1,184	300	300	300	200
889	648		Appliance & Specialist Operational Vehicle slippage 2011-12						
1,620	599		Appliance & Specialist Operational Vehicle slippage 2012-13	1,021					
2,928	1,515		**Fleet & Equipment Sub Total**	2,487	3,664	3,425	3,180	3,180	1,595
10,633	**5,884**		**SPENDING TOTALS**	**4,998**	**5,714**	**5,175**	**4,930**	**4,930**	**3,345**
			Programme funding						
4,179	602		Main programme	2,428	4,316	5,175	4,930	4,930	3,345
4,433	3,261		Revenue funds	1,172					
2,021	2,021		Grants	1,398	1,398				
10,633	**5,884**		**FUNDING TOTALS**	**4,998**	**5,714**	**5,175**	**4,930**	**4,930**	**3,345**

APPENDIX B TO REPORT RC/13/03

PRUDENTIAL INDICATORS

	2013/14 £m estimate	2014/15 £m estimate	2015/16 £m estimate	2016/17 £m estimate	2017/18 £m estimate	2018/19 £m estimate
Capital Expenditure						
Non - HRA	4.998	5.714	5.175	4.930	4.930	3.345
HRA (applies only to housing authorities						
Total	4.998	5.714	5.175	4.930	4.930	3.345
Ratio of financing costs to net revenue stream						
Non - HRA	3.76%	3.81%	4.43%	5.08%	5.65%	6.17%
HRA (applies only to housing authorities	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Financing Requirement as at 31 March	£000	£000	£000	£000	£000	£000
Non - HRA	25,395	27,873	30,940	33,462	35,734	36,153
HRA (applies only to housing authorities	0	0	0	0	0	0
Other long term liabilities	1,532	1,509	1,444	1,374	1,299	1,209
Total	26,927	29,382	32,384	34,836	37,033	37,362
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000	£000
Non - HRA	537	2,455	3,002	2,450	2,195	327
HRA (applies only to housing authorities	0	0	0	0	0	0
Total	537	2,455	3,002	2,450	2,195	327
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p	£ p
Increase/(decrease) in council tax (band D) per annum	-£0.49	-£1.27	-£1.04	N/A	N/A	N/A

PRUDENTIAL INDICATORS - TREASURY MANAGEMENT

Authorised Limit for external debt	£000	£000	£000	£000	£000	£000
Borrowing	32,210	34,856	37,281	37,826	38,890	39,697
Other long term liabilities	1,521	1449	1371	1278	1177	1070
Total	33,731	36,305	38,652	39,104	40,067	40,767
Operational Boundary for external debt	£000	£000	£000	£000	£000	£000
Borrowing	30,940	33,462	35,734	36,153	37,103	37,889
Other long term liabilities	1,444	1,374	1,299	1,209	1,112	1,010
Total	32,384	34,836	37,033	37,362	38,215	38,899

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%