DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/14/3**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**3 FEBRUARY 2014**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2014-15 TO 2016-17**
LEAD OFFICER	**Chief Fire Officer and Treasurer**
RECOMMENDATIONS	***That the Devon and Somerset Fire and Rescue Authority be recommended:*** ***(i) to approve a revenue contribution of £1.2m from the 2014-15 revenue budget towards the Light Rescue Pumps (LRP) project.*** ***(ii) to approve the draft Capital Programme 2014-15 to 2016-17 and associated Prudential Indicators, as detailed in the report and summarised at Appendices A and B respectively to this report; and*** ***(iii) to note the forecast impact of the proposed Capital Programme (from 2017-18 onwards) on the 5% debt ratio Prudential Indicator as indicated in this report.***
EXECUTIVE SUMMARY	This report sets out the proposals for a three year Capital Programme covering the years 2014-15 to 2016-17 and also outlines 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 (debt charges as a percentage of the Revenue Budget) against a reducing revenue budget. All aspects of the programme have been considered. To support continued funding for the roll out of the Light Rescue Pumps (LRP), it is proposed to make provision in the 2014-15 revenue budget for a £1.2m contribution, and to again reduce the Estates programme to enable debt charges to be kept within the 5% limit up until 2016-17. To inform longer term planning the Prudential Indicator has been profiled for a further three years beyond 2016-17 to show the impact of providing sufficient funds for the LRP programme over this period.

RESOURCE IMPLICATIONS	As indicated within the Report.
EQUALITY AND RISKS BENEFIT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Summary of Proposed Capital Programme 2014-15 – 2016-17 (and indicative Capital Programme 2017-18 to 2019-20). B. Prudential Indicators 2014-15 – 2016-17 (and indicative Prudential Indicators 2017-18 to 2019-20).
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 agreed 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 The Department for Communities and Local Government (CLG) has in recent years provided some grant funding to fire and rescue authorities for capital purposes. In 2013-14 and 2014-15 an amount of £70m has been made available in each year, which is part distributed on a pro-rata basis (population) and part subject to a bidding process. Unfortunately, the submission of a bid in 2013 by the Service of £4.7m to support the introduction of the Light Rescue Pump (LRP) was unsuccessful. The remaining distribution of grant (based on population) to the Authority of £1.4m in each year represents a 30% reduction from the previous levels.

1.3 For 2015-16, the CLG has announced that an amount of £45m will be made available for capital purposes and that it will all be subject to a bidding process based upon transformational projects. The Authority will be submitting a bid by the deadline of April 2014, with announcements of successful bidders to be made in the Autumn of 2014. There is no announcement of additional grants to be distributed on a pro-rata basis meaning that for 2015-16 onwards it is unlikely that any capital grants will be available to fund mainstream capital programmes.

1.4 Up until 2013-14 DSFRA capital funds have predominantly 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. However, last year the Estates programme was significantly reduced to accommodate the reinstatement of the fleet programme to fund the proposed introduction of the LRP.

1.5 The programme for 2014-15 to 2016-17 as proposed within this report includes a further reduction in the Estates programme, which together with a proposed contribution from the 2014-15 revenue budget of £1.2m towards the LRP project, will keep debt charges within the 5% Prudential Indicator. It should be recognised, however, that the proposed programme 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.

2. FINANCING OF THE PROPOSED CAPITAL PROGRAMME

2.1 On 8 December 2008, the Resources Committee considered 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 (Minute *RC/15) refers). This may well be breached in future years, not only as a consequence of additional capital investment, but also as a result of 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 by the Fire and Rescue Authority on 18 February 2013 (Minute DSFRA/53 refers) when setting the existing capital programme. The proposed programme contained in this report increases the external borrowing requirement to £32.8m by 2016-17, increasing the debt ratio to 5.00%. This compares to a current external borrowing of £26.2m as at 31 March 2014.

2.4 Whilst a debt of £32.8m 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 three years, to ensure that the debt levels are affordable in the context of a reducing budget and the ability to service debt repayments.

2.5 The focus of this Authority over many 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 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. To achieve this Estates programme for the years 2014-15 to 2016-17 has been reduced by £0.5m from previously reported levels. It is also proposed that a revenue contribution of £1.2m be made in 2014-15 to support the LRP project. It still remains the case however that not all of the Service's capital investment backlog can be delivered in this period, and the position will need to be reviewed on an annual basis subject to the overall financial position of the Authority.

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 nearer to £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, for the second year, no new major projects are included. It is also proposed to reduce the provision for minor improvements and structural maintenance by £0.5m over the next three years.

4. OPERATIONAL ASSETS

Vehicle Replacements/Equipment

4.1 The Authority has the second largest fleet of all fire and rescue services in England. Until 2013-14 this budget had been reduced in support of the Estates programme, creating a significant backlog in vehicle replacement. However in setting the current programme in February 2013 a reinstatement of the programme was made to provide the necessary funding for the proposed investment in the LRP programme, commencing in 2013-14. 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.

Light Rescue Pumps

4.2 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.

4.3 The Service submitted a bid for £4.7m over a two year period to offset future borrowing costs. However the CLG it is very disappointing that our bid of was not successful as this adversely impacts on our ability to roll out the LRP programme. However given that the £4.7m will now need to be funded from our own sources it was proposed that this programme takes place over a six year period rather than the original four years planned. However, this additional borrowing runs the risk that the 5% Prudential Indicator will be breached at some point in the next six years. To alleviate this borrowing requirement it is proposed that in setting the revenue budget for 2014-15 a provision be made for a £1.2m revenue contribution towards the project. This will enable the roll out to continue and keep within the 5% limit by 2016-17. However, this report provides indicative prudential indicator figures beyond the normal three year period which highlights that the indicator is likely to be breached in 2017-18 (5.57%).

4.4 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 has provided for the introduction of six LRP’s in 2013-14 and 16 vehicles, per annum, in future years.

Breathing Apparatus Replacement Programme

4.5 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 2013-14 indicated that an estimated £1.4m would be required for the harmonisation Breathing Apparatus (BA) equipment in 2013-14.

4.6 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. 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 2014-15 – 2016-17

5.1 Appendix A provides an analysis of the proposed programme for the three years 2014-15 to 2016-17 as contained in this report. This programme represents an increase in overall spending of £0.1m over the previously agreed programme as illustrated in Figure 1 below.

	Estates £m	Fleet & Equipment £m	Total £m
EXISTING PROGRAMME			
2013-14	3.3	3.5	6.8
2014-15	2.0	3.7	5.7
2015-16	1.7	3.4	5.1
2016-17(provisional)	1.7	3.2	4.9
Total 2013-14 to 2016-17	8.7	13.8	22.5
PROPOSED PROGRAMME			
2013-14 (forecast spending)	2.5	2.5	5.0
2014-15	2.7	5.1	7.8
2015-16	1.5	3.5	5.0
2016-17	1.5	3.3	4.8
Total 2013-14 to 2016-17	8.2	14.4	22.6
PROPOSED CHANGE	**-0.5**	**0.6**	**0.1**

Figure 1

5.2 The increase of £0.6m spending for Fleet and Equipment relates to additional provision of £0.3m for LRP's, following completion of procurement process, and £0.3m to fund replacement ICT Servers to be funded from a revenue contribution.

5.3 Appendix A also provides indicative capital requirements beyond 2016-17 up to 2019-20. The estimated debt charge emanating from this revised spending profile is illustrated in Figure 2. These amounts are included in the 2014-15 revenue budget proposal and Medium Term Financial Plan.

Summary of Estimated Capital Financing Costs

	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	4.626	4.377	4.349	4.776	5.259	5.689
Change over previous year		-0.249	-0.028	0.427	0.910	0.913
Debt ratio	3.76%	3.86%	4.32%	5.00%	5.57%	6.13%

Figure 2

5.4 The forecast figures for external debt and debt charges beyond 2016-17 are based upon the indicative programmes as included in Appendix A for the years 2017-18 to 2019-20. The affordability of these programmes will need to be subject to annual review based upon the financial position of the Authority.

6. PRUDENTIAL INDICATORS

6.1 Appendix B provides a summary of the Prudential Indicators associated with this level of spending over this period. It is forecast that Capital Financing Requirement (the need to borrow to fund capital spending) will have increased from current levels of £26m to £36.9m by 2020. Figure 2 below provides further analysis of forecast borrowing for each year.

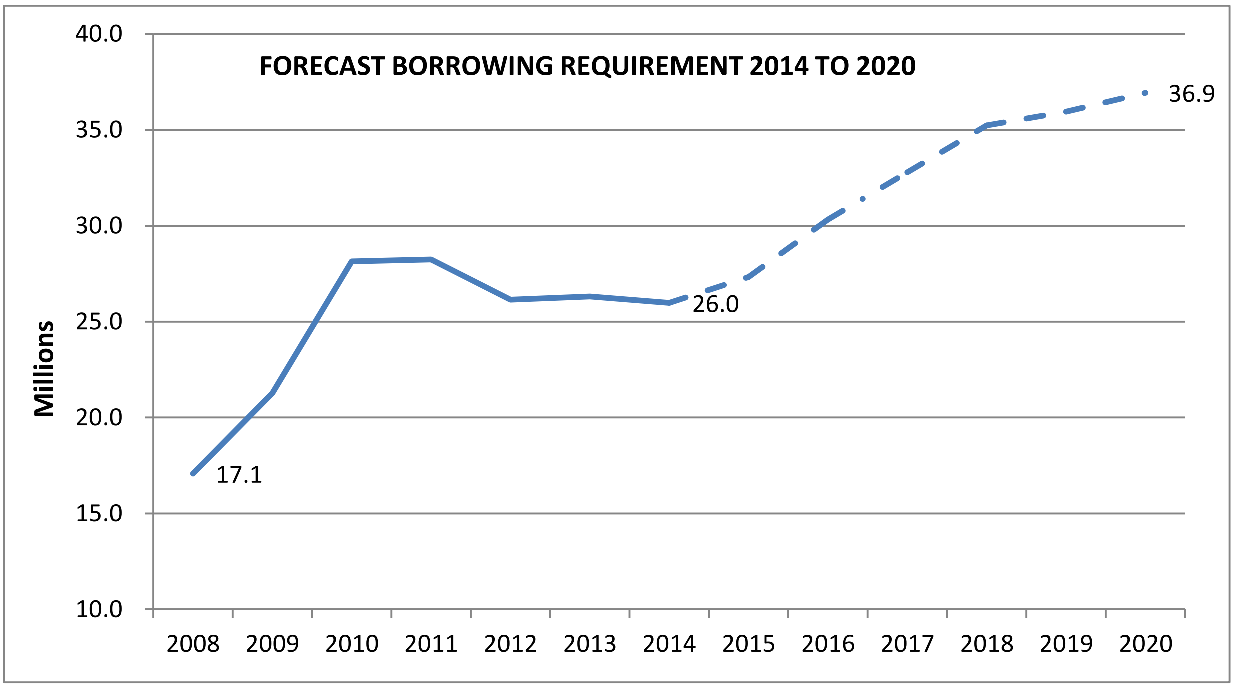

Figure 2

6.2 The reducing revenue budget impacts significantly upon the borrowing capacity of this Authority. Whilst the programme now presented maintains borrowing within 5% to 2016-17, it does come with a risk that this could be breached from 2017-18 onwards albeit that the Service considers it has measures in place to mitigate against this. Previous Capital Programmes and the borrowing profile have been reasonable and affordable.

6.3 The Treasurer has reported previously that given the size of the DSFRA asset portfolio a borrowing profile at £36m is not deemed to be excessive. However reducing the programme for the next three years and providing a revenue contribution of £1.2m keeps the consequences of borrowing below 5% and maintains the Service debt exposure to £32.8m by 2016-17.

6.4 The LRP project is being rolled out over the next six years and the prudential indicator has been profiled beyond 2016-17 to reflect the on-going impact. Whilst the budget for Estates has again been reduced to assist pump priming the introduction of the LRP and stabilise the backlog of Medium Rescue Pump (MRP – the more traditional size appliance) replacement, it should be recognised that this reduced spend will have a detrimental impact on the ability to maintain Service fire stations with a reducing revenue budget. It has been reported previously that the Authority has a property portfolio that requires significant investment, with a backlog of some £16m.

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, and also keeping debt charges within the 5% limit. Indications are that there is a risk that this limit is breached by 2017-18 (5.57%). However the programme proposed in this report does not commit any spending beyond 2016-17. Decisions on further spending will be subject to annual review based upon the financial position of the Authority.

7.2 The proposed capital programme for 2014-15 to 2016-17 as set down in Appendix A limits future spending whilst providing towards reducing the fire appliance replacement backlog. The programme is therefore recommended for approval.

LEE HOWELL
Chef Fire Officer

KEVIN WOODWARD
Treasurer

Capital Programme (2014/15 to 2019/20)

2013/2014 Revised Programme (£000)	2013/2014 Predicted outturn (£000)	Item	PROJECT	PROPOSED PROGRAMME 2014-15 TO 2016-17 2014/15 (£000)	2015/16 (£000)	2016/17 (£000)	INDICATIVE PROGRAMME 2017-18 TO 2019-20 2017/18 (£000)	2018/19 (£000)	2019/20 (£000)
			Estate Development						
79	39		SHQ major building works	40					
1,544	1,214		Major Projects - Training Facility at Exeter Airport	330					
			Minor improvements & structural maintenance	2,050	1,500	1,500	1,750	1,750	1,750
255	97		USAR works	158					
1,288	1,153		Minor Works slippage from earlier years	134					
63	43		Projects funded from Revenue	20					
3,229	2,546		**Estates Sub Total**	2,732	1,500	1,500	1,750	1,750	1,750
			Fleet & Equipment						
			Appliance replacement	2,557	3,202	2,557	2,557	1,438	2,119
			Specialist Operational Vehicles			400	400		
60	56		Vehicles and equipment funded from revenue	0					
			Equipment	1,454	320	320	320	380	200
100	100		USAR Vehicles	0					
481	337		Equipment slippage from earlier years	144					
2,883	1,937		Appliance & Specialist Operational Vehicle slippage from earlie	940					
3,523	2,430		**Fleet & Equipment Sub Total**	5,095	3,522	3,277	3,277	1,818	2,319
6,752	**4,976**		**SPENDING TOTALS**	**7,827**	**5,022**	**4,777**	**5,027**	**3,568**	**4,069**
			Programme funding						
1,596	1,596		Main programme	3,215	5,022	4,777	5,027	3,568	4,069
3,361	1,743		Revenue funds	3,056					
355	197		Earmarked Reserves	158					
1,440	1,440		Grants	1,398					
6,752	**4,976**		**FUNDING TOTALS**	**7,827**	**5,022**	**4,777**	**5,027**	**3,568**	**4,069**

PRUDENTIAL INDICATORS

	2014/15 £m estimate	2015/16 £m estimate	2016/17 £m estimate	INDICATIVE INDICATORS 2017/18 to 2019/20 2017/18 £m estimate	2018/19 £m estimate	2019/20 £m estimate
Capital Expenditure						
Non - HRA	7.827	5.022	4.777	5.027	3.568	4.069
HRA (applies only to housing authorities						
Total	7.827	5.022	4.777	5.027	3.568	4.069
Ratio of financing costs to net revenue stream						
Non - HRA	3.86%	4.32%	5.00%	5.57%	6.13%	6.51%
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	27,328	30,327	32,779	35,231	35,946	36,939
HRA (applies only to housing authorities	0	0	0	0	0	0
Other long term liabilities	1,509	1,443	1,374	1,299	1,209	1,112
Total	28,837	31,770	34,153	36,530	37,155	38,051
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000	£000
Non - HRA	1,328	2,933	2,383	2,377	625	896
HRA (applies only to housing authorities	0	0	0	0	0	0
Total	1,328	2,933	2,383	2,377	625	896
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p	£ p
Increase/(decrease) in council tax (band D) per annum	-£0.19	-£0.44	-£0.20	N/A	N/A	N/A

PRUDENTIAL INDICATORS - TREASURY MANAGEMENT

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Authorised Limit for external debt	£000	£000	£000	£000	£000	£000
Borrowing	34,145	36,747	37,585	38,701	39,565	40,252
Other long term liabilities	1,449	1,371	1,278	1,177	1,070	963
Total	35,594	38,118	38,863	39,878	40,635	41,216
Operational Boundary for external debt	£000	£000	£000	£000	£000	£000
Borrowing	32,779	35,231	35,946	36,939	37,768	38,405
Other long term liabilities	1,374	1,299	1,209	1,112	1,010	907
Total	34,153	36,530	37,155	38,051	38,778	39,313

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 2014/15		
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%