

REPORT REFERENCE NO.	RC/14/12
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	1 SEPTEMBER 2014
SUBJECT OF REPORT	REVISION TO APPROVED CAPITAL PROGRAMME 2014-15 TO 2016-17
LEAD OFFICER	Director of Service Support and Treasurer to the Authority
RECOMMENDATIONS	<i>That the Devon & Somerset Fire & Rescue Authority be recommended to approve the revised capital programme and associated prudential indicators for 2014-15 to 2016-17 as detailed in this report and summarised at Appendices B and C.</i>
EXECUTIVE SUMMARY	<p>A three year capital programme for 2014-15 to 2016-17 was approved at the Authority budget meeting in February 2014 (Minute DSFRA/45(b) refers). This report proposes a revision to that programme to reflect:</p> <ul style="list-style-type: none"> a) An increase in the amount of slippage from 2013-14 to be carried forward to 2014-15. b) Additional capital spending items in 2014-15 to be funded from revenue contributions. c) Slippage identified against the agreed programme for 2014-15. <p>It should be emphasised that these proposed revisions do not require any increase in the Authority external borrowing requirements.</p>
RESOURCE IMPLICATIONS	As contained in the report.
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	The contents of this report are considered compatible with current equalities and human rights legislation
APPENDICES	<ul style="list-style-type: none"> A. Original Capital Programme 2014-15 to 2016-17. B. Revised Capital Programme 2014-15 to 2016-17. C. Revised Prudential Indicators 2014-15 to 2016-17.
LIST OF BACKGROUND PAPERS	Report DSFRA/14/2 "Capital Programme 2014-15 to 2016-17" - as submitted to the Authority budget meeting on 24 February 2014.

1. INTRODUCTION

- 1.1 The current capital programme covering the three years 2014-15 to 2016-17 was approved at the Authority budget meeting in February 2014 (Minute DSFRA/45(b) refers).
- 1.2 This report seeks approval of the Authority to revise this programme to reflect additional slippage in spending in 2013-14, over and above that included when setting the original programme, slippage in the 2014-15 programme identified as part of the financial monitoring process, and the inclusion of new capital spending items to be funded from revenue contributions.
- 1.3 It should be noted that the proposed changes do not require any additional external borrowing, over and above what has already been agreed, and therefore places no further burden on the revenue budget in terms of debt charges.

2. CURRENT CAPITAL PROGRAMME 2014-15 TO 2016-17

- 2.1 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.
- 2.2 At the budget meeting on 24 February the Authority considered and approved a three year capital programme covering the years 2014-15 to 2016-17 (report DSFRA/14/2 "Capital Programme 2014-15 to 2016-17" refers). This approved programme is included as Appendix A.
- 2.3 Members will recall that in constructing this programme considerable effort has been 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.
- 2.4 Whilst the approved programme has been constructed on the basis of what is affordable and taking account of the current economic position, as was reported to the February meeting, it does come with some risk in terms of progression of the Programme from 2017-18 onwards which may require a reconsideration by the Authority of its previous stance on the 5% Prudential Indicator.
- 2.5 Appendix A also includes indicative spending levels for the three years beyond 2016-17 which enables debt levels and resulting debt charges to be forecast over a longer period. Based upon these figures it had been 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 1 overleaf provides this analysis for each year.

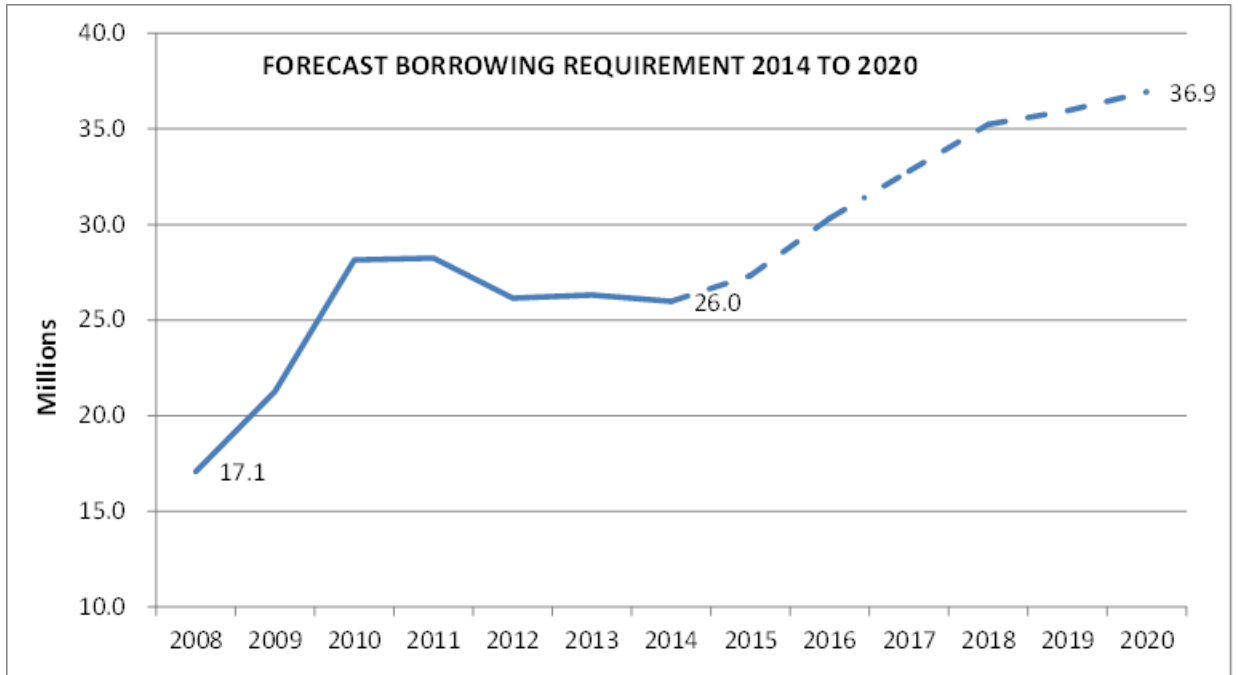


Figure 1

- 2.6 The Treasurer has previously reported that given the size of the DSFRA asset portfolio a borrowing profile at £36m is not deemed to be excessive however, as is well recognised by Members, any increase in external borrowing will put additional pressure on the revenue budget in terms of increased debt charges. Given a reducing revenue base as a result further grant reductions the affordability of any new debt will need to be measured alongside the Authority's ability to identify on-going revenue savings to fund the resultant debt charges. The Treasurer has therefore emphasised the need to identify alternative sources of funding other than borrowing to fund future capital spending needs.
- 2.7 Since the budget meeting the Authority has agreed that an amount of £2.3m from the 2013-14 revenue underspend be transferred to the earmarked reserve for direct revenue funding towards capital spending (Minute DSFRA/9 of the meeting held on the 29 May 2014 refers). This amount will be used to fund future capital spending that would otherwise have been funded from increased debt, thereby reducing the forecast debt exposure highlighted above in paragraph 2.5, and reducing debt charges from 2015-16 by £245k per annum.
- 2.8 This utilisation of underspend is very helpful and going forward a strategy to deliver further in-year revenue savings will enable consideration to be given to the possibility of further transfers being made to this earmarked reserve.
- 2.9 Members will also be aware that the Authority has submitted bids against the DCLG £70m Transformational funding for 2015-16, including a £3.9m capital bid towards the Light Rescue Pump (LRP) project. The approved capital programme includes £7.58m to fund the introduction of 48 LRP's phased over the next three years. A successful bid would enable the acceleration of this phased programme and alleviate our reliance on borrowing to fund this project. It is anticipated that CLG announcements on grant awards will be made in the autumn.

3. PROPOSED REVISION TO CAPITAL PROGRAMME

3.1 Appendix B to this report provides a revised capital programme for the years 2014-15 to 2016-17. The changes included in the revised programme reflect:

- (a) Slippage in spending in 2013-14 of £1.046m more than had been anticipated when setting the original programme for 2014-15, as reported to the meeting of the Fire and Rescue Authority on 29 May 2014. This additional slippage is required to be carried forward to 2014-15 and therefore reflects only a change to the timing of spend rather than an increase to funding requirements.
- (b) An increase of £0.200m in 2014-15 in relation to capital works at a limited number of stations in compliance with Water Regulations to be funded from the 2013-14 revenue underspend, as agreed at the meeting of the Fire and Rescue Authority held on the 29 May 2014.
- (c) An increase of £0.020m in 2014-15 in relation to works to the training tower at Appledore, to be funded from a revenue contribution.
- (d) Elsewhere on the agenda for this meeting is a separate report 'Financial Performance 2014-15 – Quarter 1' which includes a report on progress of spending against the 2014-15 capital programme. It is forecast that even at this early stage of the year there will be slippage of £2.202m. In light of this it is proposed that the capital programme be adjusted to transfer an amount of £2m from 2014-15 to 2015-16. Again this reflects changes in the timing of spend rather than an increase to funding requirements.

3.2 A summary of the impact to the overall programme of these changes is provided in Figure 2 below.

	Estates £m	Fleet & Equipment £m	Total £m
ORIGINAL PROGRAMME			
2013-14 (predicted outturn)	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
REVISED PROGRAMME			
2013-14 (actual outturn)	2.2	1.7	3.9
2014-15	2.4	4.7	7.1
2015-16	2.5	4.5	7.0
2016-17	1.5	3.3	4.8
Total 2013-14 to 2016-17	8.6	14.2	22.8
PROPOSED CHANGE	0.4	-0.2	0.2

Figure 2

Summary of Estimated Capital Financing Costs

3.3 Figure 3 overleaf provides a summary of estimated debt charge emanating from this revised programme.

	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	4.243	4.003	4.526	4.901	5.271
Change over previous year		-0.383	-0.240	0.523	0.375	0.370
Debt ratio	3.76%	3.66%	3.87%	4.67%	5.25%	5.82%

Figure 3

- 3.4 As is illustrated from Figure 3 current forecasts are that the 5% ceiling will be breached in 2017-18 (5.25%). The next review of capital spending plans and affordability considerations will take place as part of the 2015-16 budget setting process.
- 3.5 Appendix C to this report provides a summary of the revised prudential indicators emanating from the revised programme.
- 4. SUMMARY AND RECOMMENDATION**
- 4.1 This report provides a revision to the agreed capital programme 2014-15 to 2016-17. The Committee is asked to recommend this revision, and associated prudential indicators, to the next meeting of the Fire and Rescue Authority to be held on the 5 November 2014.
- 4.2 Looking ahead, the affordability of future capital spending will inevitably be under more pressure given a reducing a revenue budget, and consideration will therefore be needed to identify alternative sources of funding other than external borrowing.

ACFO TREVOR STRATFORD
Director of Service Support

KEVIN WOODWARD
Treasurer

APPENDIX A TO REPORT RC/14/12

Capital Programme (2014/15 to 2019/20)			PROPOSED PROGRAMME 2014-15 TO 2016-17			INDICATIVE PROGRAMME 2017-18 TO 2019-20		
2013/2014 Revised Programme (£000)	2013/2014 Predicted outturn (£000)	Item PROJECT	2014/15 (£000)	2015/16 (£000)	2016/17 (£000)	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 earlier years	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	2,849	5,022	4,777	5,027	3,568	4,069
3,361	1,743	Revenue funds	3,422					
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

APPENDIX B TO REPORT RC/14/12

Revised Capital Programme (2014/15 to 2019/20)			PROPOSED PROGRAMME 2014-15 TO 2016-17			INDICATIVE PROGRAMME 2017-18 TO 2019-20		
2013/2014 Revised Programme (£000)	2013/2014 Outturn (£000)	Item PROJECT	2014/15 (£000)	2015/16 (£000)	2016/17 (£000)	2017/18 (£000)	2018/19 (£000)	2019/20 (£000)
		Estate Development						
79	21	SHQ major building works	58					
1,544	1,247	Major Projects - Training Facility at Exeter Airport	320	100				
		Minor improvements & structural maintenance	1,062	2,400	1,500	1,750	1,750	1,750
255	187	USAR works	83					
1,288	603	Minor Works slippage from earlier years	680					
108	96	Projects funded from Revenue	195					
3,274	2,136	Estates Sub Total	2,398	2,500	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	50		400	400		
60	60	Vehicles and equipment funded from revenue						
		Equipment	1,070	384	320	320	380	200
100	-	USAR Vehicles	100					
481	200	Equipment slippage from earlier years	415					
2,883	1,457	Appliance & Specialist Operational Vehicle slippage from earlier years	504	936				
3,524	1,717	Fleet & Equipment Sub Total	4,696	4,522	3,277	3,277	1,818	2,319
6,798	3,853	SPENDING TOTALS	7,094	7,022	4,777	5,027	3,568	4,069

Programme Funding								
1,596		Main programme	850	5,726	4,777	5,027	3,568	4,069
3,361	2,225	Revenue funds	4,468	1,296				
355	188	Earmarked Reserves	378					
1,440	1,440	Grants	1,398					
6,752	3,853	FUNDING TOTALS	7,094	7,022	4,777	5,027	3,568	4,069

APPENDIX C TO REPORT RC/14/12

PRUDENTIAL INDICATORS	INDICATIVE INDICATORS 2017/18 to 2019/20					
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m	£m
	estimate	estimate	estimate	estimate	estimate	estimate
Capital Expenditure						
Non - HRA	7.094	7.022	4.777	5.027	3.568	4.069
HRA (applies only to housing authorities)						
Total	7.094	7.022	4.777	5.027	3.568	4.069
Ratio of financing costs to net revenue stream						
Non - HRA	3.65%	3.87%	4.67%	5.25%	5.82%	6.21%
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	23,430	27,351	29,948	32,545	33,406	34,544
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	24,939	28,794	31,322	33,844	34,615	35,656
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000	£000
Non - HRA	-975	3,855	2,528	2,522	771	1,041
HRA (applies only to housing authorities)	0	0	0	0	0	0
Total	-975	3,855	2,528	2,522	771	1,041
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p	£ p
Increase/(decrease) in council tax (band D) per annum	-£0.42	-£1.03	-£0.62	N/A	N/A	N/A
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT						
Authorised Limit for external debt	£000	£000	£000	£000	£000	£000
Borrowing	31,120	33,913	34,903	36,171	37,188	38,027
Other long term liabilities	1,449	1,371	1,278	1,177	1,070	963
Total	32,569	35,284	36,181	37,348	38,258	38,991
Operational Boundary for external debt	£000	£000	£000	£000	£000	£000
Borrowing	29,948	32,545	33,406	34,544	35,518	36,300
Other long term liabilities	1,374	1,299	1,209	1,112	1,010	907
Total	31,322	33,844	34,615	35,656	36,528	37,208

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%