REPORT REFERENCE NO.	**DSFRA/23/4**
MEETING	**DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Budget Meeting)**
DATE OF MEETING	**15 FEBRUARY 2023**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2023-24 TO 2025-26**
LEAD OFFICER	**Director of Finance, People & Estates (Treasurer)**
RECOMMENDATIONS	***(a) That, as recommended by the Resources Committee at its budget meeting on 6 February 2023, the Authority approves the draft Capital Programme 2023-24 to 2025-26 and associated Prudential Indicators, as detailed in this report and summarised at Appendices A and B respectively, be approved; and*** ***(b) That, subject to (a) above, the forecast impact of the proposed Capital Programme (from 2026-27 onwards) on the 5% debt ratio Prudential Indicator as indicated in this report be noted.***
EXECUTIVE SUMMARY	This report sets out the proposals for a three year Capital Programme covering the years 2023-24 to 2025-26 and also outlines the difficulties in meeting the full capital expenditure requirement for the Authority, given the number of fire stations, fire appliances and associated equipment 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. The Committee has supported the Treasurer’s recommendation that the Authority should seek alternative sources of funding other than external borrowing to support future capital investment. It should be noted that the capital programme for 2026/27 onwards has been built on knowledge to date. There are potential decisions around stations and vehicles that could impact the programme considerably. To inform longer term planning, the Prudential Indicator has been profiled for a further two years beyond 2025-26 based upon indicative capital programme levels, noting the comment about decisions around stations and vehicles above, for the years 2026-27 to 2027-28.

	This report was previously considered by the Resources Committee at its budget meeting on 6 February. The Committee resolved to recommend that the Authority approved the Capital Programme 2023-24 to 2025-26, and associated Prudential Indicators, as set out in Appendices A and B respectively.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Summary of Proposed Capital Programme 2023-24 to 2025-26 (and indicative Capital Programme 2026-27 to 2027-28). B. Prudential Indicators 2023-24 to 2025-26 (and indicative Prudential Indicators 2026-27 to 2027-28).
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. In constructing the programme, 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 Devon and Somerset Fire and Rescue Authority (hereinafter referred to as “the Authority”).

1.2. The Authority has in recent years used revenue contributions and capital reserve to finance the capital programme, ensuring the Authority stays with in the 5% ratio. The Authority faces increasing revenue budget pressures making the revenue contribution unaffordable in the short-term, which in turn speeds up the use of the capital reserve. This will impact on the 5% ratio. However in the medium term the modelled increases in net revenue budget indicate the ratio will remain well within the Prudential indicator.

1.3. On 10 January 2020, the Authority approved changes to the Service Delivery Operating Model, which has reduced some pressure on the proposed capital programme. However, due to the age of current fleet there are still ambitious plans to introduce further new Medium Rescue Pumps (MRP, our largest fire appliances) and Aerial Ladder Platforms (ALP) into the fleet. The fleet replacement programme, when combined with a station rebuild and other works, will see a significant draw on the capital reserve which is now expected to be used up by 2025/26.

1.4. The Authority has set a strategy to reduce reliance on external borrowing. The proposed Capital Programme 2023-24 to 2025-26 and indicative Capital Programme 2026-27 to 2027-28 show that, despite the reduced number of assets, the Authority will be need to borrowed up to £2.6m. When further decisions are made around stations and vehicles this figure is likely to increase significantly. Alternatively, there may be a need to restrict the amount of funding available to the Capital Programme and task the Service with further rationalising its assets.

1.5. This report was previously considered by the Resources Committee at its budget meeting on 6 February. The Committee resolved to recommend that the Authority approved the Capital Programme 2023-24 to 2025-26, and associated Prudential Indicators, as set out in Appendices A and B respectively.

2. FINANCING OF THE PROPOSED CAPITAL PROGRAMME

2.1. The tests of affordability of future capital spending are measured by compliance with the Chartered Institute of Public Financial Accountants (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.

2.2. The proposed programme and funding, as contained in this report, increases the external borrowing requirement to £25.8m by 2025-26 from the current external borrowing of £24.3m as at 31 March 2023. The debt ratio remains below the 5% maximum limit throughout the planning period.

2.3. The focus of this Authority over many years has been to control spending within the 5% limit. To achieve this, the Service has utilised revenue funding wherever possible through allocation of budget or revenue underspends. This approach has been successful because neither the 5% prudential indicator has been breached nor has external borrowing increased.

2.4. With increasing pressure on revenue budgets, the revised programme has been prepared on the basis that Revenue Contributions to Capital will be suspended for 2023-24 with a view of re-instating in 2024-25. However, significant pressures still remain.

2.5. Due to current interest rates and the potential need to borrow in the future, it is not currently recommended that the Authority repay loans early. This means that existing loans will be applied to the current capital programme until repayment is made in order to avoid an over-borrowed situation. The debt portfolio and interest rates will be regularly reviewed to maximise economy of funding sources.

3. REVISED CAPITAL PROGRAMME FOR 2023-24 to 2025-26

3.1. Appendix A to this report provides an analysis of the proposed programme for the three years 2023-24 to 2025-26 as contained in this report. This programme represents a net decrease in overall spending of £7.6m (before application of optimism bias) over the previously agreed indicative programme as illustrated in Figure 1 overleaf:

Figure 1

	Estates	Fleet & Equipment	Total
	£m	£m	£m
Existing Programme			
2022-23	4.7	5.7	10.4
2023-24	7.3	10.5	17.8
2024-25 (provisional)	0.9	4.6	5.5
2025-26 (provisional)	3.7	1.8	5.5
Total 2022-23 to 2025-26	16.6	22.6	39.2
Proposed Programme			
2022-23 (forecast spending)	2.5	4.0	6.5
2023-24	6.0	8.0	14.0
2024-25 (provisional)	3.8	2.7	6.5
2025-26 (provisional)	0.1	4.5	4.6
Total 2022-23 to 2025-26	12.4	19.2	31.6
Proposed change	-4.2	-3.4	-7.6

Estates

3.2. The Service continues to progress with rationalising the Estate as part of the new ways of working along with the disposal of surplus non-operational buildings whilst also incorporating the Authority’s Green Devon & Somerset Fire & Rescue Service’s Environmental Strategy. The Estates Department will also continue to work in close partnership with the Service Delivery and Academy Training Teams to support a sustainable training infrastructure model which fully considers the closure of Severn Park in March 2028.

3.3. With consideration of the strategic output from the Community Risk Management Plan (CRMP) and Target Operating Model the programme for 2023-24 maintains the focus on existing projects; particularly the new build project for Camels Head, Dignity at Work covering welfare and rest accommodation for the remaining 3 Wholetime Fire Stations, alongside works to ensure compliance such as Muster Bay Separation works and associated Protective Preventative Equipment (PPE) at eight ‘On Call’ Stations as well as the major refurbishment and extension of Bere Alston Fire Station.

Operational Assets

3.4. The contract for Medium Rescue Pumps (MRPs) was awarded in January 2020 and has renewed a considerable number of vehicles. MRPs (1-35) will have been delivered and accepted into Service by the end of Financial Year 2022/23 with a dedicated driver training appliance and several appliance cascades to provide a revised frontline profile. MRPs (36-45) will be received into Service in 2023/24 alongside stage payments towards MRP 4x4 (1-4) and Aerial Ladder Platform (ALPs 1-3). Moving forward, the Service is preparing for the procurement and replacement of water carriers and development of the Light Rescue Pump (LRP) requirements and replacements as part of the long-term fleet replacement plan. A review of numbers and locations of specialist vehicles is being considered alongside the Community Risk Management Plan.

3.5. A 10 year vehicle replacement programme has been developed along with an equipment replacement programme (which is funded from revenue due to the low value of each individual asset). The Asset Management Project will enable the Service to better assess the whole life costs of our assets in the future.

3.6. The benefits of the Fleet Replacement Programme are:

- Economic benefits of new fleet;
- Standardisation of vehicles leading to reduced maintenance and training costs; and
- Environmental benefits from reduced emissions and savings on fuel consumption.

3.7. The Fleet Replacement plan has replaced some of our oldest appliances with new MRPs and Rapid Intervention Vehicles (RIVs) and cascade existing vehicles to the reserve and training fleet. Currently the Service has:

- MRP – 56 front-line appliances of which 19 are overdue replacement (more than 15 years old –34%).
- MRP Reserves – 10 MRP reserve appliances of which 9 are overdue replacement (more than 15 years old – 90%).
- LRP – 38 front-line LRP appliances of which 7 become due replacement in 2025/26 based on 12 years expected life-cycle.
- LRP Reserves – 4 LRP Reserve appliances which are 8 years old.
- RIV – 18 front-line RIV appliances of which none will be due replacement until 2028/29 based on a ten-year life-cycle. (Note: these vehicles have not been in service long enough to accurately predict life-cycle so will rely on condition reporting)
- RIV Reserves – 2 RIV reserve appliances which are both 5 years old.
- Training Appliances – 6 MRP training appliances of which 3 are over 15 years old

- Driver Training Appliances – 2 x MRP driver training specific appliances which are 13 years old. 1 x new MRP appliance (not driver training specific) which arrives in February 2023. 1 x LRP driver training specific appliance which is 6 years old.

4. FORECAST DEBT CHARGES

4.1. Appendix A also provides indicative capital requirements beyond 2025-26 to 2027-28. The estimated debt charge emanating from this revised spending profile is illustrated in Figure 2.

Figure 2 - Summary of Estimated Capital Financing Costs and future borrowing

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
Forecast Debt outstanding at year end	23.771	25.388	25.836	25.243	22.650
Base budget for capital financing costs and debt charges	2.942	3.065	3.307	2.951	2.767
Change over previous year		0.123	0.242	(0.356)	(0.184)
Debt ratio	2.91%	3.02%	3.18%	2.68%	2.61 %

4.2. The forecast figures for external debt and debt charges beyond 2025-26 are based upon the indicative programmes as included in Appendix A for the years 2026-27 to 2027-28. The affordability of these programmes will need to be subject to annual review based upon the financial position of the Authority.

5. PRUDENTIAL INDICATORS

5.1. 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 decreased from current levels of £24.4m to £22.6m (including impact of proposed revenue contributions) by 2027-28.

5.2. The reducing revenue budget impacts significantly upon the borrowing capacity of this Authority and the ability to baseline revenue contribution. Whilst the programme now presented maintains borrowing within 5% to 2027-28, this will only be possible with appropriate annual revenue contributions to the capital programme to maintain an affordable and sustainable Capital Programme.

6. CONCLUSION

6.1. 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.

6.2. The capital programme has been constructed on the basis that the revenue budget contribution to capital will be maintained in future years and highlights that unless capital assets are further rationalised, there will be a need to borrow in 2024-25. The programme proposed in this report does not commit any spending beyond 2025-26. Decisions on further spending will be subject to annual review based upon the financial position of the Authority. The programme is therefore recommended for approval and a future affordability review will be undertaken.

SHAYNE SCOTT
Director of Finance, People and Estates (Treasurer)

APPENDIX A TO REPORT DSFRA/23/4

Capital Programme 2023/24 to 2027/28								
2022/23 £000 Budget	**2022/23 £000 Forecast Outturn**	**Item**	**PROJECT**	**2023/24 £000 Budget**	**2024/25 £000 Budget**	**2025/26 £000 Budget**	**2026/27 £000 Indicative Budget**	**2027/28 £000 Indicative Budget**
			Estate Development					
693	607	1	Site re/new build	1,880	3,000	0	0	0
3,957	1,876	2	Improvements & structural maintenance	4,109	800	100	100	100
4,650	**2,483**		**Estates Sub Total**	**5,989**	**3,800**	**100**	**100**	**100**
			Fleet & Equipment					
4,593	3,524	3	Appliance replacement	4,413	0	1,800	2,100	2,000
820	420	4	Specialist Operational Vehicles	2,979	2,300	2,000	0	0
317	37	5	ICT Department	570	400	700	0	0
5,730	**3,981**		**Fleet & Equipment Sub Total**	**7,962**	**2,700**	**4,500**	**2,100**	**2,000**
(1,800)	**0**	6	**Optimism bias Sub Total**	**(1,200)**	**400**	**800**	**0**	**0**
8,580	**6,464**		**Overall Capital Totals**	**12,751**	**6,900**	**5,400**	**2,200**	**2,100**
			Programme funding					
5,715	4,296	7	Earmarked Reserves:	11,418	1,405	846	0	0
1,200	140	8	Revenue funds:	50	2,050	2,050	2,050	2,050
300	663	9	Capital receipts:	0	0	0	0	0
1,365	1,365	10	Borrowing - internal	1,283	1,370	1,962	150	50
		11	Borrowing - external	0	2,075	542		
8,580	**6,464**		**Total Funding**	**12,751**	**6,900**	**5,400**	**2,200**	**2,100**

The “Optimism Bias” incorporates learning that these figures will change throughout the year, the reasons for any such changes will be outlined in subsequent papers

APPENDIX B TO REPORT DSFRA/23/4

PRUDENTIAL INDICATORS				INDICATIVE INDICATORS	
	2023/24 £m Estimate	2024/25 £m Estimate	2025/26 £m Estimate	2026/27 £m Estimate	2027/28 £m Estimate
Capital Expenditure					
Non - HRA	12.751	6.900	5.400	2.200	2.100
HRA (applies only to housing authorities)					
Total	12.751	6.900	5.400	2.200	2.100
Ratio of financing costs to net revenue stream					
Non - HRA	2.91%	2.97%	3.15%	2.67%	2.59%
HRA (applies only to housing authorities)	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Financing Requirement as at 31 March	£000	£000	£000	£000	£000
Non - HRA	23,771	25,388	25,836	24,291	22,637
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	656	509	349	182	0
Total	24,426	25,897	26,186	24,473	22,637
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	(628)	1,471	289	(1,713)	(1,836)
HRA (applies only to housing authorities)	0	0	0	0	0
Total	(628)	1,471	289	(1,713)	(1,836)
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	25,553	27,215	27,321	27,151	26,475
Other long term liabilities	823	681	527	359	182
Total	26,376	27,897	27,848	27,509	26,657
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	24,364	25,946	26,030	25,936	25,343
Other long term liabilities	791	656	509	349	182
Total	25,155	26,602	26,539	26,286	25,525
Maximum Principal Sums Invested over 364 Days					
Principal Sums invested > 364 Days	5,000	5,000	5,000	5,000	5,000

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 2023/24		
Under 12 months	30%	2%
12 months and within 24 months	30%	2%
24 months and within 5 years	50%	14%
5 years and within 10 years	75%	1%
10 years and above	100%	81%