REPORT REFERENCE NO.	**RC/24/3**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**05 FEBRUARY 2024**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2024-25 TO 2026-27**
LEAD OFFICER	**Director of Finance & Corporate Services (Treasurer)**
RECOMMENDATIONS	***That the Authority at its budget meeting on 16 February 2024 be recommended to approve:*** ***(a) the draft Capital Programme 2024-25 to 2026-27 and associated Prudential Indicators, as detailed in this report and summarised at Appendices A and B respectively, be approved; and*** ***(b) subject to (a) above, the forecast impact of the proposed Capital Programme (from 2027-28 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 2024-25 to 2026-27 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 2027/28 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 2026-27 based upon indicative capital programme levels, noting the comment about decisions around stations and vehicles above, for the years 2027-28 to 2028-29.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY RISKS AND BENEFITS ANALYSIS	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Summary of Proposed Capital Programme 2024-25 to 2026-27 (and indicative Capital Programme 2027-28 to 2028-29). B. Prudential Indicators 2024-25 to 2026-27 (and indicative Prudential Indicators 2027-28 to 2028-29).

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 previous years used revenue contributions and capital reserve to finance the capital programme, ensuring the Authority stays with in the 5% ratio. The Authority has faced increasing revenue budget pressures making the revenue contribution unaffordable in the last two financial years, 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. Due to the age of current fleet there are still plans to introduce further new Medium Rescue Pumps (MRPs) including, all-wheel drive, Aerial Ladder Platforms (ALP), and Water Carriers 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 2026-27.

1.4. The Authority has set a strategy to reduce reliance on external borrowing. The proposed Capital Programme 2024-25 to 2026-27 and indicative Capital Programme 2027-28 to 2028-29 show that, despite the reduced number of assets, the Authority may need to borrowed up to £10.1m. 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.

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 £28.2m by 2026-27 from the current external borrowing of £23.8m as at 31 March 2024. 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. Despite increasing pressure on revenue budgets, the revised programme has been prepared on the basis that Revenue Contributions to Capital will resume for 2024-25, albeit at a reduced rate of £0.484m in comparison to the strategic intent, which remains to increase this gradually to historical levels over the forthcoming years, however, significant pressures 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 2024-25 to 2026-27

3.1. Appendix A to this report provides an analysis of the proposed programme for the three years 2024-25 to 2026-27 as contained in this report. This programme represents a net increase in overall spending of £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			
2023-24	6.9	7.4	14.3
2024-25	3.8	1.8	5.6
2025-26 (provisional)	0.1	4.5	4.6
2026-27 (provisional)	0.1	3.3	3.4
Total 2023-24 to 2026-27	10.9	17.0	27.9
Proposed Programme			
2023-24 (forecast spending)	1.1	5.3	6.4
2024-25	4.7	3.4	8.1
2025-26 (provisional)	6.0	2.6	8.6
2026-27 (provisional)	8.6	2.2	10.8
Total 2023-24 to 2026-27	20.4	13.5	33.9
Proposed change	9.5	-3.5	6.0

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 DSFRS 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), a Fire Cover Review and the Target Operating Model (TOM) the programme for 2024-25 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 Wholetime Fire Stations, alongside works to ensure compliance such as Muster Bay Separation works and associated PPE at On Call Stations as well as the major refurbishment and extension of Bere Alston Fire Station.

3.4 Within the programme is investment in a replacement hot villa and scrubbers based at the airport. There is also a potential investment in carbon reduction at 2 Stations which is incumbent on a grant application from the Public Sector Decarbonisation Scheme.

Operational Assets

3.5 The contract for MRPs was awarded in January 2020 and has renewed a considerable number of vehicles. The last 5 MRPs will be received into Service in early 2024-25, as will All-Wheel-Drive MRPs (1-4), ALPs 1-3 and water carriers. Moving forward, the Service is preparing for the development of the MRP2 (previously known as 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 CRMP.

3.6 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.

3.7 The benefits of the Fleet Replacement Programme are:

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

3.8 The Fleet Replacement plan has replaced some of our oldest appliances with new MRPs and cascade existing vehicles to the reserve and training fleet. Currently we have:

3.9 MRP – 56 front-line appliances of which 25 are overdue replacement (more than 15 years old –44%).

3.10 MRP Reserves – 11 MRP reserve appliances of which 9 are overdue replacement (more than 15 years old – 82%).

3.11 LRP – 38 front-line LRP appliances of which 6 become due replacement in 2025/26 based on 12 years expected life-cycle.

3.12 LRP Reserves – 4 LRP Reserve appliances which are 9 years old.

3.13 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)

3.14 RIV Reserves – 2 RIV reserve appliances which are both 6 years old.

3.15 Training Appliances – 6 MRP training appliances of which 5 are over 15 years old.

3.16 Driver Training Appliances – 2 x MRP driver training specific appliances which are 13 years old. 2 x new MRP appliances (not driver training specific). 1 is new and the other 15 years old.

4. FORECAST DEBT CHARGES

4.1. Appendix A also provides indicative capital requirements beyond 2026-27 to 2028-29. 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

	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Forecast Debt outstanding at year end	23.313	23.219	28.211	31.178	31.085
Base budget for capital financing costs and debt charges	3.807	4.127	4.134	4.493	4.222
Change over previous year		0.321	0.006	0.360	(0.271)
Debt ratio	3.02%	3.27%	3.17%	3.43%	3.00 %

4.2. The forecast figures for external debt and debt charges beyond 2026-27 are based upon the indicative programmes as included in Appendix A for the years 2027-28 to 2028-29. 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 increased from current levels of £27.4m to £30.9m (including impact of proposed revenue contributions) by 2028-29.

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 2028-29, 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 2026-27. The programme proposed in this report does not commit any spending beyond 2026-27. 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 and Corporate Services (Treasurer)

APPENDIX A TO REPORT RC/24/3

Capital Programme 2024/25 to 2028/29								
2023/24 £000 Budget	**2023/24 £000 Forecast Outturn**	**Item**	**PROJECT**	**2024/25 £000 Budget**	**2025/26 £000 Budget**	**2026/27 £000 Budget**	**2027/28 £000 Indicative Budget**	**2028/29 £000 Indicative Budget**
			Estate Development					
1,919	85	1	Site re/new build	450	3,884	500	0	0
5,009	1,040	2	Improvements & structural maintenance	4,208	2,075	8,122	3,430	855
6,928	**1,125**		**Estates Sub Total**	**4,658**	**5,959**	**8,622**	**3,430**	**855**
			Fleet & Equipment					
4,522	3,150	3	Appliance replacement	1,478	2,119	2,180	1,430	1,460
2,266	1,913	4	Specialist Operational Vehicles	1,944	455	0	920	505
570	235	5	ICT Department	0	0	0	0	0
7,358	**5,298**		**Fleet & Equipment Sub Total**	**3,422**	**2,574**	**2,180**	**2,350**	**1,965**
(1,200)	**0**	6	**Optimism bias Sub Total**	**(900)**	**(300)**	**(500)**	**1,000**	**700**
13,086	**6,423**		**Overall Capital Totals**	**7,180**	**8,233**	**10,302**	**6,780**	**3,520**
			Programme funding					
11,753	4,769	7	Earmarked Reserves:	4,835	4,380	1,692	0	0
50	10	8	Revenue funds:	534	2,050	2,050	2,050	2,050
0	361	9	Capital receipts:	0	0	0	0	0
1,283	1,283	10	Borrowing - internal	1,382	1,803	0	1,170	1,470
		11	Borrowing - external	0	0	6,560	3,560	
0	0	12	Contributions:	429	0	0	0	0
13,086	**6,423**		**Total Funding**	**7,180**	**8,233**	**10,302**	**6,780**	**3,520**

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 RC/24/3

PRUDENTIAL INDICATORS				INDICATIVE INDICATORS	
	2024/25 £m Estimate	2025/26 £m Estimate	2026/27 £m Estimate	2027/28 £m Estimate	2028/29 £m Estimate
Capital Expenditure					
Non - HRA	7.180	8.233	10.302	6.780	3.520
HRA (applies only to housing authorities)					
Total	7.180	8.233	10.302	6.780	3.520
Ratio of financing costs to net revenue stream					
Non - HRA	3.02%	3.27%	3.17%	3.43%	3.00%
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	23,312	23,220	28,211	31,110	30,547
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	4,120	3,150	2,163	1,137	362
Total	27,432	26,370	30,374	32,247	30,909
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	3,005	(1,062)	4,004	1,873	(1,338)
HRA (applies only to housing authorities)	0	0	0	0	0
Total	3,005	(1,062)	4,004	1,873	(1,338)
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	26,037	25,574	33,315	34,427	33,805
Other long term liabilities	4,825	4,777	3,758	2,719	1,655
Total	30,862	30,351	37,073	37,146	35,460
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	24,871	24,413	31,904	32,871	32,278
Other long term liabilities	4,620	4,620	3,650	2,663	1,637
Total	29,490	29,032	35,554	35,534	33,915
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 2024/25		
Under 12 months	30%	2%
12 months and within 24 months	30%	11%
24 months and within 5 years	50%	3%
5 years and within 10 years	75%	5%
10 years and above	100%	79%