REPORT REFERENCE NO.	**DSFRA/17/2**
MEETING	**DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Budget Meeting)**
DATE OF MEETING	**17 FEBRUARY 2017**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2017-18 TO 2019-20**
LEAD OFFICER	**Chief Fire Officer and Treasurer**
RECOMMENDATIONS	***That, as recommended by the Resources Committee (Budget) meeting held on 8 February 2017 (Minute RC/18 refers)*** ***(a) the draft Capital Programme 2017-18 to 2019-20 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 2020-21 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 2017-18 to 2019-20 and also outlines the difficulties in meeting the full capital expenditure requirement for this Authority, given the number of fire stations, fire appliances and associated equipment required to be maintained and eventually replaced. All aspects of the capital requirement have been considered and the programme has been constructed based on the principle that debt charges emanating from external borrowing are kept within the 5% Prudential Indicator limit (debt charges as a percentage of the Revenue Budget) set by the Authority. 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 and has supported the Treasurer’s recommendation that the Authority should seek alternative sources of funding other than external borrowing to support future capital investment. To inform longer term planning the Prudential Indicator has been profiled for a further three years beyond 2019-20 based upon indicative capital programme levels for the years 2020-21 to 2022-23. The proposed Capital Programme 2017-18 to 2019-20 and associated prudential indicators as set out in this report was considered by the Resources Committee (budget) meeting held on 8 February 2017, which resolved to commend it to the Authority for approval (Minute RC/18 refers).
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 2017-18 to 2019-20 (and indicative Capital Programme 2020-21 to 2022-23). B. Prudential Indicators 2017-18 to 2019-20 (and indicative Prudential Indicators 2020-21 to 2022-23).
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 Up until 2015-16, the Authority was in receipt of some direct grant funding towards capital spending as a share of a government allocation of £70m per annum towards Fire Sector capital investment. In 2014-15, this allocation was £1.4m and in previous years, as much as £2m. However, as part of government austerity measures, this funding has now been withdrawn meaning that from 2015-16 onwards the Authority no longer receives any direct grant funding towards its capital investment plans.

1.3 To mitigate the impact of this withdrawal of funding to the 5% debt ratio, the Authority agreed as part of the previous year budget setting to replace this funding with a significant revenue base contribution to funding the capital programme and building a capital reserve for the medium term.

1.4 The Fleet replacement programme continues with the introduction of smaller type appliances into the Service with a planned start to the Rapid Intervention Vehicle scheme during 2017-18 as well as other appliance replacements.

1.5 The Estates programme has been prepared using early feedback on the Estate Review undertaken over the past year in conjunction with the Capital Working Party. This programme includes provision for up to two major projects, which will depend on finalisation of operational considerations and future Authority approval.

1.6 The Authority has set a strategy to reduce reliance on external borrowing and therefore the proposed Capital Programme 2017-18 to 2019-20 and indicative Capital Programme 2020-21 to 2022-23 have been produced on the basis that no new borrowing will occur in the six year period.

1.7 The proposed Capital Programme 2017-18 to 2019-20 and associated prudential indicators as set out in this report was considered by the Resources Committee (budget) meeting held on 8 February 2017, which resolved to commend it to the Authority for approval (Minute RC/18 refers).

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 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 Authority on 19 February 2016 (Minute DSFRA/47(d) refers) when setting the existing capital programme.

2.3 The proposed programme and funding, as contained in this report, decreases the external borrowing requirement to £25.4m by 2019-20, and ensures that the debt ratio is maintained below 5% (forecast to be 4.17%). This compares to a current external borrowing of £25.7m as at 31 March 2017. Looking further ahead the external borrowing requirement is forecast to reduce to £24.3m by 2022-23.

2.4 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.

2.5 With increasing pressure on revenue budgets, the revised programme has been prepared on the basis that a strategy of long term affordability will be followed, with the indicative programme showing that no new external borrowing will be required over the six year period to 2022-23.

2.6 Due to current interest rates, it is not economically viable for the Authority to repay loans early. This means that whilst no new borrowing will be required, 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 with a view to early repayment if this option becomes more affordable.

2.7 Elsewhere on the agenda for this meeting is a separate report “2017-18 Revenue Budget and Council Tax Levels”. The draft 2017-18 revenue budget included in that report makes provision for a further revenue contribution towards capital of £3.673m. The Committee has been made aware as part of previous year budget setting reports that, in order that the capital programme can be achieved without the need to increase borrowing, then a revenue contribution to Capital will be required. This needs to be built into revenue base budget to replace the direct grant funding previously received from the government but withdrawn from 2015-16. The proposed programme within this report has been constructed to include the same level of contribution as in 2016-17 i.e. £3.673m. This figure will need to be reviewed annually as part of the annual budget setting process.

3. REVISED CAPITAL PROGRAMME FOR 2017-18 to 2019-20

3.1 Appendix A of this report provides an analysis of the proposed programme for the three years 2017-18 to 2019-20 as contained in this report. This programme represents a net increase in overall spending of £8.4m over the previously agreed indicative programme as illustrated in Figure 1 overleaf:

Figure 1

	Estates	Fleet & Equipment	Total
	£m	£m	£m
Existing Programme			
2016-17	2.1	4.3	6.4
2017-18	2.4	2.6	5.0
2018-19 (provisional)	1.5	3.0	4.5
2019-20 (provisional)	1.1	2.9	4.0
Total 2016-17 to 2019-20	**7.1**	**12.8**	**19.9**
Proposed Programme			
2016-17 (forecast spending)	1.6	2.4	4.0
2017-18	1.5	5.1	6.6
2018-19 (provisional)	5.4	5.6	11.0
2019-20 (provisional)	2.4	4.3	6.7
Total 2016-17 to 2019-20	**10.9**	**17.4**	**28.3**
Proposed change	**3.8**	**4.6**	**8.4**

ESTATES

3.2 After a period of significant investment, the Estates programme was reduced from 2013/14 to accommodate other capital programmes. Furthermore, it was becoming apparent that a revised Integrated Risk Management Plan (IRMP) strategy needed to be considered before a final decision on an Estates Programme could be made. As a result, there was a reduced investment in some key stations over a number of years whilst plans were being developed to meet changing community risk profiles.

3.3 An investment was made by the Estates Department in 2016 in new Asset Management Software and a major exercise commenced to undertake a complete condition survey of every site in the property portfolio. The outcome of that has been a significant set of data captured that now allows the Department to forecast with a much greater degree of certainty the planned and anticipated capital and revenue investment on each station over the next 25 years.

3.4 In 2016, through the Capital Programme Working Party, an Estate review was commissioned to explore the value of key sites and identify any possible development opportunities. In addition, an exercise was carried out to identify the availability of potential new sites that would provide options for alternative delivery models that may emerge from the risk profiling work in support of the IRMP.

3.5 The progress of that review, which included a full range of options and scenarios (including modelling of new and alternative sites to any impact on emergency response times) has been regularly discussed at the Capital Programme Working Party. This work is now being progressed by the Assistant Chief Fire Officer to establish the value and merit of the various options within the context of a full review of the IRMP to meet current and forecast community risks.

3.6 Whilst the outcome of that review is awaited, a programme of expenditure has been submitted for sites that reflects the current understanding of the likely outcome of the review for the purposes of appropriate financial planning. Investment on specific sites is uncertain at this time and final proposals will be subject to the outcome of the IRMP review and detailed business cases at the relevant time.

3.7 It should be noted that the increasing co-operation between Bluelight partners in the region may also generate co-location or development opportunities (such as at Minehead and Yeovil). However, no budget has been allocated for such projects because there is still a degree of uncertainty over detailed requirements and timings for specific projects. Again, detailed business cases will be submitted for funding for specific schemes at the relevant time.

OPERATIONAL ASSETS

Vehicle Replacements/Equipment

3.8 The Authority has agreed to the implementation a 'Tiered Response' approach to emergency response. As part of this approach, the programme of vehicle replacement was reviewed to ensure that the fleet would meet future service delivery requirements, provide more cost effective vehicles, improve emergency response service to local communities and improve firefighter safety. This started with Light Rescue Pumps with the final appliances of this replacement cycle coming into service during 2016/17. The programme continues with the introduction of Rapid Intervention Vehicles (RIV) over the next three years (2017/18 to 2019/20). When complete, this programme will not only have dealt with the backlog of vehicle replacements that built up over recent years (because of funding constraints) but will also result in a reduced level of capital expenditure for the replacement programme going forward. The full business case that supports the RIV recommendation identifies savings of over £20m in capital expenditure compared to the previous approach using the standard Medium Rescue Pump on a 12 year replacement cycle.

3.9 The capital programme for the four year period between 2016/17 and 2019/20 has increased for a number of reasons. As part of the RIV replacement project it has been identified that an additional six Incident Support Units and equipment will be required at a cost of £0.990m. The 4x4 vehicles the Service operates to deal with heathland and moorland fires are coming to end of life and are programmed into the capital programme over this period at a cost of £1.948m. Other vehicle replacements have also been identified including an additional medium rescue pump, two water bowsers and RIV reserves. Prices have also been updated to reflect the market place.

4. <u>FORECAST DEBT CHARGES</u>

4.1 Appendix A also provides indicative capital requirements beyond 2019-20 to 2022-23. The estimated debt charge emanating from this revised spending profile is illustrated in Figure 2 overleaf.

Figure 2 - Summary of Estimated Capital Financing Costs

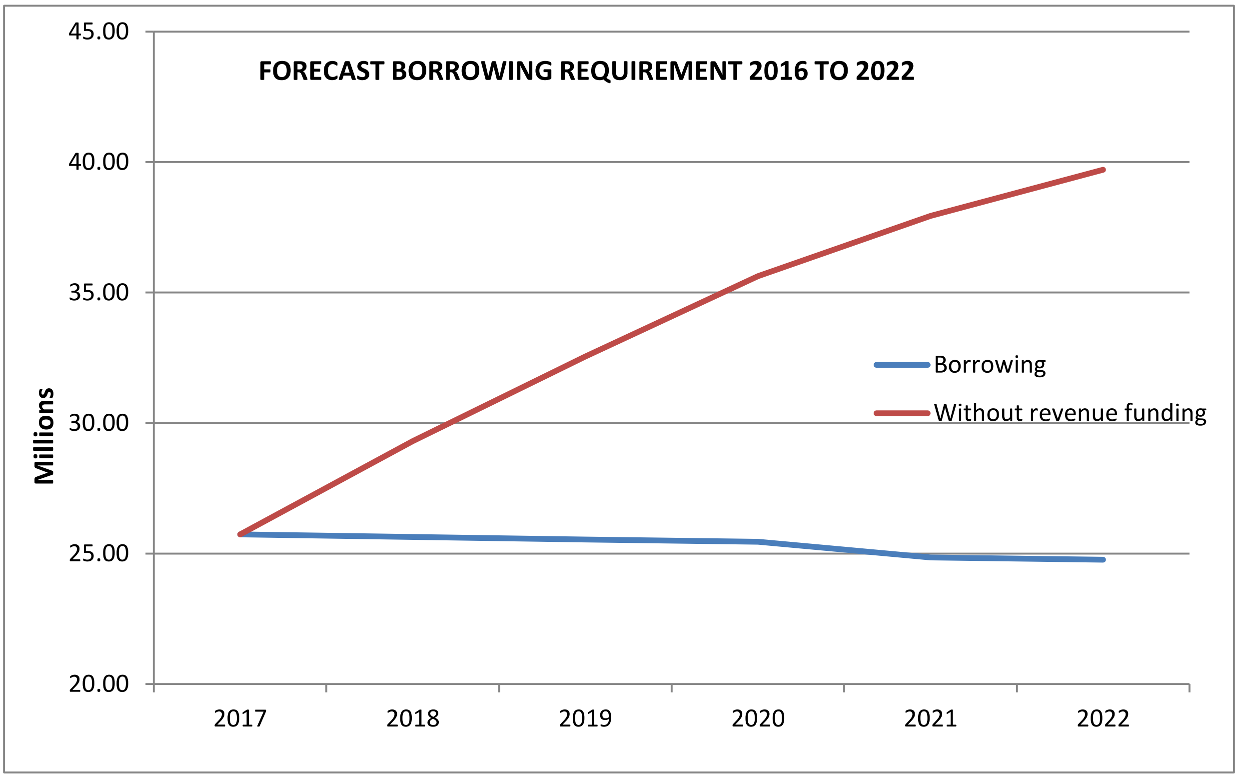
	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Base budget for Capital Financing costs debt charges and operating leasing rentals	3.573	3.528	3.562	3.527	3.477	3.206
Change over previous year		(0.045)	0.034	(0.035)	(0.051)	(0.271)
Debt ratio	4.25%	4.18%	4.17%	4.08%	3.97%	3.62%

4.2 The forecast figures for external debt and debt charges beyond 2019-20 are based upon the indicative programmes as included in Appendix A for the years 2020-21 to 2022-23. 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 reduced from current levels of £25.7m to £24.3m (including impact of proposed revenue contributions) by 2022-23. Figure 3 provides further analysis of forecast borrowing for each year and for comparison purposes the borrowing requirement if the strategy to utilise revenue funding had not been agreed by the Authority.

Figure 3



5.2 The reducing revenue budget impacts significantly upon the borrowing capacity of this Authority. Whilst the programme now presented maintains borrowing within 5% to 2022-23, this will only be possible with regular revenue contributions to the capital programme to maintain an affordable and sustainable Capital Programme.

6. CONCLUSION

6.1 This report emphasises the challenges in meeting the full capital expenditure requirement for the Service, given the 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 includes a base contribution to capital which will avoid the need for any new borrowing over the next six years. However, the programme proposed in this report does not commit any spending beyond 2019-20. 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.

LEE HOWELL **Chef Fire Officer**	**KEVIN WOODWARD** **Treasurer**

APPENDIX A TO REPORT DSFRA/17/2

Capital Programme 2017/18 to 2022/23

2016/17 £000 Budget	2016/17 £000 Forecast Outturn	Item	PROJECT	2017/18 £000 Budget	2018/19 £000 Budget	2019/20 £000 Budget	2020/21 £000 Indicative Budget	2021/22 £000 Indicative Budget	2022/23 £000 Indicative Budget
			Estate Development						
0	0	1	Major Projects (subject to formal authority approval)	0	3,500	1,000	2,700	0	0
2,095	1,581	2	Minor improvements & structural maintenance	1,498	1,900	1,400	600	1,800	1,800
2,095	**1,581**		**Estates Sub Total**	**1,498**	**5,400**	**2,400**	**3,300**	**1,800**	**1,800**
			Fleet & Equipment						
1,854	1,660	3	Appliance replacement	3,490	4,300	3,400	2,700	2,700	2,700
265	217	4	Specialist Operational Vehicles	48	600	300	0	0	0
1,377	487	5	Equipment	797	700	600	200	200	200
800	50	6	ICT Department	750	0	0	0	0	0
26	26	7	Water Rescue Boats	0	0	0	0	0	0
4,322	**2,440**		**Fleet & Equipment Sub Total**	**5,085**	**5,600**	**4,300**	**2,900**	**2,900**	**2,900**
6,417	**4,021**		**Overall Capital Totals**	**6,583**	**11,000**	**6,700**	**6,200**	**4,700**	**4,700**
			Programme funding						
1,266	321		Earmarked Reserves:	988	5,460	1,130	1,165	0	0
3,159	1,708		Revenue funds:	3,673	3,673	3,673	3,673	2,867	3,549
1,992	1,992		Application of existing borrowing	1,922	1,867	1,897	1,362	1,833	1,151
6,417	**4,021**		**Total Funding**	**6,583**	**11,000**	**6,700**	**6,200**	**4,700**	**4,700**

APPENDIX B TO REPORT DSFRA/17/2

PRUDENTIAL INDICATORS

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
				INDICATIVE INDICATORS 2020/21 to 2022/23		
	£m Estimate	£m Estimate	£m Estimate	£m Estimate	£m Estimate	£m Estimate
Capital Expenditure						
Non - HRA	6.583	11.000	6.700	6.200	4.700	4.700
HRA (applies only to housing authorities)						
Total	6.583	11.000	6.700	6.200	4.700	4.700
Ratio of financing costs to net revenue stream						
Non - HRA	4.25%	4.18%	4.17%	4.08%	3.97%	3.62%
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	25,631	25,537	25,444	24,851	24,758	24,264
HRA (applies only to housing authorities)	0	0	0	0	0	0
Other long term liabilities	1,299	1,209	1,112	1,010	907	791
Total	26,929	26,746	26,555	25,861	25,665	25,055
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000	£000
Non - HRA	(169)	(183)	(191)	(695)	(196)	(611)
HRA (applies only to housing authorities)	0	0	0	0	0	0
Total	(169)	(183)	(191)	(695)	(196)	(611)
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p	£ p
Increase/(decrease) in council tax (band D) per annum	£0.06	£0.09	£0.09	N/A	N/A	N/A
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT						
Authorised Limit for external debt	£000	£000	£000	£000	£000	£000
Borrowing	26,912	26,814	26,716	26,093	25,996	25,477
Other long term liabilities	1,364	1,270	1,167	1,061	953	830
Total	28,276	28,084	27,883	27,154	26,948	26,307
Operational Boundary for external debt	£000	£000	£000	£000	£000	£000
Borrowing	25,631	25,537	25,444	24,851	24,758	24,264
Other long term liabilities	1,299	1,209	1,112	1,010	907	791
Total	26,929	26,746	26,555	25,861	25,665	25,055
Maximum Principal Sums Invested over 364 Days						
Principal Sums invested > 364 Days	5,000	5,000	5,000	5,000	5,000	5,000

TREASURY MANAGEMENT INDICATOR	Lower Limit %
Limits on borrowing at fixed interest rates	70%
Limits on borrowing at variable interest rates	0%
Maturity structure of fixed rate borrowing during 2016/17	
Under 12 months	0%
12 months and within 24 months	0%
24 months and within 5 years	0%
5 years and within 10 years	0%
10 years and above	50%