REPORT REFERENCE NO.	**DSFRA/25/4**
MEETING	**DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Budget Meeting)**
DATE OF MEETING	**17 FEBRUARY 2025**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2025-26 TO 2027-28**
LEAD OFFICER	**Head of Finance (Treasurer)**
RECOMMENDATIONS	***That the Authority at its budget meeting on 17 February 2025 be recommended to approve:*** ***(a). the draft Capital Programme 2025-26 to 2027-28 and associated Prudential Indicators, including the capital financing requirement, operational boundary and authorised limits for external debt, as detailed in this report and summarised at Appendices A and B respectively; and*** ***(b). subject to (a) above, the forecast impact of the proposed Capital Programme (from 2028-29 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 2025-26 to 2027-28 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 Authority 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 Authority 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 2028/29 onwards has been built on knowledge to date. There are potential decisions resulting from the Fire Cover Review that could impact the programme considerably. To inform longer term planning, the Prudential Indicator has been profiled for a further two years beyond 2027-28 based upon indicative capital programme levels, noting the comment about decisions above, for the years 2028-29 to 2029-30.

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 2025-26 to 2027-28 (and indicative Capital Programme 2028-29 to 2029-30). B. Prudential Indicators 2025-26 to 2027-28 (and indicative Prudential Indicators 2028-29 to 2029-30).
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 within the 5% ratio. The Authority has faced increasing revenue budget pressures making the revenue contribution unaffordable in the two previous financial years, which in turn, speeds up the use of the capital reserve. This will impact on the 5% ratio. In the medium term, however, the modelled increases in net revenue budget indicate the ratio will remain well within the Prudential indicator.

1.3. The fleet replacement cycle continues, with 10 new “light” Medium Rescue Pumps (MRPs) and 4 all-wheel drive MRPs to be introduced during 2025/26, along with numerous support vehicles. 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 2025-26 to 2027-28 and indicative Capital Programme 2028-29 to 2029-30 show that, despite the reduced number of assets, the Authority may need to borrow up to £23.7m (this is with £2m Revenue Contribution to Capital Outlay – (RCCO), with none it is £34m). When further decisions are made around the Fire Cover Review, 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 of 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 £33.3m (£39.2m with no RCCO) by 2027-28 from the current external borrowing of £23.3m as at 31 March 2025. 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 increase for 2025-26, at the target rate of £2.0m which is in line with the strategic intent.

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 2025-26 to 2027-28

3.1. Appendix A to this report provides an analysis of the proposed programme for the three years 2025-26 to 2027-28 as detailed in this report. This programme represents a net increase in overall spending of £8.6m (before application of optimism bias) over the previously agreed indicative programme as illustrated in Figure 1 below:

Figure 1

	Estates	Fleet & Equipment	Total
	£m	£m	£m
Existing Programme			
2024-25	4.9	3.8	8.7
2025-26	6.0	2.9	8.9
2026-27 (provisional)	8.6	1.6	10.2
2027-28 (provisional)	3.4	2.4	5.8
Total 2024-25 to 2027-28	22.9	10.7	33.6
Proposed Programme			
2024-25 (forecast spending)	0.9	3.8	4.7
2025-26	4.8	4.7	9.5
2026-27 (provisional)	7.7	3.9	11.6
2027-28 (provisional)	11.6	4.8	16.4
Total 2024-25 to 2027-28	25.0	17.2	42.2
Proposed change	2.1	6.5	8.6

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 Service Environmental Strategy. The Estates Department continues to work in close partnership with the Service Delivery and Academy Training Teams to support a sustainable training infrastructure model for the future.

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 2025-26 maintains the focus on existing projects; particularly the new build project for Camels Head Fire Station, 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 Personal Protective Equipment (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 investment in carbon reduction at two Stations which is part funded by a grant from the Public Sector Decarbonisation Scheme.

Operational Assets

3.5. The Service is preparing for the development of the Medium Rescue Pumps 2 (MRP2) (previously known as Light Rescue Pumps (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.

3.6. 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 the Service's 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; and
- Environmental benefits from reduced emissions and savings on fuel consumption

3.8. The Fleet Replacement plan has replaced some of the Service's oldest appliances with new MRPs and cascaded existing vehicles to the reserve and training fleet. Currently the Service has:

- MRP – 56 front-line appliances of which 16 are overdue replacement (more than 15 years old – 29%);
- MRP Reserves – 10 MRP reserve appliances of which 8 are overdue replacement (more than 15 years old – 80%);
- LRP – 38 front-line LRP appliances of which 6 become due replacement in 2025/26 based on 12 years expected life-cycle;
- LRP Reserves – 4 LRP Reserve appliances which are 10 years old;
- Rapid Intervention Vehicle (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 6 years old;
- Training Appliances – 7 MRP training appliances of which 6 are over 15 years old; and
- Driver Training Appliances – 2 x MRP driver training specific appliances which are 14 years old. 1 x new MRP (driver training specific) and 1 x MRP appliance (not driver training specific) which is 16 years old. 1 x LRP driver training specific which is 7 years old.

4. FORECAST DEBT CHARGES

4.1. Appendix A also provides indicative capital requirements beyond 2027-28 to 2029-30. 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

	2025/26	**2026/27**	**2027/28**	**2028/29**	**2029/30**
	£m	**£m**	**£m**	**£m**	**£m**
Forecast Debt outstanding at year end	26.369	23.900	34.459	39.198	41.190
Base budget for capital financing costs and debt charges	4.137	3.830	4.426	4.856	4.817
Change over previous year		(0.307)	0.596)	0 430	0.042
Debt ratio	**2.98%**	**2.58%**	**3.08%**	**3.38%**	**3.24 %**

4.2. The forecast figures for external debt and debt charges beyond 2027-28 are based upon the indicative programmes as included in Appendix A for the years 2028-29 to 2029-30. 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 the level of spending over this period. It is forecast that the Capital Financing Requirement (the need to borrow to fund capital spending) will have increased from current levels of £26.4m to £41.1m (including impact of proposed revenue contributions) by 2029-30.

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 2029-30, this will only be possible with appropriate annual revenue contributions to the capital programme to maintain an affordable and sustainable Capital Programme.

5.3. Two Treasury Management Indicators control the level of borrowing. They are:

The operational boundary: This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Estimated Operational Boundary	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m
Non-HRA expenditure	24,871	24,413	24,346	34,920
Other Long Term Liabilities	4,620	4,620	3,650	2,663
Total	29,490	29,032	27,996	37,583

The authorised limit for external debt: A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

5.4. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Authority's plans, or those of a specific Authority, although this power has not yet been exercised.

5.5. The Authority is asked to approve the following authorised limit (and as included at Appendix B of this report):

Estimated Authorised Limit	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m
Non-HRA expenditure	26,037	25,574	25,430	36,583
Other Long Term Liabilities	4,825	4,777	3,758	2,719
Total	30,862	30,351	29,188	39,302

5.6. These limits are also covered within the report on the Treasury Management Strategy approved elsewhere on the agenda for this meeting.

6. <u>CONCLUSION</u>

6.1. This report emphasises the difficulties in meeting the full capital expenditure requirement for the Service, given the geographical size and the number of fire stations and fire appliances required to be maintained (and eventually replaced) whilst 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 2027-28. 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.

ANDREW FURBEAR
Head of Finance (Treasurer)

APPENDIX A TO REPORT DSFRA/25/4

SUMMARY OF PROPOSED CAPITAL PROGRAMME 2025-26 TO 2027-28 (AND INDICATIVE CAPITAL PROGRAMME 2028-29 TO 2029-30).

Capital Programme 2025/26 to 2029/30								
2024/25 £000 Budget	2024/25 £000 Forecast Outturn	Item	PROJECT	2025/26 £000 Budget	2026/27 £000 Budget	2027/28 £000 Budget	2028/29 £000 Indicative Budget	2029/30 £000 Indicative Budget
			Estate Development					
531	(22)	1	Site re/new build	100	3,600	7,250	3,800	0
4,338	923	2	Improvements & structural maintenance	4,696	4,059	4,392	2,498	930
4,869	**901**		**Estates Sub Total**	**4,796**	**7,659**	**11,642**	**6,298**	**930**
			Fleet & Equipment					
2,236	2,254	3	Appliance replacement	3,574	3,355	3,214	3,326	3,450
1,543	1,545	4	Specialist Operational Vehicles	1,131	565	1,611	800	1,692
0	0	5	ICT Department	0	0	0	250	0
3,779	**3,799**		**Fleet & Equipment Sub Total**	**4,705**	**3,920**	**4,825**	**4,376**	**5,142**
(1,000)	**0**	6	**Optimism bias Sub Total**	**(1,000)**	**(500)**	**(800)**	**1,000**	**1,300**
7,648	**4,700**		**Overall Capital Totals**	**8,501**	**11,079**	**15,667**	**11,674**	**7,372**
			Programme funding - Option A - revenue funding at £2m					
5,167	2,369	7	Earmarked Reserves:	3,993	8,402	0	0	0
661	861	8	Revenue funds:	2,450	2,450	2,500	2,550	2,550
0	0	9	Capital receipts:	0	0	0	0	0
1,391	1,391	10	Borrowing - internal	1,812			2,091	2,387
		11	Borrowing - external	0	97	13,167	5,633	2,435
429	79	16	Grants	0	0	0	0	0
0	0	12	Contributions:	246	130	0	1,400	0
7,648	**4,700**		**Total Funding**	**8,501**	**11,079**	**15,667**	**11,674**	**7,372**

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.

PRUDENTIAL INDICATORS 2025-26 TO 2027-28 (And Indicative Prudential Indicators 2028-29 To 2029-30).

PRUDENTIAL INDICATORS				INDICATIVE INDICATORS	
	2025/26 £m Estimate	2026/27 £m Estimate	2027/28 £m Estimate	2028/29 £m Estimate	2029/30 £m Estimate
Capital Expenditure					
Non - HRA	8.501	11.079	15.667	11.674	7.372
HRA (applies only to housing authorities)					
Total	8.501	11.079	15.667	11.674	7.372
Ratio of financing costs to net revenue stream					
Non - HRA	2.98%	2.59%	3.08%	3.38%	3.24%
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	23,219	21,738	33,322	38,836	41,190
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	3,150	2,163	1,137	362	0
Total	26,369	23,900	34,459	39,198	41,190
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	(1,063)	(2,469)	10,559	4,739	1,993
HRA (applies only to housing authorities)	0	0	0	0	0
Total	(1,063)	(2,469)	10,559	4,739	1,993
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	25,574	25,503	36,656	41,972	44,431
Other long term liabilities	4,777	3,758	2,719	1,655	862
Total	30,351	29,261	39,376	43,626	45,293
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	24,413	24,416	34,990	40,030	42,372
Other long term liabilities	4,620	3,650	2,663	1,637	862
Total	29,032	28,066	37,653	41,667	43,233
Maximum Principal Sums Invested over 364 Days					
Principal Sums invested > 364 Days	7,000	7,000	7,000	7,000	7,000

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 2025/26		
Under 12 months	30%	0%
12 months and within 24 months	30%	14%
24 months and within 5 years	50%	1%
5 years and within 10 years	75%	4%
10 years and above	100%	80%