REPORT REFERENCE NO.	**RC/18/3**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**8 FEBRUARY 2018**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2018-19 TO 2020-21**
LEAD OFFICER	**Chief Fire Officer and Treasurer**
RECOMMENDATIONS	***That the Devon and Somerset Fire and Rescue Authority be recommended:*** ***(a) to approve the draft Capital Programme 2018-19 to 2020-21 and associated Prudential Indicators, as detailed in the report and summarised at Appendices A and B respectively to this report; and*** ***(b) subject to (a) above, to note the forecast impact of the proposed Capital Programme (from 2021-22 onwards) on the 5% debt ratio Prudential Indicator as indicated in this report.***
EXECUTIVE SUMMARY	This report sets out the proposals for a three year Capital Programme covering the years 2018-19 to 2020-21 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 2020-21 based upon indicative capital programme levels for the years 2021-22 to 2023-24
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 2018-19 to 2020-21 (and indicative Capital Programme 2021-22 to 2023-24).

	B. Prudential Indicators 2018-19 to 2020-21 (and indicative Prudential Indicators 2021-22 to 2023-24).
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 smaller type appliances into the Service with 25 Rapid Intervention Vehicle planned to be completed during 2018-19 as well as other appliance replacements.

1.5 The Estates programme has been prepared using information from the Estate Review after appropriate consultation to ensure the programme meets all operational and risk considerations.

1.6 The Authority has set a strategy to reduce reliance on external borrowing and therefore the proposed Capital Programme 2018-19 to 2020-21 and indicative Capital Programme 2021-22 to 2023-24 have been produced on the basis that no new borrowing will occur in the 6 year period.

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, decreases the external borrowing requirement to £24.9m by 2020-21, and ensures that the debt ratio is maintained below 5% (forecast to be 4.11% or 4.20% if no council tax increase). This compares to a current external borrowing of £25.6m as at 31 March 2018. Looking further ahead the external borrowing requirement is forecast to reduce to £23.8m by 2023-24.

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 a strategy of long term affordability will be followed, with the indicative programme showing that no new external borrowing will be required over the 6 year period to 2023-24.

2.5 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.

2.6 Elsewhere on the agenda for this meeting is a separate report "2018-19 Revenue Budget and Council Tax Levels". The draft 2018-19 revenue budget included in that report makes provision for a 'one off' reduced revenue contribution towards capital of £1.22m if Council Tax is increased by 2.99% or nil if Council Tax is not increased. The Committee has been made aware 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. This figure will need to be reviewed annually as part of the annual budget setting process.

Please note that at the time of writing this report, the Service is still awaiting figures from some billing authorities relating to the amount of estimated business rates income in 2018-19 and therefore, the figures quoted as a Revenue Contribution to Capital will be subject to change. The impact of any changes will be reported at the meeting.

3. REVISED CAPITAL PROGRAMME FOR 2018-19 to 2020-21

3.1 Appendix A of this report provides an analysis of the proposed programme for the three years 2018-19 to 2020-21 as contained in this report. This programme represents a net decrease in overall spending of £4.5m over the previously agreed indicative programme as illustrated in Figure 1 overleaf:

Figure 1

	Estates	Fleet & Equipment	Total
	£m	£m	£m
Existing Programme			
2017-18	2.4	5.1	7.5
2018-19	5.4	7.3	12.7
2019-20 (provisional)	2.4	4.4	6.8
2020-21 (provisional)	3.3	2.9	6.2
Total 2017-18 to 2020-21	13.5	19.7	33.2
Proposed Programme			
2017-18 (forecast spending)	2.1	1.9	4.0
2018-19	3.3	7.0	10.3
2019-20 (provisional)	4.7	4.4	9.1
2020-21 (provisional)	2.5	2.9	5.4
Total 2017-18 to 2020-21	12.6	16.2	28.8
Proposed change	-0.9	-3.5	-4.4

ESTATES

3.2 After a period of significant investment, the Estates programme was reduced from 2013/14 to accommodate other capital programmes. As a result, there was a reduced investment in some key stations over a number of years whilst a revised Integrated Risk Management Plan (IRMP) was developed and an Estate Development Review undertaken to review potential options.

3.3 A range of range of options and scenarios (including modelling of new and alternative sites to any impact on emergency response times) has been reviewed with the two Assistant Chief Fire Officers to assess the value and merit of the various options within the context of the IRMP to meet current and forecast community risks.

3.4 As a result, a programme of improvement can commence to improve stations whose future strategic importance is now confirmed and where investment into the facilities and site is appropriate and viable.

3.5 Collaboration activities with our Bluelight partners in the region seek to identify further opportunities to co-locate or other development opportunities, as each partner's operational strategy develops. To date this has been successfully achieved for little investment by any party. Consequently, no specific capital budget has been allocated for collaboration projects. Should such a requirement for capital investment emerge, it would be subject to submission of a detailed business case.

OPERATIONAL ASSETS

Vehicle Replacements/Equipment

3.6 The Authority has implement a Tiered Response to vehicle replacement; meeting future service delivery arrangements with more cost effective vehicles, improved service to local communities, alongside firefighter safety. This started with Light Rescue Pumps with the final appliances of this replacement cycle coming into service during 2016/17. It continues with the introduction of up to 45 (plus 5 reserve) Rapid Intervention Vehicles (RIV) over the next 3 years (2018/19 to 2020/21). This will complete the catch-up that has been required to update and realign the outdated vehicles and will result in a reduced need for capital expenditure after this replacement cycle. The full business case that supports the RIV recommendation identifies over £20m in capital expenditure saving over the previous "one size fits all" approach during the 12 year lifespan of the appliances.

3.7 The capital programme for the 4 year period between 2017/18 and 2020/21 has decreased due to several reasons. Vehicle requirements have been amended with a reduction in the number of Incident Support Units, Incident Command Units and 4x4 Medium Rescue Pumps (MRP) needed. The MRP replacement programme has slipped and the cost of equipment to go on replacement vehicles has been realigned to revenue budgets to conform with our capital expenditure classification.

4. FORECAST DEBT CHARGES

4.1 Appendix A also provides indicative capital requirements beyond 2020-21 to 2023-24. 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

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m	£m
Forecast Debt outstanding at year end	25.537	25.444	24.851	24.757	24.264	23.771
Base budget for capital financing costs and debt charges	3.178	3.233	3.219	3.189	2.944	2.856
Change over previous year		0.055	(0.014)	(0.030)	(0.245)	(0.088)
Debt ratio	4.19%	4.18%	4.11%	4.02%	3.65%	3.54%

4.2 The forecast figures for external debt and debt charges beyond 2020-21 are based upon the indicative programmes as included in Appendix A for the years 2021-22 to 2023-24. 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 £25.6m to £23.8m (including impact of proposed revenue contributions) by 2023-24.

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 2023-24, 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 reinstated in future years which will avoid the need for any new borrowing over the next 6 years. However, the programme proposed in this report does not commit any spending beyond 2020-21. 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.

Glenn Askew
Chef Fire Officer

Amy Webb
Director of Finance (Treasurer)

APPENDIX A TO REPORT RC/18/3

Capital Programme 2018/19 to 2023/24

2017/18 £000 Budget	2017/18 £000 Forecast Outturn	Item	PROJECT	2018/19 £000 Budget	2019/20 £000 Budget	2020/21 £000 Budget	2021/22 £000 Indicative Budget	2022/23 £000 Indicative Budget	2023/24 £000 Indicative Budget
			Estate Development						
0	0	1	Site re/new build (subject to formal authority approval)	400	500	0	0	0	0
2,401	2,133	2	Improvements & structural maintenance	2,943	4,200	2,500	1,800	1,800	1,800
2,401	**2,133**		**Estates Sub Total**	**3,343**	**4,700**	**2,500**	**1,800**	**1,800**	**1,800**
			Fleet & Equipment						
3,567	1,137	3	Appliance replacement	4,150	3,700	2,500	2,700	2,700	2,700
187	187	4	Specialist Operational Vehicles	125	600	200	0	0	0
502	201	5	Equipment	1,985	100	200	200	200	200
800	400	6	ICT Department	627	0	0	0	0	0
46	0	7	Water Rescue Boats	46	0	0	0	0	0
5,102	**1,925**		**Fleet & Equipment Sub Total**	**6,933**	**4,400**	**2,900**	**2,900**	**2,900**	**2,900**
7,503	**4,058**		**Overall Capital Totals**	**10,276**	**9,100**	**5,400**	**4,700**	**4,700**	**4,700**
			Programme funding - 0% increase in CT						
2,158	262	8	Earmarked Reserves:	8,065	4,150	455	0	0	0
3,362	1,813	9	Revenue funds:	300	2,989	3,498	2,762	3,417	3,502
1,962	1,962	10	Application of existing borrowing	1,911	1,961	1,447	1,938	1,283	1,198
7,503	**4,058**		**Total Funding**	**10,276**	**9,100**	**5,400**	**4,700**	**4,700**	**4,700**
			Programme funding - 2.99% increase in CT						
2,158	262	12	Earmarked Reserves:	7,144	4,150	455	0	0	0
3,362	1,813	13	Revenue funds:	1,221	2,989	3,498	2,762	3,417	3,502
1,962	1,962	14	Application of existing borrowing	1,911	1,961	1,447	1,938	1,283	1,198
7,503	**4,058**		**Total Funding**	**10,276**	**9,100**	**5,400**	**4,700**	**4,700**	**4,700**

APPENDIX B TO REPORT RC/18/3

PRUDENTIAL INDICATORS						
				INDICATIVE INDICATORS 2019/20 to 2021/22		
	2018/19 £m Estimate	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate	2022/23 £m Estimate
Capital Expenditure						
Non - HRA	10.276	9.100	5.400	4.700	4.700	4.700
HRA (applies only to housing authorities)						
Total	10.276	9.100	5.400	4.700	4.700	4.700
Ratio of financing costs to net revenue stream						
Non - HRA	4.19%	4.18%	4.11%	4.02%	3.65%	3.54%
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	25,538	25,444	24,851	24,758	24,264	23,771
HRA (applies only to housing authorities)	0	0	0	0	0	0
Other long term liabilities	1,209	1,112	1,010	907	791	656
Total	26,747	26,556	25,861	25,665	25,055	24,427
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000	£000
Non - HRA	(182)	(191)	(694)	(197)	(807)	(1,238)
HRA (applies only to housing authorities)	0	0	0	0	0	0
Total	(182)	(191)	(694)	(197)	(807)	(1,238)
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p	£ p
Increase/(decrease) in council tax (band D) per annum	£0.07	£0.11	£0.14	N/A	N/A	N/A
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT						
Authorised Limit for external debt	£000	£000	£000	£000	£000	£000
Borrowing	26,907	26,810	26,687	26,089	25,971	25,453
Other long term liabilities	1,359	1,265	1,162	1,056	947	823
Total	28,267	28,074	27,849	27,144	26,918	26,276
Operational Boundary for external debt	£000	£000	£000	£000	£000	£000
Borrowing	25,631	25,537	25,444	24,851	24,757	24,264
Other long term liabilities	1,299	1,209	1,112	1,010	907	791
Total	26,929	26,747	26,556	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