REPORT REFERENCE NO.	**RC/19/5**
MEETING	**RESOURCES COMMITTEE (Budget)**
DATE OF MEETING	**7 FEBRUARY 2019**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2019-20 TO 2021-22**
LEAD OFFICER	**Director of Finance**
RECOMMENDATIONS	***That the Devon and Somerset Fire and Rescue Authority be recommended:*** ***(a) to approve the draft Capital Programme 2019-20 to 2021-22 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 overall affordability and 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 2019-20 to 2021-22 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. 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 two years beyond 2021-22 based upon indicative capital programme levels for the years 2022-23 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 2019-20 to 2021-22 (and indicative Capital Programme 2022-23 to 2023-24). B. Prudential Indicators 2019-20 to 2021-22 (and indicative Prudential Indicators 2022-23 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. Due to cost pressures and grant funding cuts, it is becoming increasingly difficult to sustain the revenue contribution to capital available in previous years.

1.4. The Fleet replacement programme continues with the smaller type appliances into the Service with 20 Rapid Intervention Vehicle planned to be in service by 2019-20 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. The proposed Capital Programme 2019-20 to 2021-22 and indicative Capital Programme 2022-23 to 2023-24 show that, if the requirement to invest in assets remains at current levels, the Authority will need to borrow up to £20m. The alternative is to restrict the amount of funding available to the Capital Programme and task the Service with rationalising its capital requirement.

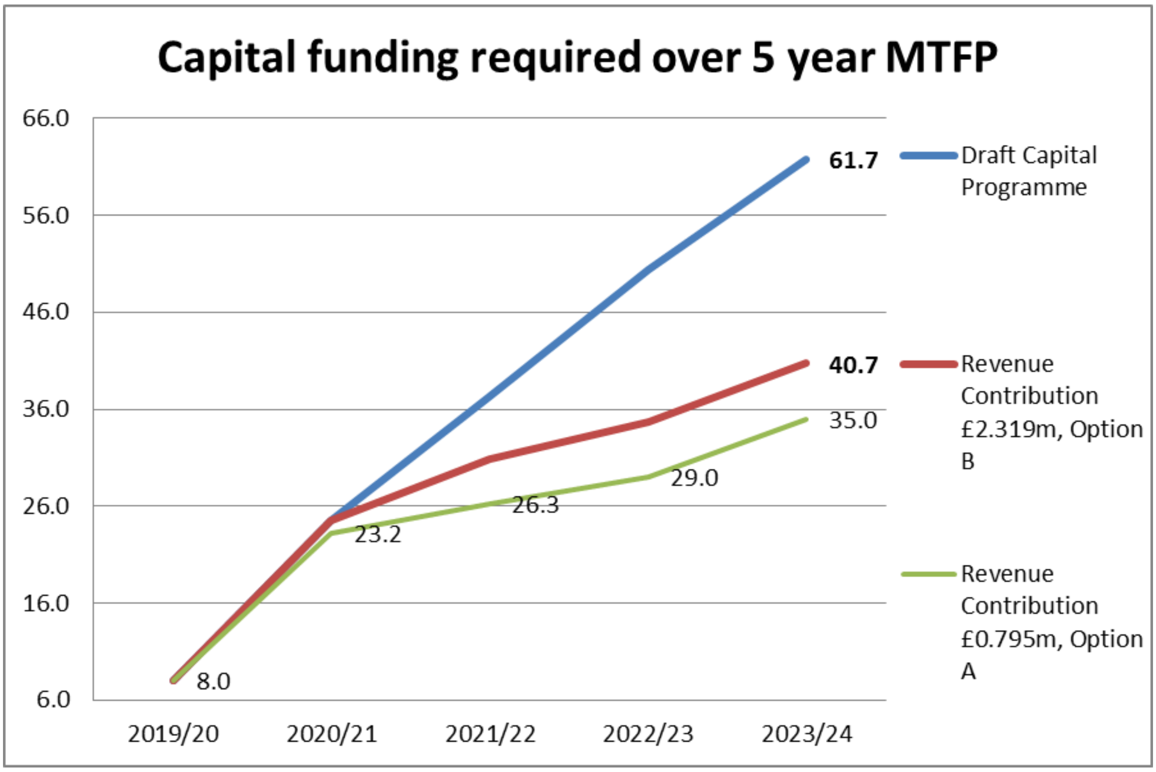
2. FINANCING OF THE PROPOSED CAPITAL PROGRAMME

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 £31.3m by 2021-22 (£35.8m if Council Tax is not increased in 2019/20), and the debt ratio is pushed towards the 5% maximum limit by 2023/24 (forecast to be 4.95.% or 5.04% if council tax is not increased). This compares to a current external borrowing of £25.5m as at 31 March 2019 and a debt ratio of 3.93%.

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 increasing the Revenue Contribution to Capital will not be possible over the MTFP period and therefore new borrowing will be undertaken. However, as the Authority has a long term strategy to reduce borrowing, the capital programme will need to be redesigned during 2019-20, alongside the project to align our Service Delivery resources to risk. The chart below shows the gap between the costs of maintaining the current asset base and an affordable capital programme based on utilisation of revenue contribution, existing borrowing and the capital reserve.



2.5. The funding gap demonstrates a clear requirement to rationalise the asset base of the Service as outlined in the Safer Together plan. Detailed plans – subject to appropriate consultation – will be developed throughout 2019-20 with a view to creating a more sustainable asset base which also reduces the impact on revenue budgets.

2.6. 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 with to maximise economy of funding sources.

2.7. Elsewhere on the agenda for this meeting is a separate report “2019-20 Revenue Budget and Council Tax Levels”. The draft 2019-20 revenue budget included in that report makes provision for a revenue contribution towards capital of £2.319m if Council Tax is increased by 2.99% or £0.795m if Council Tax is not increased. The Committee has been made aware that, in order that a sustainable capital programme be prepared, 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 2019-20 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. <u>REVISED CAPITAL PROGRAMME FOR 2019-20 to 2021-22</u>

3.1. Appendix A to this report provides an analysis of the proposed programme for the three years 2019-20 to 2021-22 as contained in this report. This programme represents a net increase in overall spending of £15m over the previously agreed indicative programme as illustrated in Figure 1 below:

Figure 1

	Estates	Fleet & Equipment	Total
	£m	£m	£m
Existing Programme			
2018-19	3.3	3.1	6.4
2019-20	3.6	4.7	8.3
2020-21 (provisional)	2.7	4.1	6.8
2021-22 (provisional)	1.8	2.9	4.7
Total 2018-19 to 2021-22	11.4	14.8	26.2
Proposed Programme			
2018-19 (forecast spending)	1.8	2.1	3.9
2019-20	4.4	3.6	8.0
2020-21 (provisional)	10.2	6.3	16.5
2021-22 (provisional)	7.9	4.9	12.8
Total 2018-19 to 2021-22	24.3	16.9	41.2
Proposed change	12.9	2.1	15.0

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 options and scenarios (including modelling of new and alternative sites to any impact on emergency response times) was then 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 has commenced to improve or replace stations whose future strategic importance is now confirmed and where investment into the facilities and site is appropriate and viable. The current programme anticipates that this investment will increase over the next of 5 years with to meet our future operational needs. However, the affordability considerations detailed in this paper will mean that those plans may have to be revisited.

3.5. Collaboration activities with our Bluelight partners continue to 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 Service has developed a Fleet, Equipment and Water Supply Strategy which recognises that our service delivery model is changing. A whole life costing review of the Rapid Intervention Vehicles (RIV) appliance and complete fleet of 121 pumping appliances has therefore been undertaken.

3.7. A review of the fleet profile of RIV, Light Rescue Pump and Medium Rescue Pumps is being progressed and is anticipated to be finalised in March / April 2019 to support changes to the service delivery model. The review will confirm numbers of the different size and capabilities of pumping appliances, to date 15 RIVs have been introduced.

3.8. Whilst the review is in progress the Service has also undertaken a review of the age and condition of appliances and fleet projects are in progress to replace the ageing MRP operational and training vehicles and the Aerial Ladder platforms A range of specialist vehicles are also being reviewed and replaced e.g. wildfire 4x4 and Special Rescue Team vehicles.

3.9. A 10 year vehicle replacement programme has been developed and an equipment replacement programme is in development. However, as indicated in this paper, the programme will be subject to review due to affordability of the whole capital programme.

4. FORECAST DEBT CHARGES

4.1. Appendix A also provides indicative capital requirements beyond 2022-23 to 2023-24. The estimated debt charge emanating from this revised spending profile is illustrated in Figure 2 overleaf.

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

	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Forecast Debt outstanding at year end	25.444	24.851	31.268	39.934	43.712
Base budget for capital financing costs and debt charges	3.233	3.219	3.362	3.650	4.117
Change over previous year		(0.014)	0.144	0.288	0.468
Debt ratio	4.03%	3.97	4.11	4.42	4.95

4.2. The forecast figures for external debt and debt charges beyond 2021-22 are based upon the indicative programmes as included in Appendix A for the years 2022-23 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 increased from current levels of £26.5m to £44.4.m (including impact of proposed revenue contributions) by 2023-24.

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 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 maintained in future years and highlights that unless capital assets are rationalised, there will be a need to borrow in 2021-22. The programme proposed in this report does not commit any spending beyond 2021-22. 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.

AMY WEBB
Director of Finance (Treasurer)