REPORT REFERENCE NO.	**RC/20/2**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**13 FEBRUARY 2020**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2020-21 TO 2022-23**
LEAD OFFICER	**Director of Finance and Resourcing (Treasurer)**
RECOMMENDATIONS	***That the Authority at its budget meeting on 18 February 2020 be recommended to:*** ***(a) approve the draft Capital Programme 2020-21 to 2022-23 and associated Prudential Indicators, as detailed in this report and summarised at Appendices A and B respectively; and*** ***(b) note, subject to (a) above, the forecast impact of the proposed Capital Programme (from 2023-24 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 2020-21 to 2022-23 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. To inform longer term planning, the Prudential Indicator has been profiled for a further two years beyond 2022-23 based upon indicative capital programme levels for the years 2023-24 to 2024-25.
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 2020-21 to 2022-23 (and indicative Capital Programme 2023-24 to 2024-25). B. Prudential Indicators 2020-21 to 2022-23 (and indicative Prudential Indicators 2023-24 to 2024-25).
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. On the 10th of January 2020 the Authority approved changes to the Service Delivery Operating Model, which have been incorporated into the proposed capital programme. The changes will reduce pressures on the capital requirement by removing two fire stations from the estate and reducing by eight fire appliances. This paper outlines an ambitious capital programme, including plans to introduce 25 new Medium Rescue Pumps (MRP, our largest fire appliances) into the fleet over the next three years at a cost of £6.6m. At time of writing, the chassis for 15 MRPs have been ordered with a total price of £1.5m. This fleet replacement programme, when combined with multiple station rebuilds, will see a significant draw on the capital reserve which is now expected to be used up by 2023/24.

1.5. The Authority has set a strategy to reduce reliance on external borrowing. The proposed Capital Programme 2020-21 to 2022-23 and indicative Capital Programme 2023-24 to 2024-25 show that, despite the reduced number of assets, the Authority will need to borrow up to £10m. 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.

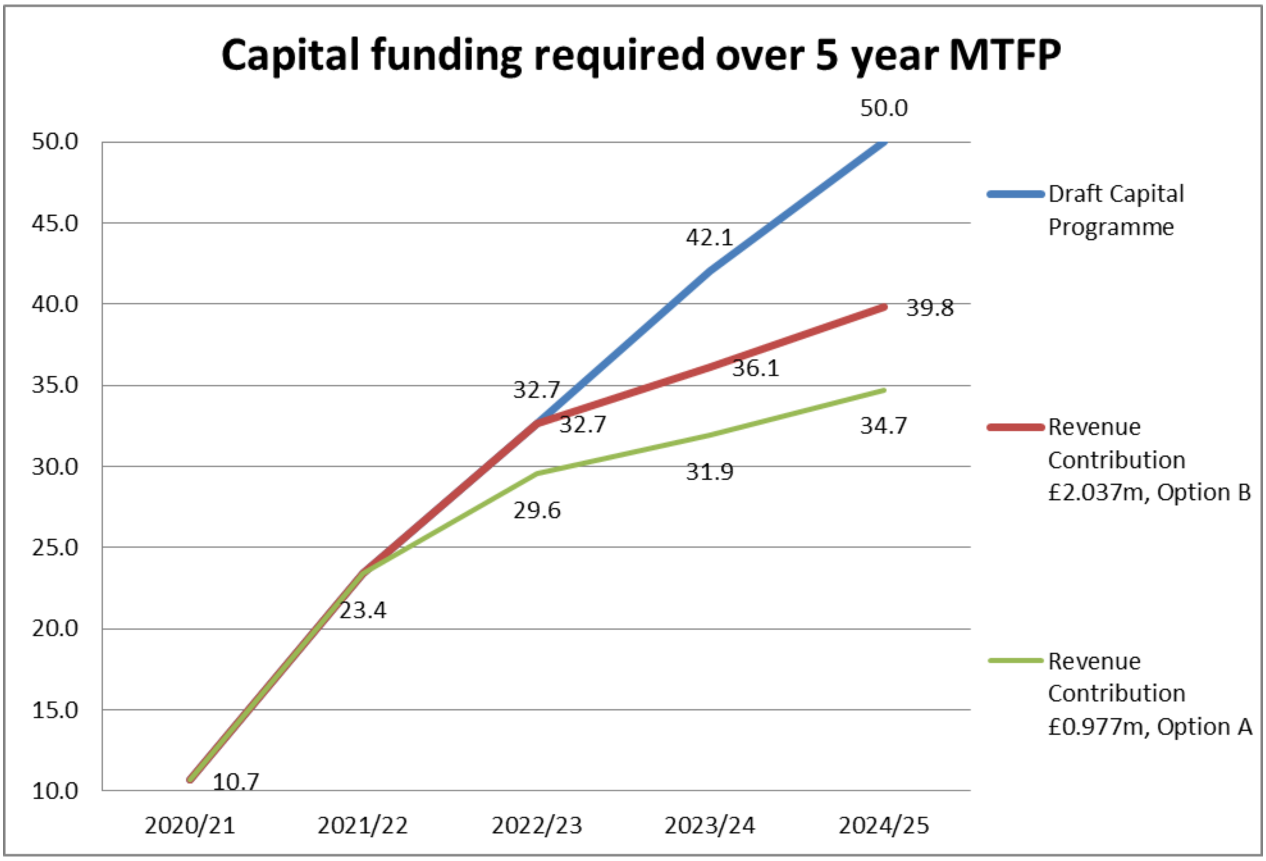
2. FINANCING OF THE PROPOSED CAPITAL PROGRAMME

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, decreases the external borrowing requirement to £24.3m by 2022-23 (£27.4m if Council Tax is not increased each year), and the debt ratio is pushed towards the 5% maximum limit by 2024/25 (forecast to be 4.09% or 4.47% if council tax is not increased). This compares to current external borrowing of £25.4m as at 31 March 2020 and a debt ratio of 3.9%.

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 has been redesigned for 2020-21 as a result of the project to align our Service Delivery resources to risk. However, significant pressures still remain and the chart below shows the gap between the costs of maintaining the new 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 consider further consider asset rationalisation in alignment with the Authority's future Integrated Risk Management Planning and review the requirement for specialist vehicles.

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 to maximise economy of funding sources.

2.7. Elsewhere on the agenda for this meeting is a separate report "2020-21 Revenue Budget and Council Tax Levels". The draft 2020-21 revenue budget included in that report makes provision for a revenue contribution towards capital of £2.037m if Council Tax is increased by 1.99% or £0.977m 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.

3. REVISED CAPITAL PROGRAMME FOR 2020-21 to 2022-23

3.1. Appendix A to this report provides an analysis of the proposed programme for the three years 2020-21 to 2022-23 as contained in this report. This programme represents a net decrease in overall spending of £15.6m over the previously agreed indicative programme as illustrated in Figure 1 below:

Figure 1

	Estates	Fleet & Equipment	Total
	£m	£m	£m
Existing Programme			
2019-20	5.0	3.8	8.8
2020-21	10.2	6.3	16.5
2021-22 (provisional)	7.9	4.9	12.8
2022-23 (provisional)	9.3	3.8	13.1
Total 2019-20 to 2022-23	32.4	18.8	51.2
Proposed Programme			
2019-20 (forecast spending)	1.3	1.6	2.9
2020-21	6.2	4.5	10.7
2021-22 (provisional)	5.9	6.8	12.7
2022-23 (provisional)	5.7	3.6	9.3
Total 2019-20 to 2022-23	19.1	16.5	35.6
Proposed change	-13.3	-2.3	-15.6

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. As a result of decisions to change the Service Delivery Operating Model, 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 5 years to meet our future operational needs. However, the affordability considerations detailed in this paper will mean that those plans may have to be revisited.

3.4. Public Consultation over proposed station closures clearly indicated a preference to merge fire stations; this would mean sourcing new sites and building new stations at a significant cost and the Service will commence feasibility studies for potential mergers in the near future. Any such mergers would be subject to public consultation and decision by the Authority.

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

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 was undertaken and will be reviewed in light of the decision to reduce the fleet by 8 fire engines.

3.7. A review of the fleet profile of RIV, Light Rescue Pump and Medium Rescue Pumps (MRP) will be undertaken to confirm operational requirements of the new Service Delivery Operating Model. It is anticipated that further RIVs will be introduced to the fleet.

3.8. The project to replace MRPs is well underway, with a contract awarded in January 2020 to renew a considerable number of vehicles over the next three year period. The first 15 vehicles are expected to be delivered in the 2020-21 financial year, which will see a significant draw on the capital reserve. The Service has also instigated a project to review and replace Aerial Ladder platforms and review other specialist appliances. Wildfire 4x4 vehicles have now been delivered and appropriate locations are being determined; this capability will be fully rolled out in 2020-21 subject to training of our staff.

3.9. 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 assess the whole life costs of our assets in the future. 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 2024-25. 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

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
Forecast Debt outstanding at year end	24.851	24.757	24.264	29.723	33.456
Base budget for capital financing costs and debt charges	3.885	3.812	3.312	3.236	3.656
Change over previous year		(0.073)	(0.500)	(0.076)	0.420
Debt ratio	4.61%	4.46%	3.77%	3.62%	4.09%

4.2. The forecast figures for external debt and debt charges beyond 2022-23 are based upon the indicative programmes as included in Appendix A for the years 2023-24 to 2024-25. 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 £27.3m to £34.4m (including impact of proposed revenue contributions) by 2024-25.

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 2024-25, 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 2023-24. The programme proposed in this report does not commit any spending beyond 2022-23. 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 and Resourcing (Treasurer)

APPENDIX A TO REPORT RC/20/2

Capital Programme 2020/21 to 2024/25

2019/20 £000 Budget	2019/20 £000 Forecast Outturn	Item	PROJECT	2020/21 £000 Budget	2021/22 £000 Budget	2022/23 £000 Budget	2023/24 £000 Indicative Budget	2024/25 £000 Indicative Budget
			Estate Development					
1,117	352	1	Site re/new build (subject to formal authority approval)	3,495	500	0	0	0
3,902	937	2	Improvements & structural maintenance	5,423	4,100	6,100	3,800	3,700
		3	Optimism bias	(2,700)	1,300	(400)	1,800	
5,019	**1,289**		**Estates Sub Total**	**6,218**	**5,900**	**5,700**	**5,600**	**3,700**
			Fleet & Equipment					
1,793	0	4	Appliance replacement	5,034	3,200	1,600	2,200	3,300
1,134	1,089	5	Specialist Operational Vehicles	300	3,600	1,100	1,100	900
553	380	6	Equipment	0	0	0	0	0
268	92	7	ICT Department	176	300	0	0	0
46	0	8	Water Rescue Boats	46				
		9	Optimism bias	(1,100)	(300)	900	500	
3,794	**1,561**		**Fleet & Equipment Sub Total**	**4,456**	**6,800**	**3,600**	**3,800**	**4,200**
8,813	**2,850**		**Overall Capital Totals**	**10,674**	**12,700**	**9,300**	**9,400**	**7,900**
			Programme funding - revenue funding at £2.037m					
4,195	0	10	Earmarked Reserves:	7,055	8,646	5,904	135	0
2,614	846	11	Revenue funds:	2,037	2,037	2,037	2,037	2,037
0	0	12	Capital receipts:	60	0	0	0	0
2,004	2,004	13	Borrowing - internal	1,522	2,017	1,359	1,276	1,672
		14	Borrowing - external				5,952	4,191
8,813	**2,850**		**Total Funding**	**10,674**	**12,700**	**9,300**	**9,400**	**7,900**
			Programme funding - revenue funding at £0.977m					
4,195	0	15	Earmarked Reserves:	8,175	9,706	3,859	0	0
2,614	846	16	Revenue funds:	977	977	977	977	977
0	**0**	17	Capital receipts	60	0	0	0	0
2,004	2,004	18	Borrowing - internal	1,522	2,017	1,359	1,347	1,841
0	0	19	Borrowing - external	0	0	3,105	7,076	5,082
8,813	**2,850**		**Total Funding**	**10,674**	**12,700**	**9,300**	**9,400**	**7,900**

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/20/2

PRUDENTIAL INDICATORS

	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate
				INDICATIVE INDICATORS 2022/23 to 2023/24	
Capital Expenditure					
Non - HRA	10.674	12.700	9.300	9.400	7.900
HRA (applies only to housing authorities)					
Total	10.674	12.700	9.300	9.400	7.900
Ratio of financing costs to net revenue stream					
Non - HRA	4.61%	4.46%	3.77%	3.62%	4.09%
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	24,851	24,757	24,264	29,723	33,456
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	2,481	1,834	1,425	1,148	900
Total	27,332	26,592	25,690	30,870	34,356
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	776	(741)	(902)	5,181	3,486
HRA (applies only to housing authorities)	0	0	0	0	0
Total	776	(741)	(902)	5,181	3,486
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	26,787	26,189	26,071	31,802	35,687
Other long term liabilities	3,298	2,573	1,906	1,482	1,193
Total	30,085	28,762	27,976	33,285	36,880
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	25,544	24,951	24,857	30,316	34,014
Other long term liabilities	3,174	2,481	1,834	1,425	1,148
Total	28,718	27,432	26,692	31,741	35,162
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 2020/21		
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	50%