REPORT REFERENCE NO.	**RC/21/3**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**13 FEBRUARY 2021**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2021-22 TO 2023-24**
LEAD OFFICER	**Director of Finance and Resourcing (Treasurer)**
RECOMMENDATIONS	***That the Authority at its budget meeting on 19 February 2021 be recommended to approve:*** ***(a) the draft Capital Programme 2021-22 to 2023-24 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 2024-25 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 2021-22 to 2023-24 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 2023-24 based upon indicative capital programme levels for the years 2024-25 to 2025-26.
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 2021-22 to 2023-24 (and indicative Capital Programme 2024-25 to 2025-26). B. Prudential Indicators 2021-22 to 2023-24 (and indicative

	Prudential Indicators 2024-25 to 2025-26).
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 10January 2020, the Authority approved changes to the Service Delivery Operating Model, which has reduced some pressure on the proposed capital programme. However, due to the age of current fleet there are still ambitious plans to introduce new Medium Rescue Pumps (MRP, our largest fire appliances) into the fleet. The 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 2024/25.

1.5. The Authority has set a strategy to reduce reliance on external borrowing. The proposed Capital Programme 2021-22 to 2023-24 and indicative Capital Programme 2024-25 to 2025-26 show that, despite the reduced number of assets, the Authority will need to borrow up to £5m. 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.

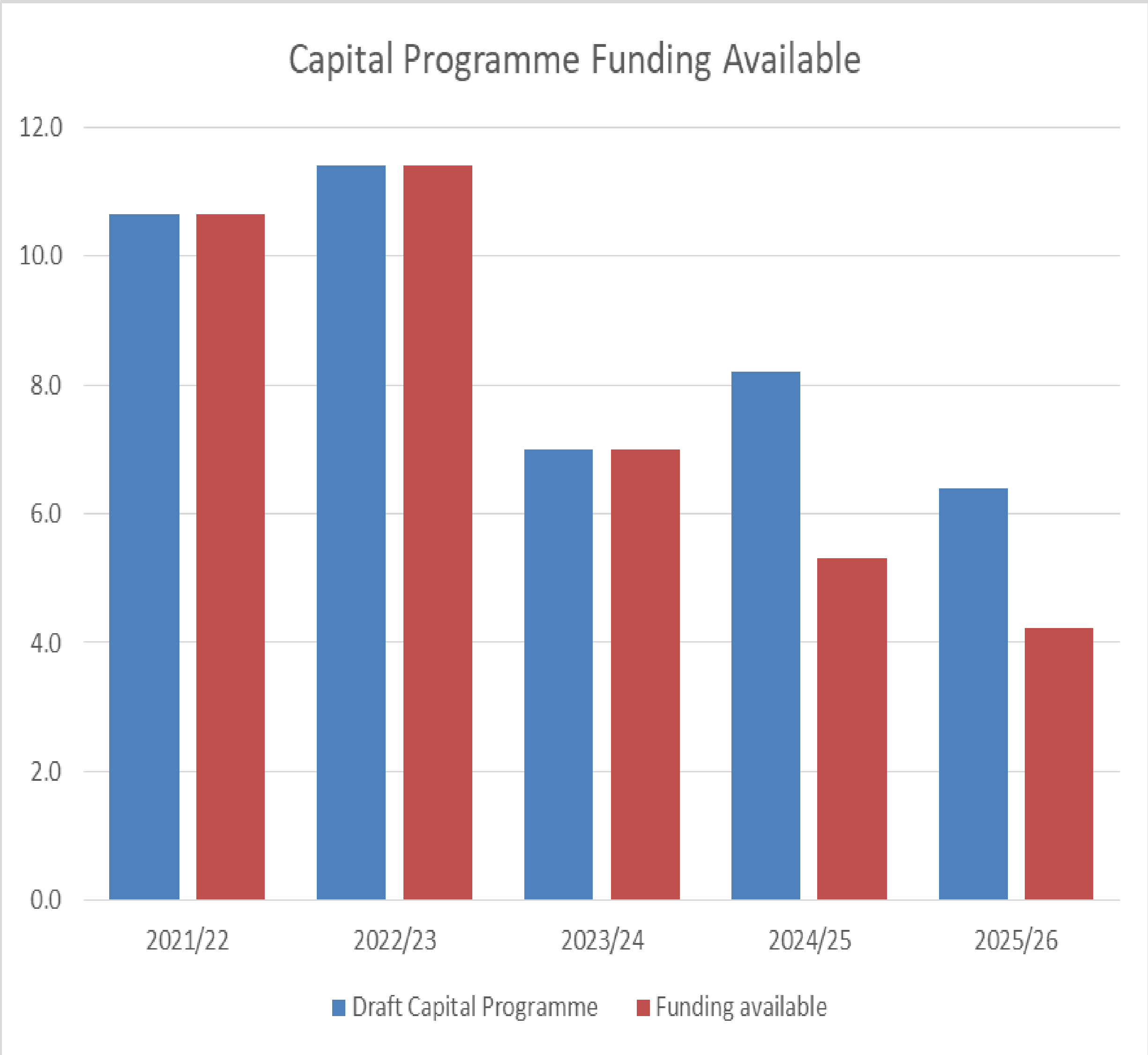
FINANCING OF THE PROPOSED CAPITAL PROGRAMME

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 £23.8m by 2023-24 (£25.5m if Council Tax is not increased each year) from the current external borrowing of £24.9m as at 31 March 2021. 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. With increasing pressure on revenue budgets, the revised programme has been prepared on the basis that increased Revenue Contributions to Capital will be limited to the amount saved from reduced borrowing, therefore maintaining the overall cost envelope for the Capital Programme. However, significant pressures still remain and the chart below shows that a gap will emerge 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 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.

3. REVISED CAPITAL PROGRAMME FOR 2021-22 to 2023-24

3.1. Appendix A to this report provides an analysis of the proposed programme for the three years 2021-22 to 2023-24 as contained in this report. This programme represents a net decrease in overall spending of £9.6m (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			
2020-21	9.1	5.9	15.0
2021-22	5.9	6.8	12.7
2022-23 (provisional)	5.7	3.6	9.3
2023-24 (provisional)	5.6	3.8	9.4
Total 2020-21 to 2023-24	26.3	20.1	46.4
Proposed Programme			
2020-21 (forecast spending)	3.3	3.3	6.6
2021-22	7.2	6.0	13.2
2022-23 (provisional)	3.6	7.4	11.0
2023-24 (provisional)	1.3	4.7	6.0
Total 2020-21 to 2023-24	15.4	21.4	36.8
Proposed change	-10.9	1.3	-9.6

Estates

3.2. The Service is currently refreshing its Estates Strategy and undertaking a full condition survey of the Estate, to inform a risk based approach to future investments. The strategy will also look to maximise opportunities to reduce the footprint of buildings as a result of new ways of working and to incorporate the Authority's Green DSFRS environmental strategy.

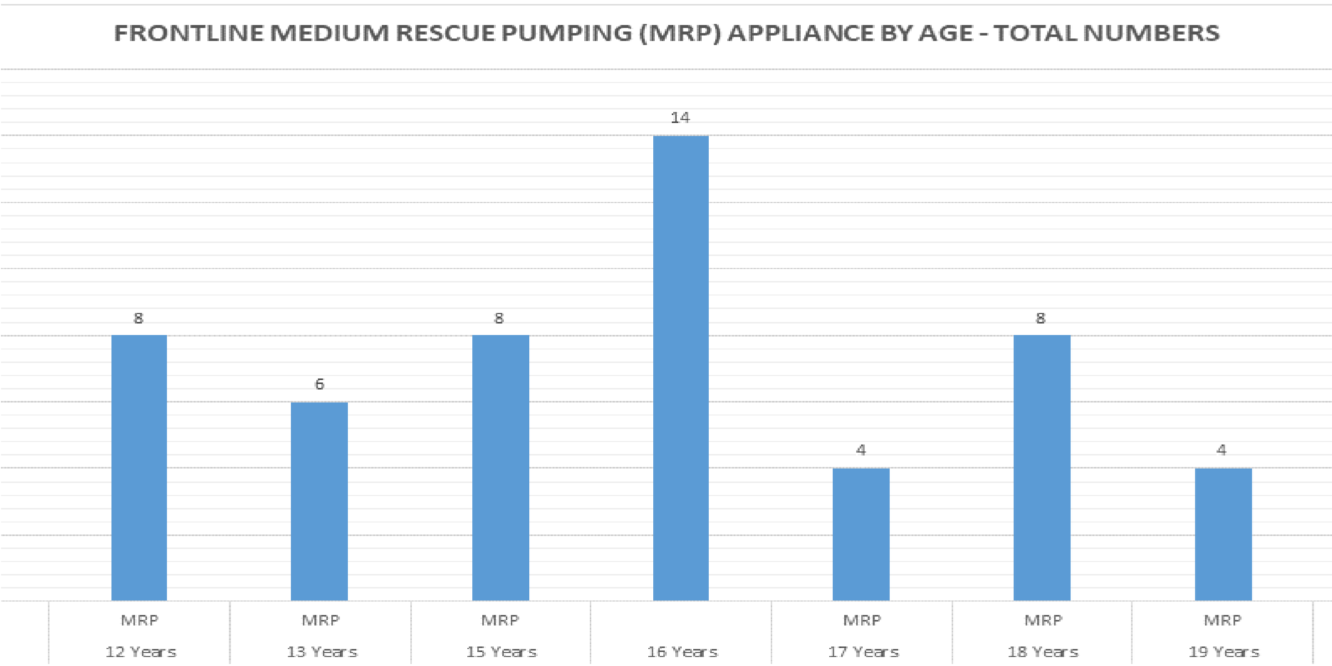
3.3. Mindful of the need to review strategy, the programme for 2021-22 has been limited to existing projects; particularly the new Plymstock fire station and a refurbishment of Camels Head fire station, alongside some minor works to ensure compliance such as improved sleeping accommodation and vehicle wash down facilities.

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 next Integrated Risk Management Plan. Any such mergers would be subject to public consultation and decision by the Authority. No plans for merging stations are included in the Capital Programme at this stage, however the production of a new Community Risk Management Plan may identify locations that would benefit from such mergers to better match resources to risk.

Operational Assets

3.5. Through the Safer Together Programme a risk based review of the fleet profile of Rapid Intervention Vehicles (RIV), Light Rescue Pumps (LRP) and Medium Rescue Pumps (MRP) has been undertaken to confirm the operational requirements of the new Service Delivery Operating Model. It is anticipated that further RIVs will be introduced to the fleet.

3.6. The Service has a considerable number of assets due for replacement as they are beyond their recommended economic life, being expensive to service and repair, liable to more frequent reliability issues and increasingly difficult to source parts for. As an indicator of the scale of this project, the chart below shows the age profile of MRPs.



3.7. 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 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.

3.8. The benefits of the Fleet Replacement Programme are:

- Economic benefits of new fleet
- Standardisation of vehicles leading to reduced maintenance and training costs
- Environmental benefits from reduced emissions and savings on fuel consumption

3.9. The project to replace MRPs which are beyond economic life 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 20 vehicles are expected to be delivered in the 2021-22 financial year (COVID delays are being managed closely), 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.

3.10. The Fleet Replacement plan will look to replace some of our oldest appliances with new MRPs and RIVs and cascade existing vehicles to the reserve and training fleet. Currently we have:

- MRP – 65 front-line appliances of which 32 are overdue replacement and a further 8 due replacement this year. A total of 40 vehicles (60% are overdue replacement);
- MRP Reserves – There are currently 14 reserve appliances and all are overdue replacement. They are being subject to a review of numbers once the new MRP is introduced;
- LRP – We have 37 front-line LRP's due to be 38 of which none are due replacement until 2027/28;
- LRP Reserves – There are 4 reserve LRP's;
- RIV – We have 12 front-line RIV's of which none will be due replacement until at least 2028/29;
- RIV Reserves – There are currently 2 reserve RIV's;
- Training Appliances – 6 MRP's all are overdue replacement plus one LRP and vehicles for Driver Training which are overdue replacement; and
- A station engagement process on the fleet profile is currently in progress and the final profile will be confirmed in April/May to support the fleet replacement plans.

4. FORECAST DEBT CHARGES

4.1. Appendix A also provides indicative capital requirements beyond 2023-24 to 2025-26. 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

	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
Forecast Debt outstanding at year end	24.757	24.264	23.771	26.194	28.282
Base budget for capital financing costs and debt charges	3.274	3.026	2.942	3.042	3.295
Change over previous year		(0.248)	(0.084)	0.100	0.253
Debt ratio	4.28%	3.91%	3.74%	3.87%	4.26%

4.2. The forecast figures for external debt and debt charges beyond 2023-24 are based upon the indicative programmes as included in Appendix A for the years 2024-25 to 2025-26. 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 £25.7m to £28.6m (including impact of proposed revenue contributions) by 2025-26.

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 2025-26, 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 2024-25. The programme proposed in this report does not commit any spending beyond 2023-24. 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/21/3

Capital Programme 2021/22 to 2025/26								
2020/21 £000 Budget	2020/21 £000 Forecast Outturn	Item	PROJECT	2021/22 £000 Budget	2022/23 £000 Budget	2023/24 £000 Budget	2024/25 £000 Indicative Budget	2025/26 £000 Indicative Budget
			Estate Development					
3,557	1,907	1	Site re/new build (subject to formal authority approval)	2,150	0	0	0	0
5,591	1,437	2	Improvements & structural maintenance	5,089	3,600	1,300	3,500	3,700
9,148	**3,344**		**Estates Sub Total**	**7,239**	**3,600**	**1,300**	**3,500**	**3,700**
			Fleet & Equipment					
5,034	2,839	3	Appliance replacement	5,157	2,300	2,800	2,800	2,000
710	370	4	Specialist Operational Vehicles	440	5,100	1,900	700	700
0	0	5	Equipment	0	0	0	0	0
159	9	6	ICT Department	400	0	0	0	0
46	46	7	Water Rescue Boats	0				
5,949	**3,264**		**Fleet & Equipment Sub Total**	**5,997**	**7,400**	**4,700**	**3,500**	**2,700**
(3,800)	**0**	**9**	**Optimism bias Sub Total**	**(2,600)**	**400**	**1,000**	**1,200**	**0**
11,297	**6,608**		**Overall Capital Totals**	**10,636**	**11,400**	**7,000**	**8,200**	**6,400**
			Programme funding					
7,672	2,663	15	Earmarked Reserves:	6,575	7,998	3,417	1,667	0
2,037	2,037	16	Revenue funds:	2,037	2,037	2,300	2,300	2,300
60	380	17	Capital receipts:	0	0	0	0	0
1,528	1,528	18	Borrowing - internal	2,024	1,365	1,283	1,352	1,918
		19	Borrowing - external				2,881	2,182
11,297	**6,608**		**Total Funding**	**10,636**	**11,400**	**7,000**	**8,200**	**6,400**

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/21/3

PRUDENTIAL INDICATORS

				INDICATIVE INDICATORS 2023/24 to 2024/25	
	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate	2025/26 £m Estimate
Capital Expenditure					
Non - HRA	10.636	11.400	7.000	8.200	6.400
HRA (applies only to housing authorities)					
Total	10.636	11.400	7.000	8.200	6.400
Ratio of financing costs to net revenue stream					
Non - HRA	4.28%	3.91%	3.74%	3.87%	4.26%
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	24,758	24,264	23,771	26,120	27,984
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	907	791	656	509	349
Total	25,665	25,055	24,426	26,629	28,333
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	(196)	(610)	(628)	2,203	1,704
HRA (applies only to housing authorities)	0	0	0	0	0
Total	(196)	(610)	(628)	2,203	1,704
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	26,189	26,071	25,553	28,058	29,875
Other long term liabilities	1,056	947	823	681	527
Total	27,244	27,018	26,376	28,739	30,401
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	24,951	24,857	24,364	26,752	28,476
Other long term liabilities	1,010	907	791	656	509
Total	25,961	25,765	25,155	27,408	28,985
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 2021/22		
Under 12 months	30%	0%
12 months and within 24 months	30%	2%
24 months and within 5 years	50%	15%
5 years and within 10 years	75%	3%
10 years and above	100%	80%