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| **REPORT REFERENCE NO.** | **RC/22/3** |
| **MEETING** | **RESOURCES COMMITTEE** |
| **DATE OF MEETING** | **8 FEBRUARY 2022** |
| **SUBJECT OF REPORT** | **CAPITAL PROGRAMME 2022-23 TO 2024-25** |
| **LEAD OFFICER** | **Director of Finance, People and Estates (Treasurer)** |
| **RECOMMENDATIONS** | ***That the Authority at its budget meeting on 18 February 2022 be recommended to approve:***<br>***(a). the draft Capital Programme 2022-23 to 2024-25 and associated Prudential Indicators, as detailed in this report and summarised at Appendices A and B respectively, be approved; and***<br>***(b). subject to (a) above, the forecast impact of the proposed Capital Programme (from 2025-26 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 2022-23 to 2024-25 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.<br>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.<br>To inform longer term planning, the Prudential Indicator has been profiled for a further two years beyond 2024-25 based upon indicative capital programme levels for the years 2025-26 to 2026-27. |
| **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 2022-23 to 2024-25 (and indicative Capital Programme 2025-26 to 2026-27). |

| | |
|---|---|
| | B. Prudential Indicators 2022-23 to 2024-25 (and indicative Prudential Indicators 2025-26 to 2026-27). |
| **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 10 January 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 2022-23 to 2024-25 and indicative Capital Programme 2025-26 to 2026-27 show that, despite the reduced number of assets, the Authority will need to borrow up to £8.4m. 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.

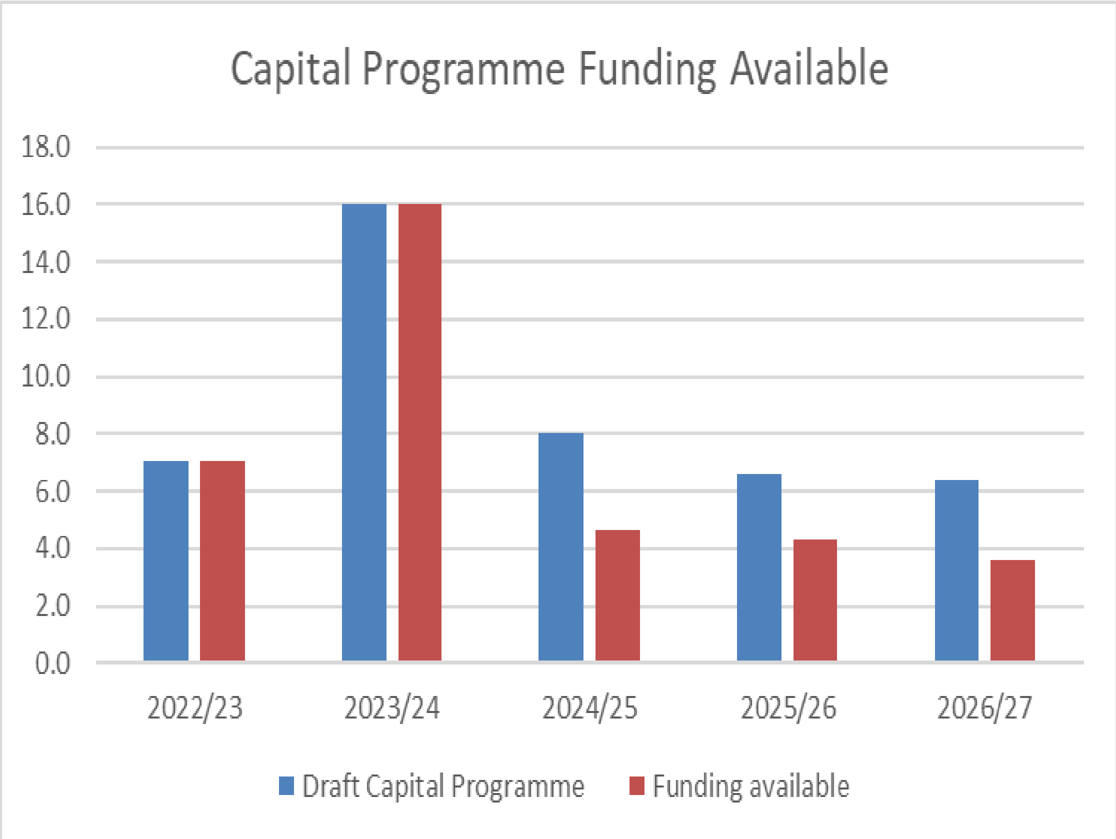
## 2. FINANCING OF THE PROPOSED CAPITAL PROGRAMME

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, increases the external borrowing requirement to £26.6m by 2024-25 from the current external borrowing of £24.8m as at 31 March 2022. 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 2022-23 to 2024-25

3.1. Appendix A of this report provides an analysis of the proposed programme for the three years 2022-23 to 2024-25 as contained in this report. This programme represents a net increase in overall spending of £2.7m (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 | | | |
| 2021-22 | 8.0 | 7.3 | 15.3 |
| 2022-23 | 3.6 | 7.4 | 11.0 |
| 2023-24 (provisional) | 1.3 | 4.7 | 6.0 |
| 2024-25 (provisional) | 3.5 | 3.5 | 7.0 |
| Total 2021-22 to 2024-25 | 16.4 | 22.9 | 39.3 |
| Proposed Programme | | | |
| 2021-22 (forecast spending) | 3.7 | 6.2 | 9.9 |
| 2022-23 | 3.9 | 4.9 | 8.8 |
| 2023-24 (provisional) | 7.3 | 10.5 | 17.8 |
| 2024-25 (provisional) | 0.9 | 4.6 | 5.5 |
| Total 2021-22 to 2024-25 | 15.8 | 26.2 | 42.0 |
| Proposed change | -0.6 | 3.3 | 2.7 |

***Estates***

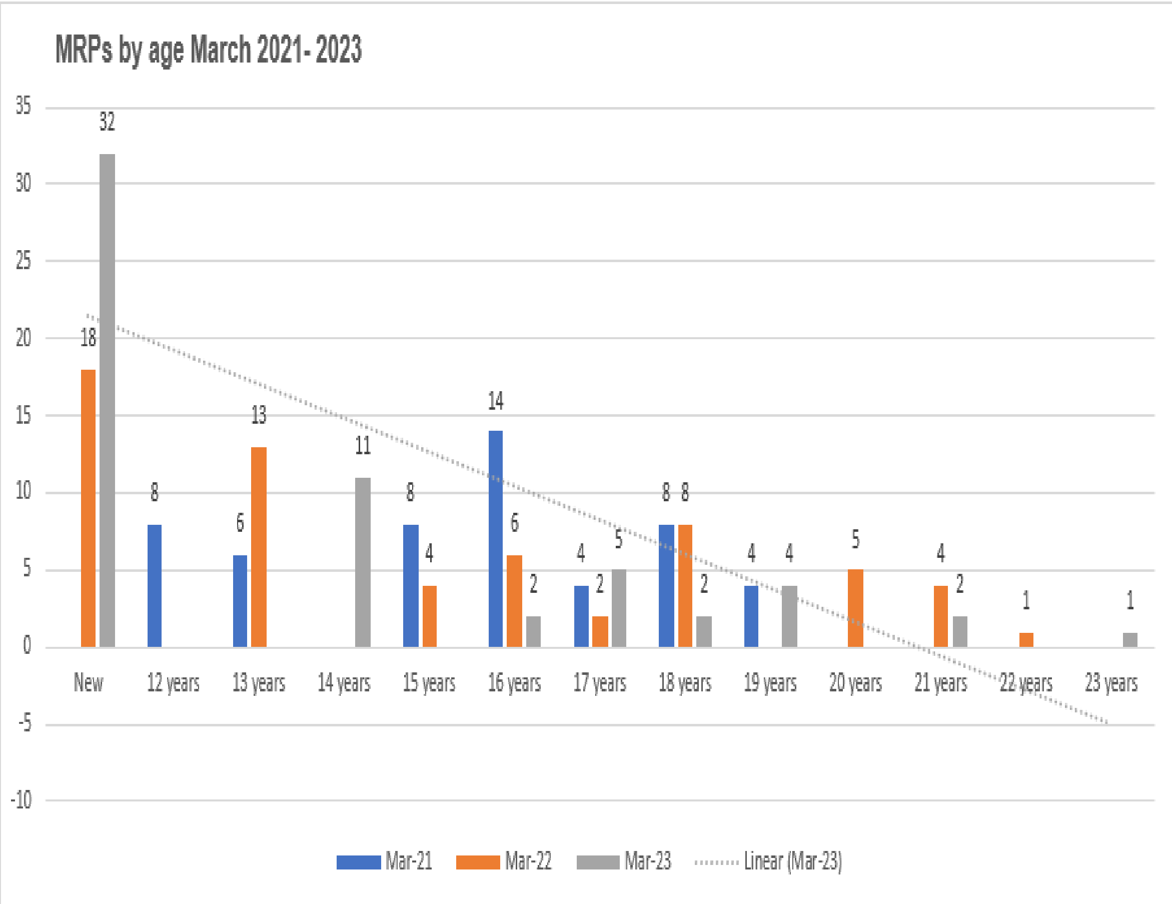
3.2. The Service is in the process of finalising the Estates Strategy and is planning to undertake a full condition survey of the Estate to inform a risk based approach to future investments. The strategy will also look to maximise opportunities to reduce the footprint of buildings as a result of new ways of working and to incorporate the Authority’s Green Environmental Strategy.

3.3. Mindful of the need to review strategy, the programme for 2022-23 has been limited to existing projects, particularly the refurbishment project for Camels Head fire station, alongside works to ensure compliance such as improved sleeping accommodation and vehicle wash down facilities.

***Operational Assets***

3.4. The project to replace Medium Rescue Pumps (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 19 MRPs have been delivered to Devon &Somerset Fire & Rescue Service (the Service) with 13 of these being delivered to their new stations. There are also 5 additional Rapid Intervention Vehicles (RIVs) that have been delivered, although these are not yet on the run. Moving forward, the Service has gone out to tender to replace Aerial Ladder platforms and some of the other specialist vehicles.

3.5. At the commencement of the year, 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. The MRP replacement programme has changed the age profile - the chart below shows the age profile of MRPs.



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 our 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 our oldest appliances with new MRPs and RIVs and cascade existing vehicles to the reserve and training fleet. Currently the Service has:

- MRP – 61 front-line appliances of which 37 are overdue replacement (more than 15 years old – 60%);
- MRP Reserves – 10 MRP reserve appliances of which 9 are overdue replacement (more than 15 years old – 90%);
- LRP – 38 front-line LRP appliances of which 7 become due replacement in 2025/26 based on 12 years expected life-cycle;
- LRP Reserves – 4 LRP Reserve appliances which are 7 years old;
- RIV – 13 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;
- RIV (New) – 5 new RIV appliances delivered and awaiting roll-out in the spring of 2022;
- Training Appliances – 6 MRP training appliances of which all are over 15 years old; and
- Driver Training Appliances – 2 x MRP driver training specific appliances which are 9 years old. 1 x MRP appliance (not driver training specific) which is 19 years old. 1 x LRP driver training specific appliance which is 5 years old.

## 4. FORECAST DEBT CHARGES

4.1. Appendix A of this report also provides indicative capital requirements beyond 2024-25 to 2026-27. 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

| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Forecast Debt outstanding at year end | 24.264 | 23.771 | 26.645 | 28.820 | 30.997 |
| Base budget for capital financing costs and debt charges | 3.300 | 3.185 | 3.215 | 3.589 | 3.382 |
| Change over previous year | | (0.115) | 0.030 | 0.375 | (0.207) |
| Debt ratio | 4.19% | 3.49% | 3.54% | 3.83% | 3.58 % |

4.2. The forecast figures for external debt and debt charges beyond 2024-25 are based upon the indicative programmes as included in Appendix A for the years 2025-26 to 2026-27. 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 of this report 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 £26.0m to £30.9m (including the impact of proposed revenue contributions) by 2026-27.

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 2026-27, 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 2024-25. 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.

**SHAYNE SCOTT**
**Director of Finance, People and Estates (Treasurer)**

**APPENDIX A TO REPORT RC/22/3**

| Capital Programme 2022/23 to 2026/27 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **2021/22 £000 Budget** | **2021/22 £000 Forecast Outturn** | **Item** | **PROJECT** | **2022/23 £000 Budget** | **2023/24 £000 Budget** | **2024/25 £000 Budget** | **2025/26 £000 Indicative Budget** | **2026/27 £000 Indicative Budget** |
| | | | **Estate Development** | | | | | |
| 2,207 | 2,289 | 1 | Site re/new build | 0 | 0 | 0 | 0 | 0 |
| 5,762 | 1,366 | 2 | Improvements & structural maintenance | 3,923 | 7,300 | 900 | 3,700 | 3,700 |
| **7,969** | **3,655** | | **Estates Sub Total** | **3,923** | **7,300** | **900** | **3,700** | **3,700** |
| | | | **Fleet & Equipment** | | | | | |
| 6,403 | 5,923 | 3 | Appliance replacement | 3,861 | 4,500 | 2,400 | 1,600 | 2,700 |
| 480 | 90 | 4 | Specialist Operational Vehicles | 820 | 6,000 | 2,200 | 200 | 0 |
| 409 | 159 | 5 | ICT Department | 250 | 0 | 0 | 0 | 0 |
| 32 | 0 | 6 | Water Rescue Boats | 0 | 0 | 0 | 0 | 0 |
| **7,324** | **6,172** | | **Fleet & Equipment Sub Total** | **4,931** | **10,500** | **4,600** | **1,800** | **2,700** |
| **(2,600)** | **0** | 7 | **Optimism bias Sub Total** | **(1,800)** | **(1,800)** | **2,500** | **1,100** | **0** |
| **12,693** | **9,827** | | **Overall Capital Totals** | **7,054** | **16,000** | **8,000** | **6,600** | **6,400** |
| | | | **Programme funding** | | | | | |
| 8,632 | 5,766 | 8 | Earmarked Reserves: | 4,189 | 12,417 | 998 | 0 | 0 |
| 2,037 | 2,037 | 9 | Revenue funds: | 1,200 | 2,300 | 2,300 | 2,300 | 2,300 |
| 0 | 0 | 10 | Capital receipts: | 300 | 0 | 0 | 0 | 0 |
| 2,024 | 2,024 | 11 | Borrowing - internal | 1,365 | 1,283 | 1,370 | 2,031 | 1,330 |
| | | 12 | Borrowing - external | 0 | 0 | 3,332 | 2,269 | 2,770 |
| **12,693** | **9,827** | | **Total Funding** | **7,054** | **16,000** | **8,000** | **6,600** | **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/22/3

| PRUDENTIAL INDICATORS | | | | INDICATIVE INDICATORS | |
|---|---|---|---|---|---|
| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
| | £m | £m | £m | £m | £m |
| | Estimate | Estimate | Estimate | Estimate | Estimate |
| **Capital Expenditure** | | | | | |
| Non - HRA | 7.054 | 16.000 | 8.000 | 6.600 | 6.400 |
| HRA (applies only to housing authorities) | | | | | |
| Total | 7.054 | 16.000 | 8.000 | 6.600 | 6.400 |
| | | | | | |
| **Ratio of financing costs to net revenue stream** | | | | | |
| Non - HRA | 4.19% | 3.49% | 3.54% | 3.83% | 3.58% |
| 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 | 24,264 | 23,771 | 26,645 | 28,820 | 30,997 |
| HRA (applies only to housing authorities) | 0 | 0 | 0 | 0 | 0 |
| Other long term liabilities | 1,686 | 1,308 | 1,007 | 661 | 381 |
| Total | 25,950 | 25,078 | 27,652 | 29,481 | 31,377 |
| | | | | | |
| **Annual change in Capital Financing Requirement** | £000 | £000 | £000 | £000 | £000 |
| Non - HRA | 285 | (872) | 2,573 | 1,829 | 1,896 |
| HRA (applies only to housing authorities) | 0 | 0 | 0 | 0 | 0 |
| Total | 285 | (872) | 2,573 | 1,829 | 1,896 |
| | | | | | |
| **PRUDENTIAL INDICATORS - TREASURY MANAGEMENT** | | | | | |
| | | | | | |
| **Authorised Limit for external debt** | £000 | £000 | £000 | £000 | £000 |
| Borrowing | 26,071 | 25,553 | 28,535 | 30,455 | 33,240 |
| Other long term liabilities | 1,774 | 2,251 | 1,858 | 1,540 | 1,180 |
| Total | 27,844 | 27,804 | 30,393 | 31,995 | 34,420 |
| | | | | | |
| **Operational Boundary for external debt** | £000 | £000 | £000 | £000 | £000 |
| Borrowing | 24,857 | 24,364 | 27,203 | 29,014 | 31,690 |
| Other long term liabilities | 1,689 | 2,186 | 1,808 | 1,507 | 1,161 |
| Total | 26,547 | 26,550 | 29,011 | 30,521 | 32,851 |
| | | | | | |
| 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 2022/23 | | |
| Under 12 months | 30% | 2% |
| 12 months and within 24 months | 30% | 4% |
| 24 months and within 5 years | 50% | 14% |
| 5 years and within 10 years | 75% | 1% |
| 10 years and above | 100% | 80% |