

REPORT REFERENCE NO.	DSFRA/22/5
MEETING	DEVON & SOMERSET FIRE & RESCUE AUTHORITY
DATE OF MEETING	18 FEBRUARY 2022 (Budget Meeting)
SUBJECT OF REPORT	CAPITAL PROGRAMME 2022-23 TO 2024-25
LEAD OFFICER	Director of Finance, People & Estates (Treasurer)
RECOMMENDATIONS	<p><i>That, as recommended by the Resources Committee (budget) meeting on 8 February 2022:</i></p> <ul style="list-style-type: none"> <i>(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</i> <i>(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.</i>
EXECUTIVE SUMMARY	<p>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.</p> <p>The Authority 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 Authority has supported the Treasurer's recommendation it should seek alternative sources of funding other than external borrowing to support future capital investment.</p> <p>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.</p> <p>The contents of this report were considered by the Resources Committee at its budget meeting on 8 February 2022. The Committee resolved to commend the proposed Capital Programme 2022-23 to 2024-25 and associated Prudential Indicators to the Authority for approval.</p>
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY RISKS AND BENEFITS ANALYSIS	An initial assessment has not identified any equality issues emanating from this report.

APPENDICES	<p>A. Summary of Proposed Capital Programme 2022-23 to 2024-25 (and indicative Capital Programme 2025-26 to 2026-27).</p> <p>B. Prudential Indicators 2022-23 to 2024-25 (and indicative Prudential Indicators 2025-26 to 2026-27).</p>
BACKGROUND PAPERS	None

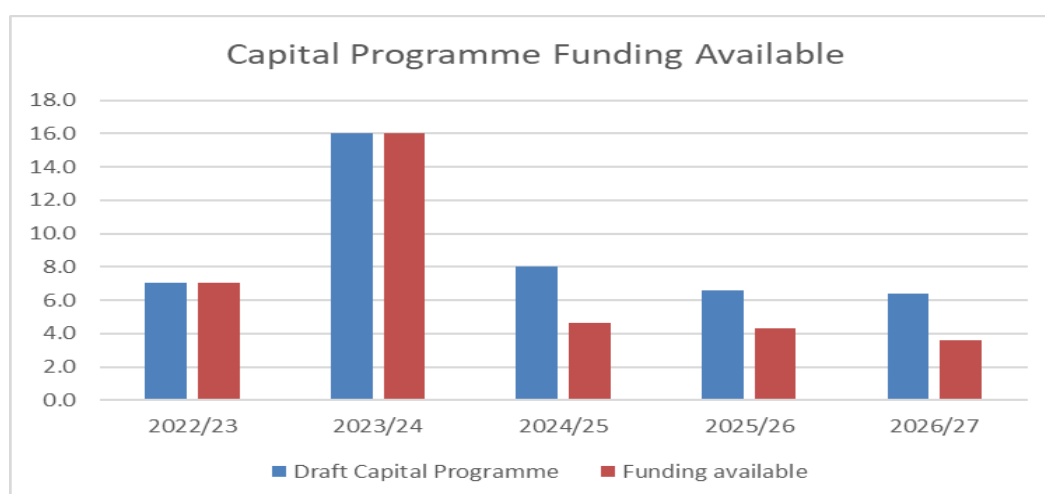
1. INTRODUCTION

- 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 Devon & Somerset Fire & Rescue Service (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 & Somerset Fire & Rescue Authority (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, the 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.
- 1.6. The contents of this report were considered by the Resources Committee at its budget meeting on 8 February 2022. The Committee resolved (Minute RC/21/20 refers):
 - (a). that the Authority be recommended to approve the draft Capital Programme 2022-23 to 2024-25 and associated Prudential Indicators as detailed in report RC/22/3; and

- (b). that, subject to (a) above, the forecast impact on the 5% debt ratio Prudential Indicator of the proposed Capital Programme from 2025-26 onwards, as indicated in the report, be noted.

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

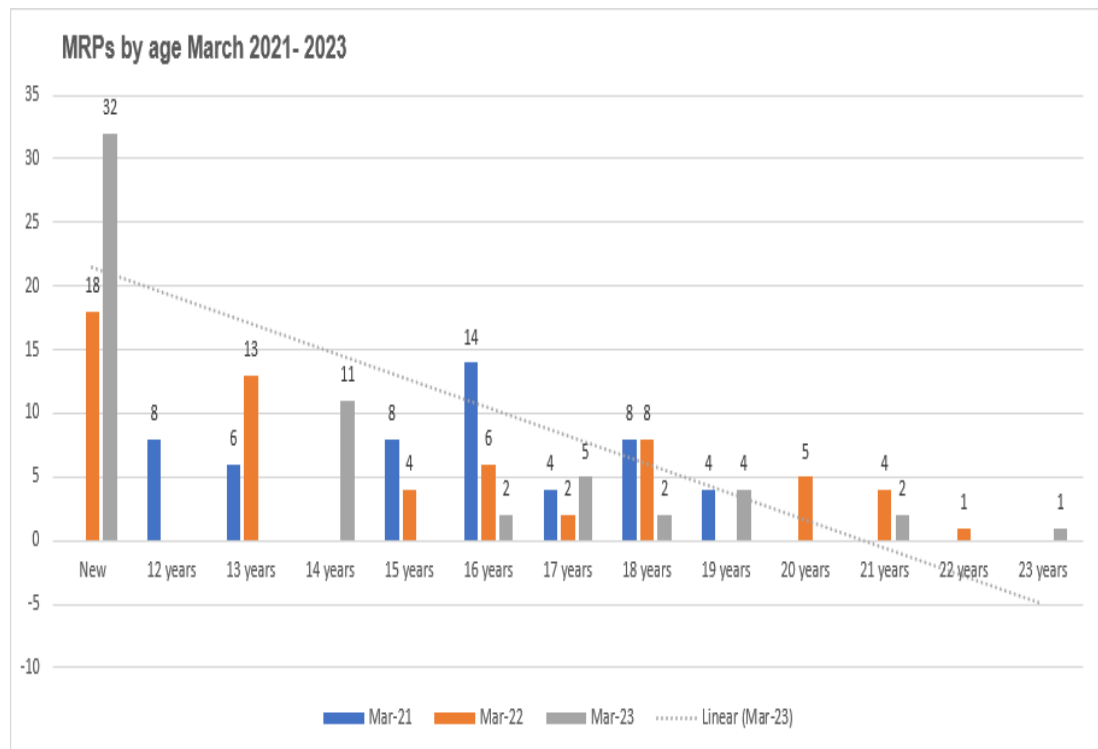
	Estates £m	Fleet & Equipment £m	Total £m
Existing Programme			
2021-22	8.0	7.3	15.3
2022-23	3.6	7.4	11.0
2023-24 (provisional)	1.3	4.7	6.0
2024-25 (provisional)	3.5	3.5	7.0
Total 2021-22 to 2024-25	16.4	22.9	39.3
Proposed Programme			
2021-22 (forecast spending)	3.7	6.2	9.9
2022-23	3.9	4.9	8.8
2023-24 (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 by 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 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 the Capital Financing Requirement (excluding other long-term liabilities), which represents the underlying need to borrow to fund capital spending, will have increased from current levels of £24.3m to £31.0m (including the impact of proposed revenue contributions) by 2026-27.
- 5.2. 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 & Estates (Treasurer)

APPENDIX A TO REPORT DSFRA/22/5

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 DSFRA/22/5

PRUDENTIAL INDICATORS				INDICATIVE INDICATORS	
	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate	2025/26 £m Estimate	2026/27 £m 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%