NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

SUSTAINABLE CAPITAL PLANS

Report of the Chief Fire Officer

Agenda Item No:

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Purpose of Report:

To present to Members a report which considers the sustainability of the Fire and Rescue Authority's capital plans up to 2020.

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1. BACKGROUND

1.1 The Fire and Rescue Authority has at its disposal a range of capital assets which will require replacement over time. The two factors that will limit the ability of the Authority to maintain the assets base are available finance and capacity.

1.2 In terms of finance it is important that the Authority does not ‘over run’ its ability to sustain borrowing and in terms of capacity, it is important that a steady programme of refurbishment/rebuilding takes place to avoid too many assets requiring to be replaced in too short a time.

1.3 This paper considers these two issues against a backdrop of available resources and prudential indicators and particularly considers the property programme up to the year 2020.

2. REPORT

2.1 The introduction of the Prudential Code into Local Government was seen as a positive way forward for capital planning. The removal of centrally imposed credit ceilings allowed authorities such as Nottinghamshire Fire and Rescue Service to set their own capital plans in accordance with their ability to pay for the revenue implications.

2.2 There is, however, a significant ‘downside’ to this approach. Under the old regime no thought needed to be given to the ceiling of capital expenditure over time, as this was effectively decided by the centrally determined capital allocation. Under the prudential regime however, authorities decide their own ceilings for borrowing and overall debt.

2.3 The fundamental problem with the prudential regime is that the budget process it supports is quite short term, being over a three year period, and is therefore focussed on the affordability of relatively short term activity levels.

2.4 Nottinghamshire and City of Nottingham Fire and Rescue Authority was formed on 1 April 1998 and inherited no debt from Nottinghamshire County Council. Whilst this might be seen as an advantage, the downside is that it also inherited no budget for the servicing of that debt. Therefore all new spending must be met from new debt which will have a direct impact upon the revenue budget (ie: there is no established ‘base’ save that built up from 1/4/1998).

2.5 A point will inevitably come where the amount of debt being serviced by the Authority has reached a maximum – ie: where the revenue impact of that debt is the maximum that can be sustained in the longer term. When this point arrives, the only way that the Authority will be able to continue a capital programme will be by redeeming existing debt or realising assets. There is of course the option of using the ‘supported capital expenditure’ element of revenue support grant (RSG), but this moves away from the general preference for treating RSG as being unhypothecated.

2.6 This problem is exacerbated by treasury management strategies which do not (and under guidance should not) match asset lives against outstanding debt periods. This means in effect that there is no direct linkage between the asset and the financing required for it and therefore a computer could effectively be financed over 50 years. In Nottinghamshire we have attempted to deal with this potential problem by considering the 'average life' of the total asset portfolio and matching this against the 'average life' or maturity of outstanding debt over time.

2.7 This does not mean that at any given moment average debt life will always equal average asset life, but that there is an aspiration to return to a position where it does. For example, at the present time the Authority has a high proportion of debt on very long credit arrangements of 50 and in one case 70 years. However, this has been done to take advantage of very good long term fixed interest rates. It is the intention to re-finance this debt over shorter periods to return to a more balanced portfolio when market conditions improve. The important thing is to understand where the desired position is and continue to work towards achieving it.

2.8 Although this is confusing it is important to understand that the impact on the revenue account of capital financing is represented by the minimum revenue provision (MRP) which under recent changes to regulations is now calculated in such a way as to reflect asset lives in the charges to the revenue account. The actual impact on cash however is still that which is derived from the Treasury Management Strategy.

2.9 Looking forward over a period of 20 years or so it is clear that the Authority will need to make significant investment in capital schemes primarily related to property. The profile of the Service's property assets shows a high number of them requiring replacement or substantial refurbishment over this period. The Property Strategy Group has considered this issue and 'broad brush' plans are already in place. Suffice to say that expenditure of the order of £3.2m per annum will be required consistently for a number of years to come. Some analysis of this can be seen below.

2.10 The private finance initiative (PFI_ has been seen by some as something of a panacea for dealing with this problem for some authorities and indeed as a short term 'fix' this may seem attractive. This is because PFI credits (additions to grant) can often alleviate the effects on the revenue account. However, since government have made clear that the days of PFI credits may be numbered this option looks less attractive. That is not to say that it might still be the only option if a strong capital programme cannot be sustained.

2.11 The issue for Nottinghamshire then remains whether an anticipated capital spend per annum on property of £3.2m each year for the next 10 years or so can be sustained within the confines of the revenue budget, bearing in mind that this knocks on into Council Tax.

2.12 A bigger concern is that the pace of property development is limited not so much by available capital finance, but by the organisation's capacity to deliver on major capital projects. The effect of this has been to develop capital programmes which contain a number of smaller schemes which can be more easily achieved but which, in reality, may be consuming the capital resources which will be required for much more critical schemes in the future.

2.13 Other fire and rescue authorities have been contacted to ascertain what their position is on this and disappointingly, almost without exception, they seem to have adopted a short term strategy based on the principles of the prudential code rather than a long term capital plan. This is not a strategy that could be viewed as being acceptable here in Nottinghamshire, where there is a reputation for prudent and sound financial management which should be continued.

2.14 Planned levels of capital investment are mirrored in the Capital Financing Requirement (CFR) of the Authority and over the period 2005/2006 to 2010/2011 these are anticipated to be as follows:

Year	**CFR (£000s)**	**Revenue Impact**
2005/2006	6,837	816
2006/2007	10,324	761
2007/2008	15,203	1245
2008/2009	21,116	1633
2009/2010	25,093	2243
2010/2011	29,330	2715

2.15 The way in which this CFR is met is crucial to any subsequent calculations and it is therefore important to note that there are a number of offsetting or financing options in use. These are:

- Loans
- Finance Leases
- Operating Leases
- Specific Government Grants
- Capital Receipts
- Revenue Contributions

The revenue effect is also reduced however, by the repayment of existing loans and the termination of existing leasing arrangements. This latter item has a significant effect on the revenue impact of both the Transport and IT programmes.

2.16 In 2007/8 eight fire stations were considered to be in a serviceable state:

- Stockhill
- West Bridgford
- Mansfield
- Harworth
- Collingham

- § Warsop
- § Edwinstowe
- § Stapleford

Headquarters and the Service Development Centre do not require any major works, and Beeston/Dunkirk is already scheduled.

2.17 This leaves the following stations of which eight are Retained:

- § Carlton
- § Arnold
- § Ashfield
- § Worksop
- § Retford
- § Hucknall
- § Eastwood
- § East Leake
- § Newark
- § Tuxford
- § Central
- § Bingham
- § Southwell
- § Blidworth
- § Misterton

A reasonable estimate for a retained station new build might be of the order of £1m (Harworth cost £850k) and a wholetime on an existing site £2.5m. Central is a different matter, but it is assumed that this would be self financing.

2.18 In reality of course many of the retained stations will not require a rebuild and a refurbishment will suffice. Current data shows that a refurbishment will cost of the order of £350,000, so making a bold assumption that 50% will be rebuilt and 50% refurbished, an average cost of £675,000 is probably not unreasonable.

2.19 An assumption needs to be made that the Authority will refurbish/rebuild one retained station and one wholetime station per annum – ie: expend £3.175m per annum on property.

Year	**Retained**	**Wholetime**	**Cost £s**
2008/2009	1	1	3,175,000
2009/2010	1	1	3,175,000
2010/2011	1	1	3,175,000
2011/2012	1	1	3,175,000
2012/2013	1	1	3,175,000
2013/2014	1	1	3,175,000
2014/2015	1	0	675,000
2016/2017	1	0	675,000

By 2017 all stations will be rebuilt or refurbished. The capital financing requirement by that time would be of the order of £20.4m just for this additional work. The existing CFR at 2007/8 is £15.203m, which means that by 2017 this would need to rise to £35.6m.

2.20 Clearly as provision is made via MRP in the revenue accounts the amount of the capital financing requirement will reduce, as indeed it will for any revenue financing of capital. A broad assumption made at this stage is that this reduction in capital financing requirement will be effectively 'topped up' by any growth in ICT or Transport budgets.

2.21 The revenue implications of a CFR of £35.6m would be of the order of £3.3m, which is approximately 7.7% of the revenue budget at 2008/9 prices.

2.22 If there is an assumption that replacement vehicles and computers are always replacements and therefore there is no overall growth in CFR as a result of these programmes (other than inflation), then the question needs to be asked whether 7.7% of revenue stream committed to capital is unreasonable or not.

2.23 The Fire and Rescue Service is a bit unusual in that whilst a high proportion of expenditure relates to employees and associated costs, the capital base is unusually large due to the deployment of expensive equipment and vehicles. It is not surprising therefore that a figure of 7.7% can be reached, but the concern must remain about the ability to sustain this against a background of efficiency savings and budget reductions which may occur in the future.

2.24 As a 'rule of thumb' the current value of assets on the Authority's balance sheet is approximately £40m which might imply using the same assumptions for interest rates, a revenue impact of approximately £3.7m or approximately 8% of the revenue budget. It would seem reasonable to use this figure as a benchmark limit for future financing costs.

2.25 Earlier in this paper the issue of supported capital expenditure was raised. This is simply an amount of capital expenditure which is assumed by Central Government in making the RSG allocations. It is not real in any way, but does provide some direct support for capital spending. In Nottinghamshire the amount of RSG generated by supported capital expenditure during 2008/9, 2009/10 and 20010/11 is:

2008/9	£1.012m
2009/10	£1.130m
20010/11	£1.163m

2.26 It is difficult to work out precisely what the revenue gains from these assumptions are, but suffice to say that the base calculations at least assume that these amounts of debt will be repaid with about 5.4% interest charges across the years. A bold assumption might therefore be that approximately £1m of the £3.2m average capital requirement will be financed by the RSG.

2.27 The Government have also recently announced a number of capital grants over the next two years and whilst the amounts are uncertain, it is likely that approximately £1m will be received. This money has to be allocated to projects related to diversity, which means that a number of smaller projects for showers etc. can be funded outside the traditional capital financing model.

2.28 The conclusions therefore are:

- If building stock is to be maintained then investment will be required at the rate of about £3.2m p.a.

- The road fleet will remain fairly static in number and revenue cover is sufficient in the long term to maintain this position, allowing for inflation.

- ICT may grow in volume, but probably not significantly in cost as technological advances have consistently beaten inflation over time.

- A capital ceiling where the capital financing requirement does not exceed £40m would seem to represent a prudent approach.

- The revenue impact of borrowing should be contained within 8% of the total revenue budget.

2.29 Most importantly this report concludes that the long term capital requirements of the Authority can be sustained within reasonably affordable limits and compliance with the prudential code.

2.30 This position is not 'fortunate', but results from various informal planning processes that have taken place over the past ten years or so. Many of these processes were concerned with capacity as available capital would always limit activity levels. Since the advent of the prudential code however, it has become more important to understand the development of the capital programme over a longer period.

2.31 It can be seen that a sustainable programme up to 2017 will allow all the properties that are 'at risk' to be replaced. However, a further programme of refurbishments will need to be developed to consider the remaining premises, possibly starting with Mansfield in 2025 when it will be approaching 30 years old.

3. FINANCIAL IMPLICATIONS

The financial implications of this report are set out in full within the body of the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources and learning and development implications arising directly from this report.

5. EQUALITY IMPACT ASSESSMENT

No initial equality impact assessment has been prepared for this report, however there are some positive influences for equality arising from the refurbishment or rebuilding of property. The opportunity to build in support for equality and diversity will always be considered in any new project.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising directly from this report.

7. LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

8. RISK MANAGEMENT IMPLICATIONS

The Prudential Code is a framework which sets out to quantify and minimise financial risk arising from the financing of capital, however it may create an environment where an organisation could lose sight of the long term implications of borrowing and its impact on the revenue account in the future. This report considers this carefully and concludes that the strategy for assets replacement can be sustained over time.

9. RECOMMENDATIONS

That Members note the contents of this report.

10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

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