TYNE & WEAR FIRE AND RESCUE AUTHORITY **Item 05**

MEETING: 20TH FEBRUARY 2012

SUBJECT: CAPITAL PROGRAMME 2012/2013 INCLUDING PRUDENTIAL INDICATORS FOR 2012/2013 to 2014/2015

JOINT REPORT OF THE CHIEF FIRE OFFICER, CLERK TO THE AUTHORITY, AND FINANCE OFFICER

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1. PURPOSE OF THE REPORT

1.1 To present to Members the proposed Capital Programme for 2012/2013, including the Prudential Indicators for 2012/2013 to 2014/2015.

1.2 A more detailed report is shown in Appendix 1 for information.

2. DESCRIPTION OF DECISION

2.1 The Authority is requested to consider the contents of the report and approve:

a) The Capital Programme and Vehicle Replacement Programme for 2012/2013;
b) The Prudential Indicators for 2012/2013 to 2014/2015; and
c) The Annual Minimum Revenue Provision Statement.

3. CAPITAL PROGRAMME 2012/2013

3.1 Since the 2011/2012 Capital Programme was reported to Members on 23rd January 2012, the capital requirements of the Authority for 2012/2013 have been reviewed and updated by the Chief Fire Officer, through the Authority's Asset Management Group. The Capital Programme is detailed at Appendix A and totals £4,014,817.

4. CAPITAL RESOURCES

4.1 The Authority receives grant support towards borrowing costs through the Formula Grant Settlement, known as supported borrowing. The Authority is also able to supplement the capital programme where, or if, appropriate with:-

- the 'usable' part of any capital receipt;
- a contribution from revenue resources;
- specific capital grant;
- operating leases;
- prudential borrowing (unsupported borrowing).

5. VEHICLE REPLACEMENT PROGRAMME

5.1 The Vehicle Replacement Programme has been subject to a full review to ensure the programme delivers the most cost effective and optimum arrangements, which will help to realise significant savings for the Authority in terms of capital outlay and the lowering of capital costs on future revenue budgets.

6. PRUDENTIAL INDICATORS

6.1 The Prudential Indicators for 2012/2013 to 2014/2015 are fully set out in Appendix B.

6.2 Members are requested to specifically approve the statutory Prudential Indicators, P5 The Authorised Limit for External Debt of £55.640m and P6 The Operational Boundary for External Debt of £50.640m for 2012/2013.

7. ANNUAL MINIMUM REVENUE PROVISION STATEMENT

7.1 Regulations and guidance on the Annual Minimum Revenue Provision are detailed in Appendix 1 - Section 3 and the Annual Minimum Revenue Provision Statement is set out at paragraph 3.12 of this Appendix.

8. TREASURY MANAGEMENT

8.1 A full report is to be brought to Members at their next meeting once the Treasury Management Policy and strategy Statement for 2012/2013 has been scrutinised by the Audit and Governance Committee.

9. RECOMMENDATIONS

9.1 The Fire Authority is requested to:

- approve the Capital Programme and Vehicle Replacement Programme for 2012/2013 as set out in Appendix A;
- approve the Prudential Indicators for the years 2012/2013 to 2014/2015 as set out in Appendix B, and specifically the Authorised Limit for External Debt of £55.640m and the Operational Boundary for External Debt of £50.640m for 2012/2013; and
- approve the Annual Minimum Revenue Provision Statement set out in Section 3.12 of Appendix 1.

Appendix 1

DETAILED CAPITAL PROGRAMME 2012/2013 INCLUDING PRUDENTIAL INDICATORS 2012/2013 TO 2014/2015

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1. CAPITAL PROGRAMME 2012/2013

1.1 The progress on the 2011/2012 Capital Programme was reported to Members on 23rd January 2012. This included a provisional programme for 2012/2013. Since this meeting, the capital requirements of the Authority for future years have been reviewed by the Chief Fire Officer, through the Authority's Asset Management Group. The proposed Capital Programme for 2012/2013 is detailed at Appendix A and totals £4,014,817.

Commitments from 2011/2012

1.2 Commitments of £222,322, in terms of slippage from 2011/2012 to 2012/2013, have been included in the 2012/2013 Capital Programme, as previously reported to Members. The slippage is already funded as part of the Capital Programme 2011/2012 and the consequential adjustments to financing will be made as part of the final accounts process for 2011/2012.

Proposed New Starts for 2012/2013

1.3 The Capital Programme for 2012/2013 includes provision of £3,479,600 to fund proposed New Starts, in addition to £535,217 which is required to fund Continuing Projects. The proposed Capital Programme and Vehicle Replacement Programme for 2012/2013 are attached at Appendix A. Included within New Starts is provision for the following capital schemes:

IT Equipment (£1,117,000):
- New and Replacement Hardware (£117,000) - includes ongoing hardware refresh of the Authority's PC, Servers and associated infrastructure;
- Replacement Command and Control System (£1,000,000) – Government grant funding is expected to be confirmed for this project during February 2012.

Operational Equipment (£62,600):
- Replacement programme for response support equipment in order to provide the most up to date safety equipment for firefighters.

Estates (£300,000):
- Building works to Gateshead South Community Fire Station to enable implementation of the low activity staffing model which was approved by the Fire Authority in January 2011.

Estates Development Strategy (£2,000,000 – total scheme cost estimated to be £10,000,000 at this stage):

- A number of proposals for future development of the Authority's estate portfolio. This building programme will be funded from the Development Reserve over the next three financial years. Phasing and costs involved will need to be reviewed on an ongoing basis.

Resourcing

1.4 It is proposed that the Capital Programme be resourced as follows:

- Revenue Contribution to Capital Outlay - £2,780,335 (of which £2,207,735 will be met from earmarked reserves);
- Diversity and Equality Capital Grant - £34,482;
- Fire Capital Grant - £200,000;
- Mobilisation/Control Project Grant - £1,000,000, being the cost of the scheme reflecting the funding anticipated;
- Borrowing – nil.

Fire Capital Grant

1.5 The Authority will receive a Fire Capital Grant allocation of £1,512,753 in 2012/2013. This grant represents new money with no attached conditions, with the exception of a requirement that the grant only be used for capital expenditure set out in the indicative capital programme for 2012/2013 to 2014/15.

1.6 Paragraph 1.4, above, identifies that £200,000 from the 2012/2013 Fire Capital Grant allocation is required to contribute towards funding the 2012/2013 Capital Programme. The remainder of the grant will be transferred to a Capital Grants Reserve in order to meet the cost of future prioritised capital schemes.

Future Years

1.7 Appendix A includes an indicative Capital Programme for 2013/2014 and 2014/2015. As referred to at paragraph 1.1, the Chief Fire Officer has undertaken a review of the capital requirements for 2012/2013. This also included a review of the requirements for 2013/2014 and 2014/2015; the provision for future years will be kept under close review to consider any emerging priorities. This will ensure that the Authority's investment in its assets deliver best value for money. Further updates will be provided to Members through the established quarterly monitoring process.

2. VEHICLE REPLACEMENT PROGRAMME

2.1 In light of uncertainty over grant funding for future years, the Vehicle Replacement Programme has been subject to a full review. This has been discussed and agreed by the Asset Management Group.

2.2 The replacement programme for emergency response appliances has been modified to extend the lifespan of the vehicles with the aim for vehicles to be replaced less frequently, although the number of front line appliances will still remain the same.

2.3 The Engineering Resource Manager has also reviewed the numbers of vehicles in the non-emergency fleet. The reductions proposed have been made following a full assessment of organisational need and expected usage by staff to ensure that functionality is maintained.

2.4 The proposed revised Vehicle Replacement Programme is detailed at Appendix A. This will realise significant savings for the Authority in terms of capital outlay, with the consequence that reduced capital costs will be incurred in future year's revenue budgets.

3. PRUDENTIAL FRAMEWORK AND INDICATORS

Prudential Framework for Local Authority Capital Expenditure

3.1 One of the principal features of the Local Government Act 2003 was to provide the primary legislative requirements to introduce a new prudential regime for the control of Local Authority capital expenditure. The regime relies upon both secondary legislation in the form of regulations, and a prudential code which has been published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

3.2 Under the prudential framework, local authorities are free to borrow without specific government consent if they can afford to service the debt without extra government revenue support. The basic principle is that authorities are free to invest as long as their capital spending plans are affordable, sustainable and prudent. As a control mechanism, to ensure this occurs, all authorities must follow the Prudential Code published by CIPFA. This involves setting various prudential limits and indicators that must be approved by the Authority before the start of the relevant financial year as part of their budget setting process. The prudential indicators have been prepared and all matters specified in the code have been taken into account. Regular monitoring will take place during the year and, where appropriate, reports on the indicators will be made to the Authority as part of the quarterly capital review reports.

The Prudential Code and Prudential Indicators (including Treasury Management Indicators)

3.3 The Local Government Act 2003 gives statutory backing to the CIPFA Prudential Code for Capital Finance. The regulations specify that it is this Code to which authorities must have regard when setting and reviewing their affordable borrowing limits. The Prudential Code was reported to the Authority in March 2004.

The Department of Communities and Local Government issued revised investment guidance which came into effect from 1 April 2010. There are no major changes required over and above the arrangements that the Authority already has in place and were included in the revised CIPFA Treasury Management Code of Practice 2009 that the Authority fully complies.

The following indicators, previously included in the Prudential Code, now form part of the CIPFA Treasury Management in the Public Services Code of Practice but have been included alongside the Prudential Code indicators set out in Appendix B for ease of reference:

Indicator	**Appendix B Reference**
Upper limit on fixed interest rate exposure.	P10
Upper limit on variable interest rate exposure.	P11
Upper limit for the maturity structure of borrowing.	P12
Lower limit for the maturity structure of borrowing.	P12
Prudential limit for principal sums invested for periods longer than 364 days.	P13

All of the above indicators are detailed in Appendix B in full compliance with the revised code.

3.4 In setting or revising the required Prudential Indicators, the Authority must have regard to a number of matters:

- affordability e.g. implications for the Council Tax precept;
- prudence and sustainability;
- implications for external borrowing;
- value for money e.g. option appraisal;
- stewardship of assets e.g. asset management planning;
- service objectives and strategic planning;
- practicality, e.g. achievability of the planned capital investment.

3.5 To aid transparency, wherever possible, indicators for previous years are based on information contained in the published Balance Sheet of the Authority. The Code does not include any suggested limits or ratios, as these will depend on each Authority's circumstances. The indicators are not designed to make comparisons between Authorities.

3.6 In order to ensure that the Authority is in a position to set its prudential indicators for 2012/2013, the preparation of the Capital Programme for 2012/2013 has required estimates of capital expenditure to be prepared over a three year period through to 2014/2015.

The Annual Minimum Revenue Provision Statement

3.7 Regulations came into force on 31st March 2008 revoking secondary legislation relating to the requirement to make a Minimum Revenue Provision (MRP) to repay borrowing over time, and replacing it with a new regulation containing a duty for local authorities, each year, to determine for the current financial year, an amount of MRP that it considers prudent. CLG provided statutory guidance on the methodology to use, which local authorities 'must have regard to'.

3.8 The guidance recommends that authorities must submit to the Authority an annual statement of its policy on making a MRP in respect of the following financial year and highlight which of the various options set out in the guidance will be followed.

3.9 The four options for calculating MRP which were set out in the guidance can be summarised as follows:

- Option 1 - Regulatory Method: applying the statutory formula set out in the 2003 Regulations before it was revoked in 2008.
- Option 2 - Capital Financing Requirement (CFR) Method: multiplying the CFR at the end of the preceding financial year by 4%.
- Option 3 - Asset Life Method: amortising expenditure over an estimated useful life for the relevant assets created. An assessment must be made of the asset life at the outset of the capital scheme and MRP is charged to revenue in either equal annual instalments or by an annuity method over the estimated life of the asset. The MRP charge will commence in the financial year following the one in which the asset comes into service.
- Option 4 - Depreciation Method: making charges to revenue in accordance with the standard rules for depreciation accounting for the particular asset being created or enhanced.

3.10 For 2012/2013, having considered all of the options available, it is proposed that the Authority uses Option 1 (the regulatory method) for government supported borrowing. This approach has been adopted since the new regulations were enacted and is a continuation of the method previously used by the Authority (under the existing regulations 28 and 29 of the Capital Finance Regulations and the Local Government Act 2003) where MRP is calculated with regard to the 'credit ceiling' of the authority. This takes into account all loan advances and repayments through the Authority's consolidated advances and borrowing pool with MRP being calculated at 4% of the opening 'credit ceiling' balance and also recognises the formulae used by the government in calculating formula grant as its basis and therefore better reflects the actual funding provided by government.

3.11 The draft regulations also recommend consideration of two options for any future borrowing under the prudential system for which no government support is being given and is therefore self-financed. The Authority currently has no plans to undertake unsupported borrowing and, therefore at this stage, it is not proposed to include a proposed policy in relation to this category of borrowing.

3.12 In summary, it is recommended that the Authority approves the following Annual Minimum Revenue Provision Statement for 2012/2013:

- For all government supported borrowing the Authority will adopt Option 1 as set out in the government's guidance, which is a continuation of the basis upon which the Authority currently calculates MRP as set out in paragraph 3.10 above.

- For MRP payments in relation to finance leases and PFI contracts previously held off-balance sheet but now included on-balance sheet to comply with IFRS requirements, the amount of MRP to be made will be set to ensure that the finance charge and MRP for finance leases and on-balance sheet PFI schemes is equal to the rental or service charge payable in the income and expenditure account for the year, which writes down the balance sheet liability of those assets.