TYNE & WEAR FIRE AND RESCUE AUTHORITY Item No. 05

MEETING: 18TH FEBRUARY 2013

SUBJECT: CAPITAL PROGRAMME 2013/2014 INCLUDING PRUDENTIAL INDICATORS FOR 2013/2014 to 2015/2016

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 2013/2014, including the Prudential Indicators for 2013/2014 to 2015/2016.

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 2013/2014;
b) The Prudential Indicators for 2013/2014 to 2015/2016; and
c) The Annual Minimum Revenue Provision Statement.

3. CAPITAL PROGRAMME 2013/2014

3.1 The capital requirements of the Authority for 2013/2014 have been reviewed by the Chief Fire Officer, through the Authority’s Asset Management Group. The Capital Programme and Vehicle Replacement Programme is detailed at Appendix A and totals £3,448,090.

4. CAPITAL RESOURCES

4.1 The Authority receives grant support towards borrowing costs through the Finance 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 was fully reviewed in February 2012 to ensure the programme delivers the most cost effective and optimum arrangements and help to realise significant savings for the Authority in terms of capital outlay and the lowering of capital costs on future revenue budgets. The Programme has been updated accordingly and totals £196,000 for 2013/2014.

6. PRUDENTIAL INDICATORS

6.1 The Prudential Indicators for 2013/2014 to 2015/2016 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 £55.383m and (P6) The Operational Boundary for External Debt of £50.383m for 2013/2014.

7. ANNUAL MINIMUM REVENUE PROVISION STATEMENT

7.1 Regulations and guidance on the Annual Minimum Revenue Provision are detailed in Appendix 1 - Section 2 and the detailed Annual Minimum Revenue Provision Statement is set out at paragraph 2.12 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 2013/2014 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 2013/2014 as set out in Appendix A;
- approve the Prudential Indicators for the years 2013/2014 to 2015/2016 as set out in Appendix B, and specifically the Authorised Limit for External Debt of £55.383m and the Operational Boundary for External Debt of £50.383m for 2013/2014; and
- approve the Annual Minimum Revenue Provision Statement set out in Section 2.12 of Appendix 1.

Appendix 1

DETAILED CAPITAL PROGRAMME 2013/2014 INCLUDING PRUDENTIAL INDICATORS 2013/2014 TO 2015/2016

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1. CAPITAL PROGRAMME 2013/2014

1.1 The progress on the 2012/2013 Capital Programme was reported to Members on 21st January 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 and Vehicle Replacement Programme for 2013/2014 is detailed at Appendix A and totals £3,448,090.

Commitments from 2012/2013

1.2 Commitments of £200,035, in terms of expected slippage from 2012/2013 to 2013/2014, have been included in the 2013/2014 Capital Programme. The slippage is already funded as part of the 2012/2013 Capital Programme and the consequential adjustments to financing will be made as part of the 2012/2013 final accounts process.

Proposed New Starts for 2013/2014

1.3 The Capital Programme for 2013/2014 includes provision of £447,600 to fund proposed New Starts, this is in addition to £2,804,490 which is required to fund Continuing Projects and slippage. Included within New Starts is provision for the following capital schemes:

IT Equipment (£112,000):
- Continued development of the IT and Communications Networks to develop and enable business critical systems across the Fire Service

Operational Equipment (£140,600):
- Replacement programme for response support equipment (£92,000) to provide the most up to date safety equipment for firefighters
- Replacement of limited lifetime rope rescue and confined space equipment as part of a rolling programme (£13,600)
- Replacement of Foam and firefighting related equipment (£35,000)

Estates (£195,000):
- Replacement of the heating and hot water systems within the BATC (£70,000)
- Purchase of a Portable generator and the associated structural connections (£75,000)

- BTC condition survey works (£50,000) – a new ongoing programme to maintain the Training Centre.

Vehicle Replacement Programme

1.4 The Vehicle Replacement Programme was subject to a full review in February 2012. The replacement programme for emergency response appliances was modified to extend the lifespan of the vehicles, and the number of vehicles in the non-emergency fleet was reviewed. This resulted in no capital spend on vehicles in 2012/2013.

1.5 The Programme has been reviewed for 2013/2014 and the proposed Vehicle Replacement Programme of £196,000 is detailed at Appendix A.

Fire Capital Grant

1.6 Tyne and Wear Fire and Rescue Authority will receive a Fire Capital Grant allocation of £1,094,917 in both 2013/2014 and 2014/2015. 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 2013/2014 to 2015/2016.

1.7 In addition the Authority has been successful in one of their two bids in respect of 'day crewing initiative' and will receive £524,000 in both years towards the cost of this scheme.

1.8 Unused Fire Capital Grant allocated in previous years is held in a Capital Grants Reserve in order to meet the cost of future prioritised capital schemes. Paragraph 1.9 below identifies that £1.291m of Fire Capital Grant is required to contribute towards funding the 2013/2014 Capital Programme. The whole allocation of £524,000 will be used in 2013/2014 towards Day Crewing.

Resourcing

1.9 It is proposed that the Capital Programme for 2013/2014 be resourced as follows:

- Fire Capital Grant - £1,291,432
- Specific Capital Grant for Day Crewing - £524,000
- Mobilisation/Control Project Grant - £760,623
- Development Reserve - £476,000
- C/fwd Revenue Budget - £200,035

1.10 With regard to the Vehicle Replacement Programme of £196,000, option appraisal will be undertaken, where leasing finance is available, to determine whether leasing or outright purchase represents the best option on a value for money basis. It is proposed that, where possible, future vehicle replacement is funded via outright purchase using the Authority's existing revenue resources, this will enable future revenue savings to be made compared to leasing costs.

1.11 The Authority's Capital Programme must achieve best value and minimise costs wherever possible but also should aim to help reduce future revenue costs whilst improving front line services.

Future Years

1.12 Appendix A includes an indicative Capital Programme for 2014/2015 and 2015/2016. As referred to at paragraph 1.1, the Chief Fire Officer has undertaken a review of the capital requirements for 2013/2014. This also included a review of the future requirements for 2014/2015 and 2015/2016; 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. PRUDENTIAL FRAMEWORK AND INDICATORS

Prudential Framework for Local Authority Capital Expenditure

2.1 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).

2.2 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)

2.3 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.

2.4 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.

2.5 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.

2.6 In order to ensure that the Authority is in a position to set its prudential indicators for 2013/2014, the preparation of the Capital Programme for 2013/2014 has required estimates of capital expenditure to be prepared over a three year period through to 2015/2016.

The Annual Minimum Revenue Provision Statement

2.7 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'.

2.8 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.

2.9 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.

2.10 For 2013/2014, 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.

2.11 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.

2.12 In summary, it is recommended that the Authority approves the following Annual Minimum Revenue Provision Statement for 2013/2014:

- 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.