Tyne and Wear Fire and Rescue Authority

**TYNE & WEAR FIRE AND RESCUE AUTHORITY** **Item No. 5**

**MEETING: 19TH FEBRUARY 2024**

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**SUBJECT: CAPITAL PROGRAMME 2024/2025 to 2027/2028 INCLUDING PRUDENTIAL INDICATORS FOR 2024/2025 to 2027/2028**

**JOINT REPORT OF THE CHIEF FIRE OFFICER/CHIEF EXECTIVE (THE CLERK TO THE AUTHORITY) AND THE FINANCE DIRECTOR**

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## 1 INTRODUCTION

1.1 This report presents to Members the proposed Capital Programme for 2024/2025 to 2027/2028, including the Prudential Indicators for the next four year period from 2024/2025 to 2027/2028.

1.2 A more detailed report is set out in Appendix 1 for member's information.

## 2 CAPITAL PROGRAMME 2024/2025

2.1 The capital requirements of the Authority for 2024/2025 are reviewed by the Chief Fire Officer through the Resources Board and Departmental Business Plans. The proposed Capital Programme and Vehicle Replacement Programme for the four year period from 2024/2025 to 2027/2028 totals an estimated £24.329m. Full details of the proposed Capital Programme 2024/2025 are set out in Appendix A, which is summarised below for information:

| | £m |
|---|---|
| Commitments from 2023/2024 | 2.750 |
| Continuing Projects | 1.688 |
| New Projects 2024/2025 | 4.822 |
| Vehicle Replacement Programme | 1.630 |
| **Total Capital Programme for 2024/2025** | **10.890** |

2.2 The Capital Programme prioritises projects that replace essential operational facilities and equipment, that add value to the service, and that will help to lower revenue running costs in the future.

2.3 The Authority also observes the principles of Best Value in drawing up its Capital Programme to continue to ensure all available resources are maximised.

## 3 CAPITAL RESOURCES

3.1 The Authority is to fund the 2024/2025 Capital Programme from the following sources:

| | £m |
|---|---|
| Capital Reserve | 7.550 |
| Mobilisation Smoothing Reserve | 2.840 |
| Revenue Contribution to Capital Outlay (RCCO) | 0.500 |
| **Total Resources** | **10.890** |

3.2 The Authority will also need to utilise a further £10.141m of its capital reserves and capital receipts to fund the projected costs of the proposed Capital Programme over the following three years to 2027/2028, in addition to the £7.550m already earmarked from reserves for 2024/2025.

3.3 The Authority's Capital Programme over the next four year period, from 2024/2025 to 2027/2028 will cost an estimated £24.329m, with almost half of the schemes expected to be expended in 2024/2025 at this stage.

## 4 VEHICLE REPLACEMENT PROGRAMME

4.1 The Vehicle Replacement Programme is reviewed annually to ensure the programme delivers the most cost effective and optimum arrangements. All requirements have been identified and reviewed before they are included in the Capital Programme.

4.2 The Authority has carried out a detailed review of the small fleet and specialist vehicles to inform the setting of the new Capital Programme.

## 5 PRUDENTIAL INDICATORS

5.1 All authorities must follow the Prudential Code published by the Chartered Institute of Public Finance and Accountancy (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 and Treasury Management Indicators have been prepared for the financial year 2024/2025, taking into account all matters specified in the Code. Regular monitoring will take place during the year and reports made to Authority to show performance and compliance with these Indicators as part of the quarterly capital review reports, in line with best practice.

5.2 All the Prudential Indicators, together with background information and their purpose, are detailed in Appendix B in order to comply with the Code and to help members understand these quite technical requirements.

5.3 Members are requested to specifically and separately approve the statutory Prudential Indicators, (P5) the Authorised Limit for External Debt of £28.550m and (P6) the Operational Boundary for External Debt of £23.550m for 2024/2025, in accordance with the regulations.

## 6 ANNUAL MINIMUM REVENUE PROVISION STATEMENT

6.1 Regulations and guidance on the Annual Minimum Revenue Provision are set out in more detail in Appendix 1 - Section 2 with the required, Annual Minimum Revenue Provision Statement, set out at paragraph 2.12 of the Appendix. The Authority must specify its MRP option for the year ahead as part of the statutory requirements governing local authorities. There are however no changes being proposed to the option that has been used in previous years, and this position will be subject to an annual review to assess whether any other options are more beneficial to the Authority moving forward.

## 7 TREASURY MANAGEMENT

7.1 A full report will be presented to Members at the next Authority meeting once the Treasury Management Policy and Strategy Statement for 2024/2025 has been first scrutinised by the Governance Committee, which is in accordance with the agreed Authority reporting protocol.

## 8 RISK MANAGEMENT

8.1 A risk assessment has been undertaken to ensure that the risk to the Authority has been minimised as far as practicable. The assessment has considered an appropriate balance between risk and control, the realisation of efficiencies, the most appropriate and effective use of limited resources and a comprehensive evaluation of the benefits. The risk to the Authority has been assessed as low utilising the standard risk matrix based on control measures being in place.

## 9 FINANCIAL IMPLICATIONS

9.1 The financial implications are set out in Appendix 1 of the report.

## 10 EQUALITY AND FAIRNESS IMPLICATIONS

10.1 There are no equality and fairness implications in respect of this report.

## 11 HEALTH AND SAFETY IMPLICATIONS

11.1 There are no health and safety implications in respect of this report.

## 12 RECOMMENDATIONS

12.1 The Authority is recommended to:

a) Approve the Capital Programme and Vehicle Replacement Programme for 2024/2025 as set out in the report and detailed in Appendix A;

b) Approve the Prudential Indicators for the years 2024/2025 to 2027/2028 as set out in Appendix B, and specifically the Authorised Limit for External Debt of £28.550m and the Operational Boundary for External Debt of £23.550m for 2024/2025; and

c) Approve the Annual Minimum Revenue Provision Statement as specified in Section 2.12 of Appendix 1.

**Appendix 1**

**DETAILED CAPITAL PROGRAMME 2024/2025 including PRUDENTIAL INDICATORS 2024/2025 TO 2027/2028**

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## 1. CAPITAL PROGRAMME 2024/2025

1.1 Progress against the 2023/2024 Capital Programme was reported to Members on 22nd January 2024 as part of the Third Quarterly Review. Since this meeting, the capital requirements of the Authority for future years have been considered and reviewed by the Chief Fire Officer through the Resources Board and Departmental Business Plans.

1.2 The proposed Capital Programme and Vehicle Replacement Programme for 2024/2025 are detailed at Appendix A and total £10,890,191. In addition, at this stage, there will be capital schemes totalling a further £13,438,850 projected from 2025/2026 to 2027/2028.

1.3 The Capital Programme therefore totals £24,329,041 up to 2027/2028 with the majority of this cost being met from the Authority's reserves and capital receipts. This will exhaust the capital reserve and usable capital receipts at which point the Authority will have no option but to consider borrowing. It is anticipated that the Programme will change year on year at which point priorities and resources will be reviewed.

**Commitments from 2023/2024**

1.4 Since the Third Quarterly Review, there is a requirement to slip £2,750,000 for the replacement of Hebburn Fire Station and the BTC Phase 3 developments. Hebburn Fire Station will be subject to a final account which could take up to 12 months to agree, along with a final retention fee due after completion. Budget has been retained to cover the interim certificates that are due before the end of the financial year. Any further adjustments will be reported at outturn.

1.5 This slippage is already funded as part of the 2023/2024 Capital Programme and the consequential adjustments to financing will be made as part of the 2023/2024 final accounts process.

**Continuing Projects**

1.6 Continuing Projects from previous years amounting to £1,688,000 are included in the proposed Capital Programme.

**Proposed New Starts for 2024/2025**

1.7 The Capital Programme for 2024/2025 includes provision of £4,822,191 for the following new projects:

- Estates and Facilities commissioned a specialist company to review the derv tank and pump infrastructure which recommended replacing the derv tank at South Shields Community Fire Station and replacing fuel delivery pumps at Birtley, Gosforth, Wallsend and South Shields Community Fire Stations. This is estimated to cost £20,000.
- Plans to procure land at the North Site adjacent to the Hebburn Tri Station development. Feasibility reports support development of the land for a variety of uses which will be explored further in 2024/2025. Acquisition of the land is estimated to cost £230,000.
- The heating system at South Shields Community Fire Station is 24 years old and in need of replacement. Failure to replace will result in increased maintenance costs and increased down time due to unavailability. The estimated cost is £220,000.
- Purchase of a UAV (Drone) to improve the existing capability of the service. The current Drone has been in service now for over 3 years and as technology advances limitations of the existing drone have affected its operational effectiveness. The ability to purchase a drone that combines both optical and thermal camera capability, along with an ability to fly in stronger winds and light rain would greatly increase the search and rescue element within the organisation. This is estimated to cost £25,000.
- Replacement of the Asset Management Hardware is scheduled within the rolling replacement programme of the service. This is estimated to cost £70,000.
- The current blue lights issued to FDO cars are 12 years old, are starting to see an increase in repair and maintenance costs, and cannot be fitted to some modern cars. These will be replaced with appropriate, updated and more reliable units that support compliance across all vehicles. The estimated cost is £50,000.
- A new command and control system is required to replace the existing mobilising system. The current command and control system (mobilising system) was installed in 2013 with a minimum contract term of 10 years. This contract has been extended by an additional 2 years, aligned with the system's end of life and support date of November 2025. There is no option to extend beyond this date, due to the age of the system and its inability to comply with the updated Code of Connection from the Home Office. This project will include a complete replacement system consisting of ICCS (voice communications system), CAD (resource management and dispatch system) and MDT (Mobile data terminal software) and is estimated to cost £3,540,191.
- Additional mobilising hardware and infrastructure is required to support the new Command and Control system. Hardware items will include onsite server and storage infrastructure, network switches for mobilising connectivity, laptops, docks, screens, headsets for control room operators, new mobile device terminals (MDTs) including new docks and installation into all of the appliances and new GPS repeaters to be installed at all stations to improve GPS signal within the appliance bays. The estimated cost is £297,000.
- The existing Station End mobilising equipment needs to be replaced with an updated Station End Equipment on all Stations. The existing Station End Equipment (SEE) was installed in 2013 and will go end of life in November 2025. The SEE allows the Command and Control system to send mobilising

messages to the station which can consist of a pre-alert, main alert and associated alert data. This is estimated to cost £250,000.

- ICT server infrastructure equipment along with associated operating systems needs to be replaced and brought up to date to ensure ongoing support from the associated vendors and to ensure both compliance with the Airwave/DCS code of connection and Cyber Essentials. The estimated cost is £120,000.

**Vehicle Replacement Programme**

1.8 Following a review of the light fleet and specialist vehicles, the Vehicle Replacement Programme has been revised and updated to reflect the needs of the Authority for 2024/2025 and in future years. The proposed Programme of £1,630,000 for 2024/2025 is detailed at Appendix A. This includes slippage of £953,000 from 2023/2024 reported at the Third Quarterly Review stage.

**Capital Resources**

1.9 The Capital Programme for 2024/2025 is to be resourced as follows:

| | **£m** |
|---|---|
| Capital Reserve | 7.550 |
| Mobilisation Smoothing Reserve | 2.840 |
| Revenue Contribution to Capital Outlay (RCCO) | 0.500 |
| **Total (Appendix A)** | **10.890** |

1.10 The Programme will have to be funded from the Authority's own resources using Reserves, Capital receipts and Revenue Contributions to Capital Outlay (RCCO).

1.11 With regard to the Vehicle Replacement Programme, wherever possible, this will be funded via outright purchase using the Authority's existing capital reserves. This policy will enable future revenue savings to be made compared to both capital financing and leasing options and currently represents the lowest cost option to the Authority. This position is reviewed annually however to ensure that the lowest cost option is used.

1.12 The Authority's Capital Programme must achieve best value and minimise costs wherever possible with the primary aim of helping to reduce future revenue costs whilst improving front line services. Continuous review and challenge of the Programme is embedded in the Authority's procedures and governance arrangements.

**Future Years**

1.13 Appendix A includes an indicative Capital Programme for 2025/2026, 2026/2027 and 2027/2028. As referred to previously, the Chief Fire Officer has undertaken a review of all of the capital requirements for 2024/2025. This also included a review of all future requirements. The provision of capital works for future years will be kept under close scrutiny to consider any emerging priorities and implications of ongoing and emerging projects. This will ensure that the Authority's investment in its assets delivers best value for money and will, where appropriate, include ‘Invest to Save’ schemes that may be identified. Further updates will be provided to Members through the established and regular quarterly monitoring and reporting 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 which introduced a 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) to ensure compliance.

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 grant 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 that authorities must have regard to when setting and reviewing their affordable borrowing limits. The Prudential Code requirements were reported to the Authority in March 2004.

The Department of Communities and Local Government (now the Department for Levelling Up, Housing and Communities) issued revised investment guidance which came into effect from 1 April 2010. There were no major changes required, over and above the arrangements that the Authority already had in place and that were included in the revised CIPFA Treasury Management Code of Practice 2009, with which the Authority has always fully complied.

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

| Indicator | Appendix B Reference |
|---|---|
| Upper limit for the maturity structure of borrowing. | P9 |
| Lower limit for the maturity structure of borrowing. | P9 |
| Prudential limit for principal sums invested for periods longer than 365 days. | P10 |

All of the above indicators are detailed in Appendix B to fully comply with the requirements of the Code.

2.4 In setting the required Prudential Indicators, the Authority must have regard to a number of matters, which include:

- 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;
- practicability, 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 individual circumstances. The Indicators are consequently, 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 2024/2025, the preparation of the Capital Programme for 2024/2025 has required estimates of capital expenditure to be prepared over a four year period through to 2027/2028.

**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. The Department for Levelling Up, Housing and Communities (DLUHC) 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 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 2024/2025, 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.

2.11 The regulations also recommend consideration of two options for any future borrowing under the prudential system for which no government support is provided 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 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 2024/2025:

- 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 2.10 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 International Financial Reporting Standards requirements. The amount of MRP to be provided will therefore 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. This will ensure that there is no additional cost to the Authority.

2.13 A review of the MRP bases is undertaken annually to ensure that the current options are still relevant and represent the optimum arrangements for the Authority. A detailed piece of work will be carried out in 2024/2025 to ensure the optimum arrangements are in place, with any proposed changes being reported to members in time for implementation for the 2025/2026 financial year.