Item No 4

TYNE & WEAR FIRE AND RESCUE AUTHORITY

MEETING: 17TH FEBRUARY 2014

SUBJECT: CAPITAL PROGRAMME 2014/2015 INCLUDING PRUDENTIAL INDICATORS FOR 2014/2015 to 2016/2017

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 2014/2015, including the Prudential Indicators for 2014/2015 to 2016/2017.

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

2. CAPITAL PROGRAMME 2014/2015

2.1 The capital requirements of the Authority for 2014/2015 have been reviewed by the Chief Fire Officer, through the Authority's Asset Management Group. The Capital Programme and Vehicle Replacement Programme totals an estimated £5,552,061, including new starts of £83,000. Full details can be found at Appendix A.

2.2 The Capital Programme may be subject to variation during 2014/2015 as the full implications of the recently agreed changes to the fire response model are still being worked upon to gauge if this will have any impact on the existing Capital Programme.

3. CAPITAL RESOURCES

3.1 The Authority is to fund the capital programme from the following sources:

Government capital grants	£1.297m
Other contributions	£0.029m
Planned use of earmarked reserves	£3.265m
RCCO	£0.961m
Total	**£5.552m**

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 and contributes to savings in terms of capital outlay and the lowering of capital costs on future revenue budgets.

4.2 The Authority is currently undertaking a review of the light vehicle fleet, the outcome of which is due in early 2014/2015. Pending this, the Vehicle Replacement Programme has been based on the original programme, plus known slippage from 2013/2014 (totalling £990,000 detailed at Appendix 1), and may therefore be subject to change later in the financial year.

5. PRUDENTIAL INDICATORS

5.1 The Prudential Indicators for 2014/2015 to 2016/2017 are fully set out in Appendix B.

5.2 Members are requested to specifically approve the statutory Prudential Indicators, (P5) The Authorised Limit for External Debt of £54.828m and (P6) The Operational Boundary for External Debt of £49.828m for 2014/2015.

6. ANNUAL MINIMUM REVENUE PROVISION STATEMENT

6.1 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.

7. TREASURY MANAGEMENT

7.1 A full report is to be brought to Members at their next Authority meeting once the Treasury Management Policy and Strategy Statement for 2014/2015 has been scrutinised by the Governance Committee.

8. RECOMMENDATIONS

8.1 Members are requested to:

- approve the Capital Programme and Vehicle Replacement Programme for 2014/2015 as set out in Appendix A;
- approve the Prudential Indicators for the years 2014/2015 to 2016/2017 as set out in Appendix B, and specifically the Authorised Limit for External Debt of £54.828m and the Operational Boundary for External Debt of £49.828m for 2014/2015; and
- approve the Annual Minimum Revenue Provision Statement set out in Section 2.12 of Appendix 1.

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Appendix 1

DETAILED CAPITAL PROGRAMME 2014/2015 including PRUDENTIAL INDICATORS 2014/2015 TO 2016/2017

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1. CAPITAL PROGRAMME 2014/2015

1.1 The progress on the 2013/2014 Capital Programme was reported to Members on 20th January 2014. 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 2014/2015 is detailed at Appendix A and totals £5,552,061.

Commitments from 2013/2014

1.2 Commitments of £338,039, in terms of expected slippage from 2013/2014 to 2014/2015, have been included in the 2014/2015 Capital Programme. The slippage is already funded as part of the 2013/2014 Capital Programme and the consequential adjustments to financing will be made as part of the 2013/2014 final accounts process.

Proposed New Starts for 2014/2015

1.3 The Capital Programme for 2014/2015 includes provision of £83,000 to fund proposed new schemes. This is in addition to £4,479,061 which is required to fund continuing projects and slippage. The new capital schemes for 2014/2015 are:

Estates (£75,000)
- A phased four year programme to replace fire alarm systems at four fire stations. The current systems have reached or exceeded their life expectancy and are currently proving uneconomical to maintain and repair.

Operational Equipment (£8,000)
- A four year programme to replace current breathing apparatus compressors to ensure the fire service equipment in use is fit for purpose.

Vehicle Replacement Programme

1.4 The Authority is currently undertaking a review of the light vehicle fleet and the outcome of this is expected in the early part of 2014/2015. Once this is completed the Vehicle Replacement Programme may be subject to change. Members will be kept informed of any such changes in future reports to the Authority.

1.5 The proposed Vehicle Replacement Programme of £990,000 is detailed at Appendix A.

Integrated Risk Management Plan (IRMP) Reviews

1.6 At a meeting of the Fire Authority in January, approval was given to implement a number of the reviews set out within the Integrated Risk Management Plan (IRMP). At this stage the financial implications for the Capital Programme are still being worked upon and have not been finalised. Therefore the Programme may need to be amended during the year as plans are further developed and phasing of the changes required are implemented. Members will be kept updated through the regular quarterly monitoring reports to the Authority.

Fire Capital Grant

1.7 Tyne and Wear Fire and Rescue Authority will receive a Fire Capital Grant allocation of £1,094,917 in 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 2014/2015 to 2016/2017.

1.8 In addition, the Authority will receive their second and final allocation of specific government grant of £524,000 to be used specifically for the ‘day crewing initiative’ in 2014/2015.

1.9 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 1.10 below identifies that £772,704 of Fire Capital Grant is required to contribute towards funding the 2014/2015 Capital Programme. The whole allocation of £524,000 will be used in 2014/2015 towards Day Crewing.

Resourcing

1.10 It is proposed that the Capital Programme for 2014/2015 be resourced as follows:

- Fire Capital Grant - £772,704
- Specific Capital Grant for Day Crewing - £524,000
- Development Reserve - £2,876,000
- Carbon Management Plan Reserve - £200,000
- Budget Carry Forward Reserve - £189,357

1.11 With regard to the Vehicle Replacement Programme of £990,000, £29,000 North Tyneside Reward Grant will be used to purchase a new resilience vehicle. The remainder of the programme totalling £961,000 will be subject to an option appraisal to determine whether leasing, borrowing or outright purchase represents the best option on a value for money basis. It is proposed that, wherever possible, future vehicle replacement is preferably funded via outright purchase using the Authority's existing resources, as this will enable future revenue savings to be made compared to both capital financing and leasing options and is on the basis that this represents the lowest cost option.

1.12 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

1.13 Appendix A includes an indicative Capital Programme for 2015/2016 and 2016/2017. As referred to at paragraph 1.1, the Chief Fire Officer has undertaken a review of the capital requirements for 2014/2015. This also included a review of the future requirements for 2015/2016 and 2016/2017. The provision for future years will be kept under close review to consider any emerging priorities and implications of the IRMP reviews. 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 2014/2015, the preparation of the Capital Programme for 2014/2015 has required estimates of capital expenditure to be prepared overa three year period through to 2016/2017.

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 2014/2015, 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 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 2014/2015:

- 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 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.