Tyne and Wear Fire and Rescue Authority
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TYNE & WEAR FIRE AND RESCUE AUTHORITY **Item 5**

MEETING: 15TH FEBRUARY 2016

SUBJECT: CAPITAL PROGRAMME 2016/2017 INCLUDING PRUDENTIAL INDICATORS FOR 2016/2017 to 2018/2019

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

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1. PURPOSE OF THE REPORT

1.1 To present to Members the proposed Capital Programme for 2016/2017, including the Prudential Indicators for the years 2016/2017 to 2018/2019.

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

2. CAPITAL PROGRAMME 2016/2017

2.1 The capital requirements of the Authority for 2016/2017 have been reviewed by the Chief Fire Officer through the Authority's Asset Management Group. The proposed Capital Programme and Vehicle Replacement Programme totals an estimated £2,317,095. Full details can be found at Appendix A and a summary is set out below:

	£
Commitments from 2015/2016	0.112m
Adjustments to Continuing Projects	0.267m
Continuing Projects	1.067m
Vehicle Replacement Programme	0.871m
Total Capital Programme 2016/2017	**2.317m**

2.2 The programme prioritises projects that add value and will help to lower revenue running costs for the Authority in the future.

3. CAPITAL RESOURCES

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

	2016/17
Revenue Reserve	£0.052m
Capital Grant	£1.934m
Capital Reserves	£0.331m
Total	**£2.317m**

3.2 The Authority will also need to utilise £4.074m of its capital reserves to fund the projected costs of the current proposed capital programme in future years.

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.

5. PRUDENTIAL INDICATORS

5.1 All authorities must follow the latest 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 2016/2017, taking in to 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 the indicators as part of the quarterly capital review reports.

5.2 All of the Prudential Indicators, together with background information and what they are seeking to assess, are detailed in Appendix B in compliance with the code.

5.3 Members are requested to specifically and separately approve the statutory Prudential Indicators, (P5) the Authorised Limit for External Debt of £56.083m and (P6) the Operational Boundary for External Debt of £51.083m for 2016/2017, 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.

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 2016/2017 has been scrutinised by the Governance Committee.

8. RECOMMENDATIONS

8.1 Members are requested to:

- approve the Capital Programme and Vehicle Replacement Programme for 2016/2017 as set out in Appendix A;

- approve the Prudential Indicators for the years 2016/2017 to 2018/2019 as set out in Appendix B, and specifically the Authorised Limit for External Debt of £56.083m and the Operational Boundary for External Debt of £51.083m for 2016/2017; and

- approve the Annual Minimum Revenue Provision Statement as set out in Section 2.12 of Appendix 1.

Appendix 1

DETAILED CAPITAL PROGRAMME 2016/2017 including PRUDENTIAL INDICATORS 2016/2017 TO 2018/2019

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1. CAPITAL PROGRAMME 2016/2017

1.1 The progress on the 2015/2016 Capital Programme was reported to Members on 18th January 2016. 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 2016/2017 are detailed at Appendix A and total £2,317,095.

Commitments from 2015/2016

1.2 Commitments of £112,000, in terms of expected slippage from 2015/2016 to 2016/2017, have been included in the 2016/2017 Capital Programme. The slippage is already funded as part of the 2015/2016 Capital Programme and the consequential adjustments to financing will be made as part of the 2015/2016 final accounts process.

Proposed Adjustments to Capital Schemes for 2016/2017

1.3 The Capital Programme for 2016/2017 has been amended to include proposed changes to the requirements of a number of continuing projects. Adjustments of £267,305 are set out below:

Cold Cutting Extinguishing System (£307,305)
- to extend the existing programme to purchase and fit an additional seven COBRA cold cutting extinguishing systems to Category 1 appliances and the Category 2 appliance at Station Z. This will continue to enable crews to tackle compartment style fires more efficiently and effectively, while enhancing Firefighter safety.

Operational Equipment Replacement Programme (-£40,000)
- to reprofile the ongoing replacement programme so this coincides with the manufacture of new hydraulic rescue equipment. This will ensure that the operational fleet is fully equipped with the most advanced operational firefighting and rescue equipment.

Continuing Projects

1.4 Continuing Projects of £1,066,500 have been included in the proposed Capital Programme.

Vehicle Replacement Programme

1.5 The Vehicle Replacement Programme has been revised and updated to reflect the needs of the Authority for 2016/2017 and future years. The proposed Programme of £871,290 for 2016/2017 is detailed at Appendix A. This includes slippage of £666,290 on the purchase of the Aerial Ladder Platform.

Fire Capital Grant

1.6 There continues to be no new allocation of Capital Grant. The Authority has unallocated Fire Capital Grant which will be used to finance a significant proportion of the proposed Capital Programme. Paragraph 1.7 identifies that the full unallocated balance of Capital Grant of £1,934,054 is required to contribute towards funding the 2016/2017 Capital Programme.

Resources

1.7 It is proposed that the Capital Programme for 2016/2017 be resourced as follows:

	£
Budget Carry Forward Reserve	52,052
Capital Grant	1,934,054
Capital Reserve	330,989
Total	**2,317,095**

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

1.9 The Authority's Capital Programme must achieve best value and minimise costs wherever possible with the prime aim of helping to reduce future revenue costs whilst improving front line services.

Future Years

1.10 Appendix A includes an indicative Capital Programme for 2017/2018 and 2018/2019. As referred to at paragraph 1.1, the Chief Fire Officer has undertaken a review of the capital requirements for 2016/2017. This also included a review of the future requirements for 2017/2018 and 2018/2019. The provision for future years will be kept under close review to consider any emerging priorities and implications of the ongoing 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 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 is to provide the primary legislative requirements to introduce 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).

2.3 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 that were included in the revised CIPFA Treasury Management Code of Practice 2009, which the Authority fully complies to.

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 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 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 2016/2017, the preparation of the Capital Programme for 2016/2017 has required estimates of capital expenditure to be prepared over a three year period through to 2018/2019.

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 2016/2017, 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 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 2016/2017:

- 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.

2.13 A review of the MRP bases is to take place during 2016/2017 to ensure that the current options are still relevant and represent the optimum arrangements for the Authority.

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