TYNE & WEAR FIRE AND RESCUE AUTHORITY **Item 6**

MEETING: 14TH FEBRUARY 2022

SUBJECT: CAPITAL PROGRAMME 2022/2023 to 2025/26 INCLUDING PRUDENTIAL INDICATORS FOR 2022/2023 to 2025/2026

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

1 INTRODUCTION

1.1 This report presents to Members the proposed Capital Programme for 2022/2023 to 2025/2026, including the Prudential Indicators for the next four year period from 2022/2023 to 2025/2026.

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

2 CAPITAL PROGRAMME 2022/2023

2.1 Members will recall that the Capital Programme for 2021/2022 was set in February 2021 with an additional £0.850m for a number of business critical, invest to save schemes that were slipped from 2020/2021. Plans for the two projects, repairs to Barmston Mere Training Centre and relocation of Safetyworks have continued to be impacted by the COVID-19 pandemic and as a result the *£0.850m for these schemes will need to be carried forward in to the Capital Programme for 2022/2023.

2.2 The capital requirements of the Authority for 2022/2023 are reviewed by the Chief Fire Officer through the Authority's Asset Management Group. The proposed Capital Programme and Vehicle Replacement Programme totals an estimated £12.655m. Full details of the proposed Capital Programme 2022/2023 are detailed in Appendix A, which is summarised below for information:

	£m
Projects Carried forward from 2021/2022*	0.850
Commitments from 2021/2022	9.222
Continuing Projects	0.611
New Projects 2022/2023	1.200
Vehicle Replacement Programme	0.772
Total Capital Programme for 2022/2023	**12.655**

2.3 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.

2.4 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 2022/2023 capital programme from the following sources:

	£m
Capital Reserve	10.032
Revenue Contribution to Capital Outlay (RCCO)	0.250
Section 31 Grant (ESN)	1.523
*One-off RCCO	0.850
Total Resources	**12.655**

3.2 The Authority will also need to utilise a further £5.276m of its capital reserves to fund the projected costs of the proposed capital programme over the following three years to 2025/2026, in addition to the £10.032m already earmarked from reserves for 2022/2023.

3.3 The Authority's Capital Programme over the next four year period, from 2022/2023 to 2025/2026 will cost an estimated £18.705m, with over half of the schemes expected to be expended in 2022/2023 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 continues to replace and modernise its operational fleet and now has 14 new fire appliances on the run. A further 10 appliances will be replaced by the end of 2023 which will mean all of the Authority's fire appliances will have been replaced by then. It is also currently carrying out a detailed review of its specialised vehicles in order to further inform the 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 2022/2023, 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 £52.816m and (P6) the Operational Boundary for External Debt of £47.816m for 2022/2023, 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 2022/2023 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 2022/2023 as set out in the report and detailed in Appendix A;

b) Approve the Prudential Indicators for the years 2022/2023 to 2025/2026 as set out in Appendix B, and specifically the Authorised Limit for External Debt of £52.816m and the Operational Boundary for External Debt of £47.816m for 2022/2023; and

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

Appendix 1

DETAILED CAPITAL PROGRAMME 2022/2023 including PRUDENTIAL INDICATORS 2022/2023 TO 2025/2026

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1. CAPITAL PROGRAMME 2022/2023

1.1 Progress against the 2021/2022 Capital Programme was reported to Members on 17th January 2022 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 Authority's Asset Management Group.

1.2 The proposed Capital Programme and Vehicle Replacement Programme for 2022/2023 are detailed at Appendix A and total £12,655,258. This includes £850,000 for the two remaining one-off additional business critical schemes identified for works at the BTC and for the relocation of Safetyworks which unfortunately have been delayed because of the COVID-19 pandemic and will now be progressed in 2022/2023. In addition, at this stage, there will be capital schemes totalling a further £6,050,228 projected from 2023/2024 to 2025/2026.

1.3 The Capital Programme therefore totals £18,705,486 up to 2025/2026, with the majority of this cost being met from the Authority's earmarked reserves.

Commitments from 2021/2022

1.4 Commitments of £9,221,462 in terms of slippage from 2021/2022 to 2022/2023, have been included in the 2022/2023 Capital Programme. The slippage is already funded as part of the 2021/2022 Capital Programme and the consequential adjustments to financing will be made as part of the 2021/2022 final accounts process.

1.5 Since reporting to Members in January as part of the Third Quarterly Review, there is a requirement to slip £7,698,258 for the replacement of Hebburn Fire Station. £100,000 has been retained for feasibility and site investigation works which are now complete and due to be invoiced by Sunderland City Council before the end of the financial year. The remaining slippage of £1,523,204 is necessary for further delays in the business case for the national Government led Emergency Services Mobile Communications Project.

Continuing Projects

1.6 Continuing Projects from previous years amounting to £611,000 are included in the proposed Capital Programme.

Proposed New Starts for 2022/2023

1.7 The Capital Programme for 2022/2023 (Appendix A) includes provision of £1,200,300 to fund four new schemes:

- The Breathing Apparatus are due to be replaced in 2022/2023 as the current sets are nearing the end of their expected lifespan. Replacement is estimated to cost £800,000 and will be met from capital reserves.

- An additional 45 dry suits are required for Firefighters at Byker Community Fire Station as part of their PPE when on the Fire Boat. These will cost a total of £23,500 and will be met from capital reserves.

- Replacement of gas cookers with electric appliances is required across the PFI estate to standardise cooking appliances service wide, to help reduce risk of injury and damage to property and are cheaper to operate and maintain. Replacement is estimated to cost £25,000 and will be met from capital reserves.

- A technical refresh of the hardware components of the Mobilising System is due in 2022/2023. This will cost £350,000 and will be met from capital reserves.

Vehicle Replacement Programme

1.8 The Vehicle Replacement Programme has been revised and updated to reflect the needs of the Authority for 2022/2023 and in future years. The proposed Programme of £772,496 for 2022/2023 is detailed at Appendix A. This includes unavoidable slippage of £475,496 from 2021/2022.

1.9 £335,000 of this slippage was reported at third quarterly review in respect of the Specialist Vehicles pending the outcome of the Specials Review. Despite the review being almost complete the lead time in acquiring these vehicles would mean no purchases would be complete in 2021/2022. An additional £55,000 has been slipped for a specialist car which will also be considered in the review. The budget will be reconsidered once the review is complete.

1.10 The additional slippage of £85,496 is required for the small fleet budget. Work is currently ongoing to review the current small fleet and consider options for replacement. The effects of the COVID-19 pandemic and changes to the ways of working have impacted on the progress of this review. In the interim period, three vehicles have been purchased during 2021/2022 that were deemed essential to the service. The remaining small fleet budget has been slipped into 2022/2023 pending the outcome of the review. Once complete, the Programme will be amended accordingly and an update provided to members.

Capital Resources

1.11 The Capital Programme for 2022/2023 is to be resourced as follows:

	£m
Capital Reserve	10.032
Revenue Contribution to Capital Outlay (RCCO)	0.250
Section 31 Grant (ESN)	1.523
Additional RCCO*	0.850
Total (Appendix A)	**12.655**

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

1.13 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.

1.14 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

1.15 Appendix A includes an indicative Capital Programme for 2023/2024, 2024/2025 and 2025/2026. As referred to at paragraph 1.1, the Chief Fire Officer has undertaken a review of all of the capital requirements for 2022/2023. 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;
- 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 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 2022/2023, the preparation of the Capital Programme for 2022/2023 has required estimates of capital expenditure to be prepared over a four year period through to 2025/2026.

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 2022/2023, 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 2022/2023:

- 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 2022/2023 to ensure the optimum arrangements are in place, with any proposed changes being reported to members in time for implementation for the 2023/2024 financial year.