TYNE & WEAR FIRE AND RESCUE AUTHORITY Item 6

MEETING: 18TH FEBRUARY 2019

SUBJECT: CAPITAL PROGRAMME 2019/2020 INCLUDING PRUDENTIAL INDICATORS FOR 2019/2020 to 2022/2023

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

1 INTRODUCTION

1.1 To present to Members the proposed Capital Programme for 2019/2020, including the Prudential Indicators for the next four year period from 2019/2020 to 2022/2023. This will mean that the Capital Programme and its funding implications are fully aligned and consistent with the Authority's Medium Term Financial Strategy.

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

2 CAPITAL PROGRAMME 2019/2020

2.1 The capital requirements of the Authority for 2019/2020 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 £10,809,735. Full details of the proposed Capital Programme 2019/2020 can be found at Appendix A and a summary is set out below:

	£m
Commitments from 2018/2019	5.548
Continuing Projects	1.744
New Projects	0.224
Vehicle Replacement Programme	3.294
Total Capital Programme 2019/2020	**10.810**

2.2 The 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 ensure all available resources are maximised.

3 CAPITAL RESOURCES

3.1 The Authority is to fund the 2019/2020 capital programme from the following sources:

	£m
Capital Receipts Applied	1.387
Capital Reserve	7.786
Revenue Contribution to Capital	0.750
Section 31 Grant (ESN)	0.887
Total	**10.810**

3.2 The Authority will also need to utilise a further £3.473m of its capital reserves to fund the projected costs of the proposed capital programme over the following three years to 2022/2023, in addition to the £7.786m already earmarked from reserves for 2019/2020.

3.3 The Authority's Capital Programme over the next four year period, from 2019/2020 to 2022/2023 will cost an estimated £16.533m, the bulk of which is expected to be expended in 2019/2020 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.

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 2019/2020, 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, 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.

5.3 Members are requested to specifically and separately approve the statutory Prudential Indicators, (P5) the Authorised Limit for External Debt of £48.352m and (P6) the Operational Boundary for External Debt of £43.352m for 2018/2019, 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 used in previous years, however this position will be subject to a separate review during 2019/20 to assess whether 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 2019/2020 has been first scrutinised by the Governance Committee, which is in accordance with 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 2019/2020 as set out in Appendix A;**

b) **Approve the Prudential Indicators for the years 2019/2020 to 2022/2023 as set out in Appendix B, and specifically the Authorised Limit for External Debt of £48.352m and the Operational Boundary for External Debt of £43.352m for 2019/2020; and**

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

Appendix 1

DETAILED CAPITAL PROGRAMME 2019/2020 including PRUDENTIAL INDICATORS 2019/2020 TO 2022/2023

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1. CAPITAL PROGRAMME 2019/2020

1.1 The progress on the 2018/2019 Capital Programme was reported to Members on 14th January 2019 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 2019/2020 are detailed at Appendix A and total £10,809,735. At this stage capital schemes totalling a further £5,723,454 are projected to 2022/2023.

1.3 The Capital Programme therefore totals £16,533,189 up to 2022/2023, with the majority of this cost being met from the Authority's earmarked reserves.

Commitments from 2018/2019

1.4 Commitments of £5,548,138, in terms of expected slippage from 2018/2019 to 2019/2020, have been included in the 2019/2020 Capital Programme. The slippage is already funded as part of the 2018/2019 Capital Programme and the consequential adjustments to financing will be made as part of the 2018/2019 final accounts process.

1.5 Slippages of £4,351,679 were reported to Members in January. Since this time, there is the requirement for additional slippage of £1,196,459 for the Emergency Services Mobile Communications Project (ESMCP). As reported at third review, a revised business case for this national project was expected from the Home Office early in the year. Work is currently delayed pending this and, at this stage in the financial year, it appears that the project will slip in to 2019/2020.

Continuing Projects

1.6 Continuing Projects from previous years amounting to £1,743,947 are included in the proposed Capital Programme.

Proposed New Starts for 2019/2020

1.7 The Capital Programme for 2019/2020 includes provision of £223,650 to fund proposed new schemes. The new capital schemes for 2019/2020 include:

1.7.1 **Replacement of West Denton heating and ventilation (£140,000)**
The stock condition survey identified and recommended replacement of the heating and ventilation system at West Denton Community Fire Station. Failure to replace the ageing plant will result in more breakdowns and the efficiency of the current system continues to deteriorate, in turn increasing utility and maintenance costs.

1.7.2 **Body Worn Video Cameras (£83,650)**
Body worn video cameras have been subjected to a number of trails and their value has been demonstrated to an extent that the Operations Department now wish to introduce a Body Worn Video Camera (BWVC) system across the full service. This is with the intent to overly capture video and audio data for firefighter safety, incident analysis and promotion of community safety.

1.7.3 **Replacement of Genous Security System**
The existing door entry security system (Genous System) was initially installed over twenty years ago. The system operates from an obsolete platform that is no longer supported and the door entry system is prone to malfunctions. It is planned to carry out a phased replacement during 2019/2020 and work is currently ongoing to consider the best approach. Pending evaluation of the two options, this project will be added into the Capital Programme and reported to Members later in the financial year.

Vehicle Replacement Programme

1.8 The Vehicle Replacement Programme has been revised and updated to reflect the needs of the Authority for 2019/2020 and in future years. The proposed Programme of £3,294,000 for 2019/2020 is detailed at Appendix A and includes slippage of £1,314,000 from 2018/2019.

1.9 As reported to Members in January, £1,080,000 of this is in respect of the fire appliance replacement programme. To streamline the procurement process for the appliances and to accommodate the lead in time, a specification has been drawn up for 14 appliances, with a minimum of 4 to be delivered by the end of 2019/2020 and a further 10 during 2020/2021. This will replace more than half of the fleet by March 2021, with the remainder being replaced by no later than 2022/2023.

1.10 The additional slippage of £234,000 is now required for replacement of the small fleet vehicles. As reported at third review, purchase of the small fleet has been delayed pending outcome of the small fleet review. Once this is complete the programme will be amended accordingly and Members will be updated.

Capital Resources

1.11 The Capital Programme for 2019/2020 is to be resourced as follows:

	£
Capital Receipts Applied	1.387
Capital Reserve	7.786
Revenue Contribution to Capital	0.750
Section 31 Grant (ESN)	0.887
Total	**10.810**

1.12 The Authority's Fire Capital Grant has now been fully exhausted so the majority of the Programme will have to be funded from the Authority's own resources using both its Capital Receipts and Capital Reserves and Revenue Contribution to Capital.

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 will be 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 prime 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 2020/2021 and 2022/2023. As referred to at paragraph 1.1, the Chief Fire Officer has undertaken a review of the capital requirements for 2019/2020. 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 the ongoing IRMP reviews. This will ensure that the Authority's investment in its assets deliver 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 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).

2.2 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 that authorities must have regard 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 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, 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 on fixed interest rate exposure.	P9
Upper limit on variable interest rate exposure.	P10
Upper limit for the maturity structure of borrowing.	P11
Lower limit for the maturity structure of borrowing.	P11
Prudential limit for principal sums invested for periods longer than 365 days.	P12

All of the above indicators are detailed in Appendix B in full compliance with 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 2019/2020, the preparation of the Capital Programme for 2019/2020 has required estimates of capital expenditure to be prepared over a four year period through to 2022/2023.

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. DCLG 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 2019/2020, 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 2019/2020:

- 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 2019/20 to ensure the optimum arrangements are in place, with any proposed changes being reported to members in time for implementation for the 2020/2021 financial year.