TYNE & WEAR FIRE AND RESCUE AUTHORITY **Item 5**

MEETING: 16TH FEBRUARY 2015

SUBJECT: CAPITAL PROGRAMME 2015/2016 INCLUDING PRUDENTIAL INDICATORS FOR 2015/2016 to 2017/2018

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 2015/2016, including the Prudential Indicators for 2015/2016 to 2017/2018.

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

2. CAPITAL PROGRAMME 2015/2016

2.1 The capital requirements of the Authority for 2015/2016 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 £5,301,852, including new starts of £1,927,100. Full details can be found at Appendix A.

3. CAPITAL RESOURCES

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

Capital Grant	£2.331m
Transformation Grant Funding	£0.851m
Planned use of earmarked reserves	£1.165m
RCCO	£0.102m
Total	**£4.449m**

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 In 2014/2015 a full review of the Authority's light vehicle fleet was undertaken and this has informed the Vehicle Replacement Programme for 2015/2016 costing £0.853m.

5. PRUDENTIAL INDICATORS

5.1 The Prudential Indicators for 2015/2016 to 2017/2018 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 £54.905m and (P6) the Operational Boundary for External Debt of £49.905m for 2015/2016.

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 2015/2016 has been scrutinised by the Governance Committee.

8. RECOMMENDATIONS

8.1 Members are requested to:

- approve the Capital Programme and Vehicle Replacement Programme for 2015/2016 as set out in Appendix A;
- approve the Prudential Indicators for the years 2015/2016 to 2017/2018 as set out in Appendix B, and specifically the Authorised Limit for External Debt of £54.905m and the Operational Boundary for External Debt of £49.905m for 2015/2016; and
- approve the Annual Minimum Revenue Provision Statement set out in Section 2.12 of Appendix 1.

Appendix 1

DETAILED CAPITAL PROGRAMME 2015/2016 including PRUDENTIAL INDICATORS 2015/2016 TO 2017/2018

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1. CAPITAL PROGRAMME 2015/2016

1.1 The progress on the 2014/2015 Capital Programme was reported to Members on 19th January 2015. 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 2015/2016 are detailed at Appendix A and total £5,301,852.

Commitments from 2014/2015

1.2 Commitments of £1,807,778, in terms of expected slippage from 2014/2015 to 2015/2016, have been included in the 2015/2016 Capital Programme. The slippage is already funded as part of the 2014/2015 Capital Programme and the consequential adjustments to financing will be made as part of the 2014/2015 final accounts process.

Proposed New Starts for 2015/2016

1.3 The Capital Programme for 2015/2016 includes provision of £1,927,100 to fund proposed new schemes. This is in addition to £2,521,752 which is required to fund continuing projects and slippage. The new capital schemes for 2015/2016 are:

West Denton Roof Replacement (£100,000)
- replacement of the roofing membrane and insulation at Station A. The current roof has passed its economic lifespan and further patching of the roof is not cost effective. The funds will be redirected from the existing West Denton general refurbishment project.

Appliance Bay Door Replacement (£75,000)
- a two year programme to replace appliance bay doors at five sites. The current doors are obsolete and parts can no longer be purchased to maintain the current structures.

Smoke Detectors (£151,000)
- an ongoing programme to provide standard and sensory smoke alarms in the course of the Home Risk Assessments carried out throughout the Service area.

Police Integration Project (£850,600)
- building modifications at a number of fire stations across the estate to accommodate co-location of Tyne and Wear Fire Service staff and Northumbria Police Neighbourhood Policing Teams. This will be financed from the Transformation Fund Grant recently awarded to the Authority after successfully bidding for the cost of the capital works.

Cold Cutting Extinguishing System (£512,500)
- cold cutting extinguishing systems to be fitted to appliances as part of the IRMP Response Review. This will enable crews to tackle compartment style fires more efficiently and effectively, while enhancing Firefighter safety.

Thermal Scanners (£130,000)
- additional thermal scanners to allow Officers in charge at incidents to monitor dynamics of the fire and adapt plans accordingly.

PPE Replacement Programme (£83,000)
- an ongoing replacement programme to ensure Firefighter Personal Protective Equipment is available and fit for purpose.

Fuel Monitoring System (£25,000)
- a new fuel monitoring system to replace the current obsolete system.

Vehicle Replacement Programme

1.4 The Authority has completed a full review of the light vehicle fleet in 2014/2015. In light of this, the Vehicle Replacement Programme has been revised and updated to reflect the needs of the Authority for 2015/2016 and future years. The proposed Programme of £853,000 is detailed at Appendix A.

Fire Capital Grant

1.5 Unlike in previous years there will be no allocation of general Fire Capital Grant from Central Government for 2015/2016. The Authority has unallocated Capital Grants which will be used to finance a significant proportion of the Capital Programme new starts proposed and to meet the cost of future prioritised capital schemes. Paragraph 1.7 therefore identifies that £2,004,403 of Capital Grant is required to contribute towards funding the 2015/2016 Capital Programme.

1.6 The Authority was successful in its bid for Transformation Funding and will receive £0.926m of Transformation Grant in 2015/2016 to help fund the work necessary to accommodate the agreed co-location of police services at a number of fire stations. This will result in rationalisation efficiencies whilst making communities safer by improved community access and collaboration between the two services. The grant allocates £0.851m of the funding award to meet the estimated capital costs and the project has accordingly been built in to the Capital Programme for 2015/2016.

Resourcing

1.7 It is proposed that the Capital Programme for 2015/2016 be resourced as follows:

- Capital Grant - £2,004,403
- Day Crewing Specific Capital Grant - £326,829
- Transformation Grant - £850,600
- Development Reserve - £1,110,712
- Carbon Management Plan Reserve - £54,221
- Budget Carry Forward Reserve - £102,087

1.8 With regard to the Vehicle Replacement Programme totalling £853,000, £29,000 North Tyneside Reward Grant will be used to purchase a new resilience vehicle. The remainder of the programme of £824,000 will be, wherever possible, 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 2016/2017 and 2017/2018. As referred to at paragraph 1.1, the Chief Fire Officer has undertaken a review of the capital requirements for 2015/2016. This also included a review of the future requirements for 2016/2017 and 2017/2018. 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).

2.2 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 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 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 2015/2016, the preparation of the Capital Programme for 2015/2016 has required estimates of capital expenditure to be prepared over a three year period through to 2017/2018.

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 2015/2016, 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 2015/2016:

- 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.