WILTSHIRE & SWINDON FIRE AUTHORITY

REPORT REFERENCE NO.	8
MEETING	Wiltshire and Swindon Fire Authority
MEETING DATE	12 February 2015
SUBJECT OF REPORT	Capital Programme 2015/16, Minimum Revenue Provision 2015/16 Policy Statement and Prudential Indicators.
LEAD OFFICER	Phil Chow, Treasurer (& Brigade Manager)
RECOMMENDATIONS	Members are asked to approve:- • the Capital Programme for 2015/16 (Appendix A); • the Minimum Revenue Provision Policy Statement for 2015/16, that is *"In accordance with the Local Authorities(Capital Finance and Accounting) (England)(Amendment) Regulations 2008, the Fire Authority's policy for the calculation of MRP in 2015/16 shall be the asset life (equal instalment) method for prudential borrowing";* and, the prudential indicators in respect of the Capital Programme 2015/16 (Appendix B).
EXECUTIVE SUMMARY	This report presents for approval the recommended capital programme for 2015/16 and the key prudential indicators derived from the recommended programme as required under the Prudential Code for Capital Accounting, alongside the Minimum Revenue Provision Policy Statement, i.e. the policy on how we provide for the repayment of debt in respect of borrowing for capital purposes.
APPENDICES	Appendix A - Capital Programme 2015/16 Appendix B - Prudential Indicators re: Capital Programme 2015/16

Introduction

1 The Prudential Code that regulates local authority capital expenditure came into force on 1 April 2004. This report has been produced to ensure compliance with the Code.

2 This report presents for approval the recommended capital programme for 2015/16 and the key prudential indicators derived from the recommended programme as required under the Prudential Code for Capital Accounting, alongside the Minimum Revenue Provision Policy Statement, i.e. the policy on how we provide for the repayment of debt in respect of borrowing for capital purposes.

Capital Programme and Government Support

3 Attached to the report is the recommended capital programme for 2015/16 with indicative programmes for 2016/17 and 2017/18 (Appendix A), followed by the key prudential indicators derived from the recommended programme (Appendix B), as required by the code. At this stage the programmes for 2016/17 onwards are indicative, and will be developed in relation to the ongoing infrastructure requirements in relation to the proposed combination with Dorset Fire Authority. The capital proposals put forward therefore do not include any impact in respect of the proposed combination impact except for 2015/16, where transformation grant funding has been bid for and awarded subject to the combination proceeding.

Government Support

4 In the Spending Round 2013, the Government in its Autumn statement for 2014/15 announced £30m of resource funding to be returned to the fire sector in 2015/16 and made available to support transformational change and deliver sensible savings. A further £45m fire capital efficiency incentive fund was also announced to assist fire authorities in achieving efficient and effective service delivery, therefore a total of £75m was available to the sector against which to bid. The Wiltshire & Swindon Fire Authority and the Dorset Fire Authority submitted a joint bid for capital funding, with Wiltshire taking the lead, for specific items within the capital programme for 2015/16 for £5.579m on 4 June 2014, and on 17 October 2014 it was announced that the joint bid was successful and a total of £5.540m being awarded to support the merger of the two Authorities. The Combination Order submitted to the Government for approval has yet to be approved but should the merger not progress then the grant funding will be withdrawn. Apart form the transformation grant, no other Government support is available.

Capital Programme 2015/16

5 **Estates/Property –** Following the strategic property review carried out in 2012/13, the comprehensive review resulted in the identification of various works which would be required to improve Service properties. Each item of work was prioritised during the review, and now these form the basis for the Minor Capital Works Programme going forward.

6 In order to ensure the recommendations of the property review are put into place, the capital programme for 2015/16 was compiled by including the highest priority items from the review, and such projects which have slipped from previous years. It is envisaged that other works of a lower priority will be carried out in subsequent years. The results of the property review means that we will need to spend approximately £0.601m in 2015/16 on capital works and approximately £0.400m-£0.450m each year thereafter on our current property portfolio to maintain our current asset base. The impact of the merger with Dorset will require a full property review of the combined estate which is not included here, but will be subject to future reports.

7 The most significant element of the property programme is the establishment of the Safety Centre and Strategic Hub, which formed the major part of the successful bid for Transformation Funding as part of the Combination with Dorset Fire Authority. An estimated cost of £4.485m, identified within the transformation bid will be funded mainly through the Government award of transformation grant and also from matched funding from a capital contribution from Dorset FRS and ourselves by using our available reserves.

8 **Vehicles & Equipment –** Vehicles are constantly reviewed, and are subject to our long term vehicle replacement policy. Three large pumping appliances were due for replacement in 2014/15, but were deferred to 2015/16 alongside a number of smaller vehicles (Incident Command Vehicle and 2 Small Pumping Appliances, pending review) as detailed in Appendix A.

9 **Information Communication Technology -** The capital programme also includes various Information Communication Technology (ICT) initiatives, as in previous years, in order to progress the Service's ICT Strategy. Appendix A details the ICT initiatives and programme for 2015/16 totalling £1.846m, with the majority share of £1.412m required for ICT Infrastructure harmonisation, subject to the combination with Dorset Fire Authority, for which grant funding has been secured from the Governments Transformation fund.

General

10 Members will recall that at the December meeting of the CFA, the 2014/15 programme was revised primarily to allow for changing commitments and a reassessment of priorities, resulting in a reduction in the overall programme.

11 Due to the significant number of capital priorities facing the Service, the capital programme put forward for 2015/16 totals £9.099m. Future years programmes, in particular around premises and ICT, will change significantly depending on priorities and work programmes established as part of the proposed combination with Dorset Fire Authority. Again, the programme beyond 2015/16 does not reflect the impact of combination.

12 The total programme for 2015/16 of £9.099m will be part funded from capital grant (£5.062m), use of Wiltshire FRS reserves/funds set aside (£0.556m), capital contributions from Dorset FRS (£0.500m) and prudential borrowing (approximately £2.981m).

13 Prudential borrowing of £2.981m is estimated to cost around an additional £0.223m per annum in revenue costs (approximately £0.075m per £1m). The Authority's cash flow position is such that we normally borrow towards the end of each financial year, meaning that the impact on the 2015/16 revenue budget of this proposed level of borrowing would be negligible. The additional revenue costs of borrowing would therefore not be incurred by the Authority until the financial year 2016/17, which would usually be met from additional income through precept (growth in taxbase) and/or Collection Fund surpluses.

Minimum Revenue Provision Policy Statement

14 Local Authorities, including Fire Authorities, each year are normally required to set aside some of their revenue budget as provision for the repayment of debt. More precisely the provision is in respect of capital expenditure financed by borrowing or credit arrangements, such as finance leases.

15 The detailed rules and formulae to be used were laid down in Regulation 28 of the

Local Authorities (Capital Finance and Accounting)(England) Regulation 2003. These were subsequently amended, and the amendment regulations revise Regulation 28, thereby requiring us to, each year, make an amount of Minimum Revenue Provision (MRP) which is considered to be 'prudent'.

16 The broad aim of prudent provision for repayment of debt, is to ensure the debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or in the case of borrowing supported by Revenue Support Grant (RSG), reasonably commensurate with the period implicit in the determination of the grant.

17 Four options for prudent provision have been suggested by the Secretary of State, subject to conditions being applied to the options, although different methodologies are not ruled out:-

- Option 1:Regulatory method
- Option 2:Capital Financing Requirement (CFR) Method
- Option 3:Asset Life Method
- Option 4:Depreciation Method

18 Option 1: Regulatory Method - MRP is determined in accordance with the former regulations (Regulation 28), as if it had not been revoked. MRP is equal to 4% of the adjusted CFR at the end of the preceding financial year.

19 Option 2: CFR Method - MRP is equal to 4% of the CFR at the end of the preceding financial year. This is technically a much simpler alternative to option 1, which may be used in relation to supported debt, and in most cases results in a higher level of provision than option 1.

20 Option 3: Asset Life Method - Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is determined by reference to the life of the asset. There are two main methods by which this can be achieved, equal instalment method or annuity method, both of which allow authorities to make additional voluntary provisions; in which case an appropriate reduction in the level of MRP can be recognised in future years.

21 As with the existing scheme of MRP, provision for debt will normally commence in the financial year following the one in which the expenditure is incurred. However under option 3, the authority may treat the asset life as commencing in the year in which the asset becomes operational. It may postpone beginning to make MRP (MRP Holiday) until the financial year following the one in which the asset becomes operational. In the case of significant projects this could perhaps be 2-3 years, making them more affordable.

22 Option 4: Depreciation Method - MRP is equal to the provision required in accordance with depreciation accounting in respect of an asset.

23 Options 1 and 2 should only be used for government supported borrowing. These options are therefore no longer available to us, as we no longer receive support for borrowing in our finance settlement.

24 If it is proposed to vary the terms of the original MRP statement during the year, a revised statement should be put to the Authority at that time.

25 In 2015/16 it is proposed to choose Option 3, the asset life method for prudential borrowing, therefore the Minimum Revenue Provision Policy Statement for 2015/16

would be as follows:-

- In accordance with the Local Authorities(Capital Finance and Accounting) (England)(Amendment) Regulations 2008, the Fire Authority's policy for the calculation of MRP in 2015/16 shall be the asset life (equal instalment) method for prudential borrowing.

26 The policy will be reviewed on an annual basis and will be brought to this Committee for approval before the start of each financial year.

Prudential indicators

27 The Local Government Act 2003 introduced a new system of capital controls for local authorities, which replaced the statutory controls over borrowing for a system whereby the duty was on the local authority to determine its planned level of borrowing whilst considering affordability, prudence and sustainability. Local Authorities therefore must comply with the Prudential Code for Capital Finance in Local Authorities, published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

28 The Authority is required under the Local Government Act 2003 to calculate and formally approve a number of Prudential Indicators as part of the budget setting process, in compliance with this Prudential Code. These are attached in Appendix B.

Policy Implications

29 The capital programme presented at Appendix A will advance the Authority's ICT Strategy and ensure the implementation of recommendations arising from the Strategic Property Review.

Risks

30 The budget as set is risk based and includes capital works required to meet the needs and mitigate the risks associated with the Authority's priorities.

31 Should the merger not proceed, the transformation grant will be withdrawn by the Government. This will substantially reduce the capital programme.

32 The award of the grant will come with some criteria on use and timing. Currently the grant is for 2015/16, and as we understand at present, has to be substantially committed if not used by the end of the financial year to which it relates. Owing to the nature of major capital projects included within the transformation funding award, it will be extremely difficult to spend £6m in a single year, the majority of which on such a project as the Safety Centre and Strategic Hub, but will most likely be substantially committed. The risk regarding how flexible the Government stance would be on how well the programme has progressed has yet to be tested.

HR, Equality and Diversity Implications

33 None, other than those that have already been considered in establishing the programme for 2015/16.

Environmental Implications

34 None, other than those that have already been considered in establishing the programme for 2015/16.

Financial and Legal Implications

35 Financial implications form the body of the report.

Combination Implications

36 The Capital Programme for 2015/16 takes account of the impact of combination for 2015/16, but future years are based on current plans and will be subject to review if combination progresses. Further work will be undertaken to align the capital programmes over the next 12 months.

Recommendations

37 Members are asked to approve:-

- the Capital Programme for 2015/16 (Appendix A);
- the Minimum Revenue Provision Policy Statement for 2015/16, that is

  "In accordance with the Local Authorities(Capital Finance and Accounting) (England)(Amendment) Regulations 2008, the Fire Authority's policy for the calculation of MRP in 2015/16 shall be the asset life (equal instalment) method for prudential borrowing"; and,

- the prudential indicators in respect of the Capital Programme 2015/16 (Appendix B).

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Unpublished documents used in the preparation of this report:
None

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