WILTSHIRE & SWINDON FIRE AUTHORITY

REPORT REFERENCE NO.	7
MEETING	Wiltshire and Swindon Fire Authority
MEETING DATE	13 February 2014
SUBJECT OF REPORT	Capital Programme 2014/15, Minimum Revenue Provision 2014/15 Policy Statement and Prudential Indicators.
LEAD OFFICER	Phil Chow, Treasurer (& Brigade Manager)
RECOMMENDATIONS	Members are asked to approve:- • the Capital Programme for 2014/15 (Appendix A); • the Minimum Revenue Provision Policy Statement for 2014/15, 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 2014/15 shall be the asset life (equal instalment) method for prudential borrowing”;* and, • the prudential indicators in respect of the Capital Programme 2014/15 (Appendix B).
EXECUTIVE SUMMARY	This report presents for approval the recommended capital programme for 2014/15 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 2014/15 Appendix B - Prudential Indicators re: Capital Programme 2014/15

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 2014/15 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 2014/15 with indicative programmes for 2015/16 and 2016/17 (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 2015/16 onwards are indicative, and will be developed in relation to the ongoing infrastructure requirements in relation to the proposed combination with Dorset Fire and Rescue Service. The capital proposals put forward therefore do not include any impact in respect of the proposed combination impact.

Government Support

4 In 2011/12, the previous capital regime of supported borrowing became no longer relevant, as funding for the cost of borrowing to the supported borrowing limit ceased within the revenue support grant (finance settlement). Capital grant replaced this and £70m for both years was distributed amongst all Fire and Rescue services in 2011/12 and 2012/13 for which Wiltshire FRS received approximately £1.1m capital grant for each year.

5 The Government announced for 2013/14 and 2014/15 that further amounts of £70m (per year) would be available in capital grant and be distributed in part, subject to capital bids being submitted in the Autumn of 2012. Following the bidding process, approximately 20% of the £140m was allocated to 15 of the 46 FRSs who submitted bids. Unfortunately Wiltshire FRSs bid was unsuccessful. The remaining 80% was allocated by population and we therefore were allocated capital grant of £0.868m for 2014/15, the same as was allocated in 2013/14, as announced in the provisional financial settlement for 2014/15 (made in 2013/14).

6 The Government in its Autumn statement announced a change for capital grant again for 2015/16 and beyond, namely the £70m annual capital grant pot has been removed. That said the government has introduced a £45m fire capital efficiency incentive fund, which is again subject to a bidding process. Wiltshire FRS and Dorset FRS will be submitting a joint bid in respect of capital funding for 2015/16 onwards. It is clear that the general capital support as allocated in the past has now been withdrawn completely from the Fire Service, and has been replaced with a bidding system against a reduced pot. The impact of this is that if we are unsuccessful in our bids for capital support, the impact will fall onto the revenue account as a result of additional costs of borrowing. This is shown in Appendix B, where an increase in borrowing costs can be seen in 2015/16 onwards.

Capital Programme 2014/15

7 **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.

8 In order to ensure the recommendations of the property review are put into place, the capital programme for 2014/15 has been 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 £0.330m in 2014/15 on capital works and approximately £0.300m-£0.400m each year thereafter to maintain our current asset base. The creation of Community Hubs, has also meant that additional capital works are required at a number of stations.

9 **Vehicles & Equipment –** Vehicles are continuously reviewed and are subject to our long term vehicle replacement policy. Three large pumping appliances are due for replacement in 2014/15, alongside a number of smaller vehicles as detailed in Appendix A. Two projects involving an incident command vehicle and two small pumping appliances were deferred from the 2013/14 capital programmes pending review.

10 A request is also made to replace our current stock of Thermal Image Cameras (TIC), which are at the end of their useful life of 10 years. This will generate a revenue saving of approximately £24,000, which was included in the equipment budget within revenue to cover the costs of three such cameras. Through the modernisation of the outdated TIC technology, replacement cameras will mean the risks at incidents are significantly reduced.

11 **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 2014/15 totalling £0.710m. Over half of the ICT capital programme is in relation to the Networked Fire Control Service Partnerships Project (£0.392m), for which specific government grant of £1.8m has been allocated over a five year period.

General

12 Members will recall that at the December meeting of the CFA, the 2013/14 programme was revised primarily to allow for changing commitments and a reassessment of priorities, resulting in a reduction in the overall programme.

13 Due to the significant number of capital priorities facing the Service, the capital programme put forward for 2014/15 totals £2.476m. 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 FRS. Again, at present the programmes do not reflect the impact of this.

14 The total programme of £2.476m will be part funded from capital grant (£0.869m), use of reserves/funds set aside (£0.452m) and prudential borrowing (approximately £1.155m). As described above, there are increased costs of borrowing, as capital grant is no longer generally allocated.

15 Prudential borrowing of £1.155m is estimated to cost around an additional £0.086m 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 2014/15 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 2015/16, which would usually be met from additional income through precept (growth in taxbase) or Collection Fund surpluses.

Minimum Revenue Provision Policy Statement

16 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.

17 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'.

18 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.

19 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

20 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.

21 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.

22 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.

23 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.

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

25 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.

26 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.

27 In 2014/15 it is proposed to choose Option 3, the asset life method for prudential borrowing, therefore the Minimum Revenue Provision Policy Statement for 2014/15 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 2014/15 shall be the asset life (equal instalment) method for prudential borrowing.

28 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

29 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).

30 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

31 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

32 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.

HR, Equality and Diversity Implications

33 None, other than those that have already been considered in establishing the programme for 2014/15.

Environmental Implications

34 None, other than those that have already been considered in establishing the programme for 2014/15.

Financial and Legal Implications

35 Financial Implications form the body of the report.

Recommendations

36 Members are asked to approve:-

- the Capital Programme for 2014/15 (Appendix A);
- the Minimum Revenue Provision Policy Statement for 2014/15, 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 2014/15 shall be the asset life (equal instalment) method for prudential borrowing"; and,

- the prudential indicators in respect of the Capital Programme 2014/15 (Appendix B).

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Unpublished documents used in the preparation of this report:
None

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