

**DERBYSHIRE FIRE & RESCUE AUTHORITY**

**23 FEBRUARY 2012**

**REPORT OF CHIEF FIRE OFFICER & CHIEF EXECUTIVE & DIRECTOR OF  
FINANCE / TREASURER**

**2012/13 – 2015/16 CAPITAL PROGRAMME, PRUDENTIAL CODE REPORT &  
TREASURY MANAGEMENT STRATEGY**

**1. Purpose of Report**

- 1.1 To recommend the capital programme for 2012/13 and consider the capital programme for 2013/14, 2014/15 and 2015/16. This builds on the capital monitoring report which is also being presented at this meeting.
- 1.2 To make recommendations required under the CIPFA Prudential Code for Capital Finance.
- 1.3 To recommend the Treasury Management Strategy for 2012-13.

**2. Recommendations**

- 2.1 To approve the 2012/13 Capital programme as detailed in Appendix 1.
- 2.2 That the Authority approve the MRP policy for 2012-13 as detailed in paragraphs 3.21.
- 2.3 That the Fire Authority adopts the Prudential Indicators as described in paragraphs 3.17, 3.18, 3.20, 3.23, 3.25, 3.27 and Appendix 2.
- 2.4 That the Fire Authority approves the use of revenue resources (reserves and in-year underspend) to fund parts of the previous capital programmes that had been intended to be funded using borrowing as detailed in paragraph 3.16.
- 2.5 That the Fire Authority approves the Treasury Management Strategy for 2012-13 as described in Appendix 2, including Prudential Code indicators set out therein.

**3. Information and Analysis**

**CAPITAL PROGRAMME & FINANCING**

- 3.1 The proposed capital programme for 2012/13, 2013/14, 2014/15 and 2015/16 is attached at Appendix 1. It should be noted that some of the schemes are still in the planning stage and will be subject to the relevant approval process before commencement. The ICT and Property strategies are nearing

- completion and the Capital Programme may need to be reviewed to reflect the details within these documents.
- 3.2 Capital Grant funding for the programme and for the Tri-Control project is also still subject to confirmation and the programme will need to be reviewed once announcements are made in February. Capital Grants for 2013/14 onwards will be subject to a bidding process, the details of which are yet to be agreed.
  - 3.3 The 2012/13 indicative programme totals £5.9m. It includes £996k slippage from the 2011/12 capital programme as identified in the Capital Monitoring Report on this agenda. The replacement of fleet vehicles has also been included – previously these were funded through revenue from leasing and were not shown as part of the capital programme. They have now been added to provide a more complete picture given that they are now classified as assets on the balance sheet following the introduction of International Financial Reporting Standards (IFRS).
  - 3.4 The East Midlands Tri-Control Project for the development of the control centre has been included in line with the bid submitted in November. This scheme is subject to the receipt of the capital grant and will be the subject to further reports to Fire Authority as appropriate.
  - 3.5 A provisional amount of £500k in 2012/13 and £1.5m in 2013/14 has been included to recognise the need to undertake work to replace fire stations that are no longer fit for purpose. The replacement Fire Station Programme remains in its early planning stages and to some extent will be shaped by the powers awarded to Fire Authorities through the Localism Bill currently before Parliament. Proposals for this scheme will be brought to future Fire Authority meetings for approval as part of the Capital Strategy.
  - 3.6 Given the favourable revenue position in 2012/13 it is proposed to purchase some smaller vehicles in preference to leasing. This saves on interest costs embedded in the leases and provides more flexibility regarding the life of assets. Funds from revenue have been set aside annually in the Revenue Budget report to replace these vehicles in the future. A reserve will be set up in 2012/13 for this purpose. Value for money and operational flexibility will be taken into account when new vehicles are needed and when leases expire to determine the best option between leasing and purchasing.
  - 3.7 The Live Fire project at Chesterfield will provide a system of variable flame controls to the simulated fire scenarios within the unit to improve the 'realism' of the fire behaviour (these features have been incorporated into the new unit at the new Buxton Fire Station. The funding is from an underspend at Chesterfield Fire Station. The project is still under development and will be subject to approval at a future date.
  - 3.8 The Authority was awarded £1.419m Capital Grant for 2011/12 as part of the Local Government financing announcements last year. No announcements have been made as yet regarding Capital Grants for 2012/13; however a prudent assumption of £500k has been included in the budget. This reflects the possibility that there may be less capital grant available given that grants for fire service control centres are expected in 2012/13 in the region of £1.8m per Fire

Authority. Figures will be amended once more information is made available from CLG.

- 3.9 The capital receipts shown in Appendix 1 are the sales proceeds for the former Chesterfield site and may be subject to variation.

### ***THE PRUDENTIAL CODE***

- 3.10 The Prudential Code for Capital Finance in Local Authorities (the Code) is a professional Code that sets out a framework for self-regulation of capital spending. In effect it allows authorities to invest in capital projects which best meet their service delivery objectives as long as they are affordable, prudent and sustainable, subject to reserve powers to restrict borrowing for national economic reasons.

- 3.11 To facilitate the decision making process and support capital investment decisions the Prudential Code requires the Fire Authority to agree and monitor a number of prudential indicators. The indicators cover:

- a) Capital expenditure;
- b) Affordability;
- c) Prudence;
- d) Debt levels; and
- e) Treasury management.

These indicators will also form the basis of in-year monitoring and reporting to the Strategic Leadership Team and Fire Authority.

#### **a) *Capital Expenditure***

- 3.12 The main limiting factor on the Authority's ability to undertake capital expenditure is whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs, after allowing for any support provided by central government.
- 3.13 As the impact of capital expenditure, and associated borrowing, is spread over years, it is important to consider the effect of any proposals in both the forthcoming and future financial years. The proposed capital investment programme is shown in detail in Appendix 1.
- 3.14 The programme incorporates no new borrowing over the coming 4 years, with the exception of leasing of new vehicles. In order to minimise future year commitments, schemes are funded from available funds within each year, such as revenue, grant and capital receipts. There should therefore be no long term impact on future years budgets relating to the funding of capital projects. There may be relevant running costs, but on the whole the programme relates to the replacement of existing assets so the ongoing costs should be minimal.
- 3.15 There remain some areas of uncertainty regarding funding. The announcements regarding capital grant and the replacement control centre

grant are not expected until mid February. The programme will be revised as further information becomes available.

3.16 The Fire Authority has previously given approval for £5.4m of borrowing to fund previous years' capital programmes. As outlined in previous monitoring reports, it has not been necessary to temporarily realise this borrowing as the Authority has been able to use internal resources instead (revenue and reserves). It is proposed that funds held in the Capital Financing Deferral reserve (£3.5m) along with a forecast underspend in 2011/12 and a budget surplus in 2012/13 are used to fund the elements of the capital programme on a permanent basis so that borrowing need not be taken out.

3.17 The Fire Authority is asked to note the actual and estimated figures and the prudential indicators set out below. The tables incorporate schemes already approved, completed or still in progress, the proposed new starts for 2012/13 and estimates for 2013/14, 2014/15 and 2015/16. The costs and financing are spread accordingly over future years.

**Prudential indicator 1: Capital expenditure – the projected capital programme for the Authority**

	2010-11 Actual £'000	2011-12 Estimate £'000	2012-13 Estimate £'000	2013-14 Estimate £'000	2014-15 Estimate £'000	2015/16 Estimate £'000
Capital expenditure	6,532	7,146	5,965	2,650	4,140	3,283

**Prudential indicator 2: Capital Financing Requirement (CFR) – the underlying need to borrow for capital purposes**

	2010-11 Adjusted £'000	2011-12 Estimate £'000	2012-13 Estimate £'000	2013-14 Estimate £'000	2014-15 Estimate £'000	2015/16 Estimate £'000
Opening CFR (note 1)	19,872	19,740	18,919	18,702	17,905	18,074
Borrowing	0	0	0	0	0	0
Finance Leasing	1,095	507	1,255	670	1,625	755
Repayments	-1,227	-1,328	-1,472	-1,467	-1,456	-1,559
Closing CFR	19,740	18,919	18,702	17,905	18,074	17,270
Net movement in CFR	-132	-821	-217	-797	169	-804

Note 1 – the Opening CFR balance in 2010/11 has been adjusted to take account of the replacement of borrowing with revenue resources as set out in paragraph 3.14.

3.18 The above table indicates proposals for new leasing only as there is no new proposed borrowing resulting from the capital programme. Within the framework of prudential indicators the Fire Authority is required to assess the affordability of the capital investment plans. The Fire Authority is asked to note the following indicators, which are designed to assist the consideration of affordability and prudence. This is considered in further detail on page 2, section 6 of the Treasury Management strategy.

**b)Affordability and c) Prudence**

**Prudential indicator 3: Actual and Estimates of the ratio of financing costs to net revenue stream** -This indicator identifies the trend in the cost of capital against the net revenue stream.

	2011-12 Estimate £'000	2012-13 Estimate £'000	2013-14 Estimate £'000	2014-15 Estimate £'000	2015/16 Estimate £'000
Borrowing costs *	1,318	1,288	1,258	1,228	1,198
Finance Lease costs	884	1,047	1,006	965	1,041
Total	2,202	2,335	2,264	2,193	2,239
Net Revenue Stream**	40,846	41,508	38,614	37,297	36,742
Percentage (including leases)	5.4%	5.6%	5.9%	5.9%	6.1%
Percentage (excluding leases)	3.2%	3.1%	3.3%	3.3%	3.3%

\*The reduced borrowing costs reflect the repayment of debt

\* \* Broad estimate, in 2013/14, 2014/15 and 2015/16 of Government revenue support grant/Council Tax and NNDR as reported in the report to the Fire Authority 23/2/12.

3.19 The percentages shown in the above table are significantly reduced from those indicated in previous years' reports – 8.7% including leases in 2012/13 and 2013/14. This reflects the replacement of borrowing detailed in paragraph 3.16.

3.20 The 2012/13 capital programme is affordable and has been built into the revenue budget for the year, however the 2013/14, 2014/15 and 2015/16 capital budgets are still provisional and will depend on future resources. The Fire Authority will have an opportunity to review these when considering future years' budgets.

**Prudential indicator 4: Estimates of the incremental impact of capital investment decisions on the Council Tax** - This indicator illustrates the estimated effect of the capital programme recommended in this budget report.

	<b>Approved Budget 2012-13</b>	<b>Forward Projection 2013-14</b>	<b>Forward Projection 2014/15</b>
<b>Council Tax - Band D</b>			
(i) Existing Commitments only	(£0.11)	(£0.38)	(£0.27)
(ii) Above plus new starts 2012-13, 2013-14, 2014/15 and 2015/16	£0.40	(£0.21)	(£0.21)
(iii) Difference between (ii) and (i)	£0.51	£0.17	£0.06

1% on Council Tax is approximately £0.67 per annum

3.21 It is considered that, taking into account the estimates of future levels of revenue available to the Authority, that this level of capital expenditure and associated borrowing is affordable and prudent.

3.22 For 2012/13 onwards, there will be no additional debt charges arising from the 2011/12 programme and the proposed programmes for 2012/13 – 2015/16.

### **Minimum Revenue Provision**

3.23 The Local Authorities (Capital Finance and Accounting) (England) Amendment Regulations 2008 require a policy to be agreed regarding the calculation of the Minimum Revenue Provision (MRP) for each financial year. The MRP is the amount the Authority has to provide for the repayment of debt. The Authority is recommended to approve the same MRP policy for 2012/13 as was used in 2011/12 which is detailed below:

- For capital expenditure incurred before 1 April 2008 or which in the future is Supported Capital Expenditure, the MRP policy will be to set aside a provision equal to 4% of the previous year's Capital Financing Requirement.
- From 1 April 2008 (including 2009-10) for all unsupported borrowing; excluding finance leases, the MRP policy will use the Asset Life Method; i.e. MRP will be an annual charge based on the estimated life of the assets. The provision will be set aside in the year following the capital expenditure.
- For any finance leases, the MRP will be equal to the element of the actual finance lease repayment that reduces the ongoing balance sheet liability, i.e. the principal element of the charge or repayment, in line with CLG guidance.

The Authority continues to have the option to make voluntary additional provision for debt repayment if it wishes.

**d) Debt Levels**

**Limits to Borrowing Activity**

**Prudential indicator 5: The authorised limit** - This represents the limit beyond which borrowing is prohibited, and needs to be set and revised if necessary by members.

3.24 The figures for the proposed authorised limit for 2012/13 take into account:

- a) The estimated amount of outstanding borrowing on capital expenditure at 31<sup>st</sup> March 2012 (£18,901k including finance leases).
- b) No further borrowing required to fund the capital programme (either for previous years or future years) apart from £1,255k of finance leases.
- c) Short term borrowing pending receipt of revenue income. This should be minimal, but in order to cover any unforeseen changes in cashflow patterns it is suggested that a figure of £1m be used as in previous years.
- d) Debt repayments of £1,472k.

3.25 Based on the above, it is proposed that the authorised limit for outstanding debt should be set at £19,680,000 for 2012/13. Proposed limits for future years have been calculated in a similar way and are shown in the table in 3.25.

**Prudential indicator 6: The operational boundary** - This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year.

3.26 In practice it is unlikely that all of the potential borrowing requirements included in the Authorised Limit will materialise at once, therefore the operational boundary requirements will be somewhat lower and £19,080,000 is suggested as a realistic figure.

3.27 The Authority is asked to approve the following authorised and operational limits:

	2011-12 Revised £'000	2012-13 Estimate £'000	2013-14 Estimate £'000	2014-15 Estimate £'000	2015-16 Estimate £'000
Authorised limit for external debt	19,930	19,680	18,890	19,060	18,250
Operational boundary for external debt	19,330	19,080	18,290	18,460	17,650

These borrowing limits will be subject to monitoring through the Strategic Leadership Team and the Fire Authority and will be revised annually. The 2011/12 revised limits reflect the decision to replace debt with revenue and reserve funding as outlined in 3.16.

**e) Treasury Management**

**Prudential Indicators**

3.28 The proposed Treasury Management Strategy for 2012/13, which incorporates the requirements of the Prudential Code, is attached as Appendix 2 for approval.

**4. Legal Considerations**

4.1 None

**5. Financial Considerations**

5.1 This report is financial in nature and due consideration has been taken to ensure that the capital programme and associated borrowing proposed is affordable and prudent. This report should be considered alongside the revenue budget report for 2012/13 – 2015/16.

**6. Inclusion and Equality Considerations**

6.1 None

**7. Asset Management Considerations**

The capital programme outlined in this report is in line with the corporate asset management plan.



**This report has been consulted upon and approved by the following officers:**

*S Frayne, Chief Fire Officer/Chief Executive, Simon Allsop, Director of Finance/Treasurer*

**Contact Officer:** *Simon Allsop*

**Contact No:** *01332 771221 x7212*

**Background Papers:**

- *2011/12 – 2012/13 Capital Programme, Prudential Code Report and Treasury Management Strategy, 10 March 2011*
- *Capital Monitoring and Componentisation Policy 2011/2012*
- *Capital Monitoring and Prudential Update 2011/2012 (Dec 2011)*
- *2010/11 – 2012/13 Capital Programme and Revenue Budget 2011/12, 24 February 2011*
- *Local Government Act 2003*
- *Prudential Code (revised November 2009)*
- *CIPFA Code of Practice on Treasury Management (revised in November 2009) and associated guidance issued by CLG*

# Capital Programme 2012/13

Capital Programme 2012/13											
	Spend				Funding						
	2011 report £	Slippage from 2011/12 £	New Schemes £	Estimated In Year Cost £	Reserves £	Revenue £	Leasing £	Capital Grant £	Capital Receipts £	Borrowing £	Total £
Ascot Drive - New Fire Station	150,000	301,604		451,604		431,604			20,000		451,604
Buxton - New fire Station		196,941		196,941		196,941					196,941
Tactical Simulator for BA Complex		227,000		227,000	227,000						227,000
ICT Strategy - new schemes	480,000			480,000					480,000		480,000
Business systems		120,000		120,000		120,000					120,000
Unified Communications		30,000		30,000		30,000					30,000
Transport system		8,350		8,350		8,350					8,350
ICT Disaster recovery programme		25,000		25,000		25,000					25,000
Document management		26,731		26,731		26,731					26,731
Kingsway fire station refurbishment		30,000		30,000	30,000						30,000
Minibus		30,000		30,000		30,000					30,000
Fire appliances x 5 - second half of build			500,000	500,000			500,000				500,000
Fire appliances x 3 - chassis only			270,000	270,000			270,000				270,000
Mitsubishi replacement - one of BR07-10			20,000	20,000		20,000					20,000
Training car CR99			12,000	12,000		12,000					12,000
Driver training car CR23			15,000	15,000		15,000					15,000
Principal officer car - Chief Fire Officer			38,000	38,000			38,000				38,000
Principal officer car - Deputy Chief Fire Officer			38,000	38,000			38,000				38,000
Water Carrier WC05			180,000	180,000			180,000				180,000
Unimog - subject to approval			250,000	250,000			250,000				250,000
Small fire fighting vehicles - subject to approval			180,000	180,000		180,000					180,000
Landrover LR23, forward control unit			45,000	45,000		45,000					45,000
Landrover LR24			20,000	20,000		20,000					20,000
Water Rescue Training Support Vehicle			20,000	20,000		20,000					20,000
Replacement Fire Station Programme			500,000	500,000				500,000			500,000
East Midlands Tri-Control Project			2,190,000	2,190,000	390,000	0		1,800,000			2,190,000
Live Fire Unit - Chesterfield			61,700	61,700	61,700						61,700
										-	-
	630,000	995,626	4,339,700	5,965,326	708,700	1,180,626	1,276,000	2,300,000	500,000	-	5,965,326

## Capital Programme 2013/14 to 2015/16

Capital Programme 2013/14											
	Spend				Funding						
	2011 report £	Slippage from 2012/13 £	New Schemes £	Estimated In Year Cost £	Reserves £	Revenue £	Leasing £	Capital Grant £	Capital Receipts £	Borrowing £	Total £
ICT Strategy	480,000			480,000				480,000			480,000
Fire appliances x 3 - second half of build			270,000	270,000			270,000				270,000
Water Carriers - WC06/07			400,000	400,000			400,000				400,000
Replacement Fire Station Programme			1,500,000	1,500,000	1,500,000						1,500,000
			-	-							-
			-	-							-
	480,000	-	2,170,000	2,650,000	1,500,000	-	670,000	480,000	-	-	2,650,000

Capital Programme 2014/15											
	Spend				Funding						
	2011 report £	Slippage from 2013/14 £	New Schemes £	Estimated In Year Cost £	Reserves £	Revenue £	Leasing £	Capital Grant £	Capital Receipts £	Borrowing £	Total £
ICT Strategy			500,000	500,000				500,000	0		-
Fire appliances x 8 - complete build			1,600,000	1,600,000			1,600,000				1,600,000
Replacement Fire Station Programme			2,000,000	2,000,000					2,000,000		2,000,000
Principal officer car - Deputy Chief Fire Officer			40,300	40,300			40,300				40,300
			-	-							-
			-	-							-
	-	-	4,140,300	4,140,300	-	-	1,640,300	500,000	2,000,000	-	4,140,300

Capital Programme 2015/16											
	Spend				Funding						
	2011 report £	Slippage from 2014/15 £	New Schemes £	Estimated In Year Cost £	Reserves £	Revenue £	Leasing £	Capital Grant £	Capital Receipts £	Borrowing £	Total £
ICT Strategy			500,000	500,000				500,000			500,000
Fire appliances - ALP			500,000	500,000			500,000				500,000
Fire appliances - Emergency Tender Vehicle			200,000	200,000			200,000				200,000
Replacement Fire Station Programme			2,000,000	2,000,000					2,000,000		2,000,000
Principal officer car - Chief Fire Officer			41,500	41,500			41,500				41,500
Principal officer car - Deputy Chief Fire Officer			41,500	41,500			41,500				41,500
			-	-							-
			-	-							-
	-	-	3,283,000	3,283,000	-	-	783,000	500,000	2,000,000	-	3,283,000