LANCASHIRE COMBINED FIRE AUTHORITY
Meeting to be held on 19 February 2018

CAPITAL BUDGET 2018/19-2022/23
(Appendices 1 and 2 refer)

Contact for further information:
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Executive Summary

The report sets out the final proposed capital programme for 2018/19-2022/23, together with the funding of this.

Recommendation

The Combined Fire Authority is asked to approve:-

- The proposed Capital Budget;
- Ordering 3 pumping appliances and 1 ALP, scheduled for replacement in 2019/20, in the new financial year in order to meet delivery timeframes;
- The Prudential Indicators as set out at Appendix 2.

Information

A report was presented to the meeting in December requesting Members give initial consideration to the Capital Programme for 2018/19-2022/23. The report highlighted anticipated spending of £20.2m compared with available funding of £22.4m, a funding surplus of £2.2m.

Revised Programme

The draft capital programme has been updated to reflect additional expenditure requirements associated with the replacement of Preston Fire and Ambulance Station, with the additional costs relating to potential enhancement to training facilities and demolition costs associated with the existing station, which are likely to be significant. Additionally we are forecasting a lower requirement in terms of officer cars than originally anticipated. Allowing for these changes the revised programme stands at £20.950m:-

	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**TOTAL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Vehicles	2.228	1.546	1.863	1.065	1.058	**7.760**
Operational Equipment	-	1.000	-	0.895	0.100	**1.995**
Buildings	5.500	2.500	1.500	-	-	**9.500**
IT Equipment	0.270	0.765	0.560	0.100	-	**1.691**
Total	**7.998**	**5.811**	**3.923**	**2.060**	**1.158**	**20.950**

A full breakdown of the programme is attached as appendix 1.

The majority of the expenditure in the capital programme relates to:-

- The on-going vehicle replacement programme;
- Replacement of operational equipment in line with assets lives;
- Building projects; and
- Replacement of ICT equipment in line with the current Asset Management Plan.

It is worth re-iterating that the full cost of schemes is included in the year in which work is anticipated to start, even when a scheme, such as the replacement of Preston Fire and Ambulance Station, is anticipated to spread over two financial years. Whilst this inevitably leads to slippage on the programme it ensures that the full costs of the scheme can be met from in-year budget should works proceed ahead of anticipated timescales.

As presented previously no allowance has been made of the potential relocation of Service Headquarters, as this project is due to be reviewed in 2018/19. The programme as presented will clearly need updating if the Authority decides to pursue the relocation.

A further report will be presented to the Resources Committee in June, confirming the final year end capital outturn for 2017/18 and the impact of slippage from this on the programme outlined above.

A number of vehicles have protracted lead times in excess of 12 months. Therefore in order to deliver vehicles in line with their replacement timeframes it is necessary to order pumping appliances, water towers and ALP’s at least 12 months prior to their planned replacement. As such orders in respect of 3 pumping appliances and 1 ALP scheduled for replacement in 2019/20 will need to be ordered in the new financial year.

Available Resources

The draft capital budget report identified total available funding of £22.4m to be used in the period.

The Local Government Finance Settlement did not include any reference to any other future capital grant and hence no allowance has been made for this.

The final funding for the programme is set out below:-

	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**TOTAL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Capital Grant	-	-	-	-	-	**-**
Capital Receipts	-	-	1.018	0.060	-	**1.078**
Capital Reserves	5.998	3.811	0.905	-	(0.842)	**9.872**
Revenue Contributions	2.000	2.000	2.000	2.000	2.000	**10.000**
Earmarked Reserves	-	-	-	-	-	**-**
	7.998	**5.811**	**3.923**	**2.060**	**1.158**	**20.950**

Summary Position

The capital programme breaks even over the 5 year period:-

	2018/19	2019/20	2020/21	2021/22	2022/23	TOTAL
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Capital Requirements	7.998	5.811	3.923	2.060	1.158	**20.950**
Capital Funding	7.998	5.811	3.923	2.060	1.158	**20.950**
Surplus/(Shortfall)	**-**	**-**	**-**	**-**	**-**	**-**

The overall programme shows a balanced position and hence the capital programme is considered affordable, prudent and sustainable.

Capital Reserves/Receipts

The table below shows the anticipated movements on both capital reserves and capital receipts during the course of the 5-year programme, as can be seen at the end of the 5 year programme the Authority will still hold £1.4m which can be used to supplement the revenue contributions in future years, thus providing a sustainable capital position in the medium term:-

	2018/19	2019/20	2020/21	2021/22	2022/23
Capital Reserves	**£m**	**£m**	**£m**	**£m**	**£m**
Balance at start of year	10.714	4.716	0.905	-	-
Utilised in year	(5.998)	(3.811)	(0.905)	-	0.842
Balance available for future years	4.716	0.905	-	-	0.842
Capital Receipts					
Balance at start of year	1.571	1.571	1.571	0.553	0.543
Utilised in year	-	-	(1.018)	(0.060)	-
Capital receipts	-	-	-	0.050	0.050
Balance available for future years	1.571	1.571	0.553	0.543	0.593
Total unused funding available	**6.287**	**2.476**	**0.533**	**0.543**	**1.435**

As highlighted earlier no allowance has been made for the potential relocation of SHQ. If this or any other major capital project is identified subsequently the above position will change significantly. Dependent upon the extent of any new project we will utilise all of the above reserves and may have to take out additional borrowing to deliver a balanced programme, with any such borrowing impacting directly on the revenue budget.

Prudential Indicators

The Prudential Code gives the Authority increased flexibility over its level of capital investment and much greater freedom to borrow, should this be necessary, to finance planned expenditure. However, in determining the level of borrowing, the Authority must prepare and take account of a number of Prudential Indicators aimed at demonstrating that the level and method of financing capital expenditure is affordable, prudent and sustainable. These Indicators are set out at Appendix 1, along with a brief commentary on each. The Prudential Indicators are based on the programme set out above, including projected slippage of £7.7m from the 2017/18 capital programme, the most significant element of which relates to the replacement of Preston Fire and Ambulance Station.

These indicators will be updated to reflect the final capital outturn position, and reported to the Resources Committee at the June meeting.

The main emphasis of these Indicators is to enable the Authority to assess whether its proposed spending and its financing is affordable, prudent and sustainable and in this context, the Treasurer's assessment is that, based on the Indicators, this is the case for the following reasons: -

- In terms of affordability, the negative ratio of financing costs arising from borrowing reflects interest receivable exceeding interest payable and Minimum Revenue Provision payments in each of the three years. This reflects the effect of the previous decision to set aside monies repay debt.
- The estimated impact of the planned spends on the Band D Council Tax is again felt to be within affordable limits. The overall impact on council tax in 2018/19 is £34.05 per Band D property (50% of total council tax). However, all of this arises from the utilisation of capital reserves, which have been charged to council tax in previous years and the revenue contributions to support capital expenditure built into the 2018/19 revenue budget. The actual impact of the capital programme in terms of new borrowing is £0.00 per band D property (0% of total council tax).
- In terms of prudence, the level of capital expenditure, in absolute terms, is considered to be prudent and sustainable at an annual average of £8.5m over the 3-year period after allowing for anticipated slippage from 2017/18. The trend in the capital financing requirement and the level of external debt are both considered to be within prudent and sustainable levels. No borrowing is planned during the three years.

Financial Implications

The financial implications are set out on the report.

Human Resource Implications

None.

Equality and Diversity Implications

The capital programme in respect of replacement/refurbishment of existing property will include some element of adaptations to ensure compliance with the Disability Discrimination Act.

Environmental Impact

The environmental impact of decisions relating to the capital programme will be considered as part of the project planning process, and where possible we will look to minimise the environmental impact of this and whether it is considered practical and cost effective to do so.

Business Risk Implications

The capital programme is designed to ensure that the Service has the appropriate assets in order to deliver its services; as such it forms a key element in controlling the risk to which the Authority is exposed.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact
CFA Revenue Budget and Treasury Management Strategy	February 2018	Keith Mattinson Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		

Appendix 1

Analysis of Capital Programme

Vehicles

The Fleet Asset Management plan has been used as a basis to identify the vehicle replacement programme, which is based on current approved lives:-

Type of Vehicle	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Pumping Appliance	1.230	0.630	0.862	0.662	0.679
Water Tower	0.484	-	-	-	-
Mobile Fire Stations (MFS)	0.290	-	-	-	-
Aerial Ladder Platform (ALP)	-	0.605	0.620	-	-
All-Terrain Vehicle	-	-	0.087	0.015	-
Prime mover	-	-	-	0.215	-
Pod	0.028	0.028	-	-	-
Operational Support Vehicles	0.196	0.283	0.294	0.173	0.379
	2.228	**1.546**	**1.863**	**1.065**	**1.058**

Operational Equipment

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Breathing Apparatus (BA) and Telemetry equipment	-	-	-	0.700	0.100
Cutting and extrication equipment	-	1.000	-	-	-
Light Portable Pumps	-	-	-	0.130	-
Defibrillators	-	-	-	0.065	-
	-	**1.000**	**-**	**0.895**	**0.100**

Buildings

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Preston Fire Station	3.500	-	-	-	-
Workshop/Training Support Facility	2.000	-	-	-	-
Training Assets	-	2.500	1.500	-	-
	5.500	**2.500**	**1.500**	**-**	**-**

ICT

	2018/19	2019/20	2020/21	2021/22	2022/23
Replace Existing Systems	**£m**	**£m**	**£m**	**£m**	**£m**
Dynamic Mobilising Tool	0.150				
Storage Area Network (SAN)	0.120				
Vehicle specification crash recovery software		0.020			
Pooled PPE system		0.080			
Hydrant Management system		0.020			
Finance system			0.250		
Incident Command system			0.060		
Asset Management system			0.100		
HR & Payroll system			0.150		
Community Fire Risk Management Information System (CFRMIS)				0.100	
	0.270	**0.120**	**0.560**	**0.100**	**-**
Operational Communications					
Alerters for RDS/DCP staff		0.065			
Incident Ground Radios		0.180			
Vehicle Mounted Data Systems (VMDS) hardware replacement		0.400			
	-	**0.645**	**-**	**-**	**-**
Total ICT Programme	**0.270**	**0.765**	**0.560**	**0.100**	**-**

APPENDIX 2

PRUDENTIAL CODE FOR CAPITAL FINANCE

Information

The Prudential Code for capital finance, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), is in the form of a professional code of practice to support local authorities in taking decisions on capital expenditure, borrowing and investments. In reaching these decisions the Authority must follow good professional practice and must assess the implications of capital expenditure in terms of affordability, prudence and sustainability. To enable authorities to demonstrate that its decisions reflect these principles, the code sets out indicators that must be used and factors which must be taken into account.

Affordability Indicators

The objective in consideration of the affordability of the Authority's capital plans is to ensure that total capital expenditure remains within sustainable limits, and to consider its impact on the authority's "bottom line" council tax, with affordability ultimately determined by a judgement about acceptable council tax levels.

Estimate of the ratio of financing costs to net revenue stream

	2018/19 Estimate	**2019/20 Estimate**	**2020/21 Estimate**
	%	%	%
Ratio of Financing Costs to Net Revenue Stream	(0.23)	(0.25)	(0.28)

The negative percentage of this indicator reflects the low level of underlying debt (following the repayment of the majority of our long term loans during 2017/18) for the Authority in comparison to the authority's level of investment income, i.e. interest receivable is greater than interest payable.

Estimate of capital expenditure

The estimates of capital expenditure to be incurred in future years, as per the proposed capital programme and allowing for slippage from the 2017/18 programme are:

	2018/19 Estimate including estimated slippage from 2017/18	**2019/20 Estimate**	**2020/21 Estimate**
	£m	£m	£m
Capital Expenditure	15.723	5.811	3.923

This indicator will also be applied at the year-end to reflect actual capital expenditure incurred.

Estimate of the incremental impact of capital investment decisions on the council tax.

The estimate of the impact of the capital programme would indicate the following increases in the band D council tax over the period:

	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Gross Increases in Band D Council Tax	£34.05	£13.21	£8.77
Estimated Government Support (RSG)	-	-	-
Increases in Band D Council Tax	**£34.05**	**£13.21**	**£8.77**
Of which, due to the budgeted revenue contribution	(£4.63)	(£4.55)	(£4.47)
Of which, due to utilisation of reserves	(£29.42)	(£8.66)	(£4.30)
Net Increases in Band D Council Tax	-	-	-

The above is based on the planned level of capital spending and financing for the period 2018/19 to 2020/21. The figures show the gross impact on council tax levels excluding government support, the figure net of government support, and also the figure excluding the drawdown from reserves and the revenue contribution.

As can be seen, all of the increases in council tax are funded from the drawdown from reserves (this element has already been charged to the council tax in previous years), plus the planned annual revenue contribution. Hence the net impact in terms of new council tax will zero in each year as we are not planning to borrow to fund the capital programme.

Prudence and Sustainability Indicators

Many of the principles used to determine prudent and sustainable financial management in terms of borrowing are reflected in the CIPFA Code of Practice for Treasury Management in the Public Service. In this respect the Authority has adopted this code and as such is well placed to meet the requirements under the prudential code.

The Prudential Indicators in respect of external debt are aimed at ensuring that the level of external debt is kept within sustainable and prudent limits. In order to determine this, the following indicators are required:

Estimate of capital financing requirement

	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£m	£m	£m
Capital Financing Requirement	0.250	0.255	0.260

The capital financing requirement measures the authority’s underlying need to borrow for a capital purpose, and reflects the effects of previous investment decisions as well as future planned expenditure. In accordance with best professional practice, the Authority does not associate borrowing with particular items or types of expenditure. External borrowing arises as a consequence of all the financial transactions of the Authority and not simply those arising from capital spending, but in the medium term the Treasurer anticipates that borrowing is undertaken for capital purposes only. These capital financing requirements then feed through into the anticipated level of external debt as reported in the Treasury Management Strategy elsewhere on the agenda, but repeated here for completeness. As reported in the Treasury Management Strategy the Authority has made additional MRP provisions since 2010/11 in order to reduce capital financing requirements to zero and hence the charges associated with this.

Authorised limit for its total external debt

In respect of its external debt the Authority is required to set two limits over the three-year period: an authorised limit and an operational boundary. Both are based on the planned capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes. It should be noted that these limits have then been uplifted to include potential borrowing associated with a future decision to go ahead with a replacement Headquarters.

The operational boundary is based on the most likely, but not worst case, scenario and represents the maximum level of external debt projected by these estimates. However, unexpected cashflow movements can occur during the year and some provision needs to be made in setting the authorised limit to deal with this.

The two indicators are as follows:

	2018/19 Estimate	**2019/20 Estimate**	**2020/21 Estimate**
	£m	£m	£m
Authorised Limit for External Debt			
Borrowing	5.000	7.000	12.000
Other long term liabilities	15.000	15.000	14.000
Total	**20.000**	**22.000**	**26.000**
Operational Boundary for External Debt			
Borrowing	3.000	5.000	10.000
Other long term liabilities	14.200	13.800	13.400
Total	**17.200**	**18.800**	**23.400**

Estimate of the ratio of gross debt to capital financing requirement

In order to ensure that over the medium term that debt will only be for capital purposes, the Authority should ensure that debt does not exceed the total of capital financing requirement for the current and next two financial years. This is a key indicator of prudence. A ratio under 100% shows that the Authority’s estimated gross debt (which includes all PFI liabilities) is less than the estimated capital financing requirement.

As reported in the Treasury Management Strategy the Authority has made additional MRP provisions since 2010/11 in order to reduce capital financing requirements and hence the charges associated with this, and in order to set monies aside to pay off debt as it matures. It used these monies to pay off £3.2m of debt in October 2017. As a result of this the level of debt now held, £2.0m, exceeds the capital financing requirement, £0.0m, resulting in the following ratios:-

	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	%	%	%
Ratio of gross debt to capital financing requirement	114.16	114.52	114.95

The debt to CFR ratio is above 100% because the Authority has been reducing the CFR by making additional voluntary MRP contributions, and has paid off all but £2m of existing long term borrowing.

However, if the Authority had not adopted this policy the following ratios would apply which would be less than target 100%:

	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	%	%	%
Ratio of gross debt to capital financing requirement	71.10	70.64	70.12