LANCASHIRE COMBINED FIRE AUTHORITY
Meeting to be held on 20 February 2017

CAPITAL BUDGET 2017/18-2021/22
(Appendices 1 and 2 refer)

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Executive Summary

The report sets out the final proposed capital programme for 2017/18-2021/22, together with the funding of this.

Recommendation

The Combined Fire Authority is asked to approve:-

- The proposed Capital Budget;
- The Prudential Indicators as set out at Appendix 2.

Information

A report was presented to the meeting in December requesting Members to give initial consideration to the Capital Programme for 2017/18-2021/22. The report highlighted anticipated spending of £23.1m compared with available funding of £26.1m, a funding surplus of £3.0m.

Revised Programme

There are no changes to the draft programme as presented in December, as a result the overall capital programme remains:-

	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**TOTAL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Vehicles	1.659	1.806	2.814	0.962	1.070	**8.311**
Operational Equipment	0.420	0.350	1.550	0.250	0.435	**3.005**
Buildings	4.750	4.000	-	-	-	**8.750**
IT Equipment	1.350	0.545	0.720	0.210	0.200	**3.025**
Total	**8.179**	**6.701**	**5.084**	**1.422**	**1.705**	**23.091**

Although there are no changes to the draft programme it should be noted that there is a possibility that the £0.8m budget in 2017/18 in relation to the Emergency Services Mobile Communications Programme (ESMCP) may slip into 2018/19 should the national programme milestones be moved further backwards. It should also be noted that there is £0.2m capital budget allocated in 2016/17 for ESMCP which will be in a similar position.

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.

A further report will be presented to the Resources Committee in June, confirming the final year end capital outturn for 2016/17 and the impact of slippage from this on the programme outlined above.

Available Resources

The draft capital budget report identified total available funding of £26.1m 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.

As referred to in the December capital budget report it is proposed to utilise £2.6m of general reserves to fund the 5 year programme, resulting in the Authority still holding £3.0m of capital receipts and reserves at the end of the period, and therefore being in a stronger position to meet recurring capital requirements.

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

	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**TOTAL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Capital Grant	0.800	-	-	-	-	**0.800**
Capital Receipts	-	-	-	-	-	**-**
Capital Reserves	2.730	4.951	3.334	(0.328)	(0.045)	**10.642**
Revenue Contributions	2.000	1.750	1.750	1.750	1.750	**9.000**
Earmarked Reserves	0.049	-	-	-	-	**0.049**
General Reserves	2.600	-	-	-	-	**2.600**
	8.179	**6.701**	**5.084**	**1.422**	**1.705**	**23.091**

Summary Position

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

	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**TOTAL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Capital Requirements	8.179	6.701	5.084	1.422	1.705	**23.091**
Capital Funding	8.179	6.701	5.084	1.422	1.705	**23.091**
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 £3.0m which can be used to supplement the revenue contributions in future years, thus providing a sustainable capital position in the medium term:-

	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Capital Reserves	**£m**	**£m**	**£m**	**£m**	**£m**
Balance at start of year	12.120	9.390	4.439	1.105	1.433
Utilised in year	(2.730)	(4.951)	(3.334)	0.328	0.045
Balance available for future years	9.390	4.439	1.105	1.433	1.478
Capital Receipts					
Balance at start of year	1.501	1.501	1.501	1.501	1.501
Utilised in year	-	-	-	-	-
Balance available for future years	1.501	1.501	1.501	1.501	1.501
Total unused funding available	**10.891**	**5.940**	**2.606**	**2.934**	**2.979**

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 £4.3m from the 2016/17 capital programme. 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 to 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 2017/18 is £26.55 per Band D property (40% 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 2017/18 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 £8.1m over the

3-year period after allowing for anticipated slippage from 2016/17. 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 in 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 2017	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:-

	No of Vehicles				
Type of Vehicle	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Pumping Appliance	6	6	6	3	3
Mobile Fire Stations (MFS)	1	1	-	-	-
Aerial Ladder Platform (ALP)	-	-	2	-	-
All Terrain Vehicle	-	-	1	-	1
Prime mover	-	-	-	-	2
Pod	-	1	1	-	-
Operational Support Vehicles	10	15	10	15	11
	17	23	20	18	17

Operational Equipment

	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	£m	**£m**	**£m**	**£m**	**£m**
Thermal Imaging Cameras (TICs)	0.220	-	-	-	-
Breathing Apparatus Radios	0.200	-	-	-	-
Breathing Apparatus (BA) and Telemetry equipment	-	0.100	0.700	-	-
Cutting and extrication equipment	-	-	0.600	-	-
Light Portable Pumps	-	-	-	-	0.130
Defibrillators	-	-	-	-	0.055
Future fire fighting	-	0.250	0.250	0.250	0.250
	0.420	**0.350**	**1.550**	**0.250**	**0.435**

Buildings

	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	£m	**£m**	**£m**	**£m**	**£m**
Property Capital Works arising from stock condition survey and Emergency Cover Reviews	3.500	4.000	-	-	-
Training assets investment	1.250	-	-	-	-
	4.750	**4.000**	**-**	**-**	**-**

ICT

	2017/18	2018/19	2019/20	2020/21	2021/22
Replace Existing Systems	**£m**	**£m**	**£m**	**£m**	**£m**
Performance Management	0.100				
Geographic Information System (GIS) Risk Information	0.050				
Vehicle specification crash recovery software		0.020			
Pooled PPE system		0.080			
Rota system (Retained Duty System)		0.050			
Dynamic Mobilising Tool		0.150			
Rota system (Whole-time Duty System and officer cover)			0.050		
Hydrant Management system			0.020		
Finance system			0.250		
HR & Payroll system				0.150	
Incident Command system				0.060	
Community Fire Risk Management Information System (CFRMIS)					0.100
Asset Management system					0.100
	0.150	**0.300**	**0.320**	**0.310**	**0.200**
Operational Communications					
ESMCP (Airwave) replacement (estimated)	0.800				
Station end mobilising system	0.400				
Alerters for RDS/DCP staff	-	0.065			
Incident Ground Radios		0.180			
Vehicle Mounted Data Systems (VMDS) hardware replacement			0.400		
	1.200	**0.245**	**0.400**	**-**	**-**
Total ICT Programme	**1.350**	**0.545**	**0.720**	**0.310**	**0.200**

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

	2017/18 Estimate	**2018/19 Estimate**	**2019/20 Estimate**
	%	%	%
Ratio of Financing Costs to Net Revenue Stream	0.05	0.11	0.19

The very small percentage of this indicator reflects the low amount of underlying debt for the Authority in previous years and the authority's level of investment income.

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 2016/17 programme are:

	2017/18 Estimate including estimated slippage from 2016/17	**2018/19 Estimate**	**2019/20 Estimate**
	£m	£m	£m
Capital Expenditure	12.412	6.701	5.084

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:

	2017/18 Estimate	**2018/19 Estimate**	**2019/20 Estimate**
Gross Increases in Band D Council Tax	£26.55	£15.72	£11.81
Estimated Government Support (RSG)	-	-	-
Increases in Band D Council Tax	**£26.55**	**£15.72**	**£11.81**
Of which, due to the budgeted revenue contribution	(£7.40)	(£4.11)	(£4.06)
Of which, due to utilisation of reserves	(£19.15)	(£11.61)	(£7.75)
Net Increases in Band D Council Tax	-	-	-

The above is based on the planned level of capital spending and financing for the period 2017/18 to 2019/20. 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 is 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

	2017/18 Estimate	**2018/19 Estimate**	**2019/20 Estimate**
	£m	£m	£m
Capital Financing Requirement	-	-	-

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 Minimum Revenue Provision (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. 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:

	2017/18 Estimate	**2018/19 Estimate**	**2019/20 Estimate**
	£m	£m	£m
Authorised Limit for External Debt			
Borrowing	7.800	7.800	7.800
Other long term liabilities	14.500	14.200	13.800
Total	**22.300**	**22.000**	**21.600**
Operational Boundary for External Debt			
Borrowing	6.800	6.800	6.800
Other long term liabilities	14.500	14.200	13.800
Total	**21.300**	**21.000**	**20.600**

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 has not used these monies to pay off debt early due to the penalties associated with this. As a result of this the level of debt now held, £6.0m, exceeds the capital financing requirement, £0.0m, resulting in the following ratios:-

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	%	%	%
Ratio of gross debt to capital financing requirement	135.84	134.36	132.85

The debt to Capital Financing Requirement (CFR) ratio is above 100% because the Authority has been reducing the CFR by making additional voluntary MRP contributions, which are held in a reserve in anticipation of repaying the debt when it becomes cost effective to do so.

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

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	%	%	%
Ratio of gross debt to capital financing requirement	85.59	83.92	82.18