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Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
4 February 2016

Capital Programmes 2016/17 to 2019/20 and Prudential Guidelines

Report of the Treasurer

For further information about this report please contact James Walton, Treasurer, on 01743 255011, or Joanne Coadey, Head of Finance, on 01743 260215.

1 Purpose of Report

This report presents the capital programmes for 2016/17 to 2019/20, for consideration by the Committee in the context of Prudential Guidelines.

2 Recommendations

The Committee is asked to recommend that the Fire Authority:

a) Confirm the 2016/17 onward programmes, set out in the Appendix (exempt paper 12), as part of its final precept deliberations;
b) Approve the Prudential Indicators and the Treasury Strategy for 2016/17;
c) Approve the Minimum Revenue Provision 2016/17; and
d) Note the review of the Treasury Management Practices and Main Principles for 2016/17.

3 Background

Consideration of the future capital programmes must be in the context of producing a balanced budget. This means that the increases in capital expenditure must be limited by increases in debt charges, caused by increased borrowing and increases in running costs from new capital projects.

The Fire Authority must also have regard to the Prudential Code and must set Prudential Indicators for the next three years to ensure that its capital investment plans are affordable, prudent and sustainable.

4 The Capital Programme

The Capital Programme for 2016/17 and later years has been reviewed by officers, and the schemes that require approval are shown in bold italics at the Appendix. The schedule also provides some background to the proposed schemes, some of which require reviews before any expenditure is undertaken, and others, which are replacement items. Further information on the schemes proposed for 2016/17 is available from officers.

As all of the proposed schemes are to be funded from revenue or capital grant, there are no revenue consequences to consider.

The start dates of a number of schemes, already approved as part of previous Capital Programmes, have been changed following consideration by the Fire Authority. These schemes are shown within the Capital Programme in the appendix to enable the Committee to consider the Programme in its entirety, but approval is not required.

Members will be aware of the project currently being undertaken which is considering the future use of the Stafford Park site in Telford. A provisional scheme has been included in the capital programme, and the options for the site will be presented to the Authority in February.

The Fire Authority agreed in October 2014 that future savings would be contributed to the unearmarked Capital Reserve, to fund development of the Stafford Park site.

5 Treasury Management Strategy Statement

The Local Government Act 2003 requires the Authority to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). This sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Fire Authority employs Shropshire Council to manage its treasury functions, who in turn have appointed Capita Treasury Services as their independent advisor.

6 Prudential Guidelines

The Act requires the Authority to 'have regard to' the Prudential Code for Capital Finance in Local Authorities and to set Prudential Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

The key issue is to ensure that the revenue consequences of the proposed investment will not lead to unacceptable financial pressures in later years. A summary of the prudential indicators for the budget period is shown below.

Prudential Indicator	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Capital Financing Requirement (CFR)	4,166	3,888	3,617	3,346
Operational boundary for external debt	5,810	5,698	5,698	5,698
Authorised limit for external debt	7,166	6,888	6,617	6,346
Ratio of financing costs to net revenue stream	3.09%	3.20%	3.29%	3.31%
Impact of new capital investment on Band D precept	-	-	-	-

7 Gross Debt and Capital Financing Requirement

The Authority's gross debt, at 5.698m, is higher than its Capital Financing Requirement, set in 2015/16 at £4.166m.

The reason for this difference is that future Capital Programmes are being funded by reserves and balances, therefore no funding requirement is necessary. However, as minimum revenue provision is set aside each year against past borrowing and assets, this reduces the existing borrowing requirements. This is allowable, as the Authority will still operate within its Operational Boundary and Authorised Limit.

8 Treasury Strategy 2016/17

Economic Background

UK Gross Domestic Product (GDP) growth rates have continued to fall in 2015, with a growth of just 0.4% reported in quarter 3. However, the Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% - 2.7% over the next three years. For this recovery to be sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure.

The Monetary Policy Committee are concerned that the squeeze on the disposable income of consumers should be reversed by wage inflation rising above Consumer Prices Index (CPI) inflation. The Committee would like to see wage inflation rise and stay consistently above 3% before raising Bank Rate.

The forecast for the first rise in Bank Rate has been pushed back progressively over the last year, from Q4 in 2015 to Q4 in 2016. Increases are likely to be at a much slower pace, and to lower levels, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008.

Borrowing Strategy

It is anticipated that any borrowing will continue to be made through the Public Works Loan Board (PWLB).

In terms of PWLB rates, the overall trend in the longer term will be for rates to rise when economic recovery is firmly established, accompanied by rising inflation and consequent increases in Bank Rate.

The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs.

There will remain a cost to any new borrowing, which causes an increase in investments, as this will incur a revenue loss between borrowing costs and investment returns.

External versus Internal Borrowing

The Fire Authority's approach to borrowing has continued to be the use of cash surpluses and reserves to finance new capital expenditure, so as to run down cash balances and minimise counterparty risk incurred on investments. Therefore, any new borrowing over the next few years is unlikely, and lower levels of cash will be available for investment.

Investment Strategy

The Fire Authority's investment policy will have regard to Communities and Local Government (CLG) Guidance on Local Government Investments (the Guidance) and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA TM Code).

The Fire Authority's investment priorities are:

a) Firstly, the security of capital; and
b) Secondly, the liquidity of its investments.

The Fire Authority will also aim to achieve the optimum return on its investments within the primary objectives of security and liquidity.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and will not be undertaken.

This is the initial strategy for 2016/17, and will only be revised by approval of the Fire Authority, should there be significant improvement in the position of current lending uncertainties.

The Fire Authority will only lend to bodies of high credit quality, that is, the UK Government, local authorities or counter parties with a credit rating acceptable to Shropshire Council and endorsed by the Treasurer, or which effectively take on the creditworthiness of the UK Government itself.

The Fire Authority employs Shropshire Council to manage its investments, and they:

- Use three credit rating agencies;
- Are advised by investment consultants;
- Monitor and review creditworthiness regularly; and
- Provide appropriate training to Treasury Management staff.

The Treasurer is updated regularly on all changes to acceptable borrowers and may be more restrictive to ensure that security of capital is prioritised. It has been agreed that investments with any one borrower will be limited to £2.0m, except the UK Government through the Debt Management Office (DMO). In the current period of uncertainty, and to ensure liquidity, no loans will be made for a period of more than 12 months.

Investments will be sterling denominated. Funds available for investment are cash flow derived, but there is a core balance available through the Fire Authority's reserves.

At the end of the financial year, the Fire Authority will report on its investment activity as part of its Annual Treasury Report, and will also provide quarterly updates throughout the year.

Prudential Indicators for Borrowing and Lending

Consistent with Treasury and Investment Strategies, the Fire Authority is recommended to adopt the following Prudential Guidelines for the period to 31 March 2018:

1. Borrowing

a) Upper limit for net principal fixed interest rate exposure - 100%
b) Upper limit for net principal variable interest rate exposure - 20%

2. Investment

a) Upper limit for net principal fixed interest rate exposure -100%
b) Upper limit for net principal variable interest rate exposure - 100%

3. Maturing Structure of Fixed Rate Borrowing

	Upper Limit (%)	**Lower Limit (%)**
Under 12 months	30	0
12 months to 24 months	30	0
24 months and within 5 years	30	0
5 years and within 10 years	30	0
10 years and above	100	70

4. Investments for more than 364 days – nil

9 Minimum Revenue Provision 2016/17

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 came into force on 31 March 2008. These regulations introduced several changes to the capital finance regime for local authorities (including fire authorities) in England. The most significant of these was the new provision for dealing with the calculation of Minimum Revenue Provision (MRP), which is the amount that an authority charges to its revenue account in respect of the financing of capital expenditure.

Under these regulations, an authority is required to set aside an amount of MRP, which it considers prudent. Interpretation within the guidance states:

"Provision for the borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service."

Essentially, this means that provision charged to the revenue account in respect of borrowing must reflect the lives of the assets, for which funds have been borrowed.

Authorities are required to produce an annual statement on their policy for MRP for each financial year. This statement is being submitted for the financial year 2016/17, prior to the start of the financial year.

10 Options

The guidance on prudent provision contains four options for calculating MRP. Authorities may choose an alternative method, but must demonstrate that it is prudent. The policy set out below is recommended to Members for use by the Fire Authority:

- For all borrowing incurred during or before 2006/07, the MRP applied in 2007/08 will be calculated on the basis of 4% of the Capital Financing Requirement (CFR).

  This method was used for the 2007/08 financial year, and will continue to be used in future years for all capital expenditure incurred before 31 March 2007. In addition, a voluntary revenue provision of 4% has been made on all assets, other than land and buildings, from schemes starting in 2005/06, to align financing costs to the lives of those assets.

- For all borrowing incurred in 2007/08 and subsequently, the MRP applied has been calculated on the basis of the Asset Life method. This method was selected, because it charges the financing costs of assets over the lives of those assets in equal instalments each year, and follows the same principles as the provisions made by the Fire Authority from 2006/07. This method will be continued into the coming year.

11 Treasury Management Policy

The Treasurer has responsibility for Treasury Management, and as such carries out operations in accordance with the Authority's Treasury Strategy, above. This responsibility includes the preparation of the Treasury Management Practices, and the schedules specifying the systems and routines to be employed.

The main principles of the Treasury Management Practices were updated and approved by members in February 2015. The principles have been reviewed this year by officers, and no amendments are necessary. They will be reviewed and presented to the Fire Authority on an annual basis.

12 Financial Implications

Financial implications are as set out within this report.

13 Legal Comment

The Local Government Act 2003 requires the Fire Authority to "determine and keep under review how much money it can afford to borrow". In doing so, it "shall have regard to the Prudential Code for Capital Finance in Local Authorities".

14 Initial Impact Assessment

An Initial Impact Assessment form has been completed.

15 Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Human Resources 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment is not, therefore, required.

16 Appendix

Appendix
Exempt Paper 12 - Capital Programmes 2016/17 to 2019/20 and Prudential Guidelines

17 Background Papers

Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services