

Capital Programmes 2015/16 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 2015/16 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 2015/16 onward programmes, set out in Appendix A (exempt paper 13), as part of its final precept deliberations;
- b) Approve the Prudential Indicators and the Treasury Strategy for 2015/16;
- c) Approve the Minimum Revenue Provision 2015/16; and
- d) Approve the Treasury Management Practices and Main Principles for 2015/16.

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 Amendments to the Capital Programme

The Capital Programme for 2015/16 and later years has been reviewed by officers, and some additional schemes have been added since the November meeting. The schemes that require approval are shown in bold italics at Appendix A. 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.

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.

A review is to be undertaken on the future use of the Stafford Park site in Telford, site of the fire station and training centre.

As neither the timing nor the cost of this development can be anticipated, there is no provision in the current capital programme, but recommendations following the review will be presented to the Fire Authority for consideration.

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	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Capital Financing Requirement (CFR)	4,450	4,166	3,888	3,617
Operational boundary for external debt	5,810	5,810	5,810	5,810
Authorised limit for external debt	7,450	7,166	6,888	6,617
Ratio of financing costs to net revenue stream	3.48%	3.21%	3.23%	3.22%
Impact of new capital investment on Band D precept	-	-	-	-

7 Gross Debt and Capital Financing Requirement

The Authority's gross debt, at 5.810m, 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 2015/16

Economic Background

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013, and especially during 2014, to surpass all expectations, propelled by recovery in consumer spending and the housing market. Indications are that growth prospects are strong for 2015, particularly in the services and construction sectors. However, growth in the manufacturing sector and in exports has weakened during 2014 due to poor growth in the Eurozone.

There does need to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this initial stage in the recovery to become more firmly established. One drag on the economy is that wage inflation has been lower than Consumer Price Index inflation, so eroding disposable income and living standards, although income tax cuts have eased this to some extent. This means that labour productivity must improve significantly for the situation to be corrected by warranting increases in pay rates. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen in the near future.

The US, the main world economy, faces similar debt problems to the UK, but, thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

Investment returns are likely to remain relatively low during 2015/16 and beyond.

Borrowing Strategy

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

Borrowing interest rates have been volatile during 2014, as alternative good news and bad news has affected financial markets. However a build-up of negative news in the latter part of 2014 has led to an overall trend in falling rates.

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 2015/16, 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 2015/16

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 2015/16, 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 have not been reviewed since 2010; these will now be reviewed and presented to the Fire Authority on an annual basis.

The updated Practices are shown at Appendix B.

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 Appendices

Appendix A

Exempt Paper 13 Capital Programmes 2015/16 to 2019/12 and Prudential Guidelines

Appendix B

Treasury Management Practices

17 Background Papers

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

TREASURY MANAGEMENT

PRACTICES

Part 1: Main Principles

April 2014



TREASURY MANAGEMENT PRACTICES

Treasury Management Practices (TMPs) set out the manner in which Shropshire Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

- TMP 1 Risk management**

- TMP 2 Performance measurement**

- TMP 3 Decision-making and analysis**

- TMP 4 Approved instruments, methods and techniques**

- TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements**

- TMP 6 Reporting requirements and management information arrangements**

- TMP 7 Budgeting, accounting and audit arrangements**

- TMP 8 Cash and cash flow management**

- TMP 9 Money laundering**

- TMP 10 Training and qualifications**

- TMP 11 Use of external service providers**

- TMP 12 Corporate governance**



TMP1 RISK MANAGEMENT

The Head of Finance, Governance & Assurance (s151 Officer) will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

[1] Credit and Counterparty Risk Management

SC regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in *TMP4 Approved Instruments, methods and techniques* and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

[2] Liquidity risk management

Shropshire Council (SC) will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives.

SC will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

[3] Interest rate risk management

SC will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with *TMP6 Reporting requirement and management information arrangements*

SC will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This will be subject to the consideration and, if required, approval of any policy or budgetary implications.

[4] Exchange rate risk management

SC will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.



[5] Refinancing risk management

SC will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favorable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

SC will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

[6] Legal and regulatory risk management

SC will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under *TMP1.1 Credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

SC recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

[7] Fraud, error and corruption, and contingency management

SC will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

[8] Market risk management

SC will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TMP2 PERFORMANCE MEASUREMENT

SC is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

TMP3 DECISION-MAKING AND ANALYSIS

SC will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

SC will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1, *Risk management*.

TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

SC considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, and for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principles on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when SC intends, as a result of lack of resources or other circumstances, to depart from these principles, the Head of Finance, Governance & Assurance (s151 Officer) will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The Head of Finance, Governance & Assurance (s151 Officer) will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The present arrangements are detailed in the schedule to this document.

The Head of Finance, Governance & Assurance (s151 Officer) will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegation to the Head of Finance, Governance & Assurance (s151 Officer) in respect of treasury management is set out in the schedule to this document. The Head of Finance, Governance & Assurance (s151 Officer) will fulfill all such responsibilities in accordance with the organisation's policy statement and TMPs and, the Standard of Professional Practice on treasury management.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

SC will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the organisation (i.e. full board/council/cabinet/audit) will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.
- A mid year review
- An annual investment strategy setting out the procedures for determining the use of each class of investment and appropriate limits to be applied to each class.
- Quarterly Treasury Management Update reports (including Prudential Indicators)

The Audit Committee has responsibility for the scrutiny of treasury management policies and practices.

The present arrangements and the form of these reports are detailed in the schedule to this document.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Head of Finance, Governance & Assurance (s151 Officer) will prepare, and SC will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques. The form which SC's budget will take is set out in the schedule to this document. The Head of Finance, Governance & Assurance (s151 Officer) will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.



SC will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

SC will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfillment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed in the schedule to this document.

TMP8 CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of SC will be under the control of the Head of Finance, Governance & Assurance (s151 Officer), and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Head of Finance, Governance & Assurance (s151 Officer) will ensure that these are adequate for the purposes of monitoring compliance with TMP1[2] Liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

TMP9 MONEY LAUNDERING

SC is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.”

In accordance with the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2007, SC has adopted an Anti-Money Laundering Policy. The officer nominated to receive disclosures about money laundering activity within the Council is Ceri Pilawski, Audit Service Manager.

TMP10 TRAINING AND QUALIFICATIONS

SC recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Head of Treasury and Pensions will recommend and implement the necessary arrangements.

The Head of Finance, Governance & Assurance (s151 Officer) will ensure that council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule to this document.



TMP11 USE OF EXTERNAL SERVICE PROVIDERS

SC recognises that responsibility for treasury management decisions remains with the organisation at all times. SC also recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Head of Treasury and Pensions, and details of the current arrangements are set out in the schedule to this document.

TMP12 CORPORATE GOVERNANCE

SC is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

SC has adopted and has implemented the key recommendations of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Head of Treasury and Pensions will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

The Council is required under Regulation 4 of the Accounts and Audit Regulations 2003 to be responsible for ensuring that the financial management of the organisation is adequate and effective and has a sound system of internal control which facilitates the effective exercise of the Council's functions, including arrangements for the management of risk. SC carries out an annual review of the effectiveness of its system of internal control and produces a statement on internal control, prepared in accordance with proper practices, within the annual statement of accounts.

