Shropshire and Wrekin Fire and Rescue Authority
26 February 2014

Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
6 February 2014

Capital Programmes 2014/15 to 2018/19 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 2014/15 to 2018/19, 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 2014/15 onward programmes, set out in the Appendix (exempt paper 11), as part of its final precept deliberations;
b) Approve the Prudential Indicators and the Treasury Strategy for 2014/15; and
c) Approve the Minimum Revenue Provision 2014/15.

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, approved for consultation purposes in November 2013, produced the following summary.

Total Cost of Schemes	Revenue Consequences				
	2014/15	2015/16	2016/17	2017/18	2018/19
£000	£000	£000	£000	£000	£000
1,010	5	15	20	25	30

The Capital Programme for 2014/15 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 in the appendix.

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.

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 Sector 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 on the following page.

Prudential Indicator	2013/14 £000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Capital Financing Requirement (CFR)	4,699	4,407	4,123	3,845
Operational boundary for external debt	5,810	5,810	5,810	5,810
Authorised limit for external debt	7,699	7,407	7,123	6,845
Ratio of financing costs to net revenue stream	3.43%	3.39%	3.45%	3.33%
Impact of new capital investment on Band D precept		3p	3p	3p

7 Gross Debt and Capital Financing Requirement

The Authority's gross debt, at 5.810m, is higher than its Capital Financing Requirement, set in 2014/15 at £4.407m.

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 2014/15

Economic Background

The economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history; however growth rebounded in the first two quarters of 2013, surpassing expectations. Growth prospects remain strong in the three main sectors, manufacturing, services and construction, as well as in the UK economy as a whole. However, wage inflation continues to remain below CPI (Consumer Prices Index), so disposable income and living standards remain under pressure.

As 40% of UK exports go to the Eurozone, difficulties in this area are likely to continue to dampen UK growth. Eurozone sovereign debt diificulties remain and there is some concern as to how this will be managed over the next few years. Counterparty risks are hgh and this suggests the use of higher quality counterparties for shorter time periods.

Investment returns are likely to remain relatively low during 2014/15.

Borrowing Strategy

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

Borrowing interest rates have risen significantly during 2013 and this is set to continue. 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 had 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 2014/15, and will only be revised by the 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 2017:

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 2014/15

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 the new 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 2014/15, 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 Financial Implications

Financial implications are as set out within this report.

12 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”.

13 Initial Impact Assessment

An Initial Impact Assessment form has been completed.

14 Appendix

Exempt paper 11 Capital Programmes 2014/15 to 2018/19 and Prudential Guidelines

15 Background Papers

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