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Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
20 January 2011

Capital Programmes 2011/12 to 2015/16 and Prudential Guidelines

Report of the Treasurer

For further information about this report please contact Keith Dixon, Treasurer, on 01743 260202.

1 Purpose of Report

This report presents the capital programmes for 2011/12 to 2015/16, 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 2011/12 onward programmes, as set out in the Appendix, as part of its final precept deliberations;
b) Approve the Prudential Indicators and the Treasury Strategy for 2011/12; and
c) Approve the Minimum Revenue Provision 2011/12.

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 December 2010 produced the following summary.

Total Cost of Schemes	**Revenue Consequences**				
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
2,930	33	108	125	190	227

Since the December 2010 meeting, no changes have been made to the programme.

The capital programme now proposed to the Fire Authority for its 2011/12 budget appears as an **exempt** appendix to this report, shown at item 14 on the agenda for this meeting.

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 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	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
Capital Financing Requirement (CFR)	6,410	8,256	8,256	8,256
Operational boundary for external debt	6,410	8,256	8,256	8,256
Authorised limit for external debt	9,410	11,256	11,256	11,256
Ratio of financing costs to net revenue stream	3.58%	4.32%	4.84%	4.79%
Impact of new capital investment on Band D precept		21p	45p	11p

7 Treasury Strategy 2011/12

Economic Background

Following the general election in May 2010, the coalition government has put in place an austerity plan to carry out correction of the public sector deficit over the next five years.

Borrowing Strategy

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

Rates for PWLB loans were increased by one per cent following the Comprehensive Spending Review, which has made borrowing more expensive.

The 25 year and 50 year rates are likely to start the year at 5.2% - 5.3%, rising steadily to 5.4% – 5.5% by the end of the year.

External versus Internal Borrowing

The next financial year is expected to be one of historically low Bank Rate, and again offers the opportunity for the Fire Authority to review its strategy of undertaking new external borrowing.

As long as borrowing rates are expected to be higher than rates to be earned on investing our cash balances, and look likely to be for the next couple of years, external borrowing could be avoided in order to maximise short-term savings.

The running down of investments also has benefits of reducing exposure to interest rate and credit risk.

However, short-term savings should also be weighed against the potential for incurring long-term extra costs by delaying unavoidable new external borrowing until later years when PWLB long-term rates are forecast to be significantly higher.

Borrowing strategy will therefore be based on the balance of advantage. Borrowing will be avoided initially, but the situation will be monitored, and, should the prospect of borrowing rates rising significantly in future years and/or investment rates recovering increase, some PWLB loans will be taken. It is not, however, intended that money will be borrowed in advance of spending needs.

Investment Strategy

The Fire Authority will have regard to Communities and Local Government's (CLG) Guidance on Local Government Investments ("the Guidance") issued in March 2010, any revisions to that guidance, the Audit Commission's report on Icelandic Investments and the 2009 revised Chartered Institute of Public Finance and Accountancy's (CIPFA's) Treasury Management in Public Services Code of Practice and Cross Sectorial 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 this Authority will not engage in such activity.

This is the initial strategy for 2011/12, 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 your 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
- 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. This explains much of the difference between gross and net borrowing, which should reduce, particularly as the Un-earmarked Capital Reserve is used to fund the St Michael's Street project.

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 2014:

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

8 Minimum Revenue Provision 2011/12

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 that:

"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 2011/12, prior to the start of the financial year.

9 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 following policy 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.

10 Financial Implications

The financial implications are as set out in the report.

11 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".

12 Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Personnel 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 has not, therefore, been completed.

13 Appendix

Exempt item 13 Capital Programmes 2011/12 to 2015/16

14 Background Papers

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

Implications of all of the following have been considered and, where they are significant (i.e. marked with an asterisk), the implications are detailed within the report itself.

Business Continuity Planning		Member Involvement	
Capacity		National Framework	
Civil Contingencies Act		Operational Assurance	
Efficiency Savings		Public Value	
Environmental		Retained	
Financial	*	Risk and Insurance	*
Fire Control/Fire Link		Staff	
Information Communications and Technology		Strategic Planning	*
Freedom of Information / Data Protection / Environmental Information		Initial Equality Impact Assessment	
Legal	*		