Shropshire and Wrekin Fire Authority
Strategy and Resources Committee
22 January 2009

Capital Programmes 2009/10 to 2013/14 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 2009/10 to 2013/14, for consideration by the Committee in the context of Prudential Guidelines.

2 Recommendations

The Committee is recommended to forward the 2009/10 onward programmes, as set out in the Appendix, for consideration by the Fire Authority as part of its final precept deliberations.

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 produced the following summary.

Total Cost of Schemes	Revenue Consequences				
	2009/10	2010/11	2011/12	2012/13	2013/14
£'000	£'000	£'000	£'000	£'000	£'000
7,695	79	252	440	574	690

Since the December 2008 meeting, two schemes have increased in cost:

2009/10 Building Improvements £105,000
This is now estimated to be £165,000, i.e. an increase of £60,000, with an increase in debt charges of £6,000 in a full year (an extra £1,000 in 2009/10). The reason for this is that the refurbishments at Cleobury Mortimer have exceeded the previous estimate due to difficulties likely to be encountered at this station.

2009/10 Light Pumping Unit £250,000
This is now estimated to be £300,000, i.e. an increase of £50,000, with an increase in debt charges of £6,000 in a full year (an extra £1,000 in 2009/10). The reason for this estimated increase is the effect of price rises, and in particular the movements in currency. The vehicle is likely to be paid for in euros.

At the time of writing, the St Michaels Street and Wellington schemes remain unchanged.

The capital programme now proposed to the Fire Authority for its 2009/10 budget is attached at Appendix A.

Detailed project appraisals are available electronically for further consideration by the Committee.

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) (included as paragraph 9); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Fire Authority employs Shropshire County 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.

The position is as follows:

a) Ratio of Financing Costs to Net Revenue Stream

	2008/09 Revised	**2009/10 Budget**	**2010/11 Budget**	**2011/12 Budget**
	£ 000	**£ 000**	**£ 000**	**£ 000**
2008/09 and Earlier Programmes	696	696	696	696
2009/10 Programmes		81	169	169
2010/11 Programmes			95	249
2011/12 Programmes				34
Investment Income	-160	-160	-160	-160
	536	617	800	988
Net Revenue Stream (Budget) (£ 000)	20,029	20,832	21,641	22,315
Rates	2.68%	2.96%	3.70%	4.43%

b) The impact of Capital Investment on the level of Band D Council Tax is:

2009/10	£81,000 divided by 157,242.62	= 52p
2010/11	£264,000	= 168p
2011/12	£452,000	= 287p

c) The capital programme that gives rise to these increases is:

	2009/10	**2010/11**	**2011/12**
	£ 000	**£ 000**	**£ 000**
Payments (Appendix A) financed by:			
Loan – supported by grant	483	497	497
– prudential borrowing	352	1,503	243
Capital Reserve	925	950	100
Capital Grant	500	500	0
	2,260	3,450	840

d) The Capital Financing Requirement

The Prudential Code requires the calculation of the Capital Financing Requirement for 31 March in current and future years. The Capital Financing Requirement is simply the amount of capital spending not funded by grant, receipts or revenue, i.e. that which is financed from borrowing. The position is estimated to be:

	In Year Requirement	**At 31 March**
	£ 000	**£ 000**
31 March 2008 (Preceding Year)		5,155
31 March 2009 (Current Year)	553	5,708
31 March 2010	959	6,627
31 March 2011	1,560	8,187
31 March 2012	156	8,343

The importance of the Capital Financing Requirement is that net external borrowing must not (except in the short term) exceed the total of capital financing requirements in the preceding year plus the estimates of any additional capital financing requirements for the current and next two years, i.e. £8,187,000. At present, gross external borrowing is around £5.8 million.

e) Authorised Limit for External Debt

The limit is established, beyond which borrowing is not permitted. The limit must not only accommodate the capital financing requirement, but must be adequate to meet temporary borrowing, e.g. if income is delayed.

The following limits are recommended:

	£ 000
2007/08	5,155
2008/09	8,708
2009/10	9,627
2010/11	11,187
2011/12	11,343

f) Operational Boundary for External Debt

This is set as a likely and prudent boundary that can be exceeded, but, if so, would prompt investigation and, if necessary, corrective action. The following boundaries are recommended, based solely on budgeted capital expenditure:

	£ 000
2009/10	6,529
2010/11	8,089
2011/12	8,245

7 Treasury Strategy 2009/10

Economic Background

The world banking system came near to collapse during 2008, and governments were forced to recapitalise and rescue their major banks. A co-ordinated global interest rate cut of 50 base points took place on 8 October 2008. Forecasts in the UK were for further sharp cuts in interest rates as recession came into view.

International

Early in 2008 the US economy was being badly affected by the housing market slump, and by the second quarter of 2008/09, the main worries centred on inflation and increasing oil prices, and the deteriorating economic outlook.

By the third quarter, the financial crisis had erupted and escalated, as the world became aware of the sub prime fiasco and the impact that this was having on institutions that had invested in these issues. In September, several US financial institutions were bailed out by US Federal Government, and Lehman Bros, the investment bank, was allowed to fail.

After the collapse into receivership of the Icelandic banks in early October, other countries had started to feel the strain and a number had to approach the International Monetary Fund (IMF) for support. As countries such as India and China began to be affected, it became clear that the crisis had become a global one and no country was insulated from it.

UK

Growth was already slowing in 2008 before the full impact of the credit crunch was felt. Wage inflation remained relatively subdued as the Government kept a firm lid on public sector pay. Private sector wage growth was kept in check by the slowing economy.

Growth slowed across the economy and unemployment rose throughout the year with forecasts of two million unemployed by the end of the financial year and continuing increases thereafter throughout 2010. In addition, consumer spending began to slow as the year progressed.

Bank lending came to a virtual standstill in the autumn as the credit crunch tightened its grip and various banks internationally had to be rescued, or supported, by their governments.

The Government and Bank of England supplied massive amounts of liquidity to the banking market in an attempt to reignite longer inter-bank lending. The Government took action in September to either supply finance to recapitalise some of the major clearing banks itself; or to require the others to strengthen their capital ratios by their own capital raising efforts. This was done to ensure that banks would be seen to have sufficient reserves to last through the coming recession with its inevitable increase in bad loans etc.

The housing market also came to a virtual standstill as lenders demanded larger deposits and higher fees. House sales and prices both dropped sharply.

Government finances deteriorated as income from taxation dropped as the economy slowed and the cost of the bailout of the banks was added to the deficit.

Borrowing Strategy

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

The 50 year PWLB rate is expected to remain around current levels of around 3.8 – 3.9% until the end of the financial year 2009/10, when it is forecast to rise to 4%. The rate will then rise gradually to reach 5% by the end of 2011/12.

The 25 year PWLB rate is expected to drop to 3.9% at the beginning of 2009/10, with a rise of .25% in the last quarter. It will gradually rise over the next two years, reaching 5.05% at the end of 2011/12.

With lending rates likely to remain low, internal funds may be used rather than incur borrowing rates unless shorter PWLB loan periods become more attractive. However this will be closely monitored given that external borrowing rates are expected to rise through the period.

g) Investment Strategy

The Fire Authority will have regard to the Office of the Deputy Prime Minister's (ODPM) Guidance on Local Government Investments ("the Guidance") issued in March 2004 and the 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) The security of capital; and
b) The liquidity of its investments.

The Fire Authority will also aim to achieve the optimum return on its investments commensurate with proper levels 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.

The Treasurer will only use borrowers whose credit ratings are acceptable to the Treasury Management Services provider. Further restrictions may be imposed until the current banking uncertainties are clearly resolved. This may result in reduced returns in early 2009/10, as more lending is placed with the Government through the Debt Management Office (DMO). Lending will only be within the limits of amounts and periods agreed by the Treasury Management Services provider.

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 core balance will be invested on the advice of our Treasury Management Services provider, to maximise investment returns, but with a limit of £1 million invested for more than one year.

h) 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 2012:

Borrowing

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

Investment

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

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

Investments for more than 364 days – £1,000,000

8 Financial Implications

The financial implications are as set out in the report.

9 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”.

10 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.

11 Appendix

Capital Programme

12 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.

Balanced Score Card		Integrated Risk Management Planning	
Business Continuity Planning		Legal	
Capacity		Member Involvement	
Civil Contingencies Act		National Framework	
Comprehensive Performance Assessment		Operational Assurance	
Efficiency Savings		Retained	
Environmental		Risk and Insurance	*
Financial	*	Staff	
Fire Control/Fire Link		Strategic Planning	*
Information Communications and Technology		West Midlands Regional Management Board	
Freedom of Information / Data Protection / Environmental Information		Initial Equality Impact Assessment Form completed	

Appendix to report on
Capital Programme 2009/10 to 2013/14
and Prudential Guidelines
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Scheme		**Total**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**
2009/10							
RDS Availability System	Fund	**25**	4	4	4	4	4
Document Management System	Fund	**40**		8	8	8	8
Document Storage System	Fund	**60**	12	12	12	12	12
Training Facilites	Fund	**50**	7	7	7	7	7
Firekit Replacement	Fund	**250**	36	36	36	36	36
Retaining approval for WL scheme	*Fund*	**100**					
Shrewsbury Project	Loan	**900**					
Building Improvements	Loan	**165**	4	15	15	15	15
Appliance Replacement	Loan	**370**	10	48	48	48	48
Light Pumping Unit	Loan	**300**	8	39	39	39	39
			81	**169**	**169**	**169**	**169**
2010/11							
Retaining approval for WL scheme	*Fund*	**50**					
Firekit Replacement	Fund	**250**		36	36	36	36
Training Facilities	Fund	**50**		7	7	7	7
Shrewsbury Project	Loan	**2,600**		38	135	135	135
Appliance replacement	Loan	**185**		5	24	24	24
Building Improvements	Loan	**65**		3	9	9	9
BA Set Upgrade	Loan	**250**		6	38	38	38
				95	**249**	**249**	**249**
2011/12							
Training Facilities	Fund	50			7	7	7
Information Technology	Fund	50			7	7	7
Building Improvements	Loan	65			3	9	9
Appliance replacement	Loan	555			14	98	98
Water Carriers	Loan	120			3	16	16
					34	**137**	**137**
2012/13							
Training Facilities	Fund	50				7	7
Information Technology	Fund	50				7	7
Building Improvements	Loan	65				3	9
Appliance replacement	Loan	555				14	98
						31	**121**
2013/14							
Training Facilities	Fund	50					7
Information Technology	Fund	50					7
Building Improvements	Loan	65					3
Appliance replacement	Loan	370					9
							26
			81	**264**	**452**	**586**	**702**