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Shropshire and Wrekin Fire Authority
14 February 2007

Capital Programme 2007/08 to 2009/10 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 programme, as recommended by the Strategy and Resources Committee, in the context of Prudential Guidelines.

2 Recommendations

The Fire Authority is recommended to:

a) Accept the Prudential Guidelines for the revenue implications of the Capital Programme, set out in paragraphs 4a) and b);
b) Accept the Capital Financing Requirements that will arise from the Capital Programme, set out in paragraph 4d);
c) Accept the Authorised Limit and Operational Boundaries for external debt, set out in paragraphs 4e) and f);
d) Agree the Treasury Strategy for 2007/08 and the Investment Strategy, set out in paragraphs 4g) and h);
e) Accept the Prudential Indicators for borrowing and lending, set out in paragraph 4i); and
f) Approve the Capital Programme as part of the budget package, funded as set out in paragraph 4c), and detailed in the appendix to this report.

3 Background

The Strategy and Resources Committee agreed to propose a number of changes to the Capital Programme, which the Fire Authority put forward for consultation in December. These changes were considered in conjunction with the Prudential Guidelines that are required to be taken into account.

It is a statutory requirement for the Fire Authority to produce a balanced budget, including the revenue costs that flow from capital investment decisions. This means that capital expenditure must be limited to levels whereby increases in interest charges and additional running costs from new capital projects are affordable within the projected income of the Authority for the foreseeable future.

4 Prudential Guidelines

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”. 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

	2005/06 Actual	**2006/07 Revised**	**2007/08 Budget**	**2008/09 Budget**	**2009/10 Budget**
	£ 000	**£ 000**	**£ 000**	**£ 000**	**£ 000**
2006/07 and Earlier Programmes		419	532	532	532
2007/08 Programmes			66	134	134
2008/09 Programmes				62	139
2009/10 Programmes					91
Investment Income		121 -	121 -	121 -	121 -
	95	298	477	607	775
Net Revenue Stream (Budget) (£ 000)	£17,948	£18,296	£18,969	£20,019	£20,865
Rates	0.5%	1.6%	2.5%	3.0%	3.7%

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

2007/08	£179,000 divided by 156,159.54 = 1.15p
2008/09	£309,000 “ “ “ = 1.98p
2009/10	£477,000 “ “ “ = 3.05p

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

	2007/08	**2008/09**	**2009/10**
	£ 000	**£ 000**	**£ 000**
Payments financed by:	1,050	1,035	1,470
Loan – supported by grant	411	411 (est)	411 (est)
– prudential borrowing	319	334	963
Capital Reserve	320	290	96
	1,050	1,035	1,470

Although there is just over £300,000 prudential borrowing in 2007/08 and 2008/09, this is within the range of previous annual financial arrangements, particularly operational leasing, and there is an offsetting reduction in leasing costs of £90,000 in 2007/08, a further £55,000 in 2008/09, and £88,000 in 2009/10.

If there is a question about further commitments, it is in 2009/10, when it is currently predicted that there will be £455,000 suitable for funding from capital reserve with £96,000 currently predicted as available.

Nevertheless, it is a policy of the Fire Authority to increase the capital reserve with one-off savings and this, together with a review of the budget and of the programme in 2009/10, would permit the position to be addressed nearer the time, if necessary.

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 2006 (Preceding Year)		3,355
31 March 2007 (Current Year)	1,729	5,084
31 March 2008	390	5,474
31 March 2009	472	5,946
31 March 2010	704	6,650

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. £5,946,000. At present, gross external borrowing is around £4.4 million, and net (i.e. after investments and cash) is a net investment of £1.4 million. This is expected to reduce to £1.0 million by March 2008, £500,000 by March 2009 and become net borrowing of about £200,000 by March 2010.

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
2005/06	3,355
2006/07	5,424
2007/08	8,474
2008/09	8,946
2009/10	9,650

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
2007/08	6,005
2008/09	6,750
2009/10	7,765

g) Treasury Strategy 2007/08

The Fire Authority employs Shropshire County Council to manage its Treasury Functions, who in turn have appointed Sector Treasury Services as their advisor. It has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management.

The current (after the surprise January increase) forecast for short term (Bank) rates is that they will begin the year at 5.5%, and remain there until a drop in the first quarter of 2008 to 5.0%. Longer term, the 25 – 30 year Public Works Loan Board (PWLB) rate is expected to start 2007/08 at a rate of 4.5%, and remain at that rate for the foreseeable future. The 50 year PWLB rate is expected to remain flat at 4.25%, although this will be under review as the rationale for the Monetary Policy Committee's decision becomes known. Any revisions to the strategy will be reported to the Fire Authority.

The Treasurer will be advised about the balance between borrowing short term, at lower, but potentially variable rates, and borrowing at relatively low long-term fixed rates. Any decisions taken will be reported to the Fire Authority.

The Treasurer will also be mindful of rescheduling opportunities, but, given the short history of borrowing by the Fire Authority of relatively low amounts, these would not be expected to be significant.

h) Investment Strategy

The Fire Authority will have regard to the Office of the Deputy Prime Minister Guidance (2004) and CIPFA's Treasury Management Code. The Fire Authority's investment priorities are the security of capital and its liquidity. The aim will be to maximise its returns commensurate with proper levels of security and liquidity. Borrowing partly to invest is unlawful and will not be done.

Investments will be sterling dominated, with maturities up to a maximum of one year. The borrowers will only be those institutions acceptable to the County Council. Funds available for investment are cash flow derived, but there may be a core balance available as the Fire Authority builds up its reserves. This core balance will be invested on the advice of our Treasury Functions Manager, to maximise investment returns.

i) 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 2010:

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

5 Capital Programme

The Fire Authority's Capital Programme has been reviewed and refined as part of its medium-term planning requirements, and a proposed three-year programme is attached as an appendix to this report.

Members are asked, when considering the Capital Programme, also to take into account the effect that it has on the Fire Authority's Prudential Indicators, which have been prepared as best estimates, and are based on future capital expenditure at levels proposed in the appendix.

Capital Scheme Appraisal forms have been completed by officer for each scheme within the programme, and copies of these appraisals are available for review by the Fire Authority, in the event of further information being required on individual schemes.

6 Financial Implications

The financial implications are as set out in the report.

7 Legal Comment

The Fire Authority must comply with the provisions of the Local Government Act 2003 which relates to finance. In particular, parts 1 and 2 of this Act with relate to Capital Finance and Accounts and Financial Administration.

8 Equality Impact Assessment

This report has been assessed to ensure that any effect it might have would not result in discriminatory practice or differential impact upon specific groups.

Having considered the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2), Officers have concluded that the recommendation made within this report does not introduce or modify any policy, procedure or function within the organisation, which would result in discriminatory practice or differential impact upon specific groups. An Initial Equality Impact Assessment is not, therefore, required.

9 Appendix

Capital Programmes 2007/08 to 2008/09

10 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		Equality Impact Assessment	*

2007/08 Starts Programme

			Revenue Implications		
		Cost £ 000	**2007/08 £ 000**	**2008/09 £ 000**	**2009/10 £ 000**
Small schemes, some with, say, a 7 year life These might be funded from reserve.					
1	Ford Ranger	80	11	11	11
2	Road Traffic Collision Equipment for Ford Ranger	50	7	7	7
3	Training facilities	30	4	4	4
4	Information Technology	50	7	7	7
5	Station End Equipment	10	2	2	2
		220	31	31	31
Large schemes, some with a longer life These might be funded from borrowing or leasing.					
6	Building Improvements	65	3	6	6
7	Garaging Ford Ranger	20	1	2	2
8	Tweedale Improvements	35	2	4	4
9	Telford Central Improvements	100	3	9	9
10	Fire Appliances*	510	12	68	68
		730	21	89	89
Large schemes with a shorter life These would ideally be funded from reserve					
11	Fire Alarm Installations	100	14	14	14
Total 2007/08		**1050**	**66**	**134**	**134**

* 12 years life

2008/09 Starts Programme

		Cost	Revenue Implications		
			2007/08	2008/09	2009/10
		£ 000	£ 000	£ 000	£ 000
Small schemes some with, say, a 7 year life					
1	Replacement for L4Ps (Small Fires Units)	100		14	14
2	Training Facilities	30		4	4
3	Information Technology	50		7	7
4	Regional Fire Control Link	10		2	2
5	Station End Equipment	25		4	4
6	Information Technology and Communications Equipment Room Relocation	75		11	44
		290		42	42
Larger schemes with a longer life					
7	Building Improvements	65		3	6
8	Fire Appliances	680		17	91
		745		20	97
Total 2008/09		**1035**		**62**	**139**

2009/10 Starts Programme

		Cost	Revenue Implications 2007/08	2008/09	2009/10
		£ 000	£ 000	£ 000	£ 000
Small schemes some with, say, a 7 year life					
1	Replacement for L4Ps (Small Fires Unit)	100			17
2	Training Facilities	30			5
3	IT	50			9
4	Station End Equipment	25			5
		205			36
Large schemes with a longer life					
5	Building Improvements	105			3
6	Crucial Crew Venue	150			4
7	Fire Appliances	510			12
8	Light Pumping Unit	250			
		1015			19
Large schemes with a shorter life					
9	Firekit Replacement	250			36
Total 2009/10		**1470**			**91**
	SUMMARY		**66**	**196**	**364**