

Capital Programmes 2025/26 to 2029/30, Treasury Management Statement and Capital Strategy

Report of the Treasurer

For further information about this report please contact James Walton, Treasurer, on 01743 258915, or Joanne Coadey, Head of Finance, on 01743 260215.

1 Purpose of Report

This report presents the capital programmes for 2025/26 to 2029/30, for consideration by the Committee in the context of Prudential Guidelines.

2 Recommendations

The Committee is asked to recommend that the Fire Authority:

- a) Approve the Capital Strategy for 2025/26 – 2029/30, set out in Appendix A;
- b) Confirm the 2025/26 onward programmes, set out in Appendix B (exempt paper 13), as part of its final precept deliberations, and
- c) Approve the Treasury Strategy Statement for 2025/26

3 Background

CIPFA's Prudential Code for Capital Finance in Local Authorities is a framework which requires a local authority to look at its capital expenditure and investment plans in the light of overall organisational strategy and resources, and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the authority.

The Code deals with three elements:

- Capital expenditure and investment plans
- External debt
- Treasury management.

These elements are considered within this report.

4 Capital Strategy

The latest revision to the Code states that an Authority must produce a capital strategy, which shows how the Authority sets out its priorities for capital investment, including links to existing plans and strategy documents. It also considers the way in which capital expenditure may be financed.

The main elements of the capital strategy are to support a capital programme that:

- Ensures that Authority assets are used to support the delivery of the Service's Community Risk Management Plan (CRMP) and associated priorities;
- Is affordable, financially prudent and sustainable;
- Ensures the most cost effective use of existing assets and new capital investment, and
- Supports the other key strategies of the Authority.

The Authority's capital strategy is attached at Appendix A for consideration and recommendation to the Fire Authority. The document has been reviewed and a small number of minor changes have been made. Deletions are struck through and additions are shown in bold italics.

5 The Capital Programme

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.

Members 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.

The Capital Programme for 2025/26 and later years has been reviewed by officers, and the schemes that require approval are shown at Appendix B. 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. Further information on the schemes proposed for 2025/26 is available from officers.

The majority of the proposed schemes in 2025/26 are to be funded from borrowing, following depletion of the Earmarked Capital Reserve on existing approved schemes. Therefore there will be some revenue consequences to consider. Borrowing will then be built into the prudential guidelines and will be undertaken by our Treasury advisors at the most opportune time.

The revenue costs associated with the Capital Programme in later years are shown at Appendix B. These costs will be added to the final revenue package presented to the Fire Authority later in the month.

The Fire Authority agreed in October 2014 that future savings would be contributed to the Unearmarked Capital Reserve, now the Major Projects Reserve, to fund future capital development. It should be noted that borrowing, when undertaken, will be allocated to the most appropriate schemes in the programme for the calculation of capital charges.

6 Treasury Management Strategy Statement

Background

The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties commensurate with the Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Reporting requirements

The Authority is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) -
The first, and most important report covers:

- the capital programme (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);

- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid-year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, the Authority will receive quarterly update reports.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Authority. This role is undertaken by the Strategy & Resources Committee.

Treasury Management Strategy for 2025/26

The Treasury Management Strategy for 2025/26 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Authority;
- prospects for interest rates;
- the borrowing strategy;
- the investment strategy; and
- creditworthiness policy.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.

Training

The CIPFA Code requires that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Treasury Management Consultants

The Fire Authority employs Shropshire Council to manage its treasury functions, who in turn have appointed Link Asset Services Treasury Solutions as their independent advisor. It is recognised that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources.

7 Prudential Guidelines

Capital Prudential Indicators

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital expenditure

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle

	2023/24 Actual £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
Capital expenditure	1,006	10,069	1,114	4,399	4,432	2,147
Capital expenditure Telford	-	5,503	1,930	-	-	-

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
Capital Reserves	120	-	-	-
Capital Receipts	58	96	108	108
Capital Reserves / Revenue	46	46	46	46
Borrowing	890	4,257	4,278	1,993

The indicators below demonstrate the affordability of the capital programmes proposed by the Authority, by showing the impact of the programmes on its overall finances.

	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Ratio of financing costs to net revenue stream – current	1.60%	1.52%	1.44%	1.44%
Ratio of financing costs to net revenue stream – additional	2.30%	2.93%	4.10%	4.65%
Impact of capital investment decisions on Band D council tax	£6.47p	£7.54	£9.60p	£10.37p

The Authority's borrowing need (the Capital Financing Requirement)

The Capital Financing Requirement (CFR) is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

	2023/24 Actual £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Capital Financing Requirement	12,637	16,629	17,128	20,931	24,503

Borrowing

The Authority must ensure that sufficient cash is available to meet its service activity. Treasury management officers at Shropshire Council manage the Authority's cash, which includes the Authority's capital strategy. This will involve both the monitoring of cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

	2023/24 Actual £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
External Debt	5,255	16,629	17,128	20,718	24,021

Treasury Indicators: limits to borrowing activity

The operational boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Operational Boundary	16,629	17,128	20,718	24,021

The authorised limit for external debt

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Authorised Limit	19,629	20,128	23,718	27,021

8 Treasury Strategy 2024/25

Economic Background

Bank rate forecasts have been increased following the Autumn Budget, the outcome of the US Presidential election and the Bank rate cut by the Monetary Policy Committee in November.

Policy announcements in the Autumn Budget are likely to be inflationary, at least in the short term. The anticipated major investment in the public sector is expected to lift GDP before growth moderates in 2027 and 2028. However, blockages in planning permissions and lack of building resources could be an inherent risk, forcing up inflation and causing tax rises.

Any movement below a 4% Bank rate will be dependent on inflation in the second half of 2025.

In terms of Public Works Loan Board (PWLB) rates, these are forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be dependent on arguments for further Bank rate loosening.

Borrowing Strategy

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

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 and to manage cash flow.

While the Authority will not be able to avoid borrowing to finance new capital expenditure, there may be a *cost of carry*, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances.

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, to run down cash balances and minimise counterparty risk incurred on investments. However some borrowing will be necessary during the planning period.

Investment Strategy

The Fire Authority's investment policy will have regard to Department of Levelling Up, Housing and Communities (DLUHC) Guidance on Local Government Investments (the Guidance) and the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA TM Code), as well as the CIPFA Treasury Management Guidance Notes 2018.

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 2025/26 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.

The Authority will not invest any funds with a counterparty for more than 365 days.

9 Minimum Revenue Provision 2025/26

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 2025/26, 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 been reviewed by officers at Shropshire Council, who carry out the Authority's treasury management services in line with these practices.

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

Capital Strategy 2025/26 to 2029/30

Exempt Paper 13

Appendix B

Capital Programmes 2025/26 to 2029/30

17 Background Papers

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