

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, together with suggested amendments, for consideration by the Committee in the context of Prudential Guidelines.

2 Recommendations

The Committee is recommended to forward the amended programme for consideration by the Authority as part of its final precept deliberations

3 Background

The capital programme currently included by the Fire Authority in its 2007/08 budget adopted for consultation is attached at Appendix A.

Your officers have considered the programme in more detail and recommend a number of variations.

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



4 Variations to the Programme

	Amended Capital Cost	Revenue Consequences		
		2007/08	2008/09	2009/10
2007/08 Starts Programme	£ 000	£ 000	£ 000	£ 000
4 Tweedale Improvements Integrated Risk management planning (IRMP) consultation indicates additional costs of £15,000, increasing the capital cost to £35,000 and adding to revenue consequences	35	+1	+2	+2
7 Telford Central Improvements A project closely designed to improve facilities at Telford means reducing costs by £200,000 to £100,000 and reducing revenue consequences. Forecast future spending at Telford in 2008/09 and 2009/10 has been deleted and the additional costs added in 2010/11 when the outcome of IRMP and the review of the future of Brigade Headquarters is known	100	-5	-28	-64
3 Fire Alarm Installation The project has been re-examined and costs reduced by £20,000 to £100,000.	100	-3	-3	-3
Reduction in capital costs and revenue consequences	-205	-7	-29	-65

5 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	£19,059	£20,046	£20,892
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 (Appendix amended as paragraph 4) financed by:	1,050	1,035	1,470
Loan – supported by grant	411	411 (est)	411 (est)
- prudential borrowing	319	334	1,059
Capital Reserve	320	290	-
	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 but no reserve 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.

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.

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 in February.

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’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

6 Financial Implications

The financial implications are as set out in the report.

7 Legal Comment

There are no legal implications arising directly out of this report.

8 Appendix

Capital Programmes 2007/08 to 2008/09

9 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	



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.					
11	Ford Ranger	80	11	11	11
12	Road Traffic Collision Equipment for Ford Ranger	50	7	7	7
22	Training facilities	30	4	4	4
23	Information Technology	50	7	7	7
25	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.

1	Building Improvements	65	3	6	6
2	Garaging Ford Ranger	20	1	2	2
4	Tweedale Improvements	20	1	2	2
7	Telford Central Improvements	300	8	27	27
10	Fire Appliances*	510	12	68	68
		915	25	105	105

Large schemes with a shorter life

These would ideally be funded from reserve

3	Fire Alarm Installations	120	17	17	17
Total 2007/08		1255	73	153	153

* 12 years life



2008/09 Starts Programme

Revenue Implications

	Cost £ 000	2007/08 £ 000	2008/09 £ 000	2009/10 £ 000
Small schemes some with, say, a 7 year life				
12	Replacement for L4Ps (Small Fires Units)	100	14	14
22	Training Facilities	30	4	4
23	Information Technology	50	7	7
24	Regional Fire Control Link	10	2	2
25	Station End Equipment	25	4	4
26	Information Technology and Communications Equipment Room Relocation	75	11	44
		290	42	42
Larger schemes with a longer life				
1	Building Improvements	65	3	6
7	Telford Central Improvements	400	10	36
10	Fire Appliances	680	17	91
		1145	30	133
Total 2008/09		1435	72	175



2009/10 Starts Programme

		Revenue Implications		
	Cost	2007/08	2008/09	2009/10
	£ 000	£ 000	£ 000	£ 000
Small schemes some with, say, a 7 year life				
12	Replacement for L4Ps (Small Fires Unit)	100		17
22	Training Facilities	30		5
23	IT	50		9
25	Station End Equipment	25		5
		<u>205</u>		<u>36</u>
Large schemes with a longer life				
1	Building Improvements	105		3
7	Telford Central Improvements	400		10
8	Crucial Crew Venue	150		4
10	Fire Appliances	510		12
13	Light Pumping Unit	250		
		<u>1415</u>		<u>29</u>
Large schemes with a shorter life				
19	Firekit Replacement	250		36
Total 2009/10		<u>1870</u>		<u>101</u>

