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Shropshire and Wrekin Fire Authority
Strategy and Resources Committee
19 January 2006

REPORT OF THE TREASURER

PRUDENTIAL GUIDELINES AND CAPITAL PROGRAMME

1 Purpose of Report

This report seeks a recommendation from the Committee to the Fire Authority to approve:

- The Prudential Guidelines, incorporating the Fire Authority's Annual Treasury Strategy; and
- The Capital Programme for 2006/07, 2007/08 and 2008/09.

2 Recommendations

The Committee is asked to recommend that the Fire Authority

a) Accept the Prudential Guidelines for the revenue implications of the Capital Programme, set out in paragraphs 4 and 5;
b) Accept the Capital Financing Requirements that will arise from the Capital Programme, as set out in paragraph 6;
c) Accept the Authorised Limit and Operational Boundaries for external debt, set out in paragraphs7 and 8;
d) Agree the Treasury Strategy for 2006/07 and the Investment Strategy, set out in paragraphs 9 and 10;
e) Accept the Prudential Indicators for borrowing and lending, set out in paragraph 11; and
f) Approve the Capital Programme as part of the budget package, as set out in the appendix to this report.

3 Background

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 this, the Fire Authority shall have regard to the Prudential Code for Capital Finance in Local Authorities.

The Fire Authority is, therefore, required to set a number of Prudential Indicators covering a three-year period. These are set out below.

One Prudential Indicator in respect of Treasury Management is that the Fire Authority has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services, which this Authority has done (6 February 2002). This Code requires that a Treasury Strategy be established for each year, and that is also dealt with in this report.

The Fire Authority is also required to set a three-year Capital Programme as part of its annual budget setting process. The implications on the Fire Authority's Prudential Guidelines should be considered when decisions are made, and full project appraisals should be completed for each scheme within the programme.

Prudential Guidelines

4 Ratio of Financing Costs to Net Revenue Stream

This indicates what proportion of the revenue budget is made up of financing costs. The higher this gets, the more questions are raised about the affordability of the Capital Programme. There is no clear benchmark about the 'right' level of financing costs – more important is the trend. The current programme of capital and the current budget proposals give the following ratios:

	2004/05 Actual £000	2005/06 Budget £000	2006/07 Budget £000	2007/08 Budget £000	2008/09 Budget £000
Financing Costs	32	148	299	443	631
Net Revenue Stream (Budget)	17,096	17,948	18,162	19,110	20,107
Ratio	0.2%	0.8%	1.6%	2.3%	3.1%

The Government has indicated that it supports capital of £411,000 in 2006/07 through the Revenue Support Grant. This is of limited use as an indication of affordability, as the Fire Authority has always used operational leasing in addition to its borrowing approvals.

The base budget, therefore, in addition to financing costs, has always made significant provision for leasing payments as well, which have never been taken into account in setting Revenue Support Grant.

5 Impact of Capital Investment on Council Tax

This test of affordability measures the cost of the proposed capital programme for 2006/07 to 2008/09 in terms of Council Tax.

	Revenue Cost of Programme £000	Council Tax (Band D 154,968) £0.00
2005/06	24	0.15
2006/07	96	0.62
2007/08	245	1.48
2008/09	427	2.75

The affordable limits set out above do not take account of Government grant through the Revenue Support Grant. The Fire Authority will be asked to decide whether the proposed capital programme is affordable within the revenue budget as a whole.

6 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 £000	**At 31 March**
31 March 2005 (Preceding Year)		2,805
31 March 2006 (Current Year)	916	3,721
31 March 2007 (Year 1)	1,433	5,154
31 March 2008 (Year 2)	1,259	6,413
31 March 2009 (Year 3)	1,998	8,411

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. £6,413,000. At present, gross external borrowing is around £4 million, and net (i.e. after investments and cash) is break even, with investments also around £4 million.

7 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
2004/05 (Actual)	2,805
2005/06 (Probable Outcome)	3,721
2006/07	8,154
2007/08	9,413
2008/09	11,411

8 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
2006/07	5,275
2007/08	6,720
2008/09	8,985

9 Treasury Strategy 2006/07

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 view is that short-term interest rates will fall slightly in the first quarter of next year, followed by a rise to around 4.75% by the end of the year. Longer term, e.g. 25 year Public Works Loan Board (PWLB) rates will remain at 4.5% for the first half of the year, with a steady increase up to 5% over the second six months.

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 during a relatively low interest period, these are not expected to be significant.

10 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 denominated, 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.

11 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 2009:

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	20%

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 – nil

12 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 officers for each scheme within the programme, and copies of these appraisals are available for review by the Committee, in the event of further information being required on individual schemes. It is proposed that this Capital Programme will go forward to the Fire Authority as part of the budget package to be approved in February.

13 Legal Comment

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

14 Equality and Diversity Implications

There are no equality or diversity implications arising directly out of this report.

15 Appendix

Potential Capital Programme

16 Background Papers

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

For further information about this report please contact Keith Dixon, Treasurer, on 01743 260202 or Joanne Coadey, Principal Accountant, on 01743 260215.

Appendix to report on
Prudential Guidelines and Capital Programme
Shropshire and Wrekin Fire Authority
Strategy and Resources Committee
19 January 2006

Potential Capital Programme

2006/07 Programme		2006/07 £000	2007/08 £000	2008/09 £000
No.	**Scheme**			
1	**Major Building Improvements**	65		
	Debt charges	(1)	(6)	(6)
2	**Shrewsbury Station and Headquarters Improvements**	200		
	Debt charges	(5)	(17)	(17)
3	**Accommodation for Pumping Unit**	200		
	Debt charges	(5)	(17)	(17)
	Revenue consequences	(4)	(4)	(4)
4	**Appliance Replacement**	510		
	Debt charges	(11)	(64)	(64)
5	**Rescue Tender**	300		
	Debt charges	(7)	(38)	(38)
6	**Retained Support Officer Vehicles**	30		
	Debt charges	(6)	(6)	(6)
	Revenue consequences	(2)	(2)	(2)
7	**Boat**	30		
	Debt charges	(3)	(3)	(3)
8	**Information Technology Systems**	50		
	Debt charges	(7)	(7)	(7)
9	**Standby Control**	20		
	Debt charges	(0)	(0)	(0)
10	**Fireground Radios**	50		
	Debt Charges	(5)	(5)	(5)
11	**Management Information System**	65		
	Debt charges	(9)	(9)	(9)
	Revenue consequences	(15)	(15)	(15)
12	**Training Facilities**	30		
	Debt charges	(5)	(5)	(5)
13	**Asset Tracking System**	45		
	Debt charges	(5)	(5)	(5)
	Revenue consequences	(6)	(6)	(6)
14	**Compartment Fire Training**	20		
	Debt charges	(0)	(0)	(0)
15	**Provision of Smoke Alarms**	24		
	Funded by Grant	(24)		
	Capital	**1,615**		
	Debt charges	**(69)**	**(182)**	**(182)**
	Revenue Consequences	**(27)**	**(27)**	**(27)**

2007/08 Programme		2006/07 £000	2007/08 £000	2008/09 £000
No	**Scheme**			
16	**Major Building Improvements** Debt charges		65 (1)	 (6)
17	**Tweedale Improvements** Debt charges Revenue consequences		20 (0) (3)	 (0) (3)
18	**Appliance Replacement** Debt charges		510 (11)	 (64)
19	**Telford Top Floor Improvements** Debt charges Revenue consequences		200 (5) +10	 (17) +25
20	**Training Facilities** Debt charges		30 (5)	 (5)
21	**Crucial Crew Venue** Debt charges		150 (3)	 (13)
22	**Information Technology Systems** Debt charges		50 (7)	 (7)
23	**Fire Kit Replacement** Debt charges		500 (11)	 (63)
	Capital **Debt charges** **Revenue consequences**		**1,525** **(43)** **+7**	 **(175)** **+22**

2008/09 Programme		2006/07 £000	2007/08 £000	2008/09 £000
No	**Scheme**			
24	**Major Building Improvements** Debt charges			65 (1)
25	**Appliance Replacement** Debt charges			680 (15)
26	**Information Technology Systems** Debt charges			50 (7)
27	**Changes re Shrewsbury Wholetime Appliance** Debt charges			1,000 (22)
28	**Training Facilities** Debt charges			30 (5)
29	**Regional Control Centre Link** Debt charges			10 (0)
30	**Station End Equipment** Debt charges			250 (6)
31	**Pumping Unit** Debt charges Revenue consequences			270 (6) (3)
	Capital **Debt charges** **Revenue consequences**			**2,355** **(62)** **(3)**