Shropshire and Wrekin Fire Authority
Strategy and Resources Committee
24 January 2008

Capital Programmes 2007/08 to 2010/11 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 monitors capital spending in the current year and presents the capital programmes for 2008/09 to 2010/11, for consideration by the Committee in the context of Prudential Guidelines.

2 Recommendations

The Committee is recommended to:

a) Note the current monitoring of the 2007/08 capital programme; and
b) Forward the 2208/09 onward programmes for consideration by the Fire Authority as part of its final precept deliberations.

3 Background

The latest position on the current year's capital programme is set out in Appendix A to this report.

The capital programme currently included by the Fire Authority in its 2008/09 budget adopted for consultation is attached at Appendix B.

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

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 Monitoring Current Capital Programmes

Progress on schemes from the Fire Authority's capital programme for 2007/08 and also those schemes, which slipped from 2006/07, are shown at Appendix A.

Performance against the capital programme has been taken into account when setting the Fire Authority's Prudential Indicators for the next three years, and would also have been considered when making necessary changes to current indicators. All borrowing undertaken on behalf of the Fire Authority by its Treasury Services advisors has been done in line with its Treasury Strategy.

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

	2007/08 Revised	**2008/09 Budget**	**2009/10 Budget**	**2010/11 Budget**
	£ 000	**£ 000**	**£ 000**	**£ 000**
2007/08 and Earlier Programmes	566	634	634	634
2008/09 Programmes		61	138	138
2009/10 Programmes			134	271
2010/11 Programmes				108
Investment Income	366 -	260 -	260 -	260 -
	200	435	646	891
Net Revenue Stream (Budget) (£ 000)	£19,059	£20,029	£20,885	£21,753
Rates	1.0%	2.2%	3.1%	4.1%

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

2008/09	£235,000 divided by 157,243.68 = 1.49p
2009/10	£446,000 = 2.84p
2010/11	£691,000 = 4.39p

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

	2008/09	**2009/10**	**2010/11**
	£ 000	**£ 000**	**£ 000**
Payments (Appendix B) financed by:	1,025	2,285	3,299
Loan – supported by grant	433	483	497
– prudential borrowing	312	1,262	2,338
Capital Reserve	280	540	464
Capital Receipt	-	-	-
	1,025	2,285	3,299

Although there is just over £300,000 prudential borrowing in 2008/09, this is within the range of previous annual financial arrangements, particularly operational leasing.

The major question to address about further commitments is in 2009/10, 2010/11 and, indeed, 2011/12, when prudential borrowing rises significantly as a result of the planned Integrated Risk Management Plan (IRMP) capital scheme dealing with St Michael's Street.

In response, it is a policy of the Fire Authority to maximise the capital reserve with one-off savings and build in further planned contributions within its budget strategy. 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.

In addition it is anticipated that a significant capital receipt will be generated to offset the capital costs which continue rising in 2011/12. The four year outlook is likely to be:

	2010/11	**2011/12**	
	£000	**£000**	
IRMP Phase 2	2,600	-	
Capital Receipt	-	1,000	-
	2,600	1,000	-
Revenue Implications			
Debt Charges	65	234	
Capital Receipts	-	25	-
	65	209	

i.e. there is a further £144,000 committed growth in 2011/12. This issue is addressed in the later report on the final Budget Plan, where a potential strategy to balance the budget is set out.

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 2007 (Preceding Year)		4,472
31 March 2008 (Current Year)	897	5,369
31 March 2009	848	6,217
31 March 2010	1,391	7,608
31 March 2011	2,387	9,995

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. £7,608,000. At present, gross external borrowing is around £5.36 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
2006/07	7,472
2007/08	8,369
2008/09	9,217
2009/10	10,608
2010/11	12,995

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
2008/09	6,356
2009/10	8,101
2010/11	10,936

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.

Borrowing is expected to be made through the Public Works Loan Board (PWLB). The 25 to 30 year PWLB rate is expected to fall from 4.65% to 4.5% by the end of 2008, and rise in 2009 and 2010. The 50 year PWLB rate is expected to fall marginally to 4.45% from 4.5% during 2008, before rising again in 2009.

The Fire Authority will attempt to minimise its debt interest costs, as follows:

- Focus on undertaking new borrowing in or near the 25 to 30 year period.
- This strategy also means that after some years of focusing on borrowing at or near the 50 year period, the Fire Authority will be able to undertake borrowing in a markedly different period and so achieve a better spread in its debt maturity profile.
- Consideration will also be given to borrowing fixed rate market loans at 25 to 50 basis points below the PWLB target rate.

Against this background caution will be adopted with the 2008/09 treasury operations. The Treasurer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the Fire Authority.

Any debt rescheduling actions will be reported to the Fire Authority at the meeting following any action.

h) 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 where credit ratings are acceptable to the Treasury Management Services provider. 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 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 Management Services provider, to maximise investment returns, but with a limit of £1 million invested for more than one year.

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

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".

8 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.

9 Appendices

Appendix A
Our approach to the delivery of the Capital Programme

Appendix B
Capital Programme

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		Initial Equality Impact Assessment Form completed	

Appendix A to report on
Capital Programmes 2007/08 to 2010/11
and Prudential Guidelines
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Our Approach to Delivery of the Capital Programme

For each scheme a capital appraisal form is prepared outlining the benefit to be achieved from the scheme, the proposed works and the anticipated costs and timescales. Appraisal forms are prepared prior to making significant investment in research and feasibility studies and the preferred solution may be varied according to the results of further investigation or changing circumstances. This is normally identified within the risk section of the capital appraisal. The Service always takes the opportunity to ensure delivery is affordable and best meets the needs of the Service in priority to achieving the anticipated timescales. Future capital appraisal forms will clarify these risks in greater detail than in the past.

2006/07

Scheme	Value	Spend	Progress	Budget	Progress
Shrewsbury Improvements	200	45	Extensive works have been carried out. A full electrical survey has been carried out and report prepared. Due to the shorter than anticipated life of the building following IRMP these works are being reviewed and it is expected that some items will not be necessary.	☺	? 😐
Accommodation for Pumping Unit (Craven Arms)	200	5	Work started on site on 14 January 08 and is expected to be complete during July 08.	☺	☺
Rescue Tender	300	75	The vehicle has been delivered and final stowage and training needs are being addressed. It is now available as the reserve appliance following donation of the existing reserve to Hungary.	☺	☹
Boat and Towing Vehicle	30	4	The boat, engine and trailer have been purchased. A suitable towing vehicle has not yet been identified.	? 😐	☹
Standby Control	20	8	This scheme is being reviewed as part of business continuity planning.	? 😐	? 😐
Management Information System	65	50	An order has been placed for this and it is now being installed. Shropshire County Council is providing Resourcelink.	☺	? 😐
Training Facilities	30	20	Road traffic collision training facilities at Telford are complete.	☺	☺
Asset Tracking System	45	40	An order has been placed for this and it is now being installed.	☺	☹

2007/08

Scheme	Value	Spend	Progress	Budget	Progress
Purchase of Ford Rangers	80	45	This scheme has been delivered by reallocation of existing Ford Ranger station vans from Shrewsbury to Oswestry and Telford to Tweedale and with lower cost Kangoo vans. Wellington will retain its Ranger for use on the Wrekin. The reserve fleet will be provided with a Kangoo van initially to be exchanged with Tweedale's Ranger, when that is replaced with a specialist small fires unit. Vehicles have not yet been allocated pending confirmation of equipment to be carried and mobilisation arrangements.	☺	☺
Road Traffic Collision (RTC) Equipment for Rangers	50		The equipment needs have not yet been finalised.	? 😐	? 😐
Training Facilities	30	10	RTC facilities are complete at Ludlow. A tower, designed to meet our current needs, is being costed and planning permission sought with the intention of providing the first at Bishop's Castle.	? 😐	☺
Information Technology	50		This funding is being used to improve business continuity arrangements.	☺	☺
Station End Equipment	10		This is being considered as part of the Fire Control project.	? 😐	? 😐
Building Improvements	65	65	Work is nearing completion at Prees.	☺	☺
Garaging at Oswestry	20	20	Orders have been placed for this work.	☺	☺
Tweedale Improvements	35		This work is complete.	☺	☺
Telford Central Improvements	100		A scheme has been agreed in principle and is being priced.	? 😐	? 😐

2007/08 Continued

Replacement Appliances	510		Orders have been placed for 4 appliances (1 brought forward from 2009/10) with delivery expected in April 2008 for the first appliance and August 2008 (at the earliest) for the remaining appliances.	☺	☹
Wholetime Fire Alarm Installations	100		This work is included in the tender for Shrewsbury electrical works. Telford needs will be considered as part of site re-modelling. A further risk assessment is being carried out at Wellington.	? 😐	? 😐

Schemes shown on grey background are complete and will not be reported on in future.

Appendix B to report on
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2008/09 Starts Programme

			Revenue Implications		
		Cost	**2008/09**	**2009/010**	**20010/11**
		£ 000	**£ 000**	**£ 000**	**£ 000**
Financed from Borrowing					
1	Building Improvements	65	3	6	6
2	Fire Appliances	680	17	91	91
		745	20	97	97
Financed from Capital Reserve					
3	Small Fires Unit	100	14	14	14
4	Training Facilities	30	4	4	4
5	Information Technology	40	6	6	6
6	Regional Fire Control Link	10	2	2	2
7	Station End Equipment	25	4	4	4
8	ITC* Equipment Room Relocation	75	11	11	11
		280	41	41	41
Total 2008/09		**1,025**	**61**	**138**	**138**

* Information Technology and Communications

2009/10 Starts Programme

		Cost £ 000	Revenue Implications 2008/09 £ 000	2009/10 £ 000	2010/11 £ 000
Financed from Borrowing					
9	Building Improvements	105		3	9
10	Crucial Crew Venue	150		4	14
11	Fire Appliances	340		9	46
12	Light Pumping Unit	250		7	33
19	Shrewsbury Integrated Risk Management Plan	900		23	81
		1,745		46	183
Financed from Capital Reserve					
13	Small Fires Unit	100		14	14
14	Training Facilities	30		5	5
15	Information Technology	135		29	29
16	Station End Equipment	25		4	4
17	Fire Kit Replacement	250		36	36
		540		88	88
Total 2009/10		**2,285**		**134**	**271**

2010/11 Starts Programme

		Cost	Revenue Implications 2008/09	2009/10	2010/11
		£ 000	£ 000	£ 000	£ 000
Financed from Borrowing and Capital Receipts					
18	Building Improvements	65			3
19a	Shrewsbury IRMP Phase 2	2,600			65
20	Fire Appliances	170			4
		2,835			72
Financed from Capital Reserve					
21	Fire Kit Replacement	250			6
22	Small Fires Unit	100			14
23	Gas Tight Suits	34			5
24	Breathing Apparatus Upgrade	50			7
25	Training Facilities	30			4
		464			36
Total 2010/11		**3,299**			**108**