OPEN	ITEM 12 DECISION

DERBYSHIRE FIRE & RESCUE AUTHORITY

21 MARCH 2013

REPORT OF CHIEF FIRE OFFICER/CHIEF EXECUTIVE

2013/14 – 2016/17 CAPITAL PROGRAMME, PRUDENTIAL CODE REPORT & TREASURY MANAGEMENT STRATEGY

1. Purpose of Report

1.1 To recommend the capital programme for 2013/14 and consider the capital programme for 2014/15, 2015/16 and 2016/17. This builds on the capital monitoring report and provisional capital programme presented to Fire Authority on 21 February 2012.

1.2 To make recommendations required under the CIPFA Prudential Code for Capital Finance.

1.3 To recommend the Treasury Management Strategy for 2013-14.

2. Recommendations

2.1 To approve the 2013/14 Capital programme of £6.8m as detailed in Appendix 1.

2.2 To approve the Prudential Indicators as set out in this report.

2.3 To approve the Minimum Revenue Provision policy statement as set out in section 5.14 to 5.18.

2.4 To approve the Treasury Management Strategy for 2013-14, included within this report – see section 6.

3. Information and Analysis

CAPITAL PROGRAMME & FINANCING

3.1 The proposed capital programme for 2013/14, 2014/15, 2015/16 and 2016/17 is attached at Appendix 1. It should be noted that some of the schemes are still in the planning stage and will be subject to the relevant approval process before commencement. The Information, Communication Technology (ICT) strategy is presented on a separate report on this agenda. The capital programme reflects the financial implications of this report, although it is accepted that it still presents an emerging picture which is developing around the service needs and the outcome of the fire control project. Accordingly, there may be some adjustments to the ICT projects which will be presented to Fire Authority as information becomes available.

3.2 The 2013/14 indicative programme totals £6.8m. The programme includes £6m slippage from the 2012/13 capital programme (£4.9m of which relates to the Tri Control Project) as identified in the Capital Monitoring Reports presented to Fire Authority in December and February. Buxton fire station slippage has not been included as the final accounts have now been settled and are expected to be paid in March. The ICT slippage differs from that previously reported as the ICT programme has been amended to reflect the ICT strategy also on this agenda.

3.3 Swadlincote fire station has been removed from the programme as it is subject to further consideration by the Authority.

3.4 £5.5m has been included between 2013/14 and 2015/16 for the Training Centre Project and £2.8m for a replacement station at Kingsway in line with the proposed capital construction programme presented to Fire Authority in June 2012. Whist some revenue based funding is available, there is insufficient to fund both of these projects. Future years funding therefore remains uncertain and the projects will be subject to further reports and approvals at a later date.

3.5 It is proposed to continue purchasing smaller vehicles in preference to leasing at present. This saves on interest costs embedded in the leases and provides more flexibility regarding the life of assets. Funds from revenue have been set aside annually in the Revenue Budget report to replace these vehicles in the future. Value for money and operational flexibility will continue to be taken into account when new vehicles are needed and when leases expire to determine the best option between leasing and purchasing.

3.6 The Authority has been awarded £1.049m Capital Grant for 2 years - 2013/14 and 2015/16 as part of the Local Government financing announcements. £255k of the 2013/14 grant has been carried forward for use in 2014/15 as it was not required in 2013/14. No announcements have been made as yet regarding Capital Grants for 2016/17 onwards and the budgets include an estimate of £1m. There are proposals for future years capital funding be bid based and once more details of this are announced Fire Authority will be kept informed.

3.7 There are no Capital Receipts available for funding the Capital Programme. However, there will be a potential sale of Kingsway site should it be relocated which will provide funding for future years capital expenditure.

3.8 At present no further borrowing other than the leasing of specialist vehicles is anticipated. This may be an option in future years as current loans continue to be repaid. This will be considered annually as part of the budget setting process.

4. THE PRUDENTIAL CODE AND TREASURY MANAGEMENT STRATEGY

Background

4.1 The Prudential Code for Capital Finance in Local Authorities (the Code) is a professional Code that sets out a framework for self-regulation of capital spending. In effect, it allows authorities to invest in capital projects which best meet their service delivery objectives as long as they are affordable, prudent and sustainable, subject to reserve powers to restrict borrowing for national economic reasons.

4.2 To facilitate the decision making process and support capital investment decisions the Prudential Code requires the Fire Authority to agree and monitor a number of prudential indicators. The indicators cover:

- Capital expenditure;
- Affordability;
- Prudence;
- Debt levels; and
- Treasury management.

Reporting Requirements

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

4.3 **Prudential and treasury indicators and treasury strategy** (this report)

The first and most important report covers:

- the capital plans (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).

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

4.5 **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.

5. PRUDENTIAL INDICATORS

5.1 The prudential indicators cover two main areas:

Capital issues

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

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;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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

Training

5.3 The CIPFA Code requires the responsible officer, the Treasurer, to ensure that Members with responsibility for Treasury Management receive adequate training in Treasury Management. This especially applies to Members responsible for scrutiny. For this purpose a training session forms part of presentation of the report. In addition to this, further training will be held for the Strategic Leadership Team and for staff undertaking the Treasury Function. Ongoing training is provided by the Treasury Management Consultants, Sector, for staff responsible for undertaking Treasury activities. Training needs will be regularly reviewed and arranged as required.

Treasury management consultants

5.4 The Authority uses Sector as its external Treasury Management advisors. The Authority recognises that responsibility for Treasury Management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

5.5 The Authority also recognises that there is value in employing external providers of Treasury Management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

CAPITAL PRUDENTIAL INDICATORS 2013/14 -2015/16

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

Capital expenditure

5.7 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. Members are asked to approve the capital expenditure forecasts as detailed in 3.1 to 3.8 and Appendix 1:

Prudential indicator 1: Capital expenditure – the projected capital programme for the Authority

	2011-12 Actual £'000	**2012-13 Estimate £'000**	**2013-14 Estimate £'000**	**2014-15 Estimate £'000**	**2015-16 Estimate £'000**	**2016/17 Estimate £'000**
Capital expenditure	6,566	3,511	6,814	6,308	5,569	3,649

5.8 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.

Capital expenditure £m	**2011/12 Actual £'000**	**2012/13 Estimate £'000**	**2013/14 Estimate £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**
Expenditure	6,566	3,511	6,814	6,308	5,569
Capital receipts	1,559	0	0	0	0
Capital grants	1,419	1,918	5,694	1,339	1,000
Revenue & Reserves	3,081	829	0	2,969	2,489
Net financing need for the year	**507**	**764**	**1,120**	**2,000**	**2,080**

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

5.9 The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The 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 Authority's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

5.10 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

5.11 The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility and so the Authority is not required to separately borrow for these schemes. The Authority currently has £4.9m of such schemes within the CFR.

5.12 The Authority is asked to approve the CFR projections below:

Prudential indicator 2: Capital Financing Requirement – outstanding debt from prior years capital programme financing

	2011/12 Actual £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Capital Financing Requirement					
Total CFR	**18,924**	**18,321**	**18,017**	**18,653**	**19,212**
Movement in CFR	**(816)**	**(603)**	**(304)**	**636**	**559**

Movement in CFR represented by					
Net financing need for the year (above)	507	764	1,120	2,000	2,080
Less MRP/VRP and other financing movements	(1,323)	(1,367)	(1,424)	(1,364)	(1,521)
Movement in CFR	**(816)**	**(603)**	**(304)**	**636**	**559**

Minimum revenue provision (MRP) policy statement

5.13 The Authority is required to pay off an element of the accumulated capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

5.14 CLG regulations have been issued which require the full Fire Authority to approve **an MRP Statement** in advance of each year. A variety of options are available to Authority's, so long as there is a prudent provision. The Authority is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be to set aside a provision equal to 4% of the previous year's CFR.

From 1 April 2008 for all unsupported borrowing (excluding finance leases) the MRP policy will be the Asset Life Method; i.e. MRP will be an annual charge based on the estimated life of the assets. The provision will be set aside in the year following the capital expenditure.

For any finance leases, the MRP will be equal to the element of the actual finance lease repayment that reduces the ongoing balance sheet liability – i.e. the principal element of the charge or repayment, in line with CLG guidance.

Affordability prudential indicators

5.15 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. The Authority is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

5.16 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Prudential indicator 3: Ratio of financing costs to net revenue stream -This indicator identifies the trend in the cost of capital against the net revenue stream.

	2011/12 Actual £'000	**2012/13 Estimate £,000**	**2013/14 Estimate £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**
Total financing costs	2,189	2,229	2,262	2,176	2,289
Net Revenue Stream	40,846	41,470	39,701	27,593	36,867
Ratio	5.4%	5.4%	5.7%	5.6%	6.0%

5.17 The estimates of financing costs include current commitments and the proposals in this budget report.

Incremental impact of capital investment decisions on Authority tax.

5.18 This indicator identifies the revenue costs associated with proposed changes to the capital programme recommended in this budget report compared to the

Authority's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Prudential indicator 4: Estimates of the incremental impact of capital investment decisions on the Council Tax - This indicator illustrates the estimated effect of the capital programme recommended in this report.

	2011/12 Actual £	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £
Council tax - Band D	0.11	0.09	0.11	(0.30)	0.32

BORROWING

5.19 The capital expenditure plans set out in Section 3 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current portfolio position

5.20 The Authority's treasury portfolio position at 31 March 2012, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2011/12 Actual £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
External Debt					
Debt at 1 April	14,762	14,083	13,404	12,726	12,047
Expected change in Debt	(679)	(679)	(679)	(679)	(679)
Other long-term liabilities (OLTL)	4,960	4,823	4,899	5,274	6,589
Expected change in OLTL	(137)	76	375	1,315	1,238

	2011/12 Actual £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Actual gross debt at 31 March	**18,906**	**18,303**	**17,999**	**18,636**	**19,195**
The Capital Financing Requirement	**18,924**	**18,321**	**18,017**	**18,653**	**19,212**
Under / (over) borrowing	**18**	**18**	**18**	**17**	**17**

5.21 Within the prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2013/14 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

5.22 The Treasurer reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

6. Treasury Indicators: Treasury Management Strategy

The operational boundary

6.1 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.

Prudential indicator 5: The operational boundary - This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year.

Operational boundary	**2012/13 Estimate £'000**	**2013/14 Estimate £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**
Debt	14,490	13,810	13,130	12,450
Finance Leases	4,810	6,020	7,280	8,670
Total	19,300	19,830	20,410	21,120

The authorised limit for external debt

6.2 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 Fire 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. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Authorities plans, or those of a specific Authority, although this power has not yet been exercised. The Authority is asked to approve the following authorised limit:

Prudential indicator 6: The authorised limit – This represents the limit beyond which borrowing is prohibited, and needs to be set and revised if necessary by members.

Authorised limit	**2012/13 Estimate £'000**	**2013/14 Estimate £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**
Debt	15,090	14,410	13,730	13,050
Other long term liabilities	4,830	6,520	7,780	9,170
Total	19,920	20,930	21,510	22,220

6.3 The authorised limit includes £1m to allow for any short term borrowing required for cashflow purposes should it be required in an emergency and £500k to give some flexibility in the timing of lease arrangements at year end.

Prospects for interest rates

6.4 The Authority has appointed Sector as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The following table gives the Sector view.

Annual Average %	**Bank Rate**	**PWLB Borrowing Rates (including certainty rate adjustment)**		
		5 year	**25 year**	**50 year**
Dec 2012	0.50	1.50	3.70	3.90
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
Sept 2013	0.50	1.60	3.80	4.00
Dec 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
Sept 2014	0.50	1.80	4.00	4.20
Dec 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
Sept 2015	1.25	2.50	4.60	4.80
Dec 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

6.5 The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

6.6 The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Eurozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the the Presidential elections are out of the way. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip.

6.7 This challenging and uncertain economic outlook has several key treasury mangement implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2013/14 and beyond;
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

Prudential indicator 7: The Borrowing Strategy

6.8 The only anticipated borrowing for 2013/14 onwards is for specialised vehicles which have been historically obtained under finance leases. The financing of these vehicles will continue to be determined on a case by case basis during the year to ensure the most economically advantageous financing option is secured whether it be loans, finance leases or revenue. It is anticipated that light vehicles will continue to be funded from revenue sources although this will again be kept under review should circumstances change. The Authority will be kept informed of any changes the Capital Monitoring reports received at each Authority meeting.

6.9 Against this background and the risks within the economic forecast, caution will be adopted with the 2013/14 treasury operations. The Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Treasury management limits on activity

6.10 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates for both borrowing and investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates. Maximum interest rates for investments have been increased from 25% to 75%. This is to reflect a move in policy. Previously all investments were placed with the County Council on a variable rate. The Authority now intends to place medium to long term investments itself and will use a variety of instruments, many of which will fix rates for periods of between 3 months and up to 2 years. 75% will also provide the opportunity to take advantage of longer term fixed rates if interest rates are expected to fall;
- Maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

6.11 The Authority is asked to approve the following treasury indicators and limits:

Prudential indicator 8: Interest Rate Exposures

	2013/14	**2014/15**	**2015/16**
Interest rate exposures			
Borrowing			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	40%	40%	40%
Investments			
Limits on fixed interest rates	75%	75%	75%
Limits on variable interest rates	100%	100%	100%
Maturity structure of fixed interest rate borrowing 2013/14			
		Lower	**Upper**
Under 12 months		0%	15%
12 months to 2 years		0%	15%
2 years to 5 years		0%	45%
5 years to 10 years		0%	75%
10 years and above		0%	95%

Policy on borrowing in advance of need

6.12 The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds. At present it is not anticipated that any additional borrowing will be undertaken other than the funding of specialist vehicles through finance leases as previously discussed.

Debt rescheduling

6.13 The Authority has £13.4m of loans as at 31 March 2013 with a maximum interest rate of 6% (for a small loan of £108,000 with 10 yrs remaining) and average interest rate of 4.38%. Given the general low rate of interest on existing loans and the penalty costs incurred for repaying loans early (premiums) it is not anticpiated that there will be scope for debt rescheduling in 2013/14. However, the situation will be monitored and should premium levels come down the situation will be reviewed.

6.14 All rescheduling will be reported to Fire Authority at the earliest meeting following its action.

Prudential indicator 9: Annual Investment Strategy

Investment policy

Core funds and expected investment balances

6.15 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £m	**2011/12 Actual £'000**	**2012/13 Estimate £'000**	**2013/14 Estimate £000**	**2014/15 Estimate £000**	**2015/16 Estimate £000**
Fund balances / reserves	10,300	13,400	11,000	9,000	7,000
Provisions	325	0	0	0	0
Capital grant unapplied	0	0	220	0	0
Total core funds	**10,625**	**13,400**	**11,220**	**9,000**	**7,000**
Working capital*	(981)	4,600	0	0	0
Expected investments	**9,659**	**18,000**	**11,220**	**9,000**	**7,000**

* Working capital balances are cashflows resulting from time differences in payment and receipt of cash, mostly movement in debtors and creditors.

The figures shown are estimated year end. These may be higher mid year. The 2012/13 working capital includes £3.6m held on behalf of Nottinghamshire Fire Authority and Leicestershire Fire Authority for funding of the Tri Control Project.

6.16 The Authority's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Authority's investment priorities will be security first, liquidity second and then return.

6.17 In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Authority has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Sector ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

6.18 Furthermore, the Authority's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Authority will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors Sector in producing its colour codings, which show the varying degrees of suggested creditworthiness.

6.19 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

6.20 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

6.21 The intention of the strategy is to provide security of investment and minimisation of risk.

6.22 Investment instruments identified for use in the financial year are listed in Appendix 2 under the 'specified' and 'non-specified' investments categories.

Counterparty limits will be as set through the Authority's Treasury Management practices – schedules.

Creditworthiness policy

6.23 This Authority applies the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

6.24 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments. The Authority will therefore use counterparties within the following durational bands*:*

- Yellow 5 years
- Purple 2 years
- Blue 1 year (nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No colour not to be used

6.25 The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

6.26 Typically the minimum credit ratings criteria the Authority use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

6.27 All credit ratings will be monitored on an ongoing basis. The Authority is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service. If a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately. In addition to the use of credit ratings the Authority will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

6.28 Sole reliance will not be placed on the use of this external service. In addition the Authority will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

Country limits

6.29 The Authority has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 3. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

INVESTMENT STRATEGY

6.30 Short term investments will continue to be placed with the County Council in line with decisions made by Fire Authority in December 2012. Medium to long term investments will be placed by Authority staff from April 2013.

Investment returns expectations

6.31 Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 1 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2012/13 0.50%
- 2013/14 0.50%
- 2014/15 0.75%
- 2015/16 1.75%

6.32 There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

6.33 **Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. This limit has been increased from £1m to £4m.

6.34 The Authority is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
	2013/14	**2014/15**	**2015/16**
Principal sums invested > 364 days	£4m	£4m	£4m

End of year investment report

6.35 At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Management Report.

7. Legal Considerations

7.1 Included within the main body of the report.

8. Financial Considerations

8.1 This report is financial in nature and due consideration has been taken to ensure that the capital programme and associated borrowing proposed is affordable and prudent. This report should be considered alongside the revenue budget report for 2012/13 – 2015/16.

9. Inclusion and Equality Considerations

9.1 None.

10. Asset Management Considerations

10.1 The capital programme outlined in this report is in line with the corporate asset management plan.

This report has been consulted upon and approved by the following officers:

Chief Fire Officer/Chief Executive Group Meeting – 6 March 2013

Contact Officer: Simon Allsop **Contact No:** 01332 7712221 x7212

Background Papers:

2012/13 – 2015/16 Capital Programme, Prudential Code Report and Treasury Management Strategy, February 2012
Capital Monitoring and Prudential Update 2011/2012 (Dec 2012)
Provisional Capital Programme – February 2013
Local Government Act 2003
Prudential Code (revised November 2009)
CIPFA Code of Practice on Treasury Management (revised in November 2009) and associated guidance issued by CLG

Appendix 1

Capital Programme 2013/14 to 2015/16

Capital Programme 2013/14

	Project Code	Total Project Budget £	February 2012 report	Slippage from 2012/13 £	New Schemes £	Estimated In Year Cost £	Reserves £	Revenue £	Leasing £	Capital Grant £	Captial Receipts £	Borrowing £	Total £
			Spend				Funding						
Property Programme													
Training Centre Project		5,500,000		227,000		227,000				227,000			227,000
Long Eaton Station Refurbishment	C518	274,000		5,000		5,000				5,000			5,000
Matlock Fire Station					30,000	30,000				30,000			30,000
Belper Fire Station (Garage)					60,000	60,000				60,000			60,000
										0			-
ICT Strategy										0			-
eForms/Workflow		40,000	40,000			40,000				40,000			40,000
Network Upgrage		50,000	50,000			50,000				50,000			50,000
Server Upgrade		150,000	150,000			150,000				150,000			150,000
Unified Communications		30,000		30,000		30,000				30,000			30,000
Field Working		60,000		30,000		30,000				30,000			30,000
Staffing System		35,000		35,000		35,000				35,000			35,000
Remote Silver Command Facility		20,000		5,000		5,000				5,000			5,000
ICT Disaster recovery programme		25,000		25,000		25,000				25,000			25,000
East Midlands Tri Control Project		5,400,000		4,900,000		4,900,000				4,900,000			4,900,000
										0			
Vehicles										0			
Fire appliances x 3 - second half of build - WL29/30/?		750,000	480,000	270,000		750,000			750,000	0			750,000
Water Carriers - WC05		180,000		190,000		190,000			190,000	0			190,000
Unimog		253,000		253,000		253,000			253,000	0			253,000
Van replacements UV15-20					90,000	90,000				90,000			90,000
Replacement car CR17					17,000	17,000				17,000			17,000
Replacement Pool car SO02		16,000		16,000		16,000			16,000	0			16,000
2 x ALPS - coachwork costs		170,000		16,000	-	16,000			16,000	0			16,000
												-	-
			720,000	6,002,000	197,000	6,919,000	-	-	1,225,000	5,694,000	-	-	6,919,000

Capital Programme 2014/15

			February 2012 report	Slippage from 2013/14 £	New Schemes £	Estimated In Year Cost £	Reserves £	Revenue £	Leasing £	Capital Grant £	Captial Receipts £	Borrowing £	Total £
			Spend				Funding						
												-	-
ICT Strategy			500,000			500,000				500,000			500,000
Mobile Devices		35,000		35,000		35,000				35,000			35,000
Training Centre Project		5,500,000	2,000,000	1,500,000		3,500,000	2,696,000			804,000			3,500,000
													-
Vehicles													-
Fire appliances x 7 - complete build			1,600,000			1,600,000			1,600,000				1,600,000
4 x replacement area office cars CR19-22					60,000	60,000	60,000						60,000
Replacement vans UV21/22/23					54,000	54,000	54,000						54,000
Replacement van UV24					18,000	18,000	18,000						18,000
Repacement cars CR14/15/18					51,000	51,000	51,000						51,000
Training lorry replacement LC01					90,000	90,000	90,000						90,000
Water Carriers - WC06/07		400,000	400,000			400,000			400,000				400,000
												-	-
			4,500,000	1,535,000	273,000	6,308,000	2,969,000	-	2,000,000	1,339,000	-	-	6,308,000

Capital Programme 2015/16

	February 2012 report	Slippage from 2014/15 £	New Schemes £	Estimated In Year Cost £	Reserves £	Revenue £	Leasing £	Capital Grant £	Captial Receipts £	Borrowing £	Total £
	Spend				Funding						

ICT Strategy			500,000			500,000				500,000			500,000
Training Centre Project		5,500,000	1,773,000			1,773,000	1,273,000			500,000			1,773,000
Kingsway Fire Station		2,800,000	1,000,000			1,000,000	1,000,000						1,000,000
Light van replacements UV25-36 (12)					216,000	216,000	216,000						216,000
Water Ladders WL32-39 (8)					2,080,000	2,080,000			2,080,000				2,080,000
			3,273,000	-	2,296,000	5,569,000	2,489,000	-	2,080,000	1,000,000	-	-	5,569,000

Capital Programme 2016/17

			Spend				**Funding**						
			February 2012 report	**Slippage from 2014/15 £**	**New Schemes £**	**Estimated In Year Cost £**	**Reserves £**	**Revenue £**	**Leasing £**	**Capital Grant £**	**Captial Receipts £**	**Borrowing £**	**Total £**
ICT Strategy					500,000	500,000				500,000			500,000
Kingsway Fire Station		2,800,000			1,800,000	1,800,000	1,300,000			500,000			1,800,000
Vehicles													
3 x minibus NX13/14/15					90,000	90,000	90,000						90,000
7 light van replacements UV37-43					126,000	126,000	126,000						126,000
Replacement training cars CR24-27					68,000	68,000	68,000						68,000
Replacement cars CT01-15					255,000	255,000			255,000				255,000
Replacement cars CT016-30					255,000	255,000			255,000				255,000
Replacement pool car CT99					17,000	17,000	17,000						17,000
Replacement car SO03					20,000	20,000	20,000						20,000
Fire appliances - ALP			500,000			500,000			500,000				500,000
Replacement van Dog02					18,000	18,000	18,000						18,000
			500,000	-	3,149,000	3,649,000	1,639,000	-	1,010,000	1,000,000	-	-	3,649,000

APPENDIX 2: TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

SPECIFIED INVESTMENTS

Specified investments are deemed as “safer” investments and must meet certain conditions, i.e. they must

- be denominated in sterling
- have less than 12 months duration
- not constitute the acquisition of share or loan capital
- either be invested in the government, a local authority, or in a body or investment scheme with a “high” credit rating

NON-SPECIFIED INVESTMENTS

The Authority is required to look at non-specified investments in more detail, which in the Authority’s case would be for investments for more than 12 months but not more than 2 years.

Whilst most of the Authority’s surpluses are of a temporary nature, some reserves could reasonably be invested for periods in excess of one year.

A maximum of £4m will be held in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	*** Minimum credit criteria / colour band**	**** Max % of total investments/ £ limit per institution**	**Max. maturity period**
Debt Management Office – UK Government	N/A	**100%**	**6 months**
Money market funds	AAA	100%	Liquid
Local authorities	N/A	100%	2 years

	* Minimum credit criteria / colour band	** Max % of total investments/ £ limit per institution	Max. maturity period
Term deposits with banks and building societies	Yellow Purple Blue Orange Red Green No Colour		Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 3 months Not for use

APPENDIX 3: APPROVED COUNTRIES FOR INVESTMENTS

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- France
- UK
- Hong Kong
- U.S.A.

AA

- Abu Dhabi
- Qatar
- UAE

AA-

- Belgium
- Japan
- Saudi Arabia