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Shropshire and Wrekin Fire Authority
18 October 2006

REPORT OF THE TREASURER

PRUDENTIAL GUIDELINES 2006/07

1 Purpose of Report

This report informs the Fire Authority of progress against its agreed prudential guidelines for 2006/07. It also reports the actual prudential guideline figures for 2005/06.

2 Recommendations

The Fire Authority is recommended to:

a) Note that the guidelines have been complied with during 2005/06; and
b) Note the position for 2006/07.

3 Background

The "Prudential Guidelines" arrangements have now been in place for two years. The Treasurer is required to establish procedures to monitor performance against all forward looking prudential indicators and, in particular, that net external borrowing does not (except in the short-term) exceed the requirement to borrow for capital purposes.

The Fire Authority has established that it will receive quarterly monitoring reports during the year, of which this is the second for 2006/07.

Your officers monitor prudential guidelines monthly as part of the ongoing budget monitoring that takes place at the officers' Policy Group. The legislation also requires that actual indicators are produced at the year end and those for 2005/06 are, therefore, also set out in this report.

4 2005/06 Actual Prudential Indicators

a) Capital Expenditure

The actual capital expenditure for 2005/06 is £828,000.

		2004/05 Actual £000	2005/06 Budget £000	2005/06 Actual £000
Payments		1,188	1,203	828
Funding	- Borrowing	1,068	1,179	1,068
	- Grant	120	24	-
	- Leasing (financing)	-	-	30

Finance leasing totalling £30,000 has been included in assets, following a reclassification of operating leases.

b) Ratio of Financing Costs to Net Revenue Stream

The actual ratio of financing costs to net revenue stream is 0.5%.

	2004/05 Actual £000	2005/06 Budget £000	2005/06 Actual £000
	1.3	1.6	0.5

The outturn is lower than the estimate, because of the continued higher level of interest earned on revenue balances invested, which are netted off the financing costs, i.e. revenue provision for debt repayment plus interest charges. The actual ratio of gross financing costs to net revenue stream was 1.5%.

The impact of the capital investment decisions in the present capital programme were estimated at 0.2 pence, before taking into account the notional proportion of general grant said to support capital investment.

c) Capital Financing Requirement

The actual capital financing requirement as at 31 March 2005 is £3,355,000.

	2005/06 Budget £000	2005/06 Actual £000
	3,885	3,355

The capital financing requirement is well within the predicted level as a result of slippage of schemes into 2006/07, as previously reported.

d) Net Borrowing

Net borrowing at 31 March 2006 was £75,000 in credit, i.e. well within the guideline. Gross borrowing, i.e. before investments and cash, was £4,040,000, however this was offset by short-term lending of £4,115,000.

e) Actual External Debt

Actual external debt at 31 March 2006 was £4,000,000 plus other long-term liabilities at 31 March 2006 of £40,000 (finance leases). Although a prudential indicator, this represents the actual position on a single day, and, therefore, cannot be compared directly with the authorised limit or operational boundary. The level of external borrowing was, however, within both the Operational Boundary of £4,137,000 and the Authorised Limit of £6,908,000.

f) Treasury Management Indicators

An upper limit of 100% of external debt can be borrowed at fixed interest rates. All of the Fire Authority's external debt is at fixed rates. All of this debt is also arranged for longer than 10 years, which is again in accordance with the Prudential Indicator. No money has been invested for more than 364 days. At the 31 March 2006 51% of invested money was in variable rate investments, which is above the 20% guideline adopted for 2005/06. This was because more variable amount balances could be placed for better returns in variable rate investments. As a result, the Fire Authority subsequently agreed to increase the percentage invested at variable rates to 40%. Further work is to be carried out with Treasury Services, to investigate the benefits of either increasing this indicator further to allow a higher level of variable rate lending, or lending a higher proportion of funds available for a fixed term.

5 2006/07 Prudential Indicators - Monitoring

a) Authorised Limit for External Debt (£8,154,000)

The Prudential Guideline of £8,154,000 includes a provision for temporary borrowing, should the receipt of revenue money be delayed. This should happen very rarely and indeed the current limit stands at £4,292,000.

b) Operational Boundary for Borrowing (£5,275,000)

This boundary, unlike the Authorised Ceiling, may be exceeded, although this would trigger an investigation. At £4,473,000 borrowing is well within the boundary.

c) Capital Financing Requirement (£5,154,000)

The capital financing requirement was set at £5,154,000 and the current position is £4,292,000. Future borrowing to fund the capital programme is unlikely to see the original indicator exceeded.

d) Net Borrowing (£2,114,000)

Currently borrowing of £4,450,000 is offset by investments of £4,460,000, leaving a net lending position of £10,000, i.e. well within the Capital Financing requirement.

6 Financial Implications

There are no financial implications other than those outlined within the report.

7 Legal Comment

The Local Government Act 2003 introduced Prudential Guidelines with effect from 1 April 2004. The Fire Authority is required to follow the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance, which establishes the framework for capital spending by local authorities to ensure that plans are affordable, prudent and sustainable. Certain indicators must be approved by 1 April in each year, although they may be revised during the year, if necessary.

8 Appendices

There are no appendices attached to this report.

9 Background Papers

There are no background papers associated with this report.

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.

Balance Score Card		Integrated Risk Management Planning	
Business Continuity Planning		Legal	
Capacity		Member Involvement	
Civil Contingencies Act		National Framework	
Comprehensive Performance Assessment		Operational Assurance	
Equality and Diversity		Retained	
Efficiency Savings		Risk and Insurance	
Environmental		Staff	
Financial	*	Strategic Planning	
Fire Control/Fire Link		West Midlands Regional Management Board	

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