

REPORT OF THE TREASURER

PRUDENTIAL GUIDELINES 2006/07

1 Purpose of Report

This report informs the Fire Authority of progress against its agreed Prudential Indicators for 2006/07. It also reports recommended changes to a number of its indicators, following monitoring of performance over the first quarter of the year.

2 Recommendations

The Fire Authority is recommended to:

- a) Note the position for 2006/07; and
- b) Approve the recommended adjustments relating to ratio of financing costs to net revenue stream, and investment interest variable rate exposure.

3 Background

In line with the Chartered Institute for Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance, 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 first for 2006/07.

As a result of this monitoring process, it has been necessary to propose changes to two of the indicators, details of which are outlined in this report.

4 2006/07 Prudential Indicators – Monitoring

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

The prudential indicator of £8.154m includes a provision for temporary borrowing, should the receipt of revenue money be delayed, although this



should happen very rarely. The Limit currently stands at £3.355m, i.e. well within the indicator.

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

The Boundary, unlike the Authorised Limit, may be exceeded, although this would trigger an investigation. At £4.0m, the Boundary is well within the set indicator, as the Fire Authority has not yet borrowed any funds for its 2006/07 capital programme.

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

Again, as the Fire Authority has yet to borrow for its capital programme, the Capital Financing Requirement, at £3.355m, is well within its indicator.

d) Net Borrowing

Currently, investments of £4.140m exceed the Fire Authority's outstanding borrowing (£4.0m) by £140,000.

5 Recommended Adjustments to Prudential Indicators

a) Ratio of Financing Costs to Net Revenue Stream

The Fire Authority approved the following prudential indicators in February 2006:

	2005/06 Budget £000	2006/07 Budget £000	2007/08 Budget £000	2008/09 Budget £000
Financing costs	148	299	443	631
Net Revenue Stream (Budget)	17,948	18,296	18,960	20,107
Ratio	0.8%	1.6%	2.3%	3.1%

Following closure of the financial year 2006/07, and a review of the financing costs likely over the next three years, it is proposed that these indicators are amended, as detailed below:

	2005/06 Actual £000	2006/07 Budget £000	2007/08 Budget £000	2008/09 Budget £000
Financing costs	95	366	515	697
Net Revenue Stream (Budget)	17,948	18,296	18,960	19,975
Ratio	0.5%	2.0%	2.7%	3.5%



b) Investment: Upper Limit for Net Principal Variable Interest Rate Exposure

The Fire Authority approved in February that the upper limit on variable rate investment should be no more than 20% at any given time. However, the requirement to place funds at short notice according to sums available, and to amend those values invested, means that Fire Authority funds are increasingly placed with approved institutions offering variable rates of interest. For this reason, it is proposed that the indicator should be increased from 20% set in February, to 40%, which represents a more realistic indicator against which to monitor performance.

6 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.

7 Appendices

There are no appendices attached to this report.

8 Background Papers

Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance

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	

For further information about this report please contact Keith Dixon, Treasurer, on 01743 260202.

