

REPORT OF THE TREASURER

2005/06 OUTTURN AND PRUDENTIAL GUIDELINES

1 Purpose of Report

The report brings Members up to date with the likely revenue and capital outturn for 2005/06, and reports the prudential indicators for the year.

Finally the report includes the main issues for closing the accounts that were discussed with the District Auditor.

2 Recommendations

The Fire Authority is asked to note the matters discussed in the report and decide how best to address those matters, which will be raised in the Use of Resources Assessment.

3 Background

The final accounts are scheduled to be considered by the Fire Authority at its meeting on 14 June 2006, in order to meet the advanced timescale for approval by 30 June 2006. Financial processes and information requests have been rearranged to meet this advanced deadline.

In addition, the Key Lines of Enquiry (KLOE) for the Use of Resources Assessment make the following references to Member involvement:

- a) *"The accounts were subject to robust Member scrutiny/discussion either at the formal meeting or at another appropriate forum prior to approval."*
- b) *The accounts submitted to the Authority were accompanied by a clear explanatory paper providing interpretation of the accounts and highlighting key issues for the benefit of Members."*

Both of these are 'Level 3' matters. This report is intended to bring the most important matters to the Fire Authority's attention and to consider whether a special meeting of its Strategy and Resources Committee or Budget Working Group would help, or whether the Authority would wish to address the accounts in detail on 14 June 2006.



4 Latest Outturn

Work is continuing on the final outturn of the Revenue Account, and the position to date is detailed below.

The most recent monitoring report to the Strategy and Resources Committee on 9 March 2006 identified the following variations from the budget:

- a) **Expenditure expected to slip into 2006/07 be added to the General Reserve on 31 March 2006 and released in 2006/07** **£58,000**

Unspent balances on the Fire Authority's telecoms and mobilising equipment, to be spent during 2006/07, are slightly lower than anticipated, and stand at £53,000.

In addition, a number of balances have now been identified that represent items that were budgeted for in 2005/06 but will not be completed until 2006/07:

	£'000
Relocation costs for two officers: moves will be completed in the new financial year	12
Consultancy costs for Cultural Audit and Risk Consultancy: projects to be undertaken in 2006/07	16
Appeal on property ratings work is ongoing	7
Start up costs for Geographical Intelligence Unit – agreed by the Fire Authority in December.	27
Training equipment which was due to be purchased in 2005/06	11
Change to anticipated telecommunications balance	(5)
Further total to be rolled forward to 2006/07 budget	68

In addition, it is anticipated that there will be an unspent balance on the Fire Authority's budget for the Regional Management Board. Work continues to ascertain this balance, and the Fire Authority is asked to approve the carry forward of this amount.

- b) **Underspend on activity-led retained budgets which are based on an annual average to be added to the Bad Weather Reserve** **£27,000**

Underspent balances on activity-led retained balances are now likely to be around £23,000.

- c) **Net balance of minor underspendings to be added to the Capital Reserve in accordance with the Fire Authority's policy of maximising that Reserve from such resources.** **£7,000**



In addition to the net underspendings anticipated at the year end, the following balances can now be reported.

	£'000
Firefighters – total salary cost including national insurance and allowances	16
Support staff costs - includes a balance on early pension contributions, which will be adjusted in the 2006/07 budget	17
Mechanics salary costs – variable costs will be monitored and any necessary adjustments made	(10)
Airwave costs – a refund has been received for costs incurred during the recent system upgrade	26
Energy – unspent balances are lower than originally anticipated	(23)
Uniforms and laundry – spend during the year has exceeded budgeted levels	(14)
Operational equipment and maintenance - as reported in March, budget level reviews will be completed in 2006/07 in these areas	(16)
Fire Hydrants – standards of hydrant maintenance have been reviewed and this review has identified a range of maintenance tasks, which are no longer deemed necessary to complete. This may result in efficiency savings in 2006/07, which may result in further savings in 2006/07 and future years. Inspection frequency for hydrants will also be reviewed in 2006/07, which may result in further savings going forward.	49
Financial Administration, Personnel Services and Legal Services – budgets for these services, provided by constituent authorities, will be increased in 2006/07 from the Prices Contingency to reflect fees charged	(18)
Leasing – an overspend here represents the third party purchase of appliances and equipment, which will reduce lease payments in 2006/07 onwards	(20)
Other net variations from budgeted levels	9
Further total to be added to the capital reserve	16

Current Position	Previously Reported £'000	New Totals £'000
'Slipped' expenditure ('a' above)	58	126
Activity-led budget balances ('b' above)	27	23
Other balances ('c' above)	7	23



5 Pensions

The movements in pensions costs and receipts have been volatile right up to 31 March. Near final costs, however, show that net underspends taken together with the £23,000 at 'c' in paragraph 4 above, will enable the capital reserve to stand at about the £700,000 predicted in March.

6 Prudential Guidelines

The Treasurer is required to establish procedures to monitor performance against all forward looking prudential indicators and, in particular, that net 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 fourth for 2005/06.

The detailed working papers for the Prudential Guidelines are set out in Appendix A. The key features are:

- a) **Authorised Limit for External Debt**
The funding requirement for 2005/06 has now been borrowed in full, and the Authorised Limit stands at £3,725,000. The margin between this and the indicator represents a provision for temporary borrowing, should it have been required during the year.
- b) **Operational Boundary for Borrowing**
Borrowing at £4,023,000 is within the Boundary. As last year, cash generated from minimum revenue provision (MRP) has been used to finance new assets.
- c) **Capital Financing Requirement**
The Fire Authority's borrowing requirement has not changed since this indicator was set at the beginning of the year. Movements during the year have not, therefore, exceeded the budgeted level. The Requirement stands at £3,725,000.
- d) **Net Borrowing (£2,137,000)**
Currently borrowing of £4,023,000 is offset by investments of £4,115,000, which means that the Fire Authority was in a net lending position at the end of the year.

7 Accounting Issues Raised with District Audit

The Use of Resources Assessment judges whether the Fire Authority produces annual accounts in accordance with relevant standards and timetables. Accordingly, early meetings have been held to cover any major matters. These are as follows:

- a) **Reserves and provisions** – following the change to firefighters' pension funding arrangements, and the reassessment of the General Reserve, the Fire Authority agreed to establish a number of provisions and reserves for 2006/07. It was agreed that it would be most informative to show these reserves in the balance sheet at 31 March 2006, although technically the new pensions system was not in operation on that date. The balance sheet will, therefore, show the following:

Provisions

- i Equipment Replacement



Reserves

- ii Transitional Funding
(Reclassified from a provision, as the Government is now recovering this money by deductions from the Revenue Support Grant)
- iii Retained Service
(Likely to be used on Community Fire Service)
- iv Efficiency
- v Pensions Liability
To meet ill-health or injury award costs which will not be evened out between years by the new pension arrangements
- vi Bad Weather
Established to enable the annual budget to meet only the average yearly costs for retained staff dealing with weather related incidents
- vii Capital Reserve
Established to meet likely major capital issues within prudential guidelines

General Reserve

- viii Showing the risk assessed level agreed by the Authority.
- b) **Contingent Liabilities** – The accounts should deal by way of a note with any potential issues such as the recent House of Lords judgement over retained firefighters pensions. This should be common to all fire authorities.
- c) **Treatment of Grant Amending Orders** – the Authority lost £170,000 from its 2006/07 grant because of adjustments to its 2004/05 and 2005/06 grants. The District Audit view nationally is that such adjustments should be treated as part of the 2006/07 accounts in apparent contradiction of the accounting principle of matching expenditure and income to the year it relates.

8 Appendices

Prudential Guidelines Monitoring Statement 2005/06

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 260201.



**Prudential Guidelines Monitoring Statement 2005/06
March 2006**

	Original Budget £000	Budget £000	Revised Actual £000
1 Authorised Limit for External Debt			
Temporary Borrowing	2,000	2,000	0
Finance Leases	-	23	
Capital Financing Requirement	3,885	3,885	3,725
Investments	1,000	1,000	0
	6,885	6,908	3,725
2 Operational Boundary			
Outstanding Borrowing - 31/03/05	2,935	2,958	2,935
Outstanding Borrowing - 31/03/06	1,179	1,179	1,065
Finance Leases - 31/03/05	0	0	23
Cash Overdrawn	0	0	0
Finance Leases	0	0	0
Leasing 2005/06	0	0	0
	4,114	4,137	4,023
3 Capital Financing Requirement			
31/03/05 - Fixed Assets	10,034	10,034	
- Fixed Asset Restatement Reserve	-10,265	-10,265	
- Capital Financing Reserve	1,926	1,926	
2004/05 Expenditure - Borrowing	1,192	1,192	
- Finance Leasing	0	0	
Finance Leasing repaid	0	0	
MRP	-68	-68	
31/03/05 - Fixed Assets			10,662
- Fixed Asset Restatement Reserve			-10,083
- Capital Financing Reserve			2,226
2005/06 Expenditure - Borrowing	1,179	1,179	1065
- Leasing (Finance)	0	0	0
MRP	-113	-113	-113
Leasing repaid (finance)	0	0	-32
	3,885	3,885	3,725
4 Net Borrowing			
Borrowing repayable	4,114	4,137	4,023
Short term lending	-2,000	-2,000	-4,115
Cash and Bank			
	2,114	2,137	-92

