

FIRE SERVICES EXAMINATIONS BOARD

STUDY NOTE

EXAMINATION

STATION OFFICERS' EXAMINATION

PAPER

BUSINESS ADMINISTRATION

SUBJECT

PRINCIPLES OF MANAGEMENT

ITEM

LOCAL GOVERNMENT FINANCE AND ACCOUNTING

STUDY NOTE No.

3403

INTRODUCTION TO THE STUDY NOTE

This study note has been prepared as the basis of study in connection with the qualifying examinations for promotion.

Candidates will be expected to demonstrate knowledge of the information contained in the study note and understand how it should be applied:

The 'References' made at the end of the Study Note are included for information only and candidates will not be expected to study these as part of the bibliography.

LOCAL GOVERNMENT FINANCE AND ACCOUNTING

1. Introduction

The Fire Service is a part of local government provision and is accountable to fire authorities for its operational and administrative efficiency.

This Study Note provides a basic understanding of the financial and funding aspects of the service that an Officer should be aware of.

2. Local Government Structure

(a) Shire Areas

The county has an elected county council providing the strategic and more costly services like education, social services, fire service, etc. For the purposes of the fire service, the county council is the fire authority but may delegate responsibility to a Committee of the County Council.

(b) Metropolitan Areas

Within the metropolitan areas there is a unitary (single level) system of local government at district or borough level (metropolitan district councils). Most of the services such as education, social services, environmental health, housing, etc are provided by these elected metropolitan district councils. An exception is the fire service. The legal responsibilities of the fire authority are held by a joint board (Fire and Civil Defence Authority), consisting of elected members of the districts or boroughs within the metropolitan area, who are nominated to serve on the joint board.

(c) Combined Fire Authorities

A combined fire authority is formed by, for example, a shire county and a city council, or two or more shire counties (all being authorities with the responsibility of a fire authority in their own right), combining by agreement to form a single purpose fire authority. Those authorities that have combined become the constituent authorities of the combined fire authority. The sole purpose of the combined fire authority is the administration and discharge of the duties of a fire authority under the Fire Services Act 1947 for the areas of its constituent authorities.

The combined fire authority consists of elected members from each of the constituent authorities that make up this combined fire authority.

The number of representatives nominated by each constituent authority to serve on the combined fire authority, and the financial contribution that each constituent authority makes to the overall approved cost of the combined fire authority, is usually decided on a pro rata basis to the council tax base (in Scotland, the population) of each constituent authority as a percentage of the total council tax base required (in Scotland, the total population served) by the combined fire authority.

(d) Scotland

Following local government reorganisation in 1996, 32 Local Authorities were formed each being regarded as a fire authority.

The Secretary of State for Scotland introduced a number of administration schemes, which established a number of combined fire authorities. Scotland, therefore, consists of 6 brigades administered through Joint Fire Boards, and 2 brigades administered directly by the fire authority. Only in 2 cases (Dumfries and Galloway, and in Fife) is the area administered by the brigade coterminous with the area of a single fire authority.

(e) Wales

Following local government reorganisation in 1996, twenty-two Local Authorities were formed.

Combination Orders established 3 combined fire authorities covering the whole of Wales, replacing the 8 former county fire brigades. The area administered by each of the combined fire authorities is coterminous with the area administered by its constituent authorities.

3. Value for Money

The demand for many of the services provided by the public sector has been steadily increasing due to economic and social trends. At the same time the resources to meet these needs are limited because of the economic and political climate.

There is no single right way to run a local authority fire service. The policies and priorities of each must differ according to the nature of their programmes, the environment in which they work, their own ethics and culture, and the nature of their population.

Because of the pressure on the resources of local authorities, politicians and managers must give an explanation of their activities to the electorate. They need to establish that they are achieving optimum use of their limited resources.

Thus the concept of Value for Money has developed. Value for money, or the 3 E's as it is sometimes known, may be defined as:

(a) Economy

The terms under which the authority acquires human and material resources.

(b) Efficiency

The relationships between goods and services produced and the resources used to produce them.

(c) Effectiveness

How well a programme/activity is achieving its established goals.

Value for money is not just a collection of techniques, it is, above all, an attitude of mind, a commitment to good practice on the part of politicians and officials. It is particularly important for management to install a positive approach towards achieving value for money at all levels so that the commitment permeates the whole organisation.

However, value for money cannot be achieved merely with the enthusiasm of management. It has to be supported by the right organisational structure and formalised budgeting together with evaluation and monitoring systems.

4. The Budget

Each year decisions are made about planning the level and quality of services that the authority will provide in the year ahead. The budget sets out the amounts of money that the authority plans to spend on providing services in the financial year ahead, and the sources of income that are going to pay for it.

Apart from the fact that it is a legal requirement, drawing up a budget is essential in planning the council's and the Fire Authority's services because it:

- (a) Enables a comprehensive plan to be drawn up for all the authority's services.
- (b) Establishes the cost of providing those services and the implications it has for the level of the council tax.
- (c) Enables priorities to be set in the allocation of resources.
- (d) Allows judgements to be made about the value for money provided by different services.
- (e) Provides a control on the actual spending and performance of the authority.

The budget is normally drawn up once a year, but it is reviewed regularly throughout the year to make sure that money is spent at the rate predicted by the budget, or that action is taken where it is not.

5. Capital and Revenue

In the main, there are two kinds of expenditure:

- (a) Capital spending; and
- (b) Revenue spending.

It is difficult to give a complete and precise definition of them but as a rule of thumb we can say:

Capital spending is to buy long-term assets, things that will provide benefits over a period of years like buildings, vehicles etc.

Revenue spending is money spent year after year on the regular running costs of providing a service like staff salaries, heating, lighting, maintenance etc.

For example, if your authority opens a new fire station the cost of the land, architect's fees, construction and equipment would all be capital costs. The cost of employing firefighters, providing fuel for the appliance, heating and cleaning the building, and the maintenance of the building and its grounds, would all be revenue expenditure.

6. The Budget Process

- (a) Capital Expenditure

Because of the long-term nature of capital expenditure, capital expenditure budgets usually cover a period of 5 years.

In a normal year therefore, the budget process should only see a review of the capital expenditure priorities.

The capital budget is normally considered in October and November. This means that the capital charges, (ie the cost of borrowing the finance for the capital expenditure) can be calculated.

(b) Revenue Expenditure

Revenue budgets are for one year only.

As the financial year runs from 1 April to 31 March the following year, considerations on the budget for the coming year are usually being made between October and February. The capital charges for the capital expenditure for the coming year are added to the revenue budget.

The Chief Fire Officer/Firemaster will consider the spending plan, which will then be submitted to the fire authority for approval usually in December and January.

It will be submitted identifying budget-heading costs as in the following example:

Expenditure Analysis:	£	Approximate %
Establishment Wholetime Retained Non-uniformed		
Employee costs		71%
Premises)		11%
Transport)		
Supplies/Services)		
Total controllable expenditure		82%
Pensions (outgoing))		26%
Central & Agency Fees)		
Capital financing)		
Total expenditure		108%
Less income		8%
Net expenditure		100%

A breakdown in detail of the proposed expenditure under each budget 'head' will have been carefully considered and planned by the Chief Fire Officer/Firemaster and his management team prior to submitting the proposals to the authority.

Following debate by the members of the authority the proposed expenditure may need to be amended and it will be the Chief Fire Officer/Firemaster who will need to agree with the fire authority where these amendments will be applied.

7. Financing Expenditure

(a) Capital Expenditure

Local authorities decide their own programmes for capital investment in fixed assets. The Prudential Code for Capital Finance has been developed as a professional code of practice to support local authorities in taking these decisions. The key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable. Local authorities are required to have regard to the Prudential Code when carrying out their duties.

Methods of financing capital expenditure are as follows:

- (i) Borrowing – The authority can make its own borrowing decisions according to what it can afford (ie interest payments and provision for the repayment of the principal amount), unless, exceptionally, a national limit is imposed.
- (ii) Capital Receipts - Authorities can use the money obtained from selling unwanted assets to fund new capital expenditure or it can use it towards paying off existing debt.
- (iii) Capital Grant – Usually awarded when the government is interested in supporting national priorities. In England, the grant will be awarded from the Office of the Deputy Prime Minister, in Wales, the National Assembly Government, and in Scotland, the Scottish Parliament.
- (iv) Revenue Funding – Authorities are permitted to fund capital expenditure to an unlimited extent from the revenue budget. Expenditure should be matched by a contribution from revenue in the year the expenditure is incurred.

(b) Revenue Expenditure

Revenue is normally financed from four main sources:

(i) Council Tax

A local charge on properties for services provided in the area where they are situated.

(ii) Unified Business Rate

This is a rate charged according to rateable values on businesses collected by local authorities on behalf of government who put this into the National Non-Domestic Rate pool (NNDR). The money is then shared out to each local authority in proportion to the number of adults in its population and the service they provide.

There is no unified business rate in Scotland. The Secretary of State sets the general rate poundage for business properties, which is then related to the rateable values and collected by local authorities as part of their income. It is known as the Non-Domestic Rate (NDS).

(iii) Income from Fees and Charges

Incomes from direct charges that the authority makes for the use of its services. For the fire service, for example, this would include special service charges made under Section 3(1)(e) of the Fire Services Act, 1947, charges for fire certificates issued under the Fire Precautions Act, 1971 and licence fees where applicable, etc.

(iv) Revenue Support Grant (In Scotland, Grant Aid Expenditure (GAE))

Revenue support grant is a government contribution towards the cost of local government services. The amount of grant is decided according to the government's assessment of how much the authority needs to provide a standard level of service in its area. Authorities' needs are assessed over the main blocks of services. For example in 2002/03 the assessment in England of the local authority expenditure in each block was:

Education	41.2%
Personal social services	18.2%
Police	12.9%
Fire & Civil Defence	2.6%
Highways maintenance	3.0%
Other services	19.3%
Capital finance charges	2.8%

The grant provided is not directly allocated to each specific service, and multifunctional authorities (eg Shires) have some discretion, unlike single service authorities (eg Metropolitan Fire and Civil Defence Authorities), to determine the level of service provided and the priorities between them.

In Wales, no such indication between service blocks is provided by central government.

In Scotland, GAE is paid directly to each member local authority of a joint board and represents the government's view of what requires to be spent in that authority to provide a standard level of service. It is not a spending guideline and local authorities do not have to spend the GAE settlement on that particular service.

The grant assessment for the fire service, for example, is calculated using a formula, which includes:

Resident population
Coastline
Area of high risk ('A' risk)
Fire Safety enforcement
Community Fire Safety
Deprivation, and
Fire Pensions.

In addition, account is taken of the high costs when dealing with the assessment for London and the South East of England.

Combined fire authorities do not receive direct funding in this way. Fees and charges and contributions from their constituent authorities finance their total expenditure. The constituent authorities have a legal obligation to meet the net expenditure of combined fire authorities, and their contribution constitutes the bulk of the finance. Their contributions are generally determined in relation to Council Tax.

Combined fire authorities normally receive their funding from constituent authorities monthly unless all parties agree a different arrangement. The constituent authorities receive Revenue Support Grant, Business Rates and Council Tax income to cover this expenditure.

8. Budgetary Control

The objective of such control is to plan a fire brigade's expenditure according to available resources.

To achieve this the Chief Fire Officer/Firemaster will exercise a financial overview of the expenditure of the brigade and will be provided with information that will indicate whether spending is as predicted, that value for money is being obtained and that the financial year end projection indicates that spending will be within budgetary limits.

Various management styles for controlling finance exist within the fire service, some of which devolve financial responsibility to Station Management.

In all cases Station Management can and should exercise control on matters affecting the brigade's financial resources, by undertaking duties diligently and by exercising good and effective management of finances, resources and materials which are under the officers' command and responsibility.

Examples:

- (a) By effectively overcoming unnecessary waste of materials and resources;
- (b) Controlling consumption of resources by only authorising orders for or issues of essential equipment and materials;
- (c) Exercising effective control over the use of gas, electricity and other fuel, and maintaining records that will identify any increase in use and the reasons for it;
- (d) Authorising or undertaking only necessary journeys and using most direct routes to arrive there and return;
- (e) Investigating damage to brigade equipment and property and taking effective steps to ensure quick repair or replacement and prevention of a repeat of such damage;
- (f) Programming duties away from the fire station in a manner that will ensure best use of personnel and appliances;
- (g) Monitoring ridership levels and personnel information such as training and sickness;
- (h) Existing methods should be reviewed and should a more cost effective or efficient method be recognised, this should be quickly brought to the attention of the Station Management for further consideration, or applied, subject to the devolved responsibility applicable.

9. External Audit

The public is entitled to expect that money raised by any levy is properly spent and accounted for and that a comprehensive audit is carried out to ensure that it is.

The auditing of local authorities in England and Wales is under the control of a single body, which looks at the overall management of local government - The Audit Commission.

The Commission has two main duties:

- (a) Firstly the Commission and its auditors (the District Audit Service and private accountancy firms) MUST ensure that the local authorities are spending their money and reporting their financial situation in accordance with the law, and that there are proper safeguards against fraud and corruption;
- (b) Secondly, they seek to help authorities to help themselves by showing how services can be provided as cost-effectively as possible. Neither the Commission nor its auditors can force local authorities to save money - that is the responsibility of elected members. But the Commission and its auditors can and do suggest ways in which value for money can be increased.

Auditors appointed by the Commission have a duty to ensure that each authority makes appropriate arrangements to secure economy, efficiency and effectiveness in the use of resources. They are, therefore, not so much concerned with saving money as with ensuring that it is used as well as is possible. Auditors give advice on improved management or more effective services but leave the policy decisions to elected members.

In Scotland, external audit is the responsibility of the Commission for Local Authority Accounts in Scotland, under the Controller of Audit who has similar duties to those of the Audit Commission in England and Wales.

The difference between these two bodies is negligible.

References

The Fire Services Examinations Board