Agenda Item 6

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

13 FEBRUARY 2012

1. BUDGET AND PRECEPT 2012/2013 AND BUDGET FORECAST 2013/2014 TO 2014/2015

Joint Report of the Treasurer and Chief Fire Officer.

RECOMMENDED

1.1 THAT the following be approved:-

1.1.1 - The Authority's Revenue Budget for 2012/2013 of: £38.454m as set out in Appendix A (Option 1, Council Tax freeze) and the associated precept levels as set out in Appendix B1

OR

- £39.990m as set out in Appendix A (Option 2, 4% Precept increase) and the associated precept levels as set out in Appendix B2

1.1.2 The Authority’s capital programme for 2012/2013 to 2014/2015 as set out in Appendix E.

1.1.3 The Authority’s Treasury Management Strategy which includes the Minimum Revenue Provision Statement is set out in Appendix F and the Prudential Indicators in Appendix G.

2. PURPOSE OF REPORT

The Authority is requested to consider the Capital Programme for 2012/2013 to 2014/2015, the prudential indicators relating to the Authority’s capital financing requirements, the Minimum Revenue Provision Statement, the Treasury Management Strategy, the Revenue Budget and to approve the consequent precept level and resultant amount for each constituent District Council.

3. BACKGROUND

3.1 The budget setting process is a key part of the Fire Authority's arrangements which establishes the anticipated level of available funding to deliver its key priorities and services. Work has been undertaken throughout the year to determine the Authority's key priorities and strategic objectives which are contained in the 2012/2015 Plan.

3.2 A key element of developing the Authority's plans is to seek the opinions of those people that live, work and travel within the West Midlands. A public consultation exercise was undertaken during the summer of 2010, with the purpose of identifying the value and importance the communities of the West Midlands conurbation place on the main elements of the services provided to them. This continues to contribute to the development of the organisation's Building upon Success programme and towards the ongoing review and refresh of 'The Plan'. The Building upon Success programme is reviewing the whole organisation, identifying where efficiencies can be realised, ensuring a focus on customer needs and providing the necessary services as effectively and efficiently as possible.

3.3 The most critical and valuable services identified by the community were Response and Prevention work targeted at the most vulnerable members of the community. 'The Plan' and Building upon Success programme maintains this focus.

3.4 On 20th October 2010 the Chancellor of the Exchequer announced the Government's four year spending plans in the Comprehensive Spending Review (CSR). For Fire and Rescue Authorities it was indicated that there would be a reduction to its central grant funding of 25% over a four year period and that this would be 'back loaded' meaning that the largest proportion of the reduction would occur in years three and four.

3.5 The Government also announced in the CSR that it was making an extra £650 million per annum available for the next four years to help local authorities (including Police and Fire Authorities) deliver a Council Tax freeze in England in 2011/12. The scheme was voluntary and where an Authority did not increase its basic amount of Council Tax in 2011/12 compared with 2010/11, it was eligible to receive a grant equivalent to a 2.5% increase in its 2010/11 basic amount of Council Tax multiplied by the Authority's tax base for 2011/12.

3.6 On 13th December 2010, the Secretary of State for Communities announced a provisional two year settlement for Local Government covering 2011/12 and 2012/13. The figures for this Authority represented a grant reduction of £7.677m (9.5%) in 2011/12 and a further £2.487m (3.4%) in 2012/13, an overall reduction in grant funding of £10.164m (12.58%) over two years.

3.7 The Authority set its 2011/12 budget on 14th February 2011, setting a Council Tax increase of zero percent, thereby being eligible for the Government's Council Tax freeze grant of £0.958m in 2011/12 and for the next three years of the CSR period.

3.8 On 3rd October 2011 the Chancellor of the Exchequer announced that the Government intended to make funding available to help Councils freeze their Council Tax in 2012/13. Details of the terms under which the scheme would operate were issued by Communities and Local Governement in November 2011 and for Fire and Rescue Authorities it indicated a grant equivalent to a 3% increase in its 2011/12 basic amount of Council Tax multiplied by the Authority's tax base for 2012/13 providing the Authority sets its basic amount of Council Tax for 2012/13 at a level no more than its basic amount of Council Tax for 2011/12. However, the grant was offered on far less generous terms than the previous year, only compensating Authorities for the loss in revenue in 2012/13 i.e. a one year grant only.

3.9 On 8th December 2011, the Secretary of State for Communities and Local Government confirmed the provisional settlement for 2012/13 at £70.649m which was the same figure indicated the previous year and that the 2012/13 Council Tax referendum threshold would be 4% for Fire and Rescue Authorities.

3.10 The updated Fire Service budget position was presented at a Policy Planning Seminar on 12th December 2011. The presentation focused on the uncertainty of the scale of Government grant reductions in years 3 and 4 of the CSR period but based on the allocations in years 1 and 2 and using indicative National Fire Service reductions provided by CLG, basic planning scenarios were used to highlight the potential scale of funding reductions faced by the Authority. Furthermore, given that the Fire Service CSR had indicated larger grant reductions in years 3 and 4 compared to years 1 and 2, the impact of accepting the Government's one year 3% Council Tax freeze grant compared to increasing Council Tax up to the 4% threshold level was highlighted. Whilst the increased level of funding in 2012/13 would be approximately £400k, the more significant benefit would be to increase core on going funding.

3.11 The figures below illustrate the differences in precept which arise over the period 2012/13 to 2014/15, assuming a Council Tax increase of 4% in 2012/13 as compared to the acceptance of the council tax freeze grant. Both options assume that local council tax increases for 2013/14 onwards increase at 3% per annum.

	2012/13	**2013/14**	**2014/15**
	£000s	£000s	£000s
Funding Accept 2012/13 Grant: Precept Grant	 38,454 1,150	 39,607 --	 40,796 --
	39,604	39,607	40,796
Decline grant / increase Precept by 4%	39,990	41,190	42,426
Increase in funding	**386**	**1,583**	**1,630**

The above table shows that the difference in funding is substantial and that acceptance of the grant would lead to a permanent potential loss of funding rising to nearly £1.6m by 2014/15.

3.12 A presentation was made to the District Leaders on 16th December 2011 which paid particular focus to the choice available to the Fire Authority between accepting a one year Council Tax freeze grant of 3% in 2012/13 compared to increasing the ongoing base funding by setting a Council Tax increase of 4% in 2012/13. It was emphasised that the importance of this choice was compounded by the anticipated significant grant reductions in years 3 and 4 of the CSR period. However, the District Leaders were of the view that the Authority should accept the S31 grant (Council Tax freeze) allocation (3%) for 2012/13 as the alternative increase of 4% could not be justified in the current economic climate.

3.13 At its meeting on 23rd January 2012, the Policy Planning Forum considered the draft revenue budget for 2012/2013. Appendix C summarises how the budget has been determined following a number of adjustments from last year's budget projection.

3.14 On 31st January 2012, Communities and Local Government (CLG) confirmed the Authority's 2012/2013 grant figures, with no change to the grant reduction announced in the provisional settlement.

3.15 The projected budget includes a number of efficiency measures and provides the capacity for funds to be allocated to a reserve to assist staffing related issues in preparation of the anticipated increased grant reductions in years 3 and 4 of the CSR period and to undertake actions arising out of the Authority's Corporate Risk Register. The Corporate Risk Register has identified a number of major risks that would seriously affect the Authority's ability to carry out its functions. The very nature of the risks have made it extremely difficult to quantify any funding impact that would arise were the risk to materialise and in the short term would result in a demand on the Authority's General Balances, which are identified in Section 6 of this report.

3.16 During the financial year 2011/12 the organisation has undertaken only extremely limited recruitment activity in line with its approach to workforce planning and budgetary management. The Service will continue to use its workforce data to plan any levels of recruitment that will be necessary across the organisation. This data will be the basis on which recruitment activity is restricted until the financial position for 2013/14 and 2014/15 has been further clarified. The data will also be used to inform the scale of staffing reductions required dependent upon the financial position for 2013/14 and 2014/15. CLG have indicated this information will not be announced until November/December 2012. The implications of not instigating any redundancy processes prior to the announcement were highlighted at the Policy Planning Seminar on 23rd January 2012.

3.17 Details of the draft base budget are set out in Appendix A, together with revisions to the current year's budget (the 2012/2013 budget is replicated for information in the Service Reporting Code of Practice format in Appendix D).

Update of "The Plan"

3.18 During October to November 2011 a series of workshops were undertaken with Members, Corporate Board and Senior Managers to review and refresh the Authority's Corporate Strategy 'The Plan' for 2012 - 2015. 'The Plan' sets the Authority's strategic direction for the next three years and defines those outcomes and priorities which are to be provided against a backdrop of reduced funding and resources. ‘The Plan’ 2012-2015 is provided as a separate agenda item.

3.19 The Building upon Success programme sets an agenda for change over the next three to five years against the backdrop of the CSR. Each element of the programme aims to deliver a more efficient and effective service to the community. Since its introduction in May 2010 a number of efficiencies have been implemented and further changes to our prevention, protection and response services are being considered and trialled.

3.20 The outcomes from the Building upon Success programme heavily inform the direction of the Service and therefore ‘The Plan’ will be reviewed throughout 2012/2013. This will not only ensure priorities and objectives for that year are achieved, but also consider any changes to service areas from 2013/2014 onwards, given the funding reductions in this and future financial years.

3.21 Workshops undertaken during October and November 2011 brought together the current, expected and predicted financial planning, workforce planning and business activities to enable a joined up approach in the determination of ‘The Plan’ and alignment with the setting of the budget. As previously highlighted a draft of ‘The Plan’ and particularly the strategic objectives contained within it is included on the agenda as a separate item.

4. PRECEPT 2012/2013

4.1 Under the Council Tax arrangements, the allocation of the total sum required by the Authority between constituent District Councils is based on the relevant tax base for each District.

4.2 All District Councils have now formally set their Council Tax base and have notified the Authority accordingly. The total relevant Council Tax base for the Authority is 803,970.81.

4.3 The appropriate precept has now been calculated for each District and is set out in Appendix B1 and B2, paragraph 1.4 for the Authority's approval.

4.4 The Council Tax at Band D for 2012/2013 would be £47.83 if the Council Tax freeze grant is accepted which represents a zero percent increase over 2011/2012 or £49.74 if a 4% increase is approved.

5. FUNDING OF EXPENDITURE 2012/2013

The final figures from external funding sources have now been notified and are included in the table below:-

	Option 1 Council Tax freeze	Option 2 4% Precept increase
	£'000	**£'000**
Formula Grant (including Council Tax Freeze Grant 2011/12)	71,607	71,607
Share of Collection Fund Surplus	51	51
Council Tax (met by Districts)	38,454	39,990
Council Tax Freeze Grant 2012/13	1,150	-
	111,262	111,648

6. GENERAL BALANCES POSITION

6.1 Based on the current forecast of net expenditure in 2011/2012, the Authority's available General Balances at 1st April 2012 are estimated to be £6.8 million. At this level, the amount of General Balances would equate to approximately 6% of the Authority's 2012/2013 budget.

6.2 The actual level of General Balances at 1st April 2012 will not be determined until the completion of the Authority's 2011/2012 closedown of accounts process.

7. CAPITAL PROGRAMME

7.1 At the Authority meeting on 14th February 2011, consideration and approval was given to the current three year Capital Programme. The Programme has been monitored during the year at Authority meetings.

7.2 It is estimated that commitments and new starts in respect of those projects which make up the proposed capital programme, is as follows:

	£m
2012/2013	3.390
2013/2014	2.500
2014/2015	1.500

The full list of projects is shown on Appendix E.

7.3 As part of the Spending Review, the Government also made a decision that no new supported borrowing allocations will be made in the Spending Review period. Although there will be no new supported borrowing allocations after 2010/2011, the level of assumed outstanding debt still forms part of the formula grant calculation, as it has in previous years.

7.4 The Government also announced that as part of the Spending Review, capital support will only be given in the form of a capital grant. The National Fire and Rescue Service was allocated capital grant totalling £70m in 2011/2012 and a further £70m in 2012/2013. For 2011/12 this Authority was allocated £2.915m.

7.5 CLG undertook a consultation exercise, which closed on 21st October 2011, seeking views on the proposal that future capital funding should be distributed based on a combination of:

- an efficiency fund, administered via a bidding process; and
- a pro rata distribution using current distribution methods.

Ministers considered the views of the sector and decided to give Fire and Rescue Authorities more time to prepare bids for capital grant funding and indicated that there would be a one off bidding round for 2013-2015 when the allocation of capital grant would be a combination of pro rata distribution and bids. However, for 2012/13, the pro rata distribution method will remain in place resulting in this Authority receiving an allocation of approximately £2.9m.

7.6 A forecast of resources covering the period 2012/2013 to 2014/2015 is shown below. The figures shown for Capital Grant for 2013/14 onwards are for indicative purposes at this stage and are likely to change when the Government determines the actual distribution mechanism.

	2012/13	2013/14	2014/15
	£m	£m	£m
Supported Capital	3.490	1.500	500
Expenditure			
Capital Receipts	1.432	-	-
Capital Grants	2.915	1.000	1,000
Revenue Funding	900	-	-
	8.737	2.500	1.500

7.7 The table below compares the expenditure on those projects within the capital programme which are committed and the projected resources outlined in paragraph 7.6:

	2012/13	2013/14	2014/15
	£m	£m	£m
Projected Resources	8.737	2.500	1.500
Less: Commitments	3.390	2.500	1.500
Funding Surplus	5.347	-	-

The forecast surplus in 2012/2013 is required to enable consideration of issues arising from the outcome of the Building upon Success programme (for example possible new fire stations, Low Risk Flexible Crewing Fire Stations, range and type of vehicles). Because of the overall resource position of the capital programme and the potential scale of expenditure arising out of the reviews being carried out as part of the Building upon Success programme, no new capital schemes are proposed for 2012/2013.

At this stage, specific reports will need to be submitted to the Authority for consideration when potential capital schemes have been identified, the first of which will be the further consideration of a facility in the Cradley Heath area at the Authority meeting in April 2012.

8. TREASURY MANAGEMENT AND THE PRUDENTIAL CODE

8.1 The Fire Authority recognises the importance of Treasury Management to the economy and efficiency of its finances. It also recognises that delivering quality services in this area requires expertise and skills that can best be provided by specialist professions from external organisations.

8.2 West Midlands Fire Service's Treasury Management functions are provided by Sandwell MBC who have in turn, appointed external advisors to support them. The Fire Authority has also linked its appointment of bankers to that of Sandwell MBC in order to benefit from efficiencies in tendering, cash flow management and investment.

8.3 The Treasury Management Strategy for 2012/2013 is set out in Appendix F.

8.4 Under the Local Government Act 2003, credit approvals were abolished and a new prudential capital finance system was introduced from 1st April 2004. CIPFA has prepared a Prudential Code which underpins the system of capital finance. Local authorities are required by Regulation to have regard to the Prudential Code under Part 1 of the Local Government Act 2003.

8.5 The key objectives of the Prudential Code are to ensure that the capital investment plans of the Authority are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.

8.6 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used and the factors that must be taken into account. The indicators are designed to support and record local decision making.

8.7 The Prudential Indicators that have been calculated for this Authority are detailed on Appendix G.

9. **PLANNING FOR THE 2013/2014, 2014/2015 AND 2015/2016 BUDGET**

9.1 In preparing the draft revenue budget for 2012/2013, an expenditure forecast for 2013/2014 and 2014/2015 has also been undertaken by 'rolling forward' the 2012/2013 draft budget; updating for anticipated inflation and pay awards, adding in commitments, adjusting for anticipated staff turnover levels, setting broad efficiency targets for the Building upon Success programme, etc. The forecast does not allow for any essential developments and any other new requirements the Authority may need to respond to.

9.2 In July 2011, CLG began a consultation exercise, 'Local Government Resource Review: Proposals for Business Rates Retention' which considered fundamental changes for Local Government funding. In August 2011, eight technical papers were produced to support the consultation. Following clarification of details within the technical papers, CLG confirmed that, at that stage, further adjustments to National Fire Service expenditure allocations would result in grant reductions of 8.5% in 2013/14 and 5% in 2014/15. It was highlighted that individual Authority figures would not be provided for years 3 and 4 of the CSR period until Ministers had taken key decisions on Fire, Business Rates Retention, Fire Revenue Grants and Formula Grant Baselines.

9.3 The indicative National Fire Service grant reductions of 8.5% in 2013/14 and 5% in 2014/15 provide the most appropriate basis for future planning scenarios, although the Chancellor of the Exchequer indicated in his November 2011 Autumn Statement that Local Government funding levels would be cut further than previously assumed as a result of the announcement of the 1% public sector pay award ceiling following the current public sector pay freeze. Consequently, the two tables below give an indication of the Authority's overall budget position based on the National Fire Service grant reduction identified by CLG (13.5%) and a grant reduction of twice the national reduction (27%) based on the Authority's specific allocation compared to the national reduction in years 1 and 2 of the CSR period.

Estimated position assuming 13.5% National Grant Reduction (with 2012/13 Council Tax Grant)

	2013/14 £m	2014/15 £m
Base Budget	108	106
Service Savings	-3	-3
	105	103
Grant	64	60
Council Tax	40	41
Shortfall	**1**	**2**

Estimated position assuming 2 x 13.5% National Grant Reduction (with 2012/13 Council Tax Grant)

	2013/14 £m	2014/15 £m
Base Budget	108	106
Service Savings	-3	-3
	105	103
Grant	57	49
Council Tax	40	41
Shortfall	**8**	**13**

9.4 Funding reductions arising from the CSR for 2013/14 and 2014/15 are still uncertain at this stage. In addition, following the Local Government Resource Review consultation outcome, there will be fundamental changes to the funding structure of the Fire Authority from 2013/14, the impact of which has not been fully identified at this stage.

9.5 Furthermore, the Government has confirmed its intention to localise Council Tax benefit with effect from 1st April 2013. Each of the 7 Metropolitan Councils within the area supported by the West Midlands Fire and Rescue Authority will need to consider their local scheme proposals during 2012/13 and consult with WMFRA as appropriate on those proposals. Unlike the current national system where demand pressure and cost variations of benefit payments for Council Tax are borne by the national tax payer, the local schemes will require that each of the West Midlands Councils, together with WMFRA, as a major precepting Authority will bear the cost of increased benefit payments from 2013/14 onwards. WMFRA will need to be mindful of the variable and volatile nature of this cost when formulating its medium term financial strategy and will need to assess its approach to ensure financial stability either through the provision of in year contingency sums with budgets or by a reassessment of appropriate and necessary reserves.

9.6 The Chancellor of the Exchequer also announced in his Autumn Statement that reductions in public expenditure would need to continue into 2015/16 and 2016/17 although there were no details provided at this stage regarding which Government Departments would be affected and the scale of those reductions.

9.7 Further details of the medium term budgets are shown on Appendix I.

10. **ROBUSTNESS OF THE BUDGET PREPARATION AND ADEQUACY OF RESERVES**

10.1 In accordance with the Local Government Act 2003 (S25-S27) and to comply with CIPFA guidance on local authority reserves and balances, the Treasurer is required to formally report to members on the robustness of the budget and the adequacy of reserves.

10.2 The budget presented to the Authority has been prepared using reasonable and appropriate estimation techniques for both expenditure and income. The budget process is such that all financial pressures faced by the Authority have been considered and resources allocated as appropriate to fulfil the priorities of the Authority. Where resources have not been allocated to identified pressures either; the pressure has been absorbed into the existing budget or the risk associated with not meeting the pressure has been evaluated and appropriate action taken. The robustness of the budget preparation undertaken by the Authority is therefore considered satisfactory.

10.3 The Treasurer assesses and determines the appropriate level of reserves and provisions using a variety of mechanisms, including:-

- Being significantly involved in the budget setting process, the annual financial cycle and engaged in the strategic leadership of the organisation as a statutory officer.

- Liaising closely with the Director of Finance and Procurement on the annual refresh of the Medium Term Financial Strategy (MTFS).

- Challenging the budget at various stages of construction including the reasonableness of the key budget assumptions such as estimates of inflationary and corporate financial pressures, realism of income targets and the extent to which known trends and liabilities are provided for.

- Review of the movements, trends and availability of contingencies, provisions and earmarked reserves to meet anticipated and unforeseen cost pressures in the context of future pressures and issues.

- The use of professional experience and best professional judgement.

- The use of appropriate professional, technical guidance and local frameworks.

- Knowledge of the colleagues involved in the process, particularly finance professionals, including their degree of experience and qualifications.

- Review of the strength of financial management and reporting arrangements including internal control and governance arrangements.

10.4 The Authority's aim is to have a prudent level of general reserves informed by an assessment of potential risks to the organisation. Ordinarily, the Authority should establish general reserves of between 3% and 5% of the total net revenue budget, the precise level within this range to be determined by risk assessment and availability of resources. The level of reserves at the end of the financial year 2011/2012 is forecast to be £6.8m and this is approximately 6% of the net budget requirement. This slightly higher level of balances is considered appropriate at this stage due to the anticipated scale of government grant reductions in 2013/14 and 2014/15.

10.5 It was deemed that a prudent level of earmarked reserves were established during the Authority's 2010/2011 closedown exercise. A review of these reserves will be undertaken as part of the Authority's 2011/2012 closedown of accounts process.

Based on known circumstances and financial risk assessment, it is felt that adequate earmarked reserves and provisions have been created to meet legal and expected liabilities. A list of the reserves as at 31st March 2011 is included in Appendix J.

10.6 In recommending an adequate level of reserves, the Treasurer considers and monitors the opportunity costs of maintaining particular levels of reserves and balances and compares these to the benefits accrued from having such reserves. The opportunity cost of maintaining a specific level of reserves is the ‘lost’ opportunity, for example, of investing elsewhere to generate additional investment income or using the funds to invest in service improvements. In assessing this, it is important to consider that reserves can only be used once and are therefore potentially only ‘one-off’ sources of funding.

Therefore any use of general reserves above the lower minimum threshold is only ever used on one-off items of expenditure. The level of reserves is also determined by use of a comprehensive risk assessment to ensure they represent an appropriately robust ‘safety net’ which adequately protects against potential unbudgeted costs.

10.7 The current level of reserves is considered to be sufficient in all but the most unusual and serious combination of possible events. In this context it is considered that the current level of reserves presents an optimum balance between risk management and opportunity cost. This maintains a suitable and sustainable level of reserves, which include ensuring sound governance and financial stability in the short and longer term.

10.8 Best endeavours have been made to ensure that the budget and reserves are adequate using the information available at this date. The budget has been constructed with a professional policy led medium term strategic framework using appropriate assumptions, linking investment and spending to key priorities and having undertaken a comprehensive assessment of risk.

11. EQUALITY AND DIVERSITY IMPLICATIONS

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out because the matters contained in this report will not lead to and/or do not relate to a policy change.

12. LEGAL IMPLICATIONS

The course of action recommended in this report does not raise issues which should be drawn to the attention of the Authority's Monitoring Officer.

BACKGROUND PAPERS

CLG Communications
Policy Planning Forum 12th December 2011
District Leaders' Meeting 16th December 2011
Policy Planning Forum 23rd January 2012
The Plan 2011 – 2014

VIJ RANDENIYA CHIEF FIRE OFFICER	S. KELLAS TREASURER

APPENDIX A

SUMMARY OF 2011/2012 REVISED BUDGET AND 2012/2013 BUDGET

			Option 1 Council Tax Freeze	Option 2 4% Precept Increase
	Original Budget 2011/12	**Revised Budget 2011/12**	**Original Budget 2012/13**	**Original Budget 2012/13**
Subjective Heading	£000s	£000s	£000s	£000s
Employees	94,573	92,232	93,929	93,929
Premises	5,612	6,422	5,923	5,923
Transport	2,099	2,158	2,177	2,177
Supplies & Services	7,658	7,901	7,206	7,206
Capital Financing	4,391	13,012	7,538	7,538
GROSS EXPENDITURE	114,333	121,725	116,773	116,773
Income	(76,998)	(79,765)	(78,351)	(77,201)
NET EXPENDITURE	37,335	41,960	38,422	39,572
Appropriations to/(from) Reserves	974	(3,651)	32	418
COUNCIL TAX REQUIREMENT	**38,309**	**38,309**	**38,454**	**39,990**

APPENDIX B 1

OPTION 1: COUNCIL TAX FREEZE

1.1 THAT it be noted that the constituent District Councils have formally set their Council Tax bases for the year 2012/2013 in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992 made under Section 33(5) of the Local Government Finance Act 1992 as follows:

	Tax Base
Birmingham	299,208.00
Coventry	89,393.90
Dudley	98,918.21
Sandwell	85,980.30
Solihull	79,998.00
Walsall	78,898.20
Wolverhampton	71,574.20
	803,970.81

1.2 THAT the following amounts be now calculated by the Authority for the year 2012/2013 in accordance with Sections 40 to 48 of the Local Government Finance Act 1992:

1.2.1	£117,023,000	being the aggregate of the amounts which the Authority estimates for the items set out in Section 42A(2)(a) to (d) of the Act.
1.2.2	£ 78,569,000	being the aggregate of the amounts which the Authority estimates for the items set out in Section 42A(3)(a) to (b) of the Act.
1.2.3	£ 38,454,000	being the amount by which the aggregate at 1.2.1 above exceeds the aggregate at 1.2.2 above calculated by the Authority in accordance with Section 42A(4) of the Act as its council tax requirement for the year.
1.2.4	£47.83	being the amount at 1.2.3 above divided by the total amount at 1.1 above, calculated by the Authority in accordance with Section 42B(1) of the Act as the basic amount of its Council Tax for the

year.

1.3

Valuation Bands	£ (to 6 decimals)	£ (rounded to 2 decimals)
A	31.886666	31.89
B	37.201110	37.20
C	42.515554	42.52
D	47.829998	47.83
E	58.458887	58.46
F	69.087775	69.09
G	79.716664	79.72
H	95.659997	95.66

being the amounts given by multiplying the amount at 1.2.4 above by the number which in the proportion set out in Section 5(1) of the Act is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Authority in accordance with Section 47(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

1.4 Resultant precepts:

	£
Birmingham City Council	14,311,117
Coventry City Council	4,275,710
Dudley MBC	4,731,258
Sandwell MBC	4,112,438
Solihull MBC	3,826,304
Walsall MBC	3,773,701
Wolverhampton City Council	3,423,394
Total	38,453,922

being the amounts given by multiplying the amount at 1.2.4 above by the appropriate tax base at 1.1 above in accordance with section 48(2) of the Act, as the amount of precept payable by each constituent District Council.

1.5 THAT the precept for each District Council as calculated at 1.4 above be issued in accordance with Section 40 of the Local Government Finance Act 1992.

APPENDIX B 2

OPTION 2: 4% PRECEPT INCREASE

1.1 THAT it be noted that the constituent District Councils have formally set their Council Tax bases for the year 2012/2013 in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992 made under Section 33(5) of the Local Government Finance Act 1992 as follows:

	Tax Base
Birmingham	299,208.00
Coventry	89,393.90
Dudley	98,918.21
Sandwell	85,980.30
Solihull	79,998.00
Walsall	78,898.20
Wolverhampton	71,574.20
	803,970.81

1.2 THAT the following amounts be now calculated by the Authority for the year 2012/2013 in accordance with Sections 40 to 48 of the Local Government Finance Act 1992:

1.2.1 £117,409,000 being the aggregate of the amounts which the Authority estimates for the items set out in Section 42A(2)(a) to (d) of the Act.

1.2.2 £77,419,000 being the aggregate of the amounts which the Authority estimates for the items set out in Section 42A(3)(a) to (b) of the Act.

1.2.3 £39,990,000 being the amount by which the aggregate at 1.2.1 above exceeds the aggregate at 1.2.2 above calculated by the Authority in accordance with Section 42A(4) of the Act as its council tax requirement for the year.

1.2.4 £49.74 being the amount at 1.2.3 above divided by the total amount at 1.1 above, calculated by the Authority in accordance with Section 42B(1) of the Act as the basic amount of its Council Tax for the year.

1.3 Valuation Bands

Valuation Bands	£ (to 6 decimals)	£ (rounded to 2 decimals)
A	33.160000	33.16
B	38.686667	38.69
C	44.213333	44.21
D	49.740000	49.74
E	60.793333	60.79
F	71.846667	71.85
G	82.900000	82.90
H	99.480000	99.48

being the amounts given by multiplying the amount at 1.2.4 above by the number which in the proportion set out in Section 5(1) of the Act is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Authority in accordance with Section 47(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

1.4 Resultant precepts:

	£
Birmingham City Council	14,882,606
Coventry City Council	4,446,453
Dudley MBC	4,920,192
Sandwell MBC	4,276,660
Solihull MBC	3,979,100
Walsall MBC	3,924,396
Wolverhampton City Council	3,560,101
Total	39,989,508

being the amounts given by multiplying the amount at 1.2.4 above by the appropriate tax base at 1.1 above in accordance with section 48(2) of the Act, as the amount of precept payable by each constituent District Council.

1.5 THAT the precept for each District Council as calculated at 1.4 above be issued in accordance with Section 40 of the Local Government Finance Act 1992.

APPENDIX C

REVISED TOTAL GROSS EXPENDITURE PROJECTION 2012/2013

	Option 1 Council Tax Freeze £m	Option 2 4% Precept Increase £m
Authority Meeting (14th February 2011)	118.869	118.869
Budget Increases		
Pay Award 1% provision	0.700	0.700
Staffing provision	2.000	2.386
Budget Reductions		
Staff turnover	-1.804	-1.804
Borrowing Costs	-0.550	-0.550
Efficiencies		
Support Service Reviews	-1.172	-1.172
Dual crewing - special appliances	-1.020	-1.020
TOTAL GROSS EXPENDITURE	117.023	117.409

APPENDIX D

SUMMARY OF 2012/2013 BUDGET – SERVICE ANALYSIS

	Option 1 Council Tax Freeze	**Option 2 4% Precept Increase**
	£000s	£000s
Firefighting & Rescue Operations	105,889	105,889
Community Safety	18,407	18,407
Corporate and Democratic Core	1,503	1,503
Emergency Planning & Civil Defence	239	239
COST OF SERVICES	126,038	126,038
Appropriations and Interest	(14,776)	(14,390)
Corporate Income	(72,808)	(71,658)
COUNCIL TAX REQUIREMENT	**38,454**	**39,990**

APPENDIX E

CAPITAL PROGRAMME 2012/13 TO 2014/15

Scheme		Project Year In 2012/13	2012/13	2013/14	2014/15
			£000's	**£000's**	**£000's**
COMMITTED SCHEMES					
	Asbestos Removal	Ongoing	-	-	-
	Solihull Refurbishment	4 of 4	12	-	-
	Walsall Refurbishment	4 of 4	10	-	-
	Thermal Image Cameras	5 of 5	181	-	-
	Drill Towers/Training Facilities Upgrades	8 of 8	220	-	-
	Boiler Replacement Programme	Ongoing	477	-	-
	Vehicle Replacement Programme	Ongoing	2,490	2,500	1,500
GRAND TOTAL			**3,390**	**2,500**	**1,500**
RESOURCES AVAILABLE					
	Supported Capital Expenditure		3,490	1,500	500
	Prudential Borrowing		-	-	-
	Capital Receipts		1,432	-	-
	Capital Grants *		2,915	1,000	1,000
	Earmarked Reserves/DRF		900	-	-
			8,737	**2,500**	**1,500**
SURPLUS (+)/DEFICIT (-)			**5,347**	**-**	**-**

* Provisional estimate for 2012/13 onwards pending publication of Fire Service Capital Grant allocations

APPENDIX F

TREASURY MANAGEMENT STRATEGY 2012/13

1.1 Background

The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties

The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer term cash flow planning to ensure that the Authority can meet its capital spending obligations.

CIPFA defines treasury management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "

1.2 Reporting requirements

The Authority is required to receive and approve the following main reports each year. These reports are required to be adequately scrutinised by the Audit and Performance Committee before being recommended to the Authority.

Prudential and Treasury Indicators and Treasury Strategy – This report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision 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).

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.

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.

1.3 Treasury Management Strategy for 2012/13

The strategy for 2012/13 covers two main areas:

Capital Issues
- the capital plans and the prudential indicators;
- the MRP strategy.

Treasury management Issues
- the current treasury position;
- treasury indicators which will 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.

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

2. Capital Prudential Indicators 2012/13 – 2014/15

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:

Capital Expenditure. This prudential Indicator (Appendix E) is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

The Authority's Borrowing Need (the Capital Financing Requirement)

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, details are provided in Appendix G.

Minimum Revenue Provision Statement

The Authority is required to pay off an element of the accumulated General Fund 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).

CLG Regulations have been issued which require the full Authority to approve an MRP Statement in advance of each year. A variety of options are provided to Authorities, 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:

- **Existing practice** – MRP will follow the existing practice outlined in former CLG regulations (option 1);

From 1 April 2008 for all unsupported borrowing the MRP policy will be*:*

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

3. Treasury Management Strategy

The capital expenditure plans provide details of the activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this 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.

3.1 Current Portfolio Position

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 total debt, net of any investments, 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 2012/13 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.

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 report.

3.2 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary. 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.

Operational Boundary	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	£58m	£56m	£54m	£52m

The Authorised Limit for external debt. 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 full 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.

1. 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 Authority's plans, or those of a specific Authority, although this power has not yet been exercised.
2. The Authority is asked to approve the following Authorised Limit:

Authorised Limit	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	£63m	£61m	£59m	£56m

3.3 Prospects for Interest Rates

The Authority's Treasury Management functions are provided by Sandwell MBC who have appointed Sector as its treasury advisor and part of their service is to assist with formulating a view on interest rates. Appendix F1 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

Annual Average %	Bank Rate	Money Rates		PWLB Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
March 2012	0.50	0.70	1.50	2.30	4.20	4.30
June 2012	0.50	0.70	1.50	2.30	4.20	4.30
Sept 2012	0.50	0.70	1.50	2.30	4.30	4.40
Dec2012	0.50	0.70	1.60	2.40	4.30	4.40
March 2013	0.50	0.75	1.70	2.50	4.40	4.50
June 2013	0.50	0.80	1.80	2.60	4.50	4.60
Sept 2013	0.75	0.90	1.90	2.70	4.60	4.70
Dec 2013	1.00	1.20	2.20	2.80	4.70	4.80
March 2014	1.25	1.40	2.40	2.90	4.80	4.90
June 2014	1.50	1.60	2.60	3.10	4.90	5.00

Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee inflation target. Hopes for an export led recovery appear likely to be disappointed due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market. The Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, will also depress growth during the next few years.

Fixed interest borrowing rates are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total national debt is forecast to continue rising until 2015/16; the consequent increase in gilt issuance is therefore expected to be reflected in an increase in gilt yields over this period. However, gilt yields are currently at historically low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

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

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher 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 2012/13;
- Borrowing interest rates are currently attractive, but may remain low for some time. The timing of any borrowing will need to be monitored carefully;

There will remain a cost of capital – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing Strategy

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2012/13 treasury operations. The Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Treasury Management Limits on Activity

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 based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- 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.

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

	2012/13	2013/14	2014/15
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	160%	160%	160%
Limits on variable interest rates based on net debt	30%	30%	30%
Maturity Structure of fixed interest rate borrowing 2012/13			
		Lower	**Upper**
Under 12 months		0%	20%
12 months to 2 years		0%	20%
2 years to 5 years		0%	25%
5 years to 10 years		0%	50%
10 years and above		0%	90%
Maturity Structure of variable interest rate borrowing 2012/13			
		Lower	**Upper**
Under 12 months		0%	20%
12 months to 2 years		0%	20%
2 years to 5 years		0%	25%
5 years to 10 years		0%	50%
10 years and above		0%	90%

3.5 Policy on Borrowing in Advance of Need

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.

Borrowing in advance will be made within the constraints that It will be limited to no more than 20% of the expected increase in borrowing need (CFR) over the three year planning period. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Audit and Performance Committee through the mid-year or annual reporting mechanism.

3.7 Annual Investment Strategy

3.7.1 Investment Policy

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, then return.

In accordance with the above 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 these reflect in the eyes of each agengy. Using the Sector ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Further, the Authority’s and Sandwell MBC’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 and Sandwell MBC will engage with its advisors to monitor the market.

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.

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

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

Investment instruments identified for use in the financial year are listed in Appendix F2 under the ‘Specified’ and ‘Non-Specified’ Investments categories. Counterparty limits will be as set through the Authority’s Treasury Management Practices – Schedules.

3.7.2 Creditworthiness policy

The primary principle governing the Authority’s investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Authority will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority’s prudential indicators covering the maximum principal sums invested.

The Treasurer will maintain a counterparty list in compliance with the following criteria. These criteria are separate to that which determines which types of investment instrument are either Specified or Non-Specified as it provides an overall pool of counterparties considered high quality which the Authority may use, rather than defining what types of investment instruments are to be used.

The minimum rating criteria uses the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Authority's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Authority's criteria, the other does not, the institution will fall outside the lending criteria. Credit rating information is supplied by Sector, Sandwell MBC's treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Authority criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:

- Banks 1 - good credit quality **–** the Authority will only use banks which:
  - i. are UK banks; and/or
  - ii. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AA+

  and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
  - i. Short term – F1, P-1, A-1 respectively
  - ii. Long term – A, A1 and A respectively
  - iii. Viability / financial strength – C (Fitch / Moody's only)
  - iv. Support – 3 (Fitch only)
- Banks 2 – Part nationalised UK banks – Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- Banks 3 – The Authority's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Building societies The Authority will use all Societies which meet the ratings for banks outlined above.
- Money Market Funds – AAA rated
- UK Government (including gilts and the DMADF)
- Local Authorities, Parish Authorities, etc
- Supranational institutions

Country and sector considerations - Due care will be taken to consider the country, group and sector exposure of the Authority's investments. In part the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above. In addition:

- no more than 25% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

Use of additional information other than credit ratings. Additional requirements under the Code require the Authority to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

3.7.3 Country limits

The Authority has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of 3 from Fitch.

3.7.4 Investment Strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before strating to rise from quarter 3 of 2013. Bank Rate forecasts for financial year ends (March) are:

- 2011/ 2012 0.50%
- 2012/ 2013 0.50%
- 2013/ 2014 1.25%
- 2014/ 2015 2.50%

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.

Invesment 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.

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

Maximum principal sums invested > 364 days			
£m	**2012/13**	**2013/14**	**2014/15**
Principal sums invested > 364 days	£25m	£25m	£25m

For its cash flow generated balances, Sandwell MBC will seek to utilise its business reserve accounts, notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

3.7.5 Investment Risk Benchmarking These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

Security - The Authority's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- **0.03% historic risk of default when compared to the whole portfolio.**

Liquidity – in respect of this area the Authority seeks to maintain:

- Bank overdraft - £2m
- Liquid short term deposits of at least £20m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.25 years, with a maximum of 1.0 years.

Yield – local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate

And in addition that the security benchmark for each individual year is:

	1 year	2 years	3 years	4 years	5 years
Maximum	**0.03%**	**0.12%**	**0.10%**	**0.08%**	**0.06%**

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

3.8 End of year investment report

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

3.10 Policy on the use of external service providers

Sandwell MBC 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.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. Sandwell MBC 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.

APPENDIX F1

Interest Rate Forecast 2012/2015

Sector's Interest Rate View								
	Now	Mar-12	Sep-12	Mar-13	Sep-13	Mar-14	Sep-14	Mar-15
Sector's Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.75%	1.15%	2.00%	2.50%
3 Month LIBID	0.87%	0.70%	0.70%	0.75%	0.90%	1.40%	2.10%	2.60%
6 Month LIBID	1.16%	1.00%	1.00%	1.10%	1.40%	1.80%	2.50%	2.90%
12 Month LIBID	1.65%	1.50%	1.50%	1.70%	1.90%	2.40%	3.10%	3.30%
Bank Rate								
Sector's View	0.50%	0.50%	0.50%	0.50%	0.75%	1.25%	2.00%	2.50%
UBS	0.50%	0.50%	0.50%	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-
5 yr PWLB Rate								
Sector's View	2.25%	2.30%	2.30%	2.50%	2.70%	2.90%	3.30%	3.70%
UBS	2.25%	-	-	-	-	-	-	-
Capital Economics	2.25%	2.00%	2.00%	2.00%	2.00%	-	-	-
10 yr PWLB Rate								
Sector's View	3.33%	3.30%	3.40%	3.50%	3.70%	4.00%	4.40%	4.80%
UBS	3.33%	3.45%	3.60%	-	-	-	-	-
Capital Economics	3.33%	3.00%	3.00%	3.00%	3.00%	-	-	-
25 yr PWLB Rate								
Sector's View	4.24%	4.20%	4.30%	4.40%	4.60%	4.80%	5.00%	5.20%
UBS	4.24%	4.90%	4.90%	-	-	-	-	-
Capital Economics	4.24%	4.30%	4.30%	4.30%	4.30%	-	-	-

APPENDIX F2

TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The CLG issued Investment Guidance in 2010, and this forms the structure of the Authority's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for Authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Authority to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Authority has adopted the Code and will continue to apply its principles to all investment activity. In accordance with the Code, the Treasurer has produced its Treasury Management Practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

Annual Investment Strategy – The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Authority will use. These are high security (i.e. high credit rating, although this is defined by the Authority, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Authority is:

Strategy Guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified Investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Authority has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish Authority or community Authority.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.

A body that is considered of a high credit quality (such as a bank or building society).

For category 5 this covers bodies with a minimum short term rating of AAA (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Authority has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is as per the "Investment Counter Party and Liquidity Framework".

Non-Specified Investments – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	**Limit (£ or %)**
a.	**Supranational Bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds -** These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	30% AAA long term ratings
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	30%
c.	The Authority's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	20%
d.	**Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a	20%

	credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Authority may use such building societies which were originally considered Eligible Institutions.	
e.	Any **bank or building society** that has a minimum long term credit rating of AA-, for deposits with a maturity of greater than one year	3 years and £30m

The Monitoring of Investment Counterparties – The credit rating of counterparties will be monitored regularly. The Authority receives credit rating information (changes, rating watches and rating outlooks) from Sector as and when ratings change, and counterparties are checked promptly On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Treasurer, and if required new counterparties which meet the criteria will be added to the list.

APPENDIX G

PRUDENTIAL INDICATORS

1. The actual capital expenditure that was incurred in 2010/11 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

Capital Expenditure				
2010/11 £000 Estimate	**2011/12 £000 Estimate**	**2012/13 £000 Estimate**	**2013/14 £000 Estimate**	**2014/15 £000 Estimate**
3,477	4,375	8,737	2,500	1,500

2. Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2010/11 are:

Ratio of financing costs to net revenue stream				
2010/11 % Estimate	**2011/12 % Estimate**	**2012/13 % Estimate**	**2013/14 % Estimate**	**2014/15 % Estimate**
4.16	4.15	4.15	4.27	4.14

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

3. All borrowing forecasts contained within this report relate only to supported capital expenditure, which receives Government grant support. Consequently, the incremental impact of any borrowing arising from new capital investment decisions has been reflected within the overall budget projections, although the impact specifically on the level of precept cannot be quantified.

4. Estimates of the end of year capital financing requirement for the Authority for the current and future years and the actual financing requirements at 31 March 2011 are:

Capital Financing Requirement				
31/03/11 £000 Estimate	**31/03/12 £000 Estimate**	**31/03/13 £000 Estimate**	**31/03/14 £000 Estimate**	**31/03/15 £000 Estimate**
55,000	53,000	51,000	49,000	47,000

5. The capital financing requirement measures the Authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, West Midlands Fire & Rescue Authority does not associate borrowing with particular items or types of expenditure. The Authority relies upon Sandwell Metropolitan Borough Council to undertake its treasury management function, which has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Service. West Midlands Fire Service has, at any point in time, a number of cashflows both positive and negative, and Sandwell Metropolitan Borough Council manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the Authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the Authority's underlying need to borrow for a capital purpose.

6. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence.

   "In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

   The Treasurer reports that the Authority had no difficulty meeting this requirement in 2010/11, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

7. In respect of its external debt, it is recommended that the Authority approves the following authorised limits for its total external debt gross of investments for the next three financial years, and agrees the continuation of the previously agreed limit for the current year since no change to this is necessary.

Authorised limit for external debt			
2011/12 £000	**2012/13 £000**	**2013/14 £000**	**2014/15 £000**
63,000	61,000	59,000	56,000

8. The Treasurer reports that these authorised limits are consistent with the Authority’s current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with Sandwell Metropolitan Borough Council’s approved treasury management policy statement and practices. The Treasurer confirms that they are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account; as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

9. The Authority is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects directly the Treasurers estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movement, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in year monitoring by the Treasurer.

Operational boundary for external debt			
2011/12 £000	**2012/13 £000**	**2013/14 £000**	**2014/15 £000**
58,000	56,000	54,000	52,000

10. The Authority’s actual long term borrowing at 31 March 2011 was £45.4m. It should be noted that actual long term liabilities is not directly comparable to the authorised limit and operational boundary, since the actual long term liabilities reflects the position at one point in time.

11. In taking its decisions on this budget report, the Authority is asked to note that the authorised limit determined for 2011/12 (see paragraph 7 above) will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

APPENDIX H

SCENARIO ANALYSIS

The CSR announcement on the 20th October 2010 indicated that there would be a 25% reduction in grant funding for the National Fire Service over the 4 years of the CSR period (2011/2012 to 2014/2015) and that this reduction would be rear loaded.

The provisional finance settlement for 2011/2012 announced on the 13th December 2010 and confirmed on 31st January 2011 resulted in a national reduction in grant of 6.5% in the first 2 years of the CSR period (2011/2012 and 2012/2013). There was no indication of the scale and phasing of any further reductions in years 3 and 4 of the CSR period (2013/2014 and 2014/2015). This makes long term planning for the service extremely difficult and uncertain because there are so many different funding scenarios that could be considered.

Finance Settlement for 2011/12 & 2012/13

Financial Year	Actual Formula Grant	% Reduction	£ Reduction
2010/11	80,813,000		
2011/12	73,136,000	-9.50%	-7,677,000
2012/13	70,649,000	-3.40%	-2,487,000

In July 2011, CLG began a consultation exercise, ‘Local Government Resource Review: Proposals for Business Rates Retention’ which considered fundamental changes for Local Government funding. In August 2011, eight technical papers were produced to support the consultation. Following clarification of details within the technical papers, CLG confirmed that, at that stage, further adjustments to National Fire Service expenditure allocations would result in grant reductions of 8.5% in 2013/14 and 5% in 2014/15. It was highlighted that figures would not be provided for years 3 and 4 of the CSR period until Ministers had taken key decisions on Fire, Business Rates Retention, Fire Revenue Grants and Formula Grant Baselines.

The National Fire Service grant reductions of 8.5% in 2013/14 and 5% in 2014/15 provide the most appropriate basis for future planning scenarios, although the Chancellor indicated in his November 2011 autumn statement that Local Government funding levels would be cut further than previously assumed as a result of the announcement of the 1% public sector pay award ceiling following the current public sector pay freeze. Consequently, the two tables below give an indication of the Authority’s overall budget position based on the National Fire Service grant reduction identified by CLG (13.5%) and a grant reduction of twice the national reduction (27%) following the Authority’s specific allocation compared to the national reduction in years 1 and 2 of the CSR period.

13.5% National Grant Reduction

	% WMFRA Reduction	£ WMFRA Reduction
2013/14	8.50%	-6,869,105
2014/15	5.00%	-4,040,650
Total	13.5%	-10,909,755

13.5% National Grant Reduction x 2

	% WMFRA Reduction	£ WMFRA Reduction
2013/14	17.00%	-13,738,210
2014/15	10.00%	-8,081,300
Total	27.00%	-21,819,510

Despite the above, it is not possible to say with any certainty what level of grant reduction will apply to this Fire Authority and it is likely to be several months before this clarity is provided. However, what is clear from the CSR announcement is that funding reductions in years 3 and 4 will be more significant than years 1 and 2. From the above table, when considering any of the options shown, there would be major issues for years 3 and 4 that would require either a substantial increase in council tax to compensate for the reduced grant funding and/or significant reductions in service which could not be achieved purely through natural staff turnover.

APPENDIX I1

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

NET EXPENDITURE BUDGET FORECAST 2013/2014 AND 2014/2015

	Budget 2013/14	**Budget 2014/15**
Subjective Heading	**£000s**	**£000s**
Employees	89,000	87,300
Premises	5,800	5,700
Transport	2,100	2,000
Supplies & Services	7,200	7,100
Capital Financing	5,600	5,600
Income	(4,700)	(4,700)
NET EXPENDITURE	105,000	103,000

Note

Budget forecast for 2013/2014 and 2014/2015 assumes:

- the continuation of a recruitment freeze.
- inflation assumptions as shown on Appendix I2.

APPENDIX I2

INFLATION ASSUMPTIONS

Pay Awards:		%
- Uniformed Staff		
	July 12	1.0
	July 13	1.0
	July 14	1.0
- Non-Uniformed Staff		
	April 12	1.0
	April 13	1.0
	April 14	1.0
General Prices:		
	April 12	2.0
	April 13	2.0
	April 14	2.0
Pensions Increase Order:		
	April 12	5.2
	April 13	2.0
	April 14	2.0
Residential Rents:		
	April 12	5.6
	April 13	2.0
	April 14	2.0

APPENDIX I3

SENSITIVITY ANALYSIS

The approximate annual impact of a 1% variation in some of the key assumptions underpinning the budget projections is shown below:

Expenditure

Uniformed pay awards	£750k	(£560k part year)
Non-uniformed pay award	£140k	
Employers Firefighters Pension Contribution	£520k	
Interest payable	£470k	
General inflation	£120k	
Energy costs	£ 14k	
Fuel	£ 9k	

Income

Government Grant	£707k
Council Tax	£380k
Interest receivable	£270k

APPENDIX J

EARMARKED RESERVES AS AT 31ST MARCH 2011

	£000s
Capital Works	7,547
Insurance	6,208
Project Management/Support	1,235
Partnership Working	883
New Dimensions	817
System Enhancements/Upgrades	368
Firefighting and Rescue Equipment	335
Training & Development	161
Legal Fees Contingency	155
Office Equipment/Furniture	88
Fire Prevention & Education	87
Fire Control Support	49
Station Works	20
Fire Research and Investigation	11
Total	**17,964**

General Reserves (5.2% of overall 2011/12 budget)	**5,775**