WEST MIDLANDS FIRE AND RESCUE AUTHORITY

15 FEBRUARY 2016

1. BUDGET AND PRECEPT 2016/2017 AND BUDGET FORECAST 2017/2018 TO 2019/2020

Joint Report of the Treasurer and Chief Fire Officer.

RECOMMENDED

1.1 THAT the following be approved:-

1.1.1 The Authority's Net Revenue Budget for 2016/2017 of £97.413m which includes a Council Tax requirement of £37.874m, set out in Appendix A, together with the associated precept levels, set out in Appendix B, resulting in a Band D Precept increase of 1.99%.

1.1.2 The Authority's capital programme for 2016/2017 to 2019/2020 as set out in Appendix E.

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

1.1.4 The Authority accept in principal the offer of a four year financial settlement, as set out in the Final Local Government Finance Settlement on 9 February 2016 and direct the Treasurer to prepare and submit an efficiency plan and any other required documentation to the Home Office as required.

2. PURPOSE OF REPORT

The Authority is requested to consider the Capital Programme for 2016/2017 to 2019/2020, 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, outcomes and strategic objectives to be contained in the 2016–2019 Plan.

3.2 On 17 December 2015, the Secretary of State for the Department for Communities and Local Government (DCLG) announced the provisional settlement for 2016/17 at £58.660m, resulting in a core funding reduction of £3.283m. The Government also proposed a referendum threshold of 2% for any Fire and Rescue Authority increasing its Council Tax.

3.3 In addition to the provisional settlement for 2016/17, an offer was made for a multi-year funding settlement. Any Authority wishing to take up the four year funding settlement to 2019/20 would be required to set out their proposals in an efficiency plan to qualify for the four year settlement from April 2016.

3.4 On 9 February 2016, DCLG confirmed the Authority's 2016/17 core funding, with a slight increase of £5k to the figure announced in the provisional settlement, resulting in total core funding of £58.665m.

3.5 The four year settlement offer (provisional for 2017/18 – 2019/20) would result in the following core funding reductions:

- 2016/17 £3.278m
- 2017/18 £3.985m
- 2018/19 £1.691m
- 2019/20 £0.690m

A total reduction over the four year period (2016/17 – 2019/20) of £9.644m (15.6% of the 2015/16 core funding).

3.6 The projected budget includes a number of efficiency measures as well as enabling any actions to be undertaken 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.

3.7 During the financial year 2015/16 only extremely limited recruitment activity for some essential support staff has taken place. No recruitment of firefighters has taken place during the year to date however 15 firefighters were seconded on a temporary basis from Hereford and Worcester Fire Service. This has been in line with the Authority's approach to workforce planning in order to provide appropriate staffing levels to meet the Authority's approved service delivery model. It is anticipated that the suspension on the recruitment of firefighters will remain during 2016/17. Funding levels in future years means that the situation will need to be closely monitored and reviewed.

3.8 Details of the draft base budget are set out in Appendix A, together with revisions to the current year's budget (the 2016/17 budget is replicated for information in the Service Reporting Code of Practice format in Appendix C).

Business Rates Retention

3.9 The business rate retention scheme was introduced in April 2013 and provides a direct link between business rates growth and the amount of money local authorities have to spend on local people and services. Local Authorities are able to keep 50% of the business rates revenue, adjusted for any growth or reduction on the revenue that is generated in their area. This is intended to provide a strong financial incentive for Authorities to promote economic growth.

3.10 The main impact on this Authority is that a proportion of income previously paid by the Government is received via the 7 West Midlands Metropolitan Councils. Under these arrangements this Authority is entitled to a payment equivalent to 2% of the amount of Business Rates retained by the 7 West Midlands Metropolitan Councils. This is approximately £9.4m.

3.11 The Chancellor announced in the Spending Review in November 2015 of his intention to localise 100% of business rates to local authorities by 2019/20.

Update of 'The Plan'

3.12 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. As part of this, public consultation is undertaken when changes to the core services are being considered by the Authority. The Authority last consulted the public in February 2014 and this provided the opportunity for the public to influence the way the Service works now. The Community Safety Strategy (the Integrated Risk Management Plan) is the risk analysis which identifies what the risk profile of the West Midlands community is and provides analysis of where resources are required to enable effective management of these risks in order to achieve a five minute attendance standard for the most serious emergencies. Review of this risk analysis has confirmed that there has been no significant change to the risk profile of the West Midlands. Therefore, there will be no significant change to the Authority's priorities and outcomes set out in The Plan 2016-2019 and as such there is no requirement for any associated consultation.

3.13 During 2015/16 a series of workshops were undertaken with Members and the Strategic Enabling Team to consider, develop and confirm the refresh of The Plan 2016-2019. As part of this approach Members and the Strategic Enabling Team have agreed the priorities and outcomes for 2016-2017.

3.14 'The Plan' sets the Authority's strategic direction for the next three years and defines those outcomes, priorities and strategic objectives which are to be provided with reduced funding and resources.

4. PRECEPT 2016/2017

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 675,989.47 (659,147.75 in 2015/16).

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

4.4 The Council Tax at Band D for 2016/17 would be £56.03, an increase of 1.99% (£1.09) per annum.

5. FUNDING OF EXPENDITURE 2016/2017

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

	£000
Formula Grant	58,665
Share of Collection Fund Surplus / (Deficit)	874
Council Tax (met by Districts)	37,874
Total Funding	97,413

In addition to external funding, it is estimated that the Authority will generate income of £2.893m (£2.830m in 2015/16) (Appendix D).

6. GENERAL BALANCES POSITION

6.1 Based on the current forecast of net expenditure in 2015/16, the Authority's available General Balances at 1 April 2016 are estimated to be £9.2 million. At this level, the amount of General Balances would equate to approximately 9.4% of the Authority's 2016/17 budget.

6.2 This level of balances is considered appropriate at this stage due to the estimated scale of government grant reductions in future years. Whilst the four year settlement provides some greater certainty than previously, the figures are indicative at this stage. This is combined with an increase in volatility of Council Tax collection rates for the 7 West Midlands Authorities, particularly following the introduction of the localisation of council tax benefits since 1 April 2013.

6.3 The actual level of General Balances at 1 April 2016 will not be determined until the completion of the Authority's 2015/16 closedown of accounts process.

7. CAPITAL PROGRAMME

7.1 At the Authority meeting on 16 February 2015, 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 in respect of those projects which make up the proposed capital programme, is as follows:

	£m
2016/2017	6.482
2017/2018	10.747
2018/2019	5.134
2019/2020	3.460

The full list of projects is shown on Appendix E.

7.3 A forecast of resources covering the period 2016/17 to 2019/20 is shown below.

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Capital Receipts	1.105	1.000	-	-
Capital Grants	1.025	-	-	-
Revenue Funding	4.352	9.747	5.134	3.460
Total Capital Resources	6.482	10.747	5.134	3.460

7.4 The table below compares the expenditure on those projects within the capital programme which are committed and the projected resources outlined in paragraph 7.3:

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Projected Resources	6.482	10.747	5.134	3.460
Less: Commitments	6.482	10.747	5.134	3.460
Funding (Deficit)/Surplus	-	-	-	-

7.5 At the time of announcing the four year provisional core funding settlement, no specific announcements have been made by the DCLG in relation to capital funding.

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 2016/17 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 1 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 2016/2017 TO 2019/2020 BUDGET

9.1 In preparing the draft revenue budget for 2016/17, an expenditure forecast for 2017/18 to 2019/20 has also been undertaken by 'rolling forward' the 2016/17 draft budget; updating for specific known budget pressures (e.g. the impact of National Insurance increases from April 2016) anticipated inflation and pay awards, adding in commitments, adjusting for anticipated staff turnover levels, setting efficiency targets, etc. (Appendix H).

9.2 At this stage the offer of a provisional four year settlement by DCLG is considered to be a reasonable basis to formulate medium term financial planning. In order to take up the four year funding settlement an efficiency plan is required. No details are currently available regarding the format and content of the efficiency plan although it is anticipated the content of Appendix H2 would form the basis of any submission. At this stage it is anticipated that work will focus on alternative staffing models, commissioning, internal restructures and general budget reductions. A summary of the impact of a reduction in core funding is shown in the table below:

Estimated position assuming the provisional financial settlement reductions to core funding (with a Band D Council Tax increase of 1.99% per year)

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Net Budget Requirement	97.4	93.7	93.2	93.7
Core Funding	58.6	54.7	53.0	52.3
Council Tax	37.9	39.0	40.2	41.4
Council Tax Surplus	0.9	0.0	0.0	0.0
Available Resources	97.4	93.7	93.2	93.7
Annual Surplus/(Deficit)	0.0	0.0	0.0	0.0

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 appropriate level of reserves and provisions has been assessed and determined using a variety of mechanisms, including:

- The budget setting process, the annual financial cycle and contributions from the strategic leadership of the organisation.

- Considering 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 Officers 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. The level of general reserves at the end of the financial year 2015/16 is forecast to be £9.2m and this is approximately 9.4% of the net budget requirement. This level of balances is considered appropriate at this stage due to the scale of core funding reductions in future years and volatility of Council Tax collection rates.

10.5 It was deemed that a prudent level of earmarked reserves was established during the Authority's 2014/15 closedown exercise. A review of these reserves will be undertaken as part of the Authority's 2015/16 closedown of accounts process.

10.6 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. As at 31 March 2015 a list of the reserves is included in Appendix J. Consideration will be given to the appropriate level of reserves required as at 31 March 2016 as part of the Authority's closedown of accounts process.

10.7 In recommending an adequate level of reserves, the consideration is given to 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 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.

10.8 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.

10.9 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

DCLG Communications
Policy Planning Forum 14 December 2015
District Leaders' Meeting 17 December 2015
Policy Planning Forum 1 February 2016
The Plan 2016–2019

The contact name for this report is Phil Hales, Deputy Chief Fire Officer, 0121 380 6907.

PHIL LOACH	MIKE GRIFFITHS
CHIEF FIRE OFFICER	TREASURER

APPENDIX A

SUMMARY OF 2015/2016 REVISED BUDGET AND 2016/2017 BUDGET

	Original Budget 2015/16 £000s	Revised Budget 2015/16 £000s	Original Budget 2016/17 £000s
Expenditure			
Employees	85,570	83,162	83,839
Premises	5,810	5,949	5,453
Transport	1,593	1,404	1,396
Supplies & Services	7,159	7,421	7,825
Capital Financing	3,057	3,000	2,943
Appropriations to Reserves	150	3,481	450
Total Expenditure	103,339	104,417	101,906
Income			
Core Funding (Formula Grant)	(61,943)	(61,943)	(58,665)
Capital Grant	0	0	0
Other Government Grant	(1,605)	(1,919)	(1,235)
Income from Services	(2,830)	(3,117)	(2,893)
Collection Fund (Surplus) / Deficit	(384)	(384)	(874)
Appropriations from Reserves	(366)	(843)	(365)
Total Income	(67,128)	(68,206)	(64,032)
COUNCIL TAX REQUIREMENT	**36,211**	**36,211**	**37,874**
Collection Fund Surplus / (Deficit)	384	384	874
Core Funding (Formula Grant)	61,943	61,943	58,665
NET BUDGET REQUIREMENT	**98,538**	**98,538**	**97,413**

APPENDIX B

BAND D PRECEPT INCREASE OF 1.99%

1.1 THAT it be noted that the constituent District Councils have formally set their Council Tax bases for the year 2016/2017 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	239,042.00
Coventry	77,525.10
Dudley	88,126.08
Sandwell	69,913.98
Solihull	73,456.00
Walsall	67,520.37
Wolverhampton	60,405.94
	675,989.47

1.2 THAT the following amounts be now calculated by the Authority for the year 2016/2017 in accordance with Sections 40 to 48 of the Local Government Finance Act 1992:

1.2.1 £101,906,000 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 £64,032,338 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 £37,873,662 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 £56.03 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	37.351333	37.35
B	43.576556	43.58
C	49.801778	49.80
D	56.027000	56.03
E	68.477444	68.48
F	80.927889	80.93
G	93.378333	93.38
H	112.054000	112.05

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	13,392,806
Coventry City Council	4,343,499
Dudley MBC	4,937,440
Sandwell MBC	3,917,070
Solihull MBC	4,115,519
Walsall MBC	3,782,964
Wolverhampton City Council	3,384,364
Total	37,873,662

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.

SUMMARY OF 2016/2017 BUDGET – SERVICE ANALYSIS

	1.99% Precept Increase
	£000s
Firefighting & Rescue Operations	101,253
Community Safety	14,308
Corporate and Democratic Core	1,590
Emergency Planning & Civil Defence	114
COST OF SERVICES	117,265
Appropriations and Interest	(20,487)
Government Grant – Section 31	(239)
Settlement Funding (Formula Grant)	(58,665)
COUNCIL TAX REQUIREMENT	**37,874**

APPENDIX D

SERVICE INCOME BUDGETS 2015/16 AND 2016/17

	Original Budget 2015/16 £000s	Revised Budget 2015/16 £000s	Original Budget 2016/17 £000s
Fees and Charges:			
- Fire Control & Contact Centre	1,114	1,114	1,072
- Training	327	352	332
- ICT	102	209	111
- Mutual Assistance	100	160	80
- Fire Engineering	75	75	75
- Room Hire	51	56	55
- Other	320	336	296
Sales	177	255	180
Rents - Property	245	245	238
Interest	265	245	400
Other Income	54	70	54
TOTAL SERVICE INCOME	**2,830**	**3,117**	**2,893**

Note: In addition to the service income budgets, a £2m target has been set to generate income from Commissioning over the next three financial years (2016/17 – 2018/19)

APPENDIX E

CAPITAL PROGRAMME 2016/2017 TO 2019/2020

Scheme		Project Year In 2016/17	2016/17	2017/18	2018/19	2019/20
			£000s	£000s	£000s	£000s
COMMITTED SCHEMES						
	Coventry Fire Station	2 of 3	2,500	4,200	-	-
	Aston Fire Station	2 of 4	200	3,900	3,375	-
	Training at Height Facilities	11 of 11	363	-	-	-
	Boiler Replacement Programme	Ongoing	303	159	211	165
	Roof Replacements	Ongoing	132	184	190	150
	Windows and Door Replacements	Ongoing	131	184	188	425
	Rewires	Ongoing	145	-	250	420
	Vehicle Replacement Programme	Ongoing	2,318	2,120	920	2,300
	X-Plan	1 of 1	300	-	-	-
	Bilston Modification Works	1 of 1	90	-	-	-
GRAND TOTAL			**6,482**	**10,747**	**5,134**	**3,460**
RESOURCES AVAILABLE						
	Supported Capital Expenditure		-	-	-	-
	Prudential Borrowing		-	-	-	-
	Capital Receipts		1,105	1,000	-	-
	Capital Grants		1,025	-	-	-
	Earmarked Reserves/DRF		4,352	9,747	5,134	3,460
SURPLUS/(DEFICIT)			**-**	**-**	**-**	**-**

APPENDIX F

TREASURY MANAGEMENT STRATEGY 2016/2017

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 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 2016/17

The strategy for 2016/17 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 2015/16 – 2019/20

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).

DCLG 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 all borrowing the MRP policy will be*:*

- **Asset Life Method** (Option 3) – 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).

This option provides for a reduction in the borrowing need over approximately the assets life.

For 2015/16 onwards the proposed MRP policy has been amended to an Annuity basis which results in a reduction to the amount of revenue applied to provide for debt in the period 2015/16 to 2033/34 after which point the revenue applied increases compared to the current MRP approach through to 2054/55. The change does not increase the level of debt but means that the level of capital expenditure financed by borrowing, the Capital Financing Requirement will reduce more slowly in the earlier years as the amount of MRP is lower than the policy in

2014/15. However the revised policy would ensure that the CFR would be repaid over a period of 40 years. If the current MRP approach continued there would be a balance outstanding of approximately £7m at the end of the 40 year period. It is not proposed to amend retrospectively any MRP recognised in previous years; this policy would apply from 2015/16 onwards.

In addition, the Authority can set aside amounts in excess of the minimum required. Consideration will continue to be given to more closely aligning external debt with the capital financing requirement by making a voluntary MRP contribution and/or using capital receipts. This would reduce the Authority's expenditure commitments in future years.

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 2016/17 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 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	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£44m	£43m	£42m	£41m	£40m

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	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£48m	£47m	£46m	£45m	£44m

3.3 Prospects for Interest Rates

The Authority's Treasury Management functions are provided by Sandwell MBC who have appointed Capita 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 Capita Asset Services central view.

	Bank Rate %	PWLB Borrowing Rates %		
		5 year	25 year	50 year
Mar 2016	0.50	2.00	3.40	3.20
Jun 2016	0.50	2.10	3.40	3.20
Sep 2016	0.50	2.20	3.50	3.30
Dec 2016	0.75	2.30	3.60	3.40
Mar 2017	0.75	2.40	3.70	3.50
Jun 2017	1.00	2.50	3.70	3.60
Sep 2017	1.00	2.60	3.80	3.70
Dec 2017	1.25	2.70	3.90	3.80
Mar 2018	1.25	2.80	4.00	3.90
Jun 2018	1.50	2.90	4.00	3.90
Sep 2018	1.50	3.00	4.10	4.00
Dec 2018	1.75	3.10	4.10	4.00
Mar 2019	1.75	3.20	4.10	4.00

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel prices will now delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% in the second half of 2016 and not get to near 2% until 2017, though the forecasts in the Report itself were for an even slower rate of increase. There is considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

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 2016/17 treasury operations. Interest rates in financial markets will be monitored alongside other economic indicators.

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:

	2015/16	2016/17	2017/18
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 2015/16			
		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 2015/16			
		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 Committee through the mid-year or annual reporting mechanism.

4 Annual Investment Strategy

4.1 Investment Policy

The Authority's investment policy has regard to the DCLG'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 DCLG and CIPFA, and in order to minimise the risk to investments, the Authority applies 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 Capita 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 diversification 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.

4.2 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.

A counterparty list will be maintained 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.

Credit rating information is supplied by Capita Asset Services, 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 & Poors (S&P) credit ratings (where rated):

    i. Short term – F1, P-1, A-1 (Fitch, Moody's and S&P) respectively
    ii. Long term – A, A1 and A (Fitch, Moody's and S&P) respectively

- Banks 2 – Part nationalised UK banks – Royal Bank of Scotland. This bank can be included provided it continues to be part nationalised or it meets 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 Debt Management Account Deposit Facility (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.

4.3 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.

4.4 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 starting to rise from quarter 1 of 2017. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.75%
- 2017/18 1.25%
- 2018/19 1.75%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

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	**2015/16**	**2016/17**	**2017/18**
Principal sums invested > 364 days	£25m	£25m	£25m

4.5 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.

4.6 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.

4.7 Policy on the use of external service providers

Sandwell MBC uses Capita Asset Services 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 2016 – 2019

Capita Asset Services Interest Rate View							
	Mar-16	Sep-16	Mar-17	Sep-17	Mar-18	Sep-18	Mar-19
Capita Asset Service's Bank Rate View	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
3 Month LIBID	0.50%	0.60%	0.90%	1.10%	1.40%	1.60%	1.90%
6 Month LIBID	0.70%	0.80%	1.00%	1.30%	1.60%	1.80%	2.20%
12 Month LIBID	1.00%	1.10%	1.30%	1.60%	1.90%	2.10%	2.40%
Bank Rate							
Capita Asset Service's View	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
Capital Economics	0.50%	0.75%	1.00%	1.00%	-	-	-
5 yr PWLB Rate							
Capita Asset Service's View	2.00%	2.20%	2.40%	2.60%	2.80%	3.00%	3.20%
Capital Economics	2.60%	2.80%	3.10%	3.30%	-	-	-
10 yr PWLB Rate							
Capita Asset Service's View	2.60%	2.80%	3.00%	3.20%	3.40%	3.60%	3.70%
Capital Economics	3.35%	3.45%	3.65%	3.85%	-	-	-
25 yr PWLB Rate							
Capita Asset Service's View	3.40%	3.50%	3.70%	3.80%	4.00%	4.10%	4.10%
Capital Economics	3.35%	3.45%	3.65%	3.85%	-	-	-
50 yr PWLB Rate							
Capita Asset Service's View	3.20%	3.30%	3.50%	3.70%	3.90%	4.00%	4.00%
Capital Economics	3.40%	3.45%	3.7%	3.90%	-	-	-

APPENDIX F2

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

The DCLG 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.
5. 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 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.	20%
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 2014/15 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

Capital Expenditure					
2014/15 £000 Actual	**2015/16 £000 Estimate**	**2016/17 £000 Estimate**	**2017/18 £000 Estimate**	**2018/19 £000 Estimate**	**2019/20 £000 Estimate**
3,036	4,557	6,482	10,747	5,134	3,460

2. Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2014/15 are:

Ratio of Financing Costs to Net Revenue Stream					
2014/15 % Actual	**2015/16 % Estimate**	**2016/17 % Estimate**	**2017/18 % Estimate**	**2018/19 % Estimate**	**2019/20 % Estimate**
3.66	2.84	2.64	2.63	2.59	2.56

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 2015 are:

Capital Financing Requirement					
31/03/15 £000 Actual	31/03/16 £000 Estimate	31/03/17 £000 Estimate	31/03/18 £000 Estimate	31/03/19 £000 Estimate	31/03/20 £000 Estimate
40,211	39,508	38,765	37,978	37,144	36,261

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 Authority had no difficulty meeting this requirement in 2014/15, 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					
2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
49,000	48,000	47,000	46,000	45,000	44,000

8. 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 approved treasury management policy statement and practices. 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 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.

Operational Boundary for External Debt					
2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
45,000	44,000	43,000	42,000	41,000	40,000

10. The Authority’s actual borrowing at 31 March 2015 was £40.8m. 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 2015/16 (see paragraph 7 above) will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

APPENDIX H

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

NET EXPENDITURE BUDGET FORECAST 2017/2018 TO 2019/2020

	Budget 2017/18	Budget 2018/19	Budget 2019/20
Subjective Heading	**£000s**	**£000s**	**£000s**
Employees	82,200	82,800	83,300
Premises	5,300	5,300	5,300
Transport	1,400	1,400	1,400
Supplies & Services	6,900	6,900	6,900
Capital Financing	2,900	2,800	2,800
Income	-5,000	-6,000	-6,000
NET EXPENDITURE	93,700	93,200	93.700
Available Funding	93,700	93,200	93,700
Surplus/(Deficit)	0	0	0

Note

Budget forecast for 2017/18 to 2019/20 assume:

- A Council Tax increase of 1.99% in each year.
- Achieving the savings identified in Appendix H2.
- Inflation assumptions as shown on Appendix H3.

APPENDIX H2

SAVINGS TO MEET THE FUNDING GAP 2016/17 – 2019/20

The provisional four year settlement for the period 2016/17 to 2019/20 would result in a cumulative budget deficit of circa £10m if the Service did not make any efficiency savings. The areas where savings are anticipated and reflected within the medium term financial strategy (paragraph 9.2) are shown below:

Savings:	£m
Staffing	4
Commissioning	2
Internal Restructures	1
General Budget Reductions	1
Council Tax Base	2
Total Savings	10

£4m – STAFFING

Alternative staffing models will be explored with the intention of delivering organisational savings whilst maintaining the current Service Delivery Model. The most effective way to ensure delivery of the budget savings is to suspend recruitment which will ensure a reduction in the organisations operational strength, primarily by individuals leaving the organisation through retirement.

The reducing staff numbers would produce budget savings but in order to continue to deliver the current Service Delivery Model will require increased flexible staffing arrangements. Current options available to staff and the organisation include:

- Voluntary Bank shifts
- Integrated resilience
- Voluntary additional shifts

In considering new staffing model proposals, it is anticipated that there will be a reduction in the overall operational staffing establishment of 154 posts with the introduction of voluntary additional shifts at plain rate to supplement the organisations operational capacity.

£2m – COMMISSIONING

In the current financial scenario a challenging target of £2m ongoing core funding over four years has been identified to be achieved through alternative funding arrangements. This has been termed as ‘flexible funding’.

Flexible funding services will be delivered as an integrated business model alongside core services through the Services staffing establishment.

The key areas identified for income generation through flexible funding include:

- Commissioning through supporting the health sector and reducing risk to vulnerable people and through other public bodies such as local authorities etc.

- Income generation through social value opportunities

- Sponsorship

£1m – INTERNAL RESTRUCTURES

The Service has already made considerable savings over the last four year period following a number of internal restructures, predominantly across the Support Service functions. This approach will continue over the next four financial years with specific functional reviews scheduled for People Support Services, Administration and Fire Control. The intention moving forward is to consider once more the arrangements and structures for all Service Support functions combined with a management review across the Service as a whole.

£1m – GENERAL BUDGET REDUCTIONS

As part of the Authority's budget process there is an annual exercise which requires budget holders to review and update their budget requirements for future years. It is anticipated that there will be reductions across a range of budgets as part of this exercise.

Also as part of the Authority's overall budget setting exercise, a number of assumptions and estimates need to be considered. For example, an estimate is made to allow for increases in general inflation against the Authority's overall budget. This and other similar issues will be reviewed to determine whether budget holders should be required to operate within a nil inflation budget.

£2m COUNCIL TAX BASE

Included within the medium term financial planning is an assumption that the Council Tax Base will continue to increase on average 1.25% each year, which would generate additional income of £2m over the period 2016/17 to 2019/20.

APPENDIX H3

INFLATION ASSUMPTIONS

Pay Awards:		%
- Uniformed Staff		
	July 16	1.0
	July 17	1.0
	July 18	1.0
	July 19	1.0
- Non-Uniformed Staff		
	April 16	1.0
	April 17	1.0
	April 18	1.0
	April 19	1.0
General Prices:		
	April 16	1.0
	April 17	1.0
	April 18	1.0
	April 19	1.0
Pensions Increase Order:		
	April 16	0.0
	April 17	1.2
	April 18	1.7
	April 19	1.8
Residential Rents:		
	April 16	2.0
	April 17	2.0
	April 18	2.0
	April 19	2.0

APPENDIX H4

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	£650k	(£490k part year)
Non-uniformed pay award	£130k	
Employers Firefighters Pension Contribution	£435k	
Interest payable	£374k	
General inflation	£100k	
Energy costs	£9k	
Fuel	£5k	

Income

Core Funding	£587k
Council Tax	£379k
Interest receivable	£620k

APPENDIX I

SCENARIO ANALYSIS

At this stage the offer of a provisional four year settlement by DCLG is considered to be a reasonable basis to formulate medium term financial planning. Furthermore, the impact of a further 1% or 2% reduction to the core funding is shown in the following tables.

Core Funding Reductions

Financial Year	£ Core Funding	% Reduction	£ Reduction
2015/16	61,943,000		
2016/17	58,665,000	-5.3%	-3,278,000
2017/18	54,680,000	-6.8%	-3,985,000
2018/19	52,989,000	-3.1%	-1,691,000
2019/20	52,299,000	-1.3%	-690,000

Further 1% Core Funding Reduction in 2017/18 to 2019/20

Financial Year	£ Core Funding	% Reduction	£ Reduction
2016/17	58,665,000		
2017/18	54,093,000	-7.8%	-4,572,000
2018/19	51,879,000	-4.1%	-2,214,000
2019/20	50,685,000	-2.3%	-1,194,000

Further 2% Core Funding Reduction in 2017/18 to 2019/20

Financial Year	£ Core Funding	% Reduction	£ Reduction
2016/17	58,665,000		
2017/18	53,506,000	-8.8%	-5,159,000
2018/19	50,781,000	-5.1%	-2,725,000
2019/20	49,104,000	-3.3%	-1,677,000

The provisional four year settlement is an indication of further reductions in future years. However, should the core funding reductions in 2017/18 to 2019/20 be 1% lower than currently indicated, the table below shows the impact of the reductions.

Financial Year	£ Core Funding	% Reduction	£ Reduction
2016/17	58,665,000		
2017/18	55,266,000	-5.8%	-3,399,000
2018/19	54,110,000	-2.1%	-1,156,000
2019/20	53,947,000	-0.3%	-163,000

APPENDIX J

RESERVES AS AT 31 MARCH 2015

Earmarked	£000s
Capital Projects	22,870
Insurance	7,159
Project Management/Support	1,355
Station Works	1,129
Training & Development	813
Partnership Working	772
New Dimensions	745
System Enhancements/Upgrades	483
Firefighting and Rescue Equipment	419
Fire Prevention & Education	393
Office Equipment/Furniture	128
Total	**36,266**

General (9.4% of overall 2015/16 budget)	**9,231**