

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

19 FEBRUARY 2018

1. BUDGET AND PRECEPT 2018/2019 AND BUDGET FORECAST 2019/2020 TO 2020/2021

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 2018/2019 of £95.468m which includes a Council Tax requirement of £41.296m, set out in Appendix A, together with the associated precept levels, set out in Appendix B, resulting in a Band D Precept increase of 2.99%.

1.1.2 The Authority's capital programme for 2018/2019 to 2020/2021 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.

2. PURPOSE OF REPORT

The Authority is requested to consider the Capital Programme for 2018/2019 to 2020/2021, 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 2018–2021 Plan.

- 3.2 As part of the 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 was required to set out their proposals in an Efficiency Plan to qualify for the four year settlement from April 2016. The Authority at its meeting on 19 September 2016 considered and approved the Efficiency Plan which was submitted to the Home Office.
- 3.3 On 19 December 2017, the Secretary of State for Communities and Local Government (CLG) announced the provisional settlement for 2018/19 at £53.030m, resulting in a core funding reduction of £1.673m. The Government also proposed a Council Tax referendum threshold of 3% for Fire and Rescue Authorities.
- 3.4 The four year settlement offer announced in December 2016 (provisional for 2017/18 – 2019/20) would result in the following core funding reductions:
- 2016/17 £3.278m
 - 2017/18 £3.962m
 - 2018/19 £1.673m
 - 2019/20 £1.006m
- A total reduction over the four year period (2016/17 – 2019/20) of £9.919m (16% of the 2015/16 core funding).
- 3.5 On 6 February 2018, CLG confirmed the Authority's 2018/19 total core funding.
- 3.6 The projected budget includes a number of efficiency measures which were set out in the Efficiency Plan referred to earlier 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 2017/18 only extremely limited recruitment activity for some essential support staff has taken place. Recruitment of firefighters has taken place during the year due to the need to maintain staffing levels in line with the numbers required for the operational staffing level (1,220) to meet the Authority's approved Service Delivery Model. Funding levels in future years mean 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 2018/19 budget is replicated for information in the Service Reporting Code of Practice format in Appendix C).

Business Rates Retention

- 3.9 The Business Rates 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 Councils. This is approximately £10m.
- 3.11 The Chancellor announced in the Spending Review in November 2015 the intention to localise 100% of business rates to local authorities by 2019/20. In July 2016 the CLG issued the first consultation exercise in relation to the significant proposed changes to Local Government funding arrangements. The consultation included 36 questions, with one Fire Service specific question seeking views as to whether Fire funding should be removed from the business rates retention scheme, with Fire funding provided through a separate grant administered through the Home Office.
- 3.12 However the Local Government Finance Bill, which contained provision for 100% retention, fell when Parliament was dissolved for the General Election. It was not revived in the Queen's Speech but the Government has confirmed it is still committed to the reforms.
- 3.13 The Secretary of State for CLG announced in the provisional settlement for 2018/19 of the Government's aim to increase the local share of business rates retention to 75% in 2020-21.

Update of 'The Plan'

- 3.14 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, a public consultation is undertaken every three years and/or when changes to the core services are being considered by the Authority.

The Authority consulted the public in January 2017 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 an average five minute risk based 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 2018-2021.

- 3.15 '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 2018/2019

- 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 701,818.27 (689,149.00 in 2017/18).
- 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 2018/19 would be £58.84, an increase of 2.99% (£1.70) per annum.

5. **FUNDING OF EXPENDITURE 2018/2019**

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

	£000
Core Funding	53,030
Section 31 Grant	676
Share of Collection Fund Surplus / (Deficit)	466
Council Tax (met by Districts)	41,296
Net Revenue Budget	95,468

In addition to external funding, it is estimated that the Authority will generate income of £3.877m (£3.334m in 2017/18) (Appendix D).

6. **GENERAL BALANCES STRATEGY**

- 6.1 Based on the current forecast of net expenditure in 2017/18, the Authority's General Balances at 1 April 2018 would be approximately £8.4 million. At this level, the amount of General Balances would equate to 8.8% of the Authority's 2018/2019 Net Revenue Budget. The actual level of General Balances at 1 April 2018 will not be determined until the completion of the Authority's 2017/2018 closedown of accounts process.
- 6.2 As part of considering the Authority's 2018/19 budget, the overall funding requires the use of £1.5 million General Balances to support the Net Revenue Budget requirement, which includes an estimated 2% pay award assumption (compared to 1% allowed for when the Efficiency Plan was established) and ongoing service transformation changes. This would result in the Authority's available General Balances being approximately £6.9 million by the end of 2018/19 (7.2% of the Authority's 2018/2019 Net Revenue Budget).
- 6.3 The full year impact of a 1% pay award on the Authority's expenditure is significant (approximately £800k per year). The Efficiency Plan linked to the four year Government settlement period (2017/18 – 2019/20) was based on a public sector pay cap of 1% per year. At the Autumn Budget on 22 November 2017, the Government confirmed the "end of the 1% pay policy". Given the mounting pressures to increase public sector pay awards, an uplift in the pay award assumptions to 2% in each of the next three financial years is considered appropriate at this stage.

- 6.4 Due to the estimated scale of Government funding reductions in future years, increased budget pressures (particularly the impact of higher pay award assumptions) and the need to assist with transformational service changes, the further use of General Balances is anticipated in 2019/20 and 2020/21. Whilst the Government settlement figures up to 2019/20 have provided some greater funding certainty than previously, additional budget pressures, e.g. anticipated increases in firefighter pension employer rates, further anticipated Government funding reductions beyond this time period and a lack of any direct capital and transformation funding being available, means that the level of General Balances is estimated to be approximately £5 million by the end of 2020/21, which is considered appropriate given the issues highlighted.
- 6.5 However, it should be recognised that the use of General Balances is not a sustainable means of funding the Authority's revenue budget. Consequently, consideration needs to be given to further Service changes, in addition to those reflected within the Efficiency Plan, to reduce the reliance on General Balances over the next three year period and/or aim to set a budget beyond this point without reliance on the use of General Balances. The intended strategy for the use of General Balances is shown in Appendix J2.

7. **CAPITAL PROGRAMME**

- 7.1 At the Authority meeting on 20 February 2017, 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
2018/2019	13.322
2019/2020	5.427
2020/2021	4.940

The full list of projects is shown on Appendix E.

- 7.3 A forecast of resources covering the period 2018/19 to 2020/21 is shown below:

	2018/19 £m	2019/20 £m	2020/21 £m
Capital Receipts	-	2.192	-
Capital Grants	0.523	-	-
Revenue Funding	12.799	3.235	2.904
Total Capital Resources	13.322	5.427	2.904

- 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:

	2018/19 £m	2019/20 £m	2020/21 £m
Projected Resources	13.322	5.427	4.940
<u>Less: Commitments</u>	13.322	5.427	2.904
Funding Surplus/(Deficit)	-	-	(2.036)

- 7.5 At the time of announcing the four year provisional core funding settlement, no specific announcements have been made by the CLG in relation to capital funding. As a consequence, it is anticipated that there will be a capital funding shortfall of circa £2 million in 2020/21. As part of the 2017/18 closedown of accounts process, consideration will need to be given to identify funding to meet this requirement.

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 2018/19 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 2018/2019 TO 2020/2021 BUDGET**

- 9.1 In preparing the draft revenue budget for 2018/19, an expenditure forecast for 2019/20 and 2020/21 has also been undertaken by “rolling forward” the 2018/19 draft budget; updating for specific known budget pressures, 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 four year settlement offered by CLG is considered to be a reasonable basis to formulate medium term financial planning (2018/19 and 2019/20) with a further 2% reduction to core funding being assumed for 2020/21. In order to take up the four year funding settlement an Efficiency Plan was required and the Authority at its meeting on 19 September 2016 considered and approved the Efficiency Plan submission to the Home Office. At this stage it is anticipated that work will continue to focus on staffing changes, alternative funding, internal restructures and general budget reductions.

- 9.3 Progress of delivery against the Efficiency Plan is provided in Appendix H4
- 9.4 In the Secretary of State for CLG provisional settlement announcement in December 2017, there was no indication of further funding levels beyond 2019/20. In planning for 2020/21, a reduction of 2% (£1.040m) has been assumed to the overall core funding, as indicated in paragraph 9.2.
- 9.5 A summary of the impact of the indicated reductions in core funding is shown in the table below:

Estimated position assuming the provisional financial settlement reductions to core funding to 2019/20 and estimated reduction of 2% in 2020/21 (with a Band D Council Tax increase of 2.99% in 2018/19 and 3% in 2019/20 and in 2020/21)

	2018/19 £m	2019/20 £m	2020/21 £m
Net Budget Requirement	95.5	96.7	97.6
Core Funding	53.0	52.0	51.0
Section 31 Grant	0.7	1.0	1.0
Council Tax	41.3	43.2	45.1
Council Tax Surplus	0.5	0.5	0.5
Available Resources	95.5	96.7	97.6
Annual Surplus/(Deficit)	-	-	-

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 Balances informed by an assessment of potential risks to the organisation. The level of General Balances at the end of the financial year 2017/18 is forecast to be £8.4m, of which £1.5m will be utilised to help fund the 2018/19 budget, reducing the level of available General Balances to £6.9m, approximately 7.2% 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, volatility of Council Tax collection rates and the absence of capital and transformation funding available to the Authority.

- 10.5 It was deemed that a prudent level of earmarked reserves was established during the Authority's 2016/2017 closedown exercise. A review of these reserves will be undertaken as part of the Authority's 2017/2018 closedown of accounts process.
- 10.6 Based on known circumstances and financial risk assessment, it is felt that adequate earmarked reserves and provisions were created to meet legal and expected liabilities, as at 31 March 2017. A list of the reserves is included in Appendix J1 and the intended strategy for their use in future years is provided in Appendix J2.
- 10.7 Consideration will be given to the appropriate level of reserves required as at 31 March 2018 as part of the Authority's closedown of accounts process.
- 10.8 In recommending an adequate level of reserves, 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.
- 10.9 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.
- 10.10 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 / Home Office Communications
District Leaders' Meeting 8 December 2017
Policy Planning Forum 5 February 2018
The Plan 2018–2021

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

PHIL LOACH
CHIEF FIRE OFFICER

MIKE GRIFFITHS
TREASURER

APPENDIX A**WEST MIDLANDS FIRE AND RESCUE AUTHORITY****SUMMARY OF 2017/2018 AND 2018/2019 BUDGET**

	Original Budget 2017/18	Revised Budget 2017/18	Original Budget 2018/19
	£000s	£000s	£000s
<u>Expenditure</u>			
Employees	83,360	84,093	85,215
Premises	5,213	5,364	5,643
Transport	1,358	1,321	1,340
Supplies & Services	7,203	7,768	7,304
Capital Financing	15,527	9,078	15,620
Appropriations to Reserves	100	412	100
Total Expenditure	112,761	108,036	115,222
<u>Income</u>			
Core Funding (Formula Grant)	(54,703)	(54,703)	(53,030)
Other Government Grant	(1,045)	(1,606)	(1,890)
Income from Services	(3,334)	(3,381)	(3,877)
Collection Fund (Surplus) / Deficit	(768)	(768)	(466)
Appropriations from Reserves	(13,534)	(8,201)	(14,663)
Total Income	(73,384)	(68,659)	(73,926)
COUNCIL TAX REQUIREMENT	39,377	39,377	41,296
Collection Fund Surplus / (Deficit)	768	768	466
Core Funding (Formula Grant)	54,703	54,703	53,030
Section 31 Grant	-	-	676
NET REVENUE BUDGET	94,848	94,848	95,468

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

BAND D PRECEPT INCREASE OF 2.99%

- 1.1 THAT it be noted that the constituent District Councils have formally set their Council Tax bases for the year 2018/2019 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	248,838.00
Coventry	80,815.40
Dudley	91,427.39
Sandwell	72,206.05
Solihull	75,972.00
Walsall	69,742.96
Wolverhampton	62,816.47
	<hr/> <hr/> 701,818.27

- 1.2 THAT the following amounts be now calculated by the Authority for the year 2018/2019 in accordance with Sections 40 to 48 of the Local Government Finance Act 1992:

- 1.2.1 £115,222,000 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 £73,925,692 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 £41,296,308 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 £58.84 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	<u>Valuation Bands</u>	£ (to 6 decimals)	£ (rounded to 2 decimals)
	A	39.227921	39.23
	B	45.765907	45.77
	C	52.303894	52.30
	D	58.841881	58.84
	E	71.917855	71.92
	F	84.993828	84.99
	G	98.069802	98.07
	H	117.683762	117.68

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	14,642,096
Coventry City Council	4,755,330
Dudley MBC	5,379,760
Sandwell MBC	4,248,740
Solihull MBC	4,470,336
Walsall MBC	4,103,807
Wolverhampton City Council	<u>3,696,239</u>
Total	<u>41,296,308</u>

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.

WEST MIDLANDS FIRE AND RESCUE AUTHORITY**SUMMARY OF 2017/2018 AND 2018/2019 BUDGET****SERVICE ANALYSIS**

	2017/18 £'000	2017/18 £'000	2018/19 £'000
<u>Devolved Budgets</u>			
Corporate Management	2,271	2,389	2,616
Corporate Charges	707	729	580
<i>Service Support:</i>			
People Support Services	5,589	5,884	5,695
Finance & Resources	4,864	4,762	5,072
I.C.T	4,262	4,422	4,211
Intelligence & Innovation	1,514	1,578	1,447
Business Development	85	227	94
<i>Service Delivery:</i>			
Operations	51,494	51,813	53,186
<u>Corporate Budgets</u>			
Service Support	17,109	16,209	15,944
Service Delivery	5,067	5,049	5,005
Other Income & Expenditure	1,886	1,786	1,618
NET REVENUE BUDGET	94,848	94,848	95,468

WEST MIDLANDS FIRE AND RESCUE AUTHORITY**SERVICE INCOME BUDGETS 2017/18 AND 2018/19**

	Original Budget 2017/18	Revised Budget 2017/18	Original Budget 2018/19
	£000s	£000s	£000s
Fees and Charges:			
- Fire Control & Contact Centre	877	878	956
- NFCC	-	256	350
- Training	296	342	296
- ICT	111	111	111
- External Contracts	102	102	102
- Mutual Assistance	100	70	70
- Fire Engineering	100	100	100
- Room Hire	40	47	40
- Other	272	317	258
Sales	78	115	104
Alternative Funding	1,000	500	1,000
Rents - Property	114	116	114
Interest	175	250	300
Other Income	69	177	76
TOTAL SERVICE INCOME	3,334	3,381	3,877

WEST MIDLANDS FIRE AND RESCUE AUTHORITY**CAPITAL PROGRAMME 2018/2019 TO 2020/2021**

Scheme	Project Year In 2018/19	2018/19 £000s	2019/20 £000s	2020/21 £000s
<i>Committed Schemes:</i>				
Vehicle Replacement Programme	On-going	3,705	1,883	2,512
Coventry Fire Station	4 of 5	3,800	288	-
Boiler Replacement Programme	On-going	214	165	170
Aston Fire Station	4 of 5	4,450	646	-
Rewires	On-going	130	430	200
Windows & Door Replacements	On-going	63	325	198
Roof Replacement	On-going	310	190	160
Primary Control	2 of 2	650	-	-
Station Developments	0 of 2	-	1,500	1,700
TOTAL COMMITMENTS		13,322	5,427	4,940
<i>Projected Resources Available:</i>				
Prudential Borrowing		-	-	-
Capital Receipts		-	2,192	-
Capital Grants		523	-	-
Earmarked Reserves/DRF		12,799	3,235	2,904
TOTAL PROJECTED RESOURCES		13,322	5,427	2,904
FUNDING SURPLUS/(DEFICIT)		-	-	(2,036)

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

TREASURY MANAGEMENT STRATEGY 2018/2019

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. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured.

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 (MRP) 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 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.

Capital Strategy – In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019/20, local authorities will be required to prepare, a Capital Strategy report, which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

The aim of this report is to ensure that Authority Members fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow Members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

1.3 Treasury Management Strategy for 2018/19

The strategy for 2018/19 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.

1.4 Treasury Management Consultants

The Authority's treasury management function is provided by Sandwell MBC who have appointed Link Asset Services, Treasury solutions 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 Sandwell MBC and the 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.

2. Capital Prudential Indicators 2018/19 – 2020/21

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 indebtedness and so its underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR, details are provided in Appendix G.

The CFR does not increase indefinitely, as the MRP is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

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 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 - Borrowing

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 appropriate 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 gross debt, 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 2018/19 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 and the ability to fund under-borrowing by other cash resources.

2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2019/20 Estimate
£42m	£41m	£40m	£39m

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 Limits:

2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
£46m	£45m	£44m	£43m

3.3 Prospects for Interest Rates

The Authority's Treasury Management functions are provided by Sandwell MBC who have appointed Link Asset Services as its treasury advisor and part of their service is to assist with formulating a view on interest rates. The following table and Appendix F1 gives Link Asset Services central view.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- The Bank of England takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Germany is still without an effective government after the inconclusive result of the general election in October. In addition, Italy is to hold a general election on 4 March and the anti EU populist Five Star party is currently in the lead in the polls, although it is unlikely to get a working majority on its own. Both situations could pose major challenges to the overall leadership and direction of the EU as a whole and of the individual respective countries. Hungary will hold a general election in April 2018.
- The result of the October 2017 Austrian general election has now resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could

spill over into impacting the Euro, EU financial policy and financial markets.

- A sharp Chinese downturn and its impact on emerging market countries

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

Investment and borrowing rates

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.
- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference 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 still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 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:

	2018/19	2019/20	2020/21
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 2018/19			
	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 2018/19			
	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 CLG's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code"). The Authority's investment priorities will be security first, portfolio 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 applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

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.

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 Link 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 invested.
- 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, CCLA, etc
- Supranational institutions

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 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.

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 stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

Link Asset Services suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

- 2017/18 0.40%
- 2018/19 0.60%
- 2019/20 0.90%
- 2020/21 1.25%
- 2021/22 1.50%
- 2022/23 1.75%
- 2023/24 2.00%
- Later Years 2.75%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

Investment 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 > 365 days			
£m	2018/19	2019/20	2020/21
Principal sums invested > 365 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.

APPENDIX F1

Interest Rate Forecast 2018 – 2021

Link Asset Services Interest Rate View													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%
5yr PWLB Rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB Rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB Rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate													
Link Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
Capital Economics	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.00%	2.25%	2.25%	-
5yr PWLB Rate													
Link Asset Services	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
Capital Economics	1.70%	1.90%	2.10%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.65%	2.65%	2.90%	-
10yr PWLB Rate													
Link Asset Services	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
Capital Economics	2.20%	2.40%	2.60%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	3.05%	3.05%	3.30%	-
25yr PWLB Rate													
Link Asset Services	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.60%	2.90%	3.10%	3.30%	3.30%	3.30%	3.35%	3.35%	3.35%	3.60%	3.60%	3.80%	-
50yr PWLB Rate													
Link Asset Services	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

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, CCLA 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 AA (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	<p>Supranational Bonds greater than 1 year to maturity</p> <p>(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.).</p> <p>(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.</p>	<p>30%</p> <p>AAA long term ratings</p>
b	<p>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.</p>	30%
c	<p>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.</p>	20%
d	<p>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.</p>	20%
e	<p>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</p>	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 Link Asset Services 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.

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

PRUDENTIAL INDICATORS

1. The actual capital expenditure that was incurred in 2016/17 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

2016/17 £000 Actual	2017/18 £000 Estimate	2018/19 £000 Estimate	2019/20 £000 Estimate	2020/21 £000 Estimate
3,677	4,805	13,322	5,427	4,940

2. Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2016/17 are:

2016/17 % Actual	2017/18 % Estimate	2018/19 % Estimate	2019/20 % Estimate	2020/21 % Estimate
2.7	2.8	2.6	2.6	2.6

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 2017 are:

31/03/17 £000 Actual	31/03/18 £000 Estimate	31/03/19 £000 Estimate	31/03/20 £000 Estimate	31/03/21 £000 Estimate
38,764	37,977	37,143	36,259	35,321

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 cash flows 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 2016/17, 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.

2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
47,000	46,000	45,000	44,000	43,000

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 cash flow 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.

2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
43,000	42,000	41,000	40,000	39,000

10. The Authority’s actual borrowing at 31 March 2017 was £38.6m. It should be noted that actual long term liabilities are 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 2017/2018 (see paragraph 7 above) will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

NET EXPENDITURE BUDGET FORECAST 2019/2020 TO 2020/2021

	Budget 2019/20	Budget 2020/21
Subjective Heading	£000s	£000s
Employees	86,800	88,600
Premises	5,800	4,900
Transport	1,400	1,400
Supplies & Services	7,500	7,300
Capital Financing	6,000	5,700
Income	(10,800)	(10,300)
NET EXPENDITURE	96,700	97,600
Available Funding	96,700	97,600
Surplus/(Deficit)	-	-

Note

Budget forecast for 2019/20 and 2020/21 assume:

- A Council Tax increase of 2.99% in 2019/20 and 3% in 2019/20 and 2020/21.
- Achieving the savings identified in the Efficiency Plan.
- Inflation assumptions as shown on Appendix H2.
- A 2% increase in the employers' firefighter pension contribution rate.
- An assumed £1m business rates rebate in 2020/21.

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

INFLATION ASSUMPTIONS

Pay Awards:		%
- Uniformed Staff		
	July 18	2.0
	July 19	2.0
	July 20	2.0
- Non-Uniformed Staff		
	April 18	2.0
	April 19	2.0
	April 20	2.0
General Prices:		
	April 18	3.0
	April 19	3.0
	April 20	3.0
Pensions Increase Order:		
	April 18	3.0
	April 19	2.2
	April 20	2.0
Residential Rents:		
	April 18	3.9
	April 19	3.0
	April 20	3.0

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

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)
Employers Firefighters Pension Contribution	£430k	
Interest payable	£368k	
Non-uniformed pay award	£140k	
General inflation	£100k	
Energy costs	£10k	
Fuel	£5k	

Income

Core Funding	£530k
Council Tax	£413k
Interest receivable	£500k

APPENDIX H4

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

PROGRESS AGAINST THE EFFICIENCY PLAN

Efficiency Plan Saving Forecast 2016/17 – 2019/20

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Staffing	2.1	1.3	0.4	0.2	4.0
Alternative Funding	0.2	0.8	1.0	-	2.0
Internal Restructures	0.4	0.6	-	-	1.0
Service Reductions	1.0	-	-	-	1.0
Council Tax Base	0.9	0.4	0.4	0.3	2.0
TOTAL	4.6	3.1	1.8	0.5	10.0

Actual Saving Achieved 2016/17 & Estimate for 2017/18 – 2019/20

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Staffing	1.3	1.3	0.5	0.9	4.0
Alternative Funding	0.2	0.3	0.5	1.0	2.0
Internal Restructures	0.5	0.3	0.1	0.1	1.0
Service Reductions	0.9	0.3	-	-	1.2
Council Tax Base	0.9	0.7	0.7	0.6	2.9
TOTAL	3.8	2.9	1.8	2.6	11.1

WEST MIDLANDS FIRE AND RESCUE AUTHORITY**SCENARIO ANALYSIS**

At this stage the four year settlement by CLG is considered to be a reasonable basis to formulate medium term financial planning (2018/19 and 2019/20), with a further 2% reduction to core funding being assumed for 2020/21. 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	54,703,000	-6.8%	-3,962,000
2018/19	53,030,000	-3.1%	-1,673,000
2019/20	52,024,000	-1.9%	-1,006,000
2020/21	50,984,000	-2.0%	-1,040,000

Further 1% Core Funding Reduction in 2019/20 and 2020/21

Financial Year	£ Core Funding	% Reduction	£ Reduction
2018/19	53,030,000		
2019/20	51,494,000	-2.9%	-1,536,000
2020/21	49,949,000	-3.0%	-1,545,000

Further 2% Core Funding Reduction in 2019/20 and 2020/21

Financial Year	£ Core Funding	% Reduction	£ Reduction
2018/19	53,030,000		
2019/20	50,963,000	-3.9%	-2,067,000
2020/21	48,924,000	-4.0%	-2,039,000

Should the core funding reductions in 2019/20 to 2020/21 be 1% lower than currently indicated, the table below shows the impact of the reductions.

Financial Year	£ Core Funding	% Reduction	£ Reduction
2018/19	53,030,000		
2019/20	52,554,000	-0.9%	-476,000
2020/21	52,028,000	-1.0%	-526,000

APPENDIX J1

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

RESERVES AS AT 31 MARCH 2017

Earmarked Reserves	£000s
Capital Projects	23,614
Insurance	7,304
Project Management/Support	6,230
System Enhancements/Upgrades	2,259
Station Works	1,209
New Dimensions	824
Training & Development	636
Partnership Working	615
Firefighting and Rescue Equipment	522
Office Equipment/Furniture	349
Fire Prevention & Education	172
Total	43,734

General Reserve (9.7% of overall 2017/18 net revenue budget)	9,236
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APPENDIX J2**WEST MIDLANDS FIRE AND RESCUE AUTHORITY****RESERVES STRATEGY**

Earmarked Reserves	31.3.17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s	Balance £000
Capital Projects	23,614	-4,676	-12,799	-3,235	-2,904	0
Insurance	7,304	-	-	-	-	7,304
Project Management/ Support	6,230	-621	-2,600	-2,550	-400	59
System Enhancements/ Upgrades	2,259	-1,168	-1,091	-	-	0
Station Works	1,209	-130	-162	-100	-382	435
New Dimensions	824	-155	-200	-200	-200	69
Training & Development	636	-169	-150	-150	-150	17
Partnership Working	615	-240	-100	-100	-100	75
Firefighting & Rescue Equipment	522	-368	-100	-54	-	0
Office Equipment/Furniture	349	-223	-100	-26	-	0
Fire Prevention & Education	172	-113	-59	-	-	0
National Fire Chiefs Council	0	250	-	-	-	250
Total	43,734	-7,613	-17,361	-6,415	-4,136	8,209

General Balances	9,236	-850	-1,500	-1,100	-750	5,036
% Net Revenue Budget	9.7%	8.8%	7.2%	5.9%	5.1%	