WEST MIDLANDS FIRE AND RESCUE AUTHORITY

16 FEBRUARY 2015

1. BUDGET AND PRECEPT 2015/2016 AND BUDGET FORECAST 2016/2017 TO 2018/2019

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 2015/2016 of £98.538m which includes a Council Tax requirement of £36.211m, 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 2015/2016 to 2018/2019 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 2015/2016 to 2018/2019, 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 2015–2018 Plan.

3.2 The Chancellor of the Exchequer announced the Government's four year spending plans in the Comprehensive Spending Review (CSR) in October 2010. For Fire and Rescue Authorities it was indicated that there would be a reduction to its central grant funding of 25% over a four year period and that this would be 'back loaded' meaning that the largest proportion of the reduction would occur in years three and four. This Authority's grant reduction was 27% (£22m).

3.3 A budget presentation was made at the Policy Planning Seminar on 15 December 2014 which focused on the anticipated scale of Government grant reductions in future years.

3.4 A presentation was made to the District Leaders Group on 18 December 2014 which paid particular focus to the ongoing reductions to the Formula Grant resulting in increasing predicted budget deficits from 2016/17 onwards. This situation meant the possibility of degradation to the service and/or the option for a referendum would be issues requiring further consideration in future years.

3.5 On 18 December 2014, the Minister for Local Government announced the provisional settlement for 2015/16 at £61.943m, resulting in a grant reduction of £6.212m. This was £0.370m lower than the provisional figure previously provided. The Government also proposed a referendum threshold of 2% for any Local Authority increasing its Council Tax and the option for Local Authorities to accept a Council Tax Freeze Grant equivalent to a 1% Council Tax increase.

3.6 The figures below illustrate the differences in precept funding which arise over the period 2015/16 to 2018/19, assuming a Band D Council Tax increase of 1.99% in 2015/16 compared to the acceptance of the Council Tax Freeze grant. Both options assume that local council tax increases for 2016/17 onwards continue at 2% per annum.

	2015/16	2016/17	2017/18	2018/19
	£000s	£000s	£000s	£000s
Base Precept	35,506	35,506	36,216	36,940
Council Tax Freeze Grant 1%	355	326	301	276
2% Increase Band D Precept		710	724	739
	35,861	36,542	37,241	37,955
Base Precept	35,506	36,211	36,935	37,674
2% Increase Band D Precept (1.99% in 2015/16)	705	724	739	753
	36,211	36,935	37,674	38,427
Increase in Funding	**350**	**393**	**433**	**472**

3.7 On 4 February 2015, Communities and Local Government (CLG) confirmed the Authority's 2015/16 total grant figure, with no change to the grant figure announced in the provisional settlement resulting in total grant funding of £61.943m.

3.8 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.

3.9 During the financial year 2014/15 only extremely limited recruitment activity for some essential support staff has taken place. In addition, recruitment of 36 firefighters has taken place during the year to date. 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 there will be some level of Firefighter recruitment in 2015/16 though the uncertainty of funding levels in future years means that the situation will need to be closely monitored.

3.10 Details of the draft base budget are set out in Appendix A, together with revisions to the current year's budget (the 2015/16 budget is replicated for information in the Service Reporting Code of Practice format in Appendix C).

Business Rates Retention

3.11 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.

3.12 At the beginning of the scheme, Authorities with more business rates than their current spending made a tariff payment to the Government. Similarly, where Authorities have greater needs than their business rates income, they received a top up payment from the Government. The total sums of these payments will be equal to each other.

3.13 The levels of tariff and top up payments will remain fixed each year, but will increase in line with the Retail Price Index. The Government has indicated that this will not change until the system is reset and that this will not occur before 2020 at the earliest.

3.14 The main impact on this Authority is that a proportion of income previously paid by the Government is received directly from the 7 West Midlands Metropolitan Councils. Under the new funding 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 £9.7m.

Localisation of Council Tax Support Scheme

3.15 As part of the 2010 Spending Review, the Government announced its intention to localise support for Council Tax and to reduce expenditure on this benefit by 10% with effect from 1 April 2013. Each of the 7 West Midlands City/Metropolitan Councils have considered their local scheme proposals. Unlike the previous national system where demand pressure and cost variations of benefit payments for Council Tax were borne by the national tax payer, the local schemes now require that each of the West Midlands Councils, together with West Midlands Fire and Rescue Authority, as a major precepting Authority, will bear the cost of any increased benefit payments from 2013/14. The Authority needs to be mindful of the variable and volatile nature of this arrangement.

3.16 Making this reduction as part of the council tax system had the effect of reducing billing Authorities' council tax base. The impact on this Authority was a reduction in the 2013/14 council tax base of 169,306.72 which equated to approximately £8.2m of its precept. This reduction in funding was compensated by an equivalent increase in Formula Grant received from the Government. In 2013/14 this was identified as a separate funding element, however for 2014/15 onwards this has been merged as part of the overall formula funding allocation.

Update of 'The Plan'

3.17 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, strategic objectives and outcomes set out in The Plan 2015-2018 and as such there is no requirement for any associated consultation.

3.18 During 2014/15 a series of workshops were undertaken with Members, Principal Officers and Senior Managers to review and refresh the Authority's 'The Plan' for 2015-2018 and confirm the priorities, strategic objectives and outcomes.

3.19 '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 2015/2016**

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 659,147.75 (644,377.38 in 2014/15).

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 2015/16 would be £54.94, an increase of 1.99% (£1.07) per annum.

5. **FUNDING OF EXPENDITURE 2015/2016**

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

	£000
Formula Grant	61,943
Share of Collection Fund Surplus / (Deficit)	384
Council Tax (met by Districts)	36,211
Total Funding	98,538

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

6. **GENERAL BALANCES POSITION**

6.1 Based on the current forecast of net expenditure in 2014/15, the Authority's available General Balances at 1 April 2015 are estimated to be £9.2 million. At this level, the amount of General Balances would equate to approximately 9.3% of the Authority's 2015/16 budget.

6.2 This level of balances is considered appropriate at this stage due to the uncertainty and scale of government grant reductions in future years. 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 2015 will not be determined until the completion of the Authority's 2014/15 closedown of accounts process.

7. CAPITAL PROGRAMME

7.1 At the Authority meeting on 17 February 2014, 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
2015/2016	3.919
2016/2017	2.788
2017/2018	3.585
2018/2019	3.874

The full list of projects is shown on Appendix E.

7.3 A forecast of resources covering the period 2015/16 to 2018/19 is shown below.

	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m
Capital Receipts	-	-	175	1.908
Capital Grants	3.000	-	-	-
Revenue Funding	919	2.788	3.410	650
Total Capital Resources	3.919	2.788	3.585	2.558

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:

	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m
Projected Resources	3.919	2.788	3.585	2.558
Less: Commitments	3.919	2.788	3.585	3.874
Funding (Deficit)	-	-	-	(1.316)

7.5 The Government's 2013 Spending Round announced that £30 million resource funding would be made available to the fire sector for 2015 - 2017 to support transformation change. Also announced was a £45 million capital fire efficiency incentive fund to assist Fire and Rescue Authorities. The allocation was based on a competitive bidding process.

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7.6 The Authority submitted two capital bids (for Coventry and Aston Fire Stations); both were unsuccessful in being awarded any grant funding. Because of the need for investment in the Authority's key Fire Stations, proposals for Aston Fire Station, Coventry Fire Station and Wednesbury Fire Station will form the basis of separate reports to the Authority. Subject to approval, these proposals would represent new schemes within the Authority's Capital Programme.

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 2015/16 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 2015/2016 TO 2018/2019 BUDGET**

9.1 In preparing the draft revenue budget for 2015/16, an expenditure forecast for 2016/17 to 2018/19 has also been undertaken by 'rolling forward' the 2015/16 draft budget; updating for anticipated inflation and pay awards, adding in commitments, adjusting for anticipated staff turnover levels, setting broad efficiency targets, etc. The forecast does not allow for any essential developments and any other new requirements the Authority may need to respond to.

9.2 The Chancellor of the Exchequer announced in his Autumn Statement in December 2014 that reductions in public expenditure would continue although there were no details provided at that stage regarding which Government Departments would be affected and the scale of those reductions.

9.3 At this stage there is no certainty what level of grant reductions will apply to this Authority after 2015/16. However what is clear from the Chancellors December 2014 Autumn Statement is that Local Government funding levels will be cut further. Indicative public sector reductions to formula grant of 8% in 2016/17, 2017/18 and in 2018/19 are considered to be a reasonable basis to formulate medium term financial planning.

Estimated position assuming National Grant Reduction (with a Band D 2015/16 Council Tax increase of 1.99% and 2% thereafter)

	2016/17 £m	2017/18 £m	2018/19 £m
Estimated Grant Reduction (%)	8.0%	8.0%	8.0%
Grant	56.988	52.429	48.235
Council Tax	36.935	37.674	38.427
Available Resources	93.923	90.103	86.662
Estimated Budget Requirement	97.400	97.100	97.000
Surplus / (Deficit)	(3.477)	(6.997)	(10.338)

9.4 In recognition of the estimated budget deficit in 2016/17 and subsequent years work has been undertaken to identify further saving that could produce efficiency savings. At this stage it is anticipated that work will focus on changes to operational staffing arrangements and ongoing collaborative opportunities.

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

10. <u>ROBUSTNESS OF THE BUDGET PREPARATION AND ADEQUACY OF RESERVES</u>

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 2014/15 is forecast to be £9.2m and this is approximately 9% of the net budget requirement. This level of balances is considered appropriate at this stage due to the uncertainty and scale of government grant 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 2013/14 closedown exercise. A review of these reserves will be undertaken as part of the Authority's 2014/15 closedown of accounts process.

Based on known circumstances and financial risk assessment, it is felt that adequate earmarked reserves and provisions have been created to meet legal and expected liabilities. As at 31 March 2014 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 2015 as part of the Authority's closedown of accounts process.

10.6 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.

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

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

11. EQUALITY AND DIVERSITY IMPLICATIONS

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

12. LEGAL IMPLICATIONS

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

BACKGROUND PAPERS

CLG Communications
Policy Planning Forum 15 December 2014
District Leaders' Meeting 18 December 2014
Policy Planning Forum 2 February 2015
The Plan 2015–2018

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

PHIL LOACH
CHIEF FIRE OFFICER

MIKE GRIFFITHS

APPENDIX A

SUMMARY OF 2014/2015 REVISED BUDGET AND 2015/2016 BUDGET

	Original Budget 2014/15 £000s	Revised Budget 2014/15 £000s	Original Budget 2015/16 £000s
Expenditure			
Employees	87,811	85,613	85,570
Premises	5,953	5,835	5,810
Transport	1,768	1,632	1,593
Supplies & Services	6,807	7,458	7,159
Capital Financing	9,794	9,962	3,057
Appropriations to Reserves	250	3,738	150
Total Expenditure	112,383	114,238	103,339
Income			
Settlement Funding (Formula Grant)	(68,155)	(68,155)	(61,943)
Capital Grant	(5,776)	(5,776)	0
Other Government Grant	(1,577)	(1,808)	(1,605)
Income from Services	(1,647)	(2,956)	(2,830)
Collection Fund Surplus / (Deficit)	(152)	(152)	(384)
Appropriations from Reserves	(366)	(681)	(366)
Total Income	(77,673)	(79,528)	(67,128)
COUNCIL TAX REQUIREMENT	**34,710**	**34,710**	**36,211**
Collection Fund Surplus / (Deficit)	152	152	384
Formula Grant	68,155	68,155	61,943
NET BUDGET REQUIREMENT	**103,017**	**103,017**	**98,538**

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 2015/2016 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	234,089.00
Coventry	74,296.20
Dudley	85,902.74
Sandwell	68,103.35
Solihull	72,505.00
Walsall	65,147.51
Wolverhampton	59,103.95
	659,147.75

1.2 THAT the following amounts be now calculated by the Authority for the year 2015/2016 in accordance with Sections 40 to 48 of the Local Government Finance Act 1992:

1.2.1	£103,339,270	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	£67,128,000	being the aggregate of the amounts which the Authority estimates for the items set out in Section 42A(3)(a) to (b) of the Act.
1.2.3	£36,211,270	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	£54.94	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	36.624333	36.62
B	42.728388	42.73
C	48.832444	48.83
D	54.936499	54.94
E	67.144610	67.14
F	79.352721	79.35
G	91.560832	91.56
H	109.872999	109.87

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	12,860,030
Coventry City Council	4,081,573
Dudley MBC	4,719,196
Sandwell MBC	3,741,360
Solihull MBC	3,983,171
Walsall MBC	3,578,976
Wolverhampton City Council	3,246,964
Total	36,211,270

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

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

APPENDIX C

SUMMARY OF 2015/2016 BUDGET – SERVICE ANALYSIS

	1.99% Precept Increase
	£000s
Firefighting & Rescue Operations	100,986
Community Safety	13,074
Corporate and Democratic Core	1,500
Emergency Planning & Civil Defence	168
COST OF SERVICES	115,728
Appropriations and Interest	(17,096)
Government Grant – Section 31	(478)
Settlement Funding (Formula Grant)	(61,943)
COUNCIL TAX REQUIREMENT	**36,211**

APPENDIX D

SERVICE INCOME BUDGETS 2014/15 AND 2015/16

	Budget 2014/15 £000s	Budget 2015/16 £000s
Fees and Charges:		
- Fire Control & Contact Centre	1,060	1,114
- Training	410	327
- ICT	103	102
- Mutual Assistance	100	100
- Fire Engineering	-	75
- Special Services	95	20
- Room Hire	67	51
- Other	301	300
Sales	206	177
Rents - Property	260	245
Interest	300	265
Other Income	54	54
TOTAL SERVICE INCOME	**2,956**	**2,830**

CAPITAL PROGRAMME 2015/2016 TO 2018/2019

Scheme		Project Year In 2015/16	2015/16	2016/17	2017/18	2018/19
			£000s	£000s	£000s	£000s
COMMITTED SCHEMES						
	Haden Cross Fire Station	3 of 3	50	-	-	-
	Drill Towers/Training Facilities Upgrades	10 of 10	130	-	-	-
	Boiler Replacement Programme	Ongoing	229	154	235	211
	Roof Replacements	Ongoing	108	132	229	259
	Windows and Door Replacements	Ongoing	124	226	196	331
	Rewires	Ongoing	55	10	95	573
	Vehicle Replacement Programme	Ongoing	2,865	2,266	2,830	2,500
	MDT Upgrades / Replacements	2 of 2	268	-	-	-
	Dignity at Work	2 of 2	90	-	-	-
GRAND TOTAL			**3,919**	**2,788**	**3,585**	**3,874**
RESOURCES AVAILABLE						
	Supported Capital Expenditure		-	-	-	-
	Prudential Borrowing		-	-	-	-
	Capital Receipts		-	-	175	1,908
	Capital Grants		3,000	-	-	-
	Earmarked Reserves/DRF		919	2,788	3,410	650
SURPLUS/(DEFICIT)			**-**	**-**	**-**	**(1,316)**

Note: The above commitments exclude any provision for Fire Station investment.

TREASURY MANAGEMENT STRATEGY 2015/2016

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 2015/16

The strategy for 2015/16 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 2014/15 – 2018/19

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators:

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

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

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR, details are provided in Appendix G.

Minimum Revenue Provision Statement

The Authority is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG Regulations have been issued which require the full Authority to approve an MRP Statement in advance of each year. A variety of options are provided to Authorities, so long as there is a prudent provision. The Authority is recommended to approve the following MRP Statement

For 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 current policy

(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 2015/16 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	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£45m	£44m	£43m	£42m	£41m

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	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£49m	£48m	£47m	£46m	£45m

3.3 Prospects for Interest Rates

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

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2015	0.50	2.20	3.40	3.40
Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
Mar 2018	2.00	3.60	4.80	4.80

UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Greece: the general election on 25 January 2015 bought into power a political party, Syriza, which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strenthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify;

- As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014 and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2015/16 and beyond;

- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ government debt) in early 2015. 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 later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing Strategy

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high. Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 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:

	2014/15	2015/16	2016/17
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 2014/15			
		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 2014/15			
		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 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Authority's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Authority 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 Sector ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Further, the Authority's and Sandwell MBC's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Authority and Sandwell MBC will engage with its advisors to monitor the market.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable 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.

The minimum rating criteria uses the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Authority's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Authority's criteria, the other does not, the institution will fall outside the lending criteria. Credit rating information is supplied by Capita Asset Services, Sandwell MBC's treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to 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
iii. Viability/financial strength – C (Fitch/Moody's only)
iv. Support – 3 (Fitch only)

- Banks 2 – Part nationalised UK banks – Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- Banks 3 – The Authority's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Building societies The Authority will use all Societies which meet the ratings for banks outlined above.
- Money Market Funds – AAA rated
- UK Government (including gilts and the 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 4 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2015/16 0.75%
- 2016/17 1.25%
- 2017/18 2.00%

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	**2012/13**	**2013/14**	**2014/15**
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 2015 – 2018

Capita Asset Services Interest Rate View							
	Mar-15	Sep-15	Mar-16	Sep-16	Mar-17	Sep-17	Mar-18
Capita Asset Service's Bank Rate View	0.50%	0.50%	0.75%	1.00%	1.25%	1.75%	2.00%
3 Month LIBID	0.50%	0.60%	0.90%	1.10%	1.40%	1.80%	2.10%
6 Month LIBID	0.70%	0.80%	1.10%	1.30%	1.60%	2.00%	2.30%
12 Month LIBID	0.90%	1.10%	1.40%	1.60%	1.90%	2.30%	2.60%
Bank Rate							
Capita Asset Service's View	0.50%	0.50%	0.75%	1.00%	1.25%	1.75%	2.00%
Capital Economics	0.50%	0.75%	1.00%	1.25%	-	-	-
5 yr PWLB Rate							
Capita Asset Service's View	2.20%	2.30%	2.60%	2.90%	3.20%	3.40%	3.60%
Capital Economics	2.20%	2.70%	3.10%	3.30%	-	-	-
10 yr PWLB Rate							
Capita Asset Service's View	2.80%	3.00%	3.30%	3.60%	3.80%	4.00%	4.20%
Capital Economics	2.80%	3.30%	3.60%	3.70%	-	-	-
25 yr PWLB Rate							
Capita Asset Service's View	3.40%	3.70%	4.00%	4.30%	4.50%	4.70%	4.80%
Capital Economics	3.25%	3.65%	3.95%	4.15%	-	-	-
50 yr PWLB Rate							
Capita Asset Service's View	3.40%	3.70%	4.00%	4.30%	4.50%	4.70%	4.80%
Capital Economics	3.40%	3.70%	4.00%	4.20%	-		-

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

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

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

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

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

The investment policy proposed for the Authority is:

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

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

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

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

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

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

	Non Specified Investment Category	Limit (£ or %)
a	**Supranational Bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	30% AAA long term ratings
b	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	30%
c	The Authority's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	20%
d	**Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a 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 2013/14 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

Capital Expenditure					
2013/14 £000 Actual	**2014/15 £000 Estimate**	**2015/16 £000 Estimate**	**2016/17 £000 Estimate**	**2017/18 £000 Estimate**	**2018/19 £000 Estimate**
5,096	4,860	3,919	2,788	3,585	3,874

2. Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2013/14 are:

Ratio of Financing Costs to Net Revenue Stream					
2013/14 % Actual	**2014/15 % Estimate**	**2015/16 % Estimate**	**2016/17 % Estimate**	**2017/18 % Estimate**	**2018/19 % Estimate**
5.65	3.63	2.82	2.94	3.00	3.08

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 2014 are:

Capital Financing Requirement					
31/03/14 £000 Actual	31/03/15 £000 Estimate	31/03/16 £000 Estimate	31/03/17 £000 Estimate	31/03/18 £000 Estimate	31/03/19 £000 Estimate
41,870	40,211	39,508	38,765	37,979	37,145

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 2013/14, 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					
2013/14 £000	**2014/15 £000**	**2015/16 £000**	**2016/17 £000**	**2017/18 £000**	**2018/19 £000**
51,000	49,000	48,000	47,000	46,000	45,000

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					
2013/14 £000	**2014/15 £000**	**2015/16 £000**	**2016/17 £000**	**2017/18 £000**	**2018/19 £000**
47,000	45,000	44,000	43,000	42,000	41,000

10. The Authority's actual borrowing at 31 March 2014 was £41.8m. 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 2014/15 (see paragraph 7 above) will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

APPENDIX H

SCENARIO ANALYSIS

The CSR announcement on the 20th October 2010 indicated that there would be a 25% reduction in grant funding for the National Fire Service over the 4 years of the CSR period (2011/12 to 2014/15) and that this reduction would be rear loaded.

The impact of the finance settlement for 2011/12 to 2014/15 and the finance settlement for 2015/16 announced on 4 February 2015 for this Authority is shown in the tables below:

Finance Settlement for 2011/12 to 2014/15

Financial Year	Actual Formula Grant £	% Reduction	£ Reduction
2010/11	80,813,000		
2011/12	73,136,000	-9.50%	-7,677,000
2012/13	70,649,000	-3.40%	-2,487,000
2013/14	64,638,000	-8.51%	-6,011,000
2014/15 *	59,032,000	-8.67%	-5,606,000

* Total Formula Grant for 2014/15 is £68.155m. This now includes the 2013/14 Council Tax Support Funding of £8.166m and the 2011/12 Council Tax Freeze Grant of £0.957m (previously identified as separate elements). In 2013/14 total funding of £73.762 was received and therefore the reduction for 2014/15 equates to 7.6%.

Finance Settlement for 2014/15 to 2015/16

Financial Year	Actual Formula Grant £	% Reduction	£ Reduction
2014/15	68,155,000		
2015/16	61,943,000	-9.11%	-6,212,000

At this stage it is not possible to confirm the level of grant reductions which will apply to this Authority for 2016/17 and thereafter. However what is clear from the Chancellor's December 2014 Autumn Statement is that Local Government funding levels will be cut further. Indicative public sector reductions to formula grant of 8% in 2016/17, 2017/18 and 2018/19 are considered to be a reasonable basis to formulate medium term financial planning. Furthermore, the impact of a further 1% or 2% reduction to the formula grant is shown in the following tables.

Grant Reduction

Financial Year	Formula Grant £	% Reduction	£ Reduction
2014/15	68,155,000		
2015/16	61,943,000	-9.11%	-6,212,000
2016/17	56,988,000	-8.00%	-4,955,000
2017/18	52,429,000	-8.00%	-4,559,000
2018/19	48,235,000	-8.00%	-4,194,000

Further 1% Grant Reduction in 2016/17 to 2018/19

Financial Year	Formula Grant £	% Reduction	£ Reduction
2015/16	61,943,000		
2016/17	56,368,000	-9.00%	-5,575,000
2017/18	51,295,000	-9.00%	-5,073,000
2018/19	46,678,000	-9.00%	-4,617,000

Further 2% Grant Reduction in 2016/17 to 2018/19

Financial Year	Formula Grant £	% Reduction	£ Reduction
2015/16	61,943,000		
2016/17	55,749,000	-10.00%	-6,194,000
2017/18	50,174,000	-10.00%	-5,575,000
2018/19	45,157,000	-10.00%	-5,017,000

There is no firm indication of the scale and phasing of any further reductions in future years. This makes long term planning for the service extremely difficult and uncertain because there are so many different funding scenarios that could emerge.
However, should the grant reductions in 2016/17 to 2018/19 be1.5% lower than currently forecast, the table below shows the impact of the reductions which would assist with balancing the indicated future year's budget deficits shown in paragraph 9.3.

Financial Year	Formula Grant £	% Reduction	£ Reduction
2015/16	61,943,000		
2016/17	57,917,000	-6.50%	-4,026,000
2017/18	54,152,000	-6.50%	-3,765,000
2018/19	50,632,000	-6.50%	-3,520,000

Should the assumed scenarios for a further 1% or 2% grant reduction be applied to the forecast deficit identified in paragraph 9.3, the following tables highlight the shortfall in estimated resources.

Financial Year	Budget Shortfall Paragraph 9.3 £	Further 1% Grant Reduction £	Total Shortfall £
2016/17	-3,500,000	-620,000	-4,120,000
2017/18	-7,000,000	-1,134,000	-8,134,000
2018/19	-10,300,000	-1,557,000	-11,857,000

Financial Year	Budget Shortfall Paragraph 9.3 £	Further 2% Grant Reduction £	Total Shortfall £
2016/17	-3,500,000	-1,239,000	-4,739,000
2017/18	-7,000,000	-2,255,000	-9,255,000
2018/19	-10,300,000	-3,078,000	-13,378,000

However should the grant reductions in 2016/17 to 2018/19 be 1.5% lower than applied to the forecast deficit identified in paragraph 9.3, the following table effectively highlights there would still be a significant shortfall.

Financial Year	Budget Shortfall Paragraph 9.3 £	1.5% Lower Grant Reduction £	Total Shortfall £
2016/17	-3,500,000	929,000	-2,571,000
2017/18	-7,000,000	1,723,000	-5,277,000
2018/19	-10,300,000	2,397,000	-7,903,000

APPENDIX I1

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

NET EXPENDITURE BUDGET FORECAST 2016/2017 TO 2018/2019

	Budget 2016/17	Budget 2017/18	Budget 2018/19
Subjective Heading	**£000s**	**£000s**	**£000s**
Employees	85,000	84,500	84,200
Premises	5,600	5,700	5,800
Transport	1,600	1,600	1,700
Supplies & Services	7,100	7,100	7,100
Capital Financing	3,000	2,900	2,900
Income	(4,900)	(4,700)	(4,700)
NET EXPENDITURE	97,400	97,100	97,000
Available Funding	93,900	90,100	86,700
(Deficit)	(3,500)	(7,000)	(10,300)

Note

Budget forecast for 2016/17 to 2018/19 assume:

- inflation assumptions as shown on Appendix I2.
- a Council Tax increase of 2% in each year.

APPENDIX I2

INFLATION ASSUMPTIONS

Pay Awards:		%
- Uniformed Staff		
	July 15	1.0
	July 16	1.0
	July 17	1.0
	July 18	1.0
- Non-Uniformed Staff		
	April 15	1.2
	April 16	1.0
	April 17	1.0
	April 18	1.0
General Prices:		
	April 15	1.0
	April 16	1.0
	April 17	1.0
	April 18	1.0
Pensions Increase Order:		
	April 15	1.2
	April 16	2.0
	April 17	2.0
	April 18	2.0
Residential Rents:		
	April 15	2.4
	April 16	2.0
	April 17	2.0
	April 18	2.0

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	£670k	(£500k part year)
Non-uniformed pay award	£120k	
Employers Firefighters Pension Contribution	£500k	
Interest payable	£374k	
General inflation	£100k	
Energy costs	£11k	
Fuel	£7k	

Income

Government Grant	£619k
Council Tax	£362k
Interest receivable	£600k

APPENDIX J

RESERVES AS AT 31 MARCH 2014

Earmarked	£000s
Capital Works	16,958
Insurance	6,807
Project Management/Support	2,174
Training & Development	1,264
New Dimensions	690
Partnership Working	604
Carbon Reduction / Environmental Issues	600
Firefighting and Rescue Equipment	540
Station Works	438
System Enhancements/Upgrades	330
Fire Prevention & Education	114
Office Equipment/Furniture	101
Legal Fees Contingency	30
Total	**30,650**

General (8.9% of overall 2014/15 budget)	**9,215**