

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

15 FEBRUARY 2021

1. BUDGET AND PRECEPT 2021/2022 AND BUDGET FORECAST 2022/2023 TO 2023/2024

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 2021/2022 of £101.749 million which includes a Council Tax requirement of £45.038 million, 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 2021/2022 to 2023/2024 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 2021/2022 to 2023/2024 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 contained in the 3 Year Strategy 2021-24 and Annual Plan 2021-22 .
- 3.2 On 21 October 2020, the Treasury confirmed the decision of the Chancellor and Prime Minister that the Comprehensive Spending Review would only set departmental budgets for 2021/22 rather than the anticipated next three or four years, due to the economic disruption caused by COVID-19. Given the uncertainty created by the convergence of COVID-19 and Brexit, it was understandable why the Government opted for a one-year spending round. However, this does not remove the fundamental principle that multi-year settlements are a more effective way of managing resources, aligned to longer term planning. Furthermore, the Government's emergency COVID-19 measures will eventually need to be accounted for. This consideration has been reflected at Policy Planning forums since October 2020 with a recognition of potential funding reductions that could impact the Authority from 2022/23 onwards.
- 3.3 As part of the Chancellor's Spending Review announcement on 25 November 2020, it was indicated that there would be a pay 'pause' in 2021 for public sector workers, other than the NHS and employees on lower wages.
- 3.4 The Fire Authority's provisional budget position was presented at the District Leaders meeting on 16 December 2020. The District Leaders were supportive of the Fire Service and specifically indicated they would support more flexibility in the Council Tax Referendum limits which applied to the Fire Service so that Council Tax for Band D properties could be increased by £5 rather than the anticipated 2% referendum limit.
- 3.5 On 17 December 2020, the Secretary of State for Ministry of Housing, Communities and Local Government (MHCLG) announced the provisional settlement for 2021/22 at £53.002m, resulting in a core funding increase of £0.106m (0.2%). The Government also proposed a Council Tax referendum threshold of 2% for Fire and Rescue Authorities.
- 3.6 Fire Authority Members received an overview of the provisional 2021/22 finance settlement, together with an indication that there was likely to be a reduction in the Council Tax base and a collection rate deficit in the current year as part of the Policy Planning Forum on 11 January 2021.
- 3.7 On 4 February 2021, MHCLG confirmed the Authority's 2021/22 total core funding.

- 3.8 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 The funding settlement is a one year only arrangement. Whilst there have been indications that some public sector services may receive growth when the anticipated Comprehensive Spending Review process is clarified (circa October/November 2021), potentially for a three year funding settlement period, some Services, including the Fire Service, are anticipating reductions to core funding.
- 3.10 Potential funding reductions have been highlighted at recent Policy Planning Forums and that if reductions of the scale indicated in Appendix I (a 5% year on year illustrative reduction but with a recognition reductions could be at a higher level) were to materialise, there would be a need to make compensating Service savings in order to achieve a balanced budget position. Because of the chronic impact of the reductions made to support services during the austerity period from 2010/2011, rather than protect the 'front line' as far as possible, there will be a need to identify transformation/efficiency savings from service delivery areas.
- 3.11 In addition, there are ongoing budget uncertainties, particularly Firefighter pension related issues, that have significant funding implications but at this stage still remain unclear in terms of ongoing cost and whether those costs will need to be found by Fire and Rescue Authorities and/or by Government funding.
- 3.12 Therefore, whilst the Government funding allocation in 2021/22 is marginally higher in cash terms compared to 2020/21, a high level of caution still needs to be applied to future financial years as the funding position remains volatile for the Fire sector, not least because of anticipated reductions in Government funding allocations from 2022/23 onwards.
- 3.13 As part of the proposed 2021/22 budget arrangements, the ongoing flexible appliance availability process will be required with a target saving of £3.8M.

3.14 Details of the proposed 2021/22 budget are set out in Appendix A, together with revisions to the current year's budget (the 2021/22 budget is replicated for information in the management reporting format in Appendix C).

Business Rates Retention

3.15 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.

3.16 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.

3.17 The Chancellor announced in the Spending Review in November 2015 the intention to localise 100% of business rates to local authorities by 2019/20. However, this intention was modified in an announcement by the Secretary of State for MHCLG as part of the provisional settlement for 2019/20, indicating the Government's aim was to increase the local share of business rates retention to 75% from 2020/21 in a way that was fiscally neutral and ensured local councils would have the levers and incentives they needed to grow their local economies.

3.18 In September 2019, the Secretary of State for MHCLG announced that the implementation of changes to local government funding including business rates retention had been postponed. Authorities were notified that in order to provide certainty and stability for 2020/21, there would be a delay to the introduction of the scheme until 2021/22, a year later than planned. These plans have subsequently been deferred again, until at least 2022/23.

Fair Funding Review

- 3.19 The Fair Funding Review will affect how funding is allocated and redistributed between local authorities and would set new funding baselines for every Fire and Rescue Authority. It will not consider the overall quantum of funding available for the Fire Sector (which is a matter for the Spending Review) but will determine the relative share received by each individual Fire and Rescue Authority from the total Fire Service funding received from Central Government.
- 3.20 The initial review identified a strong rationale for retaining a separate funding formula for Fire and Rescue Services in the needs assessment and the Government provisionally identified the cost drivers with the greatest impact for Fire and Rescue Services spending as follows:
- total population,
 - deprivation, and
 - proportion of residents aged 65 and over
- 3.21 The Government did not produce any 'exemplifications' of what the impact might be for each individual Fire and Rescue Authority but did indicate there could potentially be significant changes compared to the current funding shares. If the Government were minded to minimise the change in sector funding shares, an option is to update the existing Fire funding formula as far as possible. This would involve updating the indicators in the current funding formula (where possible) and keeping the original weightings as well as the supplementary top-ups.
- 3.22 Further work is required to identify an appropriate approach to develop the new funding formula for the Fire Service. The Government has indicated it will sense-check the results of any analysis with experts in the sector, including the National Fire Chiefs Council. Subject to the outcome from consultations and additional analytical work, the Government will form a view on the best approach. It was originally proposed that the new arrangements would be introduced from 2021/22 but this has now been deferred until at least 2022/23. However, this review adds another complexity and volatility to long term financial planning.

Update 3 Year Strategy 2021-24 and Annual Plan 2021-22

- 3.23 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.
- 3.24 The Authority consulted the public in 2020. This provides the opportunity for the public to influence the way the Service works. The Community Safety Strategy (the Community 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 risk based attendance standard for the most serious emergencies.
- 3.25 The "3 Year Strategy 2021-24 and Annual Plan 2021-22" sets the Authority's strategic direction for the next three years and defines those outcomes, priorities and strategic objectives, for the first year, which are to be provided with the available resources in 2021/22 and forecasted reductions in future years.

Firefighters' Pension Scheme – Employers' Contributions

- 3.26 HM Treasury announced changes to the discount rate for unfunded public sector pensions on 6 September 2018. This, combined with the earlier 2016 Budget announcement, resulted in a reduction to the discount rate from 3% to 2.4%, and had the effect of increasing the employer contributions (to include ill-health costs) from an average 17.6% to 30.2% from April 2019.
- 3.27 The Government Actuary's Department estimated that the additional cost to the Fire sector would be around £125m per annum. However, HM Treasury provided additional funding in 2019/20 in order to mitigate most of this increase, with the sector paying only the additional costs announced at the Budget 2016 (a reduction in the discount rate from 3% to 2.8%). This meant that the Fire sector paid approximately £10m of the additional costs in 2019/20, with the remaining £115m being provided via a grant under the s31 Local Government Act 2003.

3.28 For this Authority the increase in the 2019/20 Employer's Pension contributions was estimated to be £6.2m. A s31 government grant of £5.7m was allocated in 2019/20 and 2020/21. An equivalent level of grant has been allocated for 2021/22.

Firefighters' Pension Scheme – Court of Appeal Judgement

3.29 On 20 December 2018, the Court of Appeal handed down the judgement in the Firefighters' transitional appeals case, finding that the transitional protections introduced with the new Pension scheme in 2015 were unlawfully discriminatory on grounds of age.

3.30 The decision relates only to the transitional protection arrangements in the 2015 firefighters' pension scheme that applied to members of the 1992 Firefighters' Pension scheme and whether these are discriminatory. It does not address the introduction of that scheme itself by the primary legislation of the Public Service Pensions Act 2013.

3.31 On 18th December 2019 the Employment Tribunal issued an interim Order which provided claimants with a right to be treated as if they had met the criteria for full protection under the scheme rules. Following the Publication of this Order the Government made a written statement and launched a Consultation on removing the discrimination from all Public Service Pension Schemes. The consultation closed on 11th October 2020 and the Governments response was published on 4th February 2021.

3.32 The response proposes that scheme members with benefits in the legacy schemes, those that existed before 1st April 2015, should have the opportunity to have their benefits calculated as if their membership of those schemes had continued until 31st March 2022. From 1st April 2022 all employees will be moved into the reformed pension scheme. In the case of Firefighters this will be the 2015 Firefighters Pension scheme. As each individual member will be able to select from a choice of benefits, each of which will have a different rate of employer contributions, the exact impact on the scheme as a whole is difficult to accurately forecast, though previous estimates have considered a potential figure of £1.5M per annum.

3.33 As the response has only been published recently it has not yet been possible to fully evaluate the impact of the proposed changes. As a result, for the purpose of setting the 2021/22 and medium-term budget requirements, pension budgets have been calculated based on the current regulations.

COVID-19 Funding for Local Government in 2021/22

3.34 The Government published details of the Local Government COVID-19 Support Package for 2021/22 by announcing allocations for Local Authorities on the £1.55 billion of additional unringfenced funding, following up on the commitments made in the 2020 Spending Review.

3.35 Council Tax Support Funding

The 2020 Spending Review announced £670 million of funding to enable local authorities to continue reducing council tax bills for those least able to pay, including households financially hard-hit by the pandemic. Indicative allocations were announced on 11 January 2021 which confirmed the Authority's allocation of £1.418 million. This will be offset by increased costs incurred by the West Midlands Local Authorities of providing local council tax support.

3.36 Collection Fund Irrecoverable Losses

The 2020 Spending Review also announced funding worth an estimated £800 million, whereby the Government will compensate Local Authorities for 75% of irrecoverable losses in council tax and business rates income in respect of 2020/21. At the time of publishing this report, provisional allocations have not been announced.

3.37 Sales Fees and Charges Scheme

The Government has proposed a continuation of the scheme that is currently in operation in 2020/21, for the first 3 months of the 2021/22 financial year.

3.38 COVID-19 Grants

During 2020/21, the Authority received two separate Covid-19 related funding allocations amounting to £2.786 million. No further allocations have been indicated at this stage.

4. **PRECEPT 2021/2022**

- 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 714,480.38 (719,757.23 in 2020/21). The Council Tax base has reduced by 0.73% which for the Authority is a reduction to its funding of approx. £330k.
- 4.3 In addition, the District Councils have also confirmed their Council Tax surplus/deficits which has resulted in an overall deficit for the Authority of £610k. However, the Government announced that they would amend secondary legislation to allow Authorities to spread the estimated deficit on the 2020/21 Collection Fund over the three years 2021/22 to 2023/24, following concerns that spending on local services could be significantly curtailed and/or Authorities' financial viability put at risk in 2021/22. For this Authority, the spread of the deficit is £272k in 2021/22, £169k in 2022/23 and £169k in 2023/24.
- 4.4 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.
- 4.5 The Council Tax at Band D for 2021/22 would be £63.04, an increase of 1.99% (£1.23) per annum.

5. **FUNDING OF EXPENDITURE 2021/2022**

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

	£000
Core Funding	53,002
Section 31 Grant	2,563
Local Council Tax Support Grant	1,418
Share of Collection Fund Surplus/(Deficit)	(272)
Council Tax	45,038
Net Revenue Budget	101,749

In addition to external funding, it is estimated that the Authority will generate income of £2.969m (£3.243m in 2020/21) (Appendix D). The 2021/22 budget does not assume the use of any general balances.

6. **GENERAL BALANCES STRATEGY**

- 6.1 Based on the current forecast of net expenditure in 2020/2021, the Authority's General Balances at 1 April 2021 would be approximately £6 million. At this level, the amount of General Balances would equate to approximately 6% of the Authority's 2021/2022 Net Revenue Budget. The actual level of General Balances at 1 April 2021 will not be determined until the completion of the Authority's 2020/21 closedown of accounts process.
- 6.2 As part of considering the Authority's 2021/22 budget, following notification of the core funding settlement, the overall funding does not require the use of General Balances to support the Net Revenue Budget requirement. This would therefore result in the Authority's available General Balances remaining at approximately £6 million by the end of 2021/2022 (6% of the Authority's 2021/2022 Net Revenue Budget).
- 6.3 The funding settlement for 2021/22 is a one year only arrangement. There is no clarity over funding levels, nationally and/or locally, after that date. This hampers meaningful financial planning at a time when central government grant funding is the lowest it has been for decades and demand pressures are increasing.
- 6.4 Additional potential budget pressures, e.g. anticipated increases in firefighter pension employer rates, further anticipated Government funding reductions from 2022/23 onwards and a lack of any direct capital and transformation funding being available, means that the estimated level of General Balances of approximately £6m million by the end of 2021/22 is considered appropriate given the issues highlighted.

7. CAPITAL PROGRAMME

7.1 At the Authority meeting on 17 February 2020, 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
2021/2022	7.763
2022/2023	3.109
2023/2024	4.021

The full list of projects is shown on Appendix E.

7.3 A forecast of resources covering the period 2021/22 to 2023/2024 is shown below:

7.4 The table below compares the expenditure on those projects within the capital programme which are committed against a forecast of projected resources for the period 2021/22 to 2023/2024.

	2021/22 £m	2022/23 £m	2023/24 £m
Capital Receipts	-	-	2.249
Capital Grants	-	-	-
Revenue Funding	7.763	3.109	0.396
Total Capital Resources	7.763	3.109	2.645
Less: Commitments	7.763	3.109	4.021
Funding Surplus/(Deficit)	-	-	(1.376)

7.5 At the time of announcing the funding settlement for 2021/22, no specific announcements have been made by the MHCLG in relation to capital funding. The lack of any specific capital funding allocations continues to be an issue for the Fire sector which central Government have been asked to address.

7.6 The Authority's capital programme has predominantly been funded by earmarked reserves and this continues to be the case over the period 2021/22 to 2023/24. However, because of the ongoing use of earmarked reserves it needs to be highlighted that at this stage there

is a deficit in the capital programme summarised in the above Table, specifically in 2023/24.

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 2021/22 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 2022/2023 TO 2023/2024 BUDGET

- 9.1 In preparing the draft revenue budget for 2021/2022, an expenditure forecast for 2022/2023 to 2023/2024 has also been undertaken by “rolling forward” the 2021/22 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 The funding settlement for 2021/22 is a one year only arrangement and in the Secretary of State for MHCLG settlement announcement there was no indication of further funding levels beyond 2021/22. In planning for the 2022/23 budget, a reduction of 5% has been reflected in the overall core funding and a further 5% in 2023/24. It should be noted that this is a very provisional figure and there is the potential for the scale of reductions to be of a greater magnitude than this base assumption. Every 1% reduction in core funding represents a loss of circa £0.530m funding for the Authority.
- 9.3 A summary of the impact of the indicated reductions in core funding is shown in the table below:

Estimated position based on the financial settlement for core funding for 2021/22 and a reduction of 5% in 2022/23 and 2023/24 (with a Band D Council Tax increase of 1.99% in 2021/22 and 2% in 2022/23 and 2023/24)

	2021/22 £m	2022/23 £m	2023/24 £m
Net Budget Requirement	101.749	102.204	104.788
Core Funding	53.002	50.352	47.834
Section 31 Grant	2.563	2.500	2.500
Local Council Tax Support Grant	1.418	-	-
Council Tax	45.038	45.938	46.858
Council Tax Surplus/(Deficit)	(0.272)	(0.169)	(0.169)
Available Resources	101.749	98.621	97.023
Annual (Deficit)	-	(3.583)	(7.765)
Service Transformation/efficiency		3.583	7.765
Budget 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 2019/20 was approximately £6m, 6% of the net budget requirement. This level of balances is considered appropriate at this stage due to the assumed 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 2019/2020 closedown exercise. A review of these reserves will be undertaken as part of the Authority's 2020/2021 closedown of accounts process.

10.6 Based on known circumstances and financial risk assessments, it is felt that adequate earmarked reserves and provisions were created to meet legal and expected liabilities, as at 31 March 2020. A list of the reserves and the intended strategy for their use in future years is provided in Appendix J.

10.7 Consideration will be given to the appropriate level of reserves required as at 31 March 2021 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 and/or to assist transformational change. 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.
- 10.11 The forecast budget for 2022/23 and 2023/24 shows a balanced budget, subject to the achievement of transformation/efficiency savings to offset the illustrative 5% reductions in Government core funding. As stated earlier, it may be that the scale of funding reductions could be higher than this which would require a correspondingly higher level of transformation/efficiency savings to be made. In addition, given the number of issues that could have a significant impact on the Authority's budget position over the period of the medium term financial plan i.e.; future Government funding allocations to the Fire Sector, the introduction and impact of the Fair Funding Review, the treatment of firefighter pension related issues and the indicative deficit in year three of the capital programme, the need for and scale of budget savings required over the period of the medium term financial plan needs to be kept under review.

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

MHCLG/Home Office Communications

District Leaders' Meeting 16 December 2020

Policy Planning Forum 11 January 2021

The Plan 2021–2024

The contact name for this report is Wayne Brown, 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 2020/2021 AND 2021/2022 BUDGET**

	Original Budget 2020/21	Revised Budget 2020/21	Original Budget 2021/22
	£000s	£000s	£000s
<u>Expenditure</u>			
Employees	*92,113	93,316	93,396
Premises	5,849	5,365	6,048
Transport	1,458	1,157	1,423
Supplies & Services	8,314	8,356	8,129
Capital Financing	9,396	2,802	10,527
Appropriations to Reserves	100	100	100
Total Expenditure	117,230	111,096	119,623
<u>Income</u>			
Government Grants	*(52,310)	*(52,250)	*(54,070)
Non-Domestic Rates	(9,846)	(10,090)	(9,846)
Income from Services	(3,243)	(2,726)	(2,969)
Collection Fund (Surplus) / Deficit	(466)	(466)	272
Appropriations from Reserves	(6,880)	(1,079)	(7,972)
Total Income	(72,745)	(66,611)	(74,585)
COUNCIL TAX REQUIREMENT	44,485	44,485	45,038
Collection Fund Surplus / (Deficit)	466	466	(272)
Core Funding (Formula Grant)	43,050	43,050	43,156
Core Funding (NNDR)	9,846	10,093	9,846
Section 31 Grant	2,300	2,303	3,981
NET REVENUE BUDGET	100,147	100,397	101,749

* figures reflect the increase in employer's pension contribution and associated government grant funding.

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

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 2021/2022 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	253,995.00
Coventry	82,717.10
Dudley	91,800.53
Sandwell	74,387.79
Solihull	77,190.00
Walsall	70,809.41
Wolverhampton	63,580.55
	<u>714,480.38</u>

- 1.2 THAT the following amounts be now calculated by the Authority for the year 2021/2022 in accordance with Sections 40 to 48 of the Local Government Finance Act 1992:

1.2.1 £119,623,000 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 £74,585,263 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 £45,037,737 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 £63.04 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	42.023769	42.02
	B	49.027730	49.03
	C	56.031692	56.03
	D	63.035653	63.04
	E	77.043576	77.04
	F	91.051499	91.05
	G	105.059422	105.06
	H	126.071306	126.07

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	16,010,741
Coventry City Council	5,214,126
Dudley MBC	5,786,706
Sandwell MBC	4,689,083
Solihull MBC	4,865,722
Walsall MBC	4,463,517
Wolverhampton City Council	<u>4,007,842</u>
Total	<u>45,037,737</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 2020/2021 AND 2021/2022 BUDGET****SERVICE ANALYSIS**

	Original 2020/21 £'000	Revised 2020/21 £'000	Original 2021/22 £'000
<u>Devolved Budgets</u>			
Democratic Rep & Brigade Managers	1,171	1,195	1,197
Strategy & Organisational Intelligence	1,285	1,339	1,350
Communications	673	808	703
Finance & Resources	5,567	5,739	5,626
Digital & Data	4,774	5,250	5,133
People Services	643	788	724
Training, Health & Wellbeing	4,821	5,262	5,127
Prevention, Preparedness & Response	3,094	3,281	3,233
Protection & Organisational Assurance	5,372	5,694	5,648
Command Delivery, Fire Control & Workforce Planning	5,127	4,725	5,013
<u>Corporate Budgets</u>			
Finance & Resources	17,151	14,629	16,822
Digital & Data	146	176	132
People Services	2,390	2,306	2,422
Training, Health & Wellbeing	144	171	144
Protection & Organisational Assurance	24	44	44
Command Delivery, Fire Control & Workforce Planning	46,241	47,275	46,832
Other Income & Expenditure	1,524	1,715	1,599
NET REVENUE BUDGET	100,147	100,397	101,749

WEST MIDLANDS FIRE AND RESCUE AUTHORITY**SERVICE INCOME BUDGETS 2020/21 AND 2021/22**

	Original Budget 2020/21	Revised Budget 2020/21	Original Budget 2021/22
	£000s	£000s	£000s
Fees and Charges:			
- Fire Control & Contact Centre	1,038	1,047	1,059
- NFCC	381	381	381
- Training	280	153	280
- Child Care Vouchers	172	87	87
- ICT	111	112	112
- External Contracts	63	81	83
- Mutual Assistance	161	161	161
- Room Hire	64	2	50
- Transport Engineering Workshops	80	40	80
- Other	249	256	232
Sales	94	59	90
Rents - Property	131	140	149
Interest	300	100	100
Partnerships	97	99	97
Other Income	22	8	8
TOTAL SERVICE INCOME	3,243	2,726	2,969

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

CAPITAL PROGRAMME 2021/2022 TO 2023/2024

Scheme	Project Year In 2021/22	2021/22 £000s	2022/23 £000s	2023/24 £000s
<i>Committed Schemes:</i>				
Vehicle Replacement Programme (VRP)	On-going	5,636	2,818	3,636
Drill Tower & Burn Facility Upgrade	1 of 2	400	130	-
Boiler Replacement Programme	On-going	87	-	84
Rewires	On-going	158	59	236
Windows & Door Replacements	On-going	677	102	65
Roof Replacement	On-going	805	-	-
BA Set Replacement	0 of 1	-	-	-
TOTAL COMMITMENTS		7,763	3,109	4,021
<i>Projected Resources Available:</i>				
Prudential Borrowing		-	-	-
Capital Receipts		-	-	2,249
Capital Grants		-	-	-
Earmarked Reserves/DRF		7,763	3,109	396
TOTAL PROJECTED RESOURCES		7,763	3,109	2,645
FUNDING SURPLUS/(DEFICIT)		-	-	(1,376)

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

TREASURY MANAGEMENT STRATEGY 2021/22

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.

The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

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

1.2.1 Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2021/22, local authorities to prepare a capital strategy, which will provide the following:

- a high-level long-term 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 the capital strategy is to ensure that Members of the Authority fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

Further information on the Capital Strategy can be found at:

<https://www.wmfs.net/about-us/openness/documents/>

1.2.2 Treasury Management Reporting

The Authority is required to receive and approve the following main reports each year. These reports are required to be adequately scrutinised by the Audit and Risk 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 is a backward looking review document and 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 2021/22

The strategy for 2021/22 covers two main areas:

Capital Issues

- the capital expenditure plans and the associated prudential indicators;
- the MRP policy.

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
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and the MHCLG 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. All decisions will be undertaken with regards to all available information, including, but not solely, the treasury advisers.

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 2021/22 – 2023/24

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:

2.1 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.

2.2 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.

2.3 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).

MHCLG 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 2021/22 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 or speculative 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.

2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
£39m	£38m	£37m	£36m

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 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:

2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
£43m	£42m	£41m	£39m

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.

Link Group Interest Rate View 9.11.20													
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16th December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged. These forecasts were based on an assumption that a Brexit trade deal would be agreed by 31.12.20: as this has now occurred, these forecasts do not need to be revised.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. 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, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

Investment and borrowing rates

Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

Borrowing interest rates fell to historically very low rates as a result of the COVID-19 crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 2020/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

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 2021/22 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:

	2021/22	2022/23	2023/24
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 2021/22			
	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 2021/22			
	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

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

The reasons for any rescheduling to take place will include:

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

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

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

3.7 New financial institutions as a source of borrowing and/or types of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities).
- Financial institutions (primarily insurance companies and pension funds).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

4 Annual Investment Strategy

4.1 Investment Policy

The Authority's investment policy has regard to the following:

- MHCLG's Guidance on Local Government Investments ("the Guidance").
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code").
- CIPFA Treasury Management Guidance Notes 2018.

The Authority's investment priorities will be security first, portfolio liquidity second and then yield (return).

The guidance from MHCLG and CIPFA place a high priority on the management of risk. The Authority will adopt a prudent approach to managing risk and defines its risk appetite by the following means:

Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This 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 & Poor's (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.

Creditworthiness

Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30.6.20 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks. However, during Q1 and Q2 2020, banks made provisions for expected credit losses and the rating changes reflected these provisions. As we move into future quarters, more information will emerge on actual levels of credit losses. (Quarterly earnings reports are normally announced in the second half of the month following the end of the quarter.) This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets. This is predominantly a result of regulatory changes imposed on banks following the Great Financial Crisis. Indeed, the Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the UK banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, but with a small number of actual downgrades.

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. The Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to forecast when it may start rising so it will be assumed that investment earnings from money market-related instruments will remain low for the foreseeable future.

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:

Average earnings in each year	
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Long term later years	2.00%

The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by the deal the UK agreed as part of Brexit.

There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

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	2021/22	2022/23	2023/24
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:

- 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 2021 – 2024

Link Group Interest Rate View		9.11.20				(The Capital Economics forecasts were done 11.11.20)								
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00	
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30	
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80	
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60	
Bank Rate														
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-	
5yr PWLB Rate														
Link	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00	
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-	
10yr PWLB Rate														
Link	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30	
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-	
25yr PWLB Rate														
Link	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80	
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-	
50yr PWLB Rate														
Link	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60	
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-	

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

The MHCLG issued Investment Guidance in 2018, 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, TMP1, 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>	<p>30%</p>
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>	<p>20%</p>
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>	<p>20%</p>
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>	<p>3 years and £30m</p>

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 2019/20 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

2019/20 £000 Actual	2020/21 £000 Estimate	2021/22 £000 Estimate	2022/23 £000 Estimate	2023/24 £000 Estimate
5,283	3,521	7,763	3,109	4,021

2. Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2018/19 are:

2019/20 % Actual	2020/21 % Estimate	2021/22 % Estimate	2022/23 % Estimate	2023/24 % Estimate
2.47	2.68	2.58	2.56	2.57

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 2019 are:

31/03/20 £000 Actual	31/03/21 £000 Estimate	31/03/22 £000 Estimate	31/03/23 £000 Estimate	31/03/24 £000 Estimate
36,259	35,352	34,391	33,370	32,287

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 & Rescue Authority 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 2018/19, 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.

2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
44,000	43,000	42,000	41,000	39,000

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.

2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
40,000	39,000	38,000	37,000	36,000

10. The Authority's actual borrowing at 31 March 2020 was £35.7m. 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 2020/2021 (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 2022/2023 TO 2023/2024

	Budget 2022/23	Budget 2023/24
Subjective Heading	£000s	£000s
Employees	94,000	96,080
Premises	6,218	6,402
Transport	1,480	1,543
Supplies & Services	8,099	8,099
Capital Financing	5,777	3,071
Income	(10,152)	(9,902)
Appropriations	(3,218)	(505)
NET EXPENDITURE	102,204	104,788
Available Funding	98,621	97,023
Annual (Deficit)	(3,583)	(7,765)
Service Transformation/efficiency	3,583	7,765
Surplus/(Deficit)	-	-

Note

Budget forecast for 2022/23 and 2023/24 assume:

- A Council Tax increase of 2% in 2022/23 and 2023/24.
- Inflation assumptions as shown on Appendix H2.
- Continuation of Section 31 government grant to fund employer's firefighter pension contribution increase.

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

INFLATION ASSUMPTIONS

Pay Awards:		%
- Uniformed Staff		
	July 21	0.0*
	July 22	2.0
	July 23	2.0
- Non-Uniformed Staff		
	April 21	0.0*
	April 22	2.0
	April 23	2.0
General Prices:		
	April 21	2.0
	April 22	2.0
	April 23	2.0
Pensions Increase Order:		
	April 21	0.5
	April 22	2.0
	April 23	2.0
Residential Rents:		
	April 21	2.0
	April 22	2.0
	April 23	2.0

*Note: Excludes employees on lower wages (less than £24k annual, full time equivalent)

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	£735k	(£550k part year)
Employers Firefighters Pension Contribution	£450k	
Interest payable	£320k	
Non-uniformed pay award	£155k	
General inflation	£83k	
Energy costs	£11k	
Fuel	£5k	

Income

Core Funding	£530k
Council Tax	£450k
Interest receivable	£435k

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

2019/20 was the final year of the four-year settlement. In the Secretary of State for MHCLG provisional settlement announcement in December 2020 for 2021/22, there was no indication of further funding levels beyond 2021/22. In planning for 2022/23 onwards, a year-on-year reduction of 5% has been indicated in 2022/23 and 2023/24 to the core funding. However, it is recognised funding reductions may be at a higher level than this and so the impact of a further 1% reduction to the core funding is shown below 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	52,048,000	-1.9%	-982,000
2020/21	52,896,000	+1.6%	+848,000
2021/22	53,002,000	+0.2%	-1,058,000
2022/23	50,352,000	-5.0%	-2,650,000
2023/24	47,834,000	-5.0%	-2,518,000

Core Funding Reduction of 2% in 2022/23 and 2023/24

Financial Year	£ Core Funding	% Reduction	£ Reduction
2021/22	53,002,000		
2022/23	51,942,000	-2.0%	-1,060,000
2023/24	50,903,000	-2.0%	-1,039,000

Core Funding Reduction of 10% in 2022/23 and 2023/24

Financial Year	£ Core Funding	% Reduction	£ Reduction
2021/22	53,002,000		
2022/23	47,702,000	-10.0%	-5,300,000
2023/24	42,932,000	-10.0%	-4,770,000

A 1% movement in core funding equates to approximately £530k.

APPENDIX J

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

RESERVES STRATEGY

	31/03/20 £000s	31/03/21 £000s	31/03/22 £000s	31/03/23 £000s	31/03/24 £000s	31/03/25 £000s
Capital						
Forecast Capital Program Shortfall	13,879	11,797	3,084	160	0	0
Fire Station Improvements/Investments	765	0	0	0	0	0
Occupational Health Relocation	76	0	0	0	0	0
Insurance						
Insurance Reserve	6,943	6,943	6,943	6,943	6,943	6,943
Strategy & Organisational Intel.						
Project Management/Support	107	0	0	0	0	0
Organisational Intel.	73	37	0	0	0	0
New Risks	41	40	0	0	0	0
Communications						
Community Engagement	147	43	0	0	0	0
Comms/Media Events	7	6	0	0	0	0
Finance & Resources						
Property Maintenance	880	723	481	271	0	0
Procurement of Operational Equip	66	0	0	0	0	0
Loss of Use Recovery	66	8	0	0	0	0
Project Management/Support	14	0	0	0	0	0
Digital & Data						
Enterprise Resource Planning (ERP)	1,903	1,400	0	0	0	0
ESMCP	1,321	1,110	650	0	0	0
Other IT Equipment & System Upgrades	354	193	0	0	0	0
Incident Reporting System (IRS)	200	150	0	0	0	0
Staffing	152	58	0	0	0	0
Office 365	140	100	0	0	0	0
Enabling Future Technology (EFT)	124	0	0	0	0	0
People Support Services						
Safeguarding Arrangements	56	0	0	0	0	0
Training, Health & Wellbeing						
Staff Training & Development	125	40	0	0	0	0
Health & Wellbeing	101	9	0	0	0	0
Training Equipment/Facilities	15	0	0	0	0	0

Continued..	31/03/20 £000s	31/03/21 £000s	31/03/22 £000s	31/03/23 £000s	31/03/24 £000s	31/03/25 £000s
Prevention, Preparedness & Response						
Project Management/Support	508	293	0	0	0	0
COVID019 Funding	459	0	0	0	0	0
Community Partnerships	215	94	0	0	0	0
Community Safety	100	0	0	0	0	0
Education Materials/Facilities	25	13	0	0	0	0
Youth Services	10	0	0	0	0	0
Protection & Organisational Assurance						
SSRI/RIDGE	400	881	0	0	0	0
Project Management/Support	97	32	0	0	0	0
Legal Services	90	0	0	0	0	0
Fire Safety	23	0	0	0	0	0
Command Delivery, Fire Control & WP						
Tech Rescue	410	330	0	0	0	0
Command Delivery	245	115	0	0	0	0
Total Earmarked Reserves	30,137	24,415	11,158	7,374	6,943	6,943
General Reserve	5,823	5,823	5,823	5,823	5,823	5,823
% Net Revenue Budget	5.9%	5.8%	5.7%	5.9%	6.0%	6.0%
Total Reserves	35,960	30,238	16,981	13,197	12,766	12,766

Further information on the Reserves Strategy can be found at:

<https://www.wmfs.net/about-us/openness/documents/>