WEST MIDLANDS FIRE AND RESCUE AUTHORITY

19 FEBRUARY 2024

1. REVENUE BUDGET AND PRECEPT 2024-25, REVENUE BUDGET FORECAST 2025-27 AND CAPITAL PROGRAMME 2024-28

Report of the Treasurer and Deputy Chief Fire Officer

RECOMMENDED

1.1 THAT the following be approved by Authority:

a) The Net Revenue Budget Requirement for 2024-25 be set at £133.634 million, which includes an efficiency target of £1.905 million and use of reserves of £1.100 million.

b) The indicative Revenue Budgets be set at £136.103 million for 2025-26 and £140.617 million for 2026-27.

c) General Reserves be set at a minimum of £3.862 million.

d) The capital programme for 2024-25 to 2027-28 be set at £27.333 million (Appendix D), including an in-year borrowing requirement of £5.1 million.

e) Council Tax precept for 2024-25 be increased by 2.99% to £75.20 for a Band D property (Appendix A).

f) The Treasury Management Strategy Statement 2024-25 including the Minimum Revenue Provision Policy Statement (Appendix E) and Prudential and Treasury Indicators (Appendix F).

2. PURPOSE OF REPORT

2.1 To approve the Net Revenue Budget for 2024-25, the updated Capital Programme 2024-28, indicative revenue budgets for 2025-26 to 2026-27 and the Treasury Management Strategy Statement 2024-25.

3. BACKGROUND

3.1 The preparation and proposal of an annual budget for Authority consideration and approval is a key requirement of the Constitution to enable effective and efficient delivery of the approved Strategy.

3.2 On 18 December 2023, the Secretary of State for the Department for Levelling Up, Housing and Communities (DLUHC) set out the one-year provisional settlement for 2024-25 at £65.614 million, resulting in a funding increase of 4.85% (2023-24: £56.867 million). Pensions Grant of £5.713 million (2023-24: £5.713 million) has been rolled into the settlement this year, to cover the cost of Firefighters Pensions Employers' Contributions. The Services Grant reduced to £0.215 million, a reduction of 85% (2023-24: £1.364 million). The Government also proposed a general Council Tax referendum threshold of 3% for Fire and Rescue Authorities (2023-24: £5 / 7.3%). The funding guarantee ensures that the Authority receives a minimum 3% increase before local council tax decisions. This was enacted for the 2024-25 settlement and came in at £0.152 million (2023-24: nil). Core spending power was £128.943 million, an increase of £5.174m or 4.2% (2023-24: £123.769 million).

3.3 The Fire Authority's provisional budget position was presented at the West Midlands Local Authorities Leaders' Group meeting on 31 January 2024. The Leaders were supportive of the proposal to increase precept tax for B and D properties by 2.99% in line with the referendum limit that applies to the Authority.

3.4 On 5 February 2024, DLUHC confirmed the Authority's 2024-25 Financial Settlement. The funding guarantee increased from £0.152 million to £1.312 million as the Government increased the minimum funding guarantee threshold from 3% to 4%. Total funding including council tax surplus/deficit, increased by £5.808 million or 4.7% to £130.629 million (2023-24: £124.822 million).

3.5 West Midlands Fire Service receives a 1% share of Business Rates via the seven Constituent West Midlands Councils. This equated to funding of approximately £10.863 million due to the Authority, as part of the Settlement Funding. Following completion of NNDR1 returns the actual income was £9.828 million, plus grant to cover business rates relief of £1.668 million. There are substantial uncertainties regarding Central Government policy for future local government finance with regards to the business rates reset. This, as well the fair funding review have the potential to significantly impact the funding level for future years. This has not been reflected when considering the indicative budgets for 2025-26 and 2026-27.

3.6 Business Rates increase each year in line with the prevailing CPI of the preceding September. The freezing of the NNDR multiplier has only been applied to small businesses. This will result in a loss of income to the Authority, offset by compensation for this loss via the NNDR Multiplier Section 31 grant. Section 31 Grant of £6.605 million will cover the whole loss.

3.7 On 6 April 2023 and 8 September 2023 DLUHC published their responses to the ‘McCloud/Sargeant remedy’ consultations. The consultations proposed changes to address the discrimination found in the McCloud judgment, in relation to Firefighters’ Pensions transitional protections. Eligible members will be able to choose to receive legacy pension scheme benefits or benefits equivalent to those available under the 2015 reformed scheme for service during the remedy period. The regulations to enact the retrospective remedy came into effect from 1 October 2023.

4. WMFS Strategy 2024-27: Our Plan

4.1 The Authority produces an annual Community Risk Management Plan (CRMP) which assesses current and future risks faced by our communities. Public consultation for the CRMP was undertaken during 2023. The work required to reduce those risks identified is driven by the CRMP and alongside the 3–year WMFS Strategy, helps to set Authority priorities.

4.2 The revenue budget and the capital programme have been based on the Authority's priorities.

5. REPORT DETAIL

Expenditure:

5.1 The budgets for 2024-25 reflects the £1,925 local government pay award for 2023-24 and the 5% increase for fire and rescue staff. A provision of 3% has been included for 2024-25; then 2% for 2025-26 and 2% for 2026-27.

5.2 Individual calculations have been carried out in respect of the budgets most affected by inflation. This will include contracts which are now up for renewal, for example with insurance, systems, licenses, and uniforms. Estimates have been made based on available information.

5.3 The latest November 2023 inflation rate as measured by the Consumer Price Index is 3.9%. This is a reduction from earlier levels, which was 8.7% in April 2023.

5.4 Key recurring pressures on the 2024-25 budget are highlighted below:

a) The pay award for 2023-24 came in higher than had been estimated. This has a knock-on effect for future years and has been reflected in the base budget. The 3% provision for 2024-25 will cost £2.300 million.
b) The ridership factor is a calculation used to monitor the availability of operational staff to respond to incidents and ensure appliances remain available. Due to several reasons, including sickness absence, the Service's ridership factor has increased from the expected 13.5. A budget of 17.0 was originally included in 2023-24 and it is expected that this will increase for 2024-25 to 18.0, at an additional cost of £0.360 million.
c) Increased costs of the improved family leave provision following the decision to become the first fire service within the UK to offer 52 weeks paid leave for those taking

maternity or adoption leave. A budget of £0.200 million has been set aside which is based on historic trends.

d) A proposal for internal resilience contracts will be considered for implementation during 2024-25. This will cost up to £0.400 million dependent on the number of contracts issued.
e) £0.300 million increased investment will be required in support services, to include People Support, Digital & Data and Finance to meet the needs of the Service. Further discussion will take place to determine the specific investment required.
f) Improvements are required to align to the Cyber Assessment Framework which will require investment of up to £0.350 million.
g) Increased business rates for the Authority's estate creates a pressure of £0.200 million.
h) Revenue financing of the capital programme, a total of £11.939 million over 4 years.

Efficiencies:

5.5 2023-24 required efficiency savings of £1.855 million. This increased from the £1.100 million reported in the 2023-24 budget report due to the above budget pay award. This was achieved through the phased implementation of risk-based crewing; an innovative approach of staffing emergency response vehicles, balancing resource to risk and making use of the blended fleet available.

5.6 Through the budget setting review exercise, further budget reductions have been identified totalling £3.100 million. These have been used to fund demand, growth, and capital pressures in 2024-25. This includes:

a) Staffing reviews to remove £0.400 million of vacant or temporary posts.
b) Increasing income targets by £0.400 million to match expected receipts.
c) A reduction in fuel and utility costs of £0.450 million from previous year highs.
d) Increased investment income of £0.460 million due to higher interest rates.

e) Various contract savings totalling £0.210 million.

5.7 To create a balanced budget for 2024-25, further efficiencies are required of £1.905 million. It is expected that this will be met through zero-based budgeting and a review of all over-established and temporary posts. Individual budget lines will be reviewed during 2024-25 to ensure that budget provisions are in line with spend and service priorities. This will include a comprehensive review of temporary posts over the budgeted staffing establishment. Any recommendations will follow the appropriate governance framework.

Funding:

5.8 The Local Government Finance Settlement for 2024-25 was received by the Authority in February. It confirmed it is possible to increase the Council Tax precept by 2.99% without holding a referendum (2023-24: £5 / 7.3%). It did not include statements on the Fair Funding Review, or a Business Rates reset.

5.9 The 2024-25 Settlement included £1.312 million for funding guarantee grant. This is a one-off grant designed to maintain a minimum level of core spending power.

5.10 As a precepting authority, the Authority must issue precepts to the appropriate charging authorities to provide for its general expenses. The seven Constituent West Midlands Councils have set their Council Tax Base and notified the Authority accordingly. The total relevant Council Tax base for the Authority is 747,591.74, an increase of 1.3%. (2023-24: 737,707.31). This increase reflects the net increase in new properties, offset by the cost of Local Council Tax Reduction schemes.

5.11 The Councils have reviewed their Collection Fund as part of the budget setting process and confirmed their Council Tax surplus / deficits for 2023-24. This has resulted in an overall surplus for the Authority for 2024-25 funding arrangements of £0.032 million (2023-24: £1.053 million surplus).

5.12 In determining the level of Council Tax precept for 2024-25, Authority will need to consider the medium-term financial position and the Council Tax Referendum thresholds.

5.13 The proposed increase of 2.99% is within the guidelines for fire and rescue services as contained in Government policy. Each additional 1% increase in Council Tax precept would generate approximately £0.539 million per year.

5.14 The Authority's proposed Council Tax precept for 2024-25 is £75.20 for a Band D property, an annual increase of £2.18. (2023-24: £73.02).

5.15 The Council Tax Requirement is set at £56.219 million (2023-24: £53.864 million). The appropriate precept has been calculated for each Council and is set out in Appendix A. This is the Authority's element of total Council Tax. Spending decisions made by the seven Constituent Councils, the Office of the Police and Crime Commissioner and any parish councils are also added to the overall bill.

5.16 The funding sources are shown in Table 1:

Table 1: 2024-25 Funding

Funding	**£'000**
Settlement Funding	64,579
NNDR multiplier S31 grant	6,604
S31 NNDR relief grant	1,668
Services Grant	215
Funding Guarantee	1,312
Share of Collection Fund Surplus/(Deficit)	32
Council Tax Requirement	56,219
Net Revenue Budget	**130,629**

5.17 In addition, it is estimated that the Authority will generate income of £3.881 million (2023-24: £3.819 million). The budget also assumes that £1.100 million of reserves will be used to fund one-off expenditure.

2023-24 Forecast Outturn:

5.18 The budget for 2023-24 is monitored against the revised budget. The latest forecast position as at December-23 reflects the inflationary increases in costs, known changes in the forecast and the impact of the savings achieved. The estimated outturn, as shown in Table 2 is an underspend of £0.509 million.

Table 2: 2023-24 Forecast Revenue Position as at Dec-23

	Original Budget 2023/24 £000	**Revised Budget 2023/24 £000**	**Forecast Position £000**	**Revised Forecast Variance £000**
Corporate Management	1,260	1,241	1,271	29
Portfolio & Org Intel	2,499	2,278	2,214	(65)
Operations	5,446	7,359	7,386	27
Prevention	2,497	2,655	2,575	(80)
Protection	5,306	5,843	5,836	(7)
Response, FC & Emergency	5,768	8,576	8,425	(151)
Finance & Procurement	1,577	1,738	1,732	(6)
Digital & Data	6,368	9,222	9,222	1
Corporate Communications	1,033	1,042	1,042	-
People Support	2,946	3,133	3,165	32
Development & Inclusion	5,283	5,500	5,468	(32)
Corporate Spend	83,867	83,346	83,088	(258)
Other-Income & Expenditure	972	469	469	-
Funding	-	(1,898)	(1,898)	-
Total	**124,822**	**130,504**	**129,995**	**(509)**

5.19 The budget was revised in November-23 to reflect a net £5.682 million use of earmarked reserves. £6.678 million earmarked reserves are planned to be used, additional income of £1.898 million had been received as part of the 2023-24 settlement, namely Section 31 NNDR relief grant and £0.996 million of additional pressures have been funded.

5.20 A key pressure is the increased ridership factor over the original budget of 17.0. The ridership factor is a calculation used to monitor the availability of operational staff to respond to incidents and ensure appliances remain available This was increased to 18.0 as part of revised budgets. Current forecasts are now estimating an underspend of £0.180 million due to the implementation of risk-based crewing and an improving forecast position on staff availability. This is shown in Corporate Spend.

5.21 There are a number of vacant posts and delayed recruitment to posts, which has led to underspends within Response and Prevention

Revenue Budget Summary 2024-25:

5.22 Table 3 reflects the forecast outturn position for 2023-24, the proposed budget for 2024-25 and indicative budgets for 2025-26 and 2026-27. More detailed budgets will be provided to relevant budget holders.

Table 3: Revenue Budget Recommended to Authority

	Forecast Outturn 2023-24 £000	Budget 2024-25 £000	Indicative Budget 2025-26 £000	Indicative Budget 2026-27 £000
Net Revenue Expenditure				
Corporate Management	1,271	1,262		
Portfolio & Org Intell	2,214	2,215		
Operations	7,386	5,335		
Prevention	2,575	2,469		
Protection	5,836	5,373		
Response, FC & Emergency	8,425	5,754		
Finance & Procurement	1,732	1,698		
Digital & Data	9,222	7,159		
Corporate Communications	1,042	915		
People Support	3,165	3,275		
Development & Inclusion	5,468	5,376		
Corporate Spend	83,088	90,354		
Other-Income & Expenditure	469	449		
Total Expenditure	**131,893**	**133,634**	**136,103**	**140,617**
Financing				
Settlement Funding	56,925	64,579	66,516	67,581
NNDR multiplier S31 grant	5,961	6,604	6,802	6,911
S31 NNDR relief grant	1,838	1,668	1,718	1,745
Services Grant	1,364	215	215	215
Funding Guarantee	-	1,312	152	152
Share of Collection Fund Surplus/(Deficit)	1,054	32	-	-
Grants Rolled In	5,713			
Council Tax Requirement	53,864	56,219	57,912	59,655
Total Financing	**126,719**	**130,629**	**133,315**	**136,259**
Transfer from/(to) Balances	5,174	1,100	-	-
Funding Gap	-	1,905	2,788	4,358

5.23 The £0.509 million forecast underspend for 2023-24 has been transferred to reserves, making the net transfer from reserves £5.174 million.

5.24 Key future funding assumptions include:

- Settlement Funding and business rates S31 grant increases by inflation; estimated at 3% for 2025-26 and 1.6% for 2026-27.

- Minimum funding guarantee at 3% levels for 2025-26 and 2026-27
- Services grant remains at 2024-25 level.
- Council Tax rates increase by 1.99% per year with the Council Tax Base increasing by 1% per year.

5.25 Additional pensions grant is expected to cover the cost of the 2020 actuarial valuation of firefighters' pension scheme. It is expected that this will cover 98% of the additional pressure. The estimated pressure has been recognised, but neither the additional income nor costs have been included as these were not confirmed until 6th February 2024.

5.26 The budgets are based in general upon the maintenance of existing service provision and delivery of priorities set out in the WMFS Strategy 2024-27: Our Plan. Key future expenditure assumptions include:

- Pay uplifts for both local government and fire and rescue staff are assumed at 2% for 2025-26 and 2% for 2026-27, estimated at £1.600 million per annum.
- Implementation of the new Command and Control system will lead to additional annual revenue costs.
- Additional MRP and interest payable as a result of the forecast borrowing in the capital programme, at £0.510 million from 2025-26 and an additional £0.410 million from 2026-27.
- Known increases in inflationary pressures, contracts renewals and service demands are also included, estimated at 0.7% for 2025-26 and 1.5% for 2026-27.
- One-off revenue contributions to the capital programme as detailed in Table 5.

5.27 Funding details are only currently available for the 2024-25 financial year. Limited amendments have been made to assumptions in relation to the new funding regime for 2025-26 onwards. The Business Rates Scheme in particular carries the greatest uncertainty, along with any outcome from the Fair Funding Review. Due to the uncertainty, it is difficult to project the true overall position over the medium term.

5.28 The current medium term financial plan shows a forecast funding gap of £2.788 million in 2025-26, increasing to £4.358

million in 2026-27. This assumes no further borrowing is undertaken over the level detailed in the proposed capital programme in Table 5. Further work will be undertaken during 2024-25 to look to maximise efficiencies through the zero-based budgeting exercise. A full review will also be commenced of earmarked reserves to understand those that are not ring-fenced and can be re-allocated to meet service priorities.

6. RESERVES AND BALANCES

6.1 Reserves and balances comprise general reserves, the working balance, and earmarked reserves. They help the Authority to cope with unpredictable financial pressures and plan for future spending commitments. They are an essential part of good financial management and assist the Section 151 Officer in providing reassurance to Authority on the robustness of the estimates and the adequacy of reserves.

6.2 The report of the Chief Finance Officer on the Robustness of the Budget Estimates and the Adequacy of the Authority's Reserves are included in Appendix B.

6.3 The Authority holds a number of earmarked reserves for specific purposes. Amendments have been made throughout 2023-24 to reflect changing needs and some reserves have been transferred. Earmarked reserve balances are itemised in Appendix C.

6.4 The 2024-25 budget proposes a £1.100 million use of reserves to fund one-off expenditure. To work towards reducing the medium-term funding gap detailed in Table 3, all earmarked reserves will be reviewed again to ensure their allocations are in line with the delivery of the priorities set out in the WMFS Strategy 2024-27: Our Plan. A number are grant-funded and so will not be available for general use.

6.5 The working balance helps to cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing. It forms part of general reserves. The current policy has for several years been to maintain the level of general reserves at a minimum of £3.862 million. This is equivalent to 2.9% of the

2024-25 net budget and the amount is maintained over the planning period.

7. CAPITAL PROGRAMME 2023-24 TO 2027-28

7.1 The forecast capital expenditure for 2023-24 is £4.341 million against a revised budget of £9.103 million, as shown in Table 4. £4.762 million of 2023-24 schemes are forecast to be slipped into 2024-25.

Table 4: 2023-24 Forecast Capital Position as at Dec-23

	Original Budget 2023-24 £000	Revised Budget 2023-24 £000	Forecast Position £000	Revised Forecast Variance £000
Capital Expenditure				
Vehicle Replacement Programme	6,678	7,001	2,647	4,354
Boiler Replacement Programme	148	218	218	-
Rewires	167	-	-	-
Roof Replacement	325	505	505	-
Windows & Doors Replacement	677	677	400	277
Drill Tower & Burns Facility Upgrade	432	588	457	131
HQ Car Park	44	71	71	-
Fire Ground Radio Replacement	290	-	-	-
MDT Replacement	430	-	-	-
C&C - Vision 4	-	43	43	-
Total	**9,191**	**9,103**	**4,341**	**4,762**
Financing				
Capital Receipts	2,749	2,749	2,749	-
Capital Grants	-	43	43	-
Earmarked Reserves / Revenue	6,442	6,311	1,549	4,762
Borrowing	-	-	-	-
Total	**9,191**	**9,103**	**4,341**	**4,762**

7.2 The Capital Programme 2024-25 to 2027-28, totalling £27.333 million is detailed in Appendix D. Three new schemes have been presented for approval, including the purchase of service provided vehicles, replacement of the Command & Control system and the relocation and sale of the Command Development Centre (CDC). Other schemes are in line with the previously approved programme.

7.3 The Authority does not receive any specific allocations for capital funding as part of the Central Government settlement. The programme will be funded by earmarked reserves, in year revenue funding and new borrowing. There is a borrowing requirement of £5.100 million in 2024-25. This is summarised in Table 5.

7.4 Any additional prudential borrowing to fund capital spending must be prudent, sustainable, and affordable. Increasing interest rates will result in additional annual revenue costs which also creates an opportunity cost due to the forgone investment returns. There is also a need to set aside an annual minimum revenue provision (MRP) to repay the borrowing when it becomes due. External borrowing will only be undertaken once the need arises. Internal borrowing will also be considered for short-term funding gaps. The Treasury Management Strategy Statement 2024-25 (Appendix E) provides more detail.

7.5 A review of the Authority's vehicles and estate will begin to be undertaken over the coming year to determine if there is any rationalisation that can be considered. The review will look to identify long-term reductions in replacement and improvement costs and to generate capital receipts. Any capital receipts generated can be used to fund future capital spending and reduce the need for future borrowing.

7.6 Future years' capital expenditure currently has a significant proportion funded by revenue. This is contributing to the revenue funding gap detailed in Table 3.

Table 5: 2023-24 to 2027-28 Capital Programme

	2023-24 Forecast £000	2023-24 Slippage £000		2024-25 £000	2025-26 £000	2026-27 £000	2027-28 £000
Programme	**4,341**	**4,762**		**12,996**	**7,904**	**2,339**	**4,094**
Funding	**4,341**	**4,762**		**12,996**	**7,904**	**2,339**	**4,094**
Borrowing	-	-		5,100	4,100	1,000	4,094
Revenue / Reserves	1,549	4,762		7,896	2,704	1,339	-
Capital Receipts/ Grants	2,792	-		-	1,100	-	-
Funding Surplus / (Deficit)	**-**	**-**		**-**	**-**	**-**	**-**

Service Provided Vehicles:

7.7 Authority approved the provision of 56 service provided vehicles on 26 June 2023, with an estimated capital cost of £2.100 million. Stakeholder consultation took place during November 2023 and the planned procurement report will be presented to Authority in February 2024.

7.8 The updated capital requirement is £2.600 million for the purchase of 57 vehicles. There are expected revenue savings of £0.130 million per year, due to the reduction of allowances and mileage claims. There will be additional ongoing revenue costs for tax and insurance.

Command and Control System:

7.9 Fire and Rescue Services have statutory responsibilities to ensure that emergency calls for assistance can be dealt with effectively and attend a variety of incidents. To enable this, Control Operators rely on mobilising systems that are designed to enhance their efficiency in carrying out their role. This involves presenting them with a current view of where resources are, enabling them to process critical information and make informed decisions to mobilise resources within seconds, maximise inter-operability between agencies and maintain situational awareness as incidents escalate.

7.10 Approval is required for the purchase and implementation of a new mobilising system and associated components including an Integrated Communication Control System (ICCS).

7.11 £1.770 million capital budget is required in 2024-25 and 2025-26 as implementation and project costs. There will also be additional annual revenue costs which have been incorporated into the medium-term revenue plan.

Relocation and Sale of the Command Development Centre (CDC):

7.12 The Command Learning element of CDC is due to move to WMFS Headquarters (HQ) to create a centre of excellence for all learning and development, following the successful transfer of the Trainee Firefighter Development Programme.

7.13 CDC also houses Secondary Fire Control (SFC), which provides resilience if the primary HQ Fire Control is unavailable, Detection, Identification and Monitoring (DIM) vehicles and equipment, which provides the ability to make an assessment on the presence of chemical, biological and radiological agents, Haz Mats equipment, to enable attendance at incidents that involve hazardous materials and Water Rescue equipment, with dedicated areas for kit during and storage.

7.14 It is recommended to relocate all departments and functions currently operating from CDC and release the building for sale.

7.15 Further investigation and stakeholder engagement is required to identify the most effective relocation sites, but it is anticipated that the move out of CDC will provide service benefits and assist in the rationalisation of WMFS assets and reduction in ongoing maintenance costs of CDC.

7.16 The project is expected to take two years and cost £1.100 million, with a capital receipt expected following asset disposal.

8. TREASURY MANAGEMENT AND THE PRUDENTIAL CODE

8.1 In line with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code, the Authority is required to have in place a Treasury Management Strategy.

8.2 The Treasury Management demonstrates how the Authority's treasury function will support capital decisions made as part of a four-year capital programme and the funding of the day-to-day treasury management activities and the limitations on borrowing activity through prudential and treasury indicators and limits.

8.3 The Minimum Revenue Provision (MRP) policy statement and key prudential indicators relating to the costs and affordability of the Authority's capital plans are reported as part of the Treasury Management Strategy Statement from Appendices E to J.

8.4 The report requests Authority approval for:

a) The Borrowing and Investment Strategy for 2024-25.

b) The Minimum Revenue Provision Policy Statement for 2024-25.

c) The Prudential and Treasury Indicators for 2024-25 to 2027-28 summarised at Appendix F.

d) Expected new net borrowing of £5.100 million in 2024-25.

9. EQUALITY IMPACT ASSESSMENT

9.1 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.

10. LEGAL IMPLICATIONS

10.1 In accordance with the Local Government Act 1992, local authorities in England and Wales are required to set a balanced budget for each financial year, following a specific process (as set out above). The Fire Authority is required to set its budget before 1st March each year and in advance of the start of the new financial year on 1st April. The recommendations set out at paragraph 1.1 of this report align with the Fire Authority's Constitution, the budget and precept setting processes.

11. FINANCIAL IMPLICATIONS

11.1 These are contained within the body of the report.

12. ENVIRONMENTAL IMPLICATIONS

12.1 There are no environmental implications.

13. BACKGROUND PAPERS

- Budget and Precept 2023-24 and Budget Forecast 2024-25 to 2025-26 – Authority: 13 February 2023
- Service Provided Vehicles – Authority: 26 June 2023
- Business Continuity Corporate Risk; Resilience Contracts – Audit and Risk Committee: 27 November 2023
- Portfolio Management (3PT) Q3 – Authority: 11 December 2023

14. APPENDICES

Appendix A: Council Precept 2024-25

Appendix B: Chief Finance Officer on the Robustness of the Budget Estimates and the Adequacy of the Authority's Reserves

Appendix C: Earmarked Reserves

Appendix D: Capital Programme 2024-25 to 2027-28

Appendix E: Treasury Management Strategy Statement 2024-25

Appendix F: Prudential and Treasury Indicators

Appendix G: Economic Background

Appendix H: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

Appendix I: Approved Countries for Investment

Appendix J: The Treasury Management role of the Section 151 Officer

The contact for this report is Sofia Mahmood, Section 151 Officer.

SOFIA MAHMOOD
TREASURER

Appendix A: Council Precept 2024-25

1. THAT it be noted that the Constituent West Midlands Councils have formally set their Council Tax bases for the year 2024-25 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:

Authority	**Council Tax Base 2023-24 £**	**Council Tax Base 2024-25 £**
Birmingham	263,262.00	267,940.00
Coventry	86,075.20	87,734.00
Dudley	93,834.60	94,480.09
Sandwell	76,764.73	78,217.27
Solihull	79,168.00	79,642.00
Walsall	72,608.66	72,932.78
Wolverhampton	65,994.12	66,645.60
	737,707.31	**747,591.74**

2. Valuation Bands:

Band	**Precept (6 dp) £**	**Precept (2 dp) £**
A	50.132305	50.13
B	58.487689	58.49
C	66.843073	66.84
D	75.198457	75.20
E	91.909225	91.91
F	108.619993	108.62
G	125.330761	125.33
H	150.396914	150.40

3. Resultant Precepts:

Authority	**Council Tax Requirement 2024-25 £**
Birmingham	20,149,088
Coventry	6,597,597
Dudley	7,104,903
Sandwell	5,881,939
Solihull	5,989,078
Walsall	5,484,545
Wolverhampton	5,011,749
	56,218,899

Appendix B: Chief Finance Officer on the Robustness of the Budget Estimates and the Adequacy of the Authority's Reserves

Introduction

Section 25 of the Local Government Act 2003 places a duty on the Chief Financial Officer (or Section 151 Officer, the Head of Finance) to make a report to the Authority on the robustness of budget estimates and the adequacy of the Authority's reserves. The Authority must have regard to this report when making its decisions about budgets and council tax precepts for the forthcoming year. This is because the Authority is setting the precept before the commencement of the year and cannot increase it during the year. An understanding of the risks of increased expenditure during the year in terms of likelihood and impact is therefore important.

Robustness of Budget Estimates

The Authority's budget estimates for 2024-25, including the forecast outturn for 2023-24, have been prepared by appropriately qualified and experienced staff in consultation with budget holders. Budgets have been discussed and fully managed by the Strategic Executive Team.

The budget for 2024-25 has been constructed based upon the maintenance of an existing level of service, adjusted for known changes in 2023-24. It is considered to accurately reflect likely expenditure in 2024-25, being based on historic information, experience of expenditure in previous years and latest projections where appropriate.

The indicative budgets for 2025-26 and 2026-27 are similarly based upon the best information available at this moment in time.

The impact of the National Living Wage has been incorporated into the budget. Allowance has also been made for staff incremental progression. Inflation has been allowed based on the projected consumer price index increases and on energy budgets based on anticipated tariff increases as well as specific reviews of particularly high value spend items. Major sources of income will continue to be closely monitored throughout the year with a view to protecting overall income to the Authority as far as possible.

Net investment income of £1.000 million has been included within 2024-25 budgets. This has been based on current projections of the bank rate which are anticipated to start to reduce towards the end of 2024-25 as the Bank of England actions have started to reduce the rate of inflation. Prudent assumptions about cash flow have been made and the advice of the Authority's treasury management consultants has been taken into account in determining the average rate of return.

No specific contingency budget is provided in 2024-25 as it is considered that the Authority's overall revenue balances are sufficient to act as an overall contingency However, robust budget monitoring arrangements will take place throughout the year and regular reporting presented to Authority.

Significant expenditure and income budgets will be monitored closely during the year. Any projected variances will be addressed in a timely manner.

I can therefore confirm that the budget estimates as presented are robust.

<u>Adequacy of the Authority's Reserves</u>

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance on local authority reserves and balances. It sets out three main purposes for which reserves are held:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
- A contingency to cushion the impact of unexpected events or emergencies.
- A means of building up funds to meet known or predicted liabilities, known as earmarked reserves.

The Authority is projected to hold total reserves of £20.101 million at 31 March 2024 and £14.239 million at 31 March 2025.

The Authority also has a planned four-year capital programme which is financially sustainable based on current capital resources and a prudent assessment of future capital resources. The financial strategy includes the use of allocated reserves and revenue contributions to supplement capital resources and mitigate any borrowing requirement; nevertheless, Prudential Borrowing to finance the Authority's capital programme will be used where there is a robust business case.

With the uncertainty of a fundamental Government review of local government finance, the medium-term outlook is very challenging and so a need to identify significant future efficiencies.

The Authority has set a policy of a minimum level of general reserves of £3.862 million. The Budget for 2024-25 has been constructed on the basis that there will be a level of general reserves to meet this requirement.

I can therefore confirm that the Authority's reserves are adequate.

Sofia Mahmood, Head of Finance and Procurement (Section 151 Officer)

Appendix C: Earmarked Reserves

Reserve			31-Mar 2023 £000	31-Mar-2024 £000	31-Mar-2025 £000	31-Mar-2026 £000	31-Mar-2027 £000	31-Mar-2028 £000
Community Risk Reduction								
	Operations							
		Station/HQ Facilities	500	344	344	344	344	344
		Property Maintenance	479	-	-	-	-	-
		Tech Rescue	581	429	429	429	429	429
		Project Management/Support	40	11	11	11	11	11
		Sustainability	145	100	100	100	100	100
		UK ISAR	80	50	50	50	50	50
		Vehicle Chargers	26	19	19	19	19	19
		Partnerships	27	23	23	23	23	23
	Prevention							
		Community Safety	314	389	389	389	389	389
		Safeguarding Arrangements	75	-	-	-	-	-
		Community Partnerships	136	129	129	129	129	129
		Education Materials/Facilities	23	23	23	23	23	23
	Protection							
		Protection Fund Grant	202	36	36	36	36	36
		Building Risk Review Programme	129	10	10	10	10	10
		Project Management/Support	205	131	131	131	131	131
		Fire Safety	5	-	-	-	-	-
	Response, FC & Emergency							
		Procurement of Operational Equip	2,475	1,394	1,394	1,394	1,394	1,394
		Command Delivery	264	140	140	140	140	140
		CBRN	190	110	110	110	110	110
		Tech Rescue	49	53	53	53	53	53
		Project Management/Support	77	-	-	-	-	-
		SSRI/RIDGE	51	38	38	38	38	38
Enabling Services								
	Resourcing							
		Agile Working	49	36	36	36	36	36
		Loss of Use Recovery	10	10	10	10	10	10
	Digital & Data							
		Project Management/Support	165	-	-	-	-	-
		ESMCP	1,132	1,068	1,068	1,068	1,068	1,068
		Enterprise Resource Planning (ERP)	512	390	390	390	390	390
		Incident Reporting System (IRS)/Command	139	-	-	-	-	-
		Staffing	153	47	47	47	47	47
		Other Digital Transformations/Upgrades	150	742	742	742	742	742
	Communications & Engagement							
		Comms/Media Events	77	27	27	27	27	27
		Community Engagement	6	50	50	50	50	50
People Support Services								
	People Support							
		Pension Admin Grant	228	190	190	190	190	190
		Project Management/Support	242	86	86	86	86	86
	Development & Inclusion							
		Staff Training & Development	176	26	26	26	26	26
		Health, Safety & Wellbeing	114	10	10	10	10	10

Reserve			31-Mar 2023 £000	31-Mar-2024 £000	31-Mar-2025 £000	31-Mar-2026 £000	31-Mar-2027 £000	31-Mar-2028 £000
Corporate								
	Corporate Funding							
		Forecast Capital Programme Shortfall	7,406	4,762	-	-	-	-
		Inflationary Pressures	-	1,100	-	-	-	-
		Insurance Reserve	2,781	2,781	2,781	2,781	2,781	2,781
		Detriments	2,000	1,485	1,485	1,485	1,485	1,485
Total Earmarked Reserves			**21,413**	**16,239**	**10,377**	**10,377**	**10,377**	**10,377**
Total General Reserves			**3,862**	**3,862**	**3,862**	**3,862**	**3,862**	**3,862**
% Net Revenue Budget				2.9%	2.9%	2.8%	2.7%	

Appendix D: Capital Programme 2024-25 to 2027-28

	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Vehicle Replacement Programme	6,964	5,929	1,525	2,846
Boiler Replacement Programme	460	275	100	740
Rewires	177	715	624	508
Roof Replacement	237	120	90	-
Windows & Doors Replacement	327	95	-	-
Drill Tower & Burns Facility Upgrade	131	-	-	-
Service Provided Vehicles	2,600	-	-	-
Command & Control	1,600	170	-	-
CDC Relocation	500	600	-	-
Total Capital Expenditure	**12,996**	**7,904**	**2,339**	**4,094**
Capital Receipts	-	1,100	-	-
Earmarked Reserves	4,762	-	-	-
Revenue Funding	3,134	2,704	1,339	-
Borrowing	5,100	4,100	1,000	4,094
Total Financing	**12,996**	**7,904**	**2,339**	**4,094**
Funding Surplus / (Deficit)	**-**	**-**	**-**	**-**

Appendix E: Treasury Management Strategy Statement 2024-25

TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2024-25

1. INDEX

2. RECOMMENDATIONS

THAT the following are approved by Authority:

a) The Borrowing and Investment Strategy for 2024-25.

b) The Minimum Revenue Provision Policy Statement for 2024-25.

c) The Prudential and Treasury Indicators for 2024-25 to 2027-28 summarised at Appendix F.

d) Expected new net borrowing of £5.100 million in 2024-25.

3. INTRODUCTION

The Treasury Management Strategy Statement provides a comprehensive view of the Authority's treasury position and its projected Prudential and Treasury Indicators having taken into consideration the proposed capital programme.

3.1 Background

The Authority is required to operate a balanced revenue 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 or instruments commensurate with the Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

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 it 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 to meet risk or cost objectives.

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 borrowing, investments and cash flows, including 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."

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

3.2 Reporting Requirements

3.2.1 Treasury Management Reporting

The Authority is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a) Prudential and treasury indicators and treasury strategy (this report).
The first, and most important report is forward looking and 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 Annual Investment Strategy, (the parameters on how investments are to be managed).

b) A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c) 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.

Quarterly reports – In addition to the three major reports detailed above, from 2023-24 quarterly reporting is also required. However, these additional reports do not have to be reported to Authority but do require to be adequately scrutinised. This role will be undertaken by the Audit and Risk Committee.

3.3. Treasury Management Strategy 2024-25

The strategy for 2024-25 covers two main areas:

Capital issues:

- the capital expenditure plans and the associated prudential indicators,
- the minimum revenue provision (MRP) policy.

Treasury management issues:

- the current treasury position,
- treasury indicators which 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, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

3.4. Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny as part of the Audit and Risk Committee.

Furthermore, pages 47 and 48 of the Code state that they *expect "all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance, and decision making.*

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and Authority members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- *Record attendance at training and ensure action is taken where poor attendance is identified.*
- *Prepare tailored learning plans for treasury management officers and Authority members.*
- *Require treasury management officers and Authority members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).*
- *Have regular communication with officers and Authority members, encouraging them to highlight training needs on an ongoing basis."*

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

The required training will be scheduled for members throughout 2024-25.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function will be maintained. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained.

3.5 Treasury Management Consultants

The Authority uses Link Group, Link Treasury Services Limited as its external treasury management advisors and Sandwell Council for its treasury investment function.

The Authority recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

4. THE CAPITAL PRUDENTIAL INDICATORS 2024-25 – 2027-28

The Authority’s capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members’ overview and confirm capital expenditure plans.

4.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Authority’s capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts in Table 6. This also summarises how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table 6: Capital Expenditure Forecast & Financing

	2023-24 Forecast £000	2023-24 Slippage £000		2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Expenditure	4,341	4,762		12,996	7,904	2,339	4,094
Financing:							
Capital Receipts	2,749	-		-	1,100	-	
Capital Grants	43	-		-		-	
Reserves / Revenue	1,549	4,762		7,896	2,704	1,339	-
Net financing need for the year	**-**	**-**		**5,100**	**4,100**	**1,000**	**4,094**

4.2 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 above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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

The Authority is asked to approve the CFR projections in Table 7:

Table 7: Capital Financing Requirement

	2023-24 Forecast £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
CFR	32,593	36,988	40,374	40,437	43,524

Movement	(677)	4,395	3,386	63	3,087

Movement in CFR represented by					
Net financing need for the year	-	5,100	4,100	1,000	4,094
Less MRP/VRP	(677)	(705)	(714)	(937)	(1,007)
Movement in CFR	(677)	4,395	3,386	63	3,087

4.3. Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed in Table 8 are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Table 8: Expected Investment Balances

	2023-24 Forecast £000	**2024-25 Estimate £000**	**2025-26 Estimate £000**	**2026-27 Estimate £000**	**2027-28 Estimate £000**
Reserves	16,239	10,377	10,377	10,377	10,377
Working Capital	3,862	3,862	3,862	3,862	3,862
Expected Investments	**20,101**	**14,239**	**14,239**	**14,239**	**14,239**

4.4 Minimum Revenue Provision (MRP) Policy Statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires Authority approval in advance of each financial year.

The Authority is recommended to approve the following MRP Statement.

For all capital expenditure 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 provides for a reduction in the borrowing need over the asset's approximate life.

The Authority can set aside amounts in excess of the minimum required. A full review of the current and future MRP position will be carried out in the coming year to ensure it represents the most prudent position.

Borrowing incurred on capital expenditure in 2024-25 will not be subject to an MRP charge until 2024-25, or in the year after the asset becomes operational. The Authority will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

MRP in respect of assets acquired under Finance Leases will be charged at an amount equal to the principal element of the annual repayment.

The implementation of IFRS 16 Leases has been deferred until 2024-25. This is likely to result in operating (off-balance sheet) leases, being reclassified as finance (on-balance sheet) leases, thus increasing several prudential indicators, including MRP. These will be amended mid-year once the detailed impact is known.

5. BORROWING

The capital expenditure plans set out in Section 3 provide details of the service 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 service activity and the Authority's capital programme. 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.

5.1. Current Portfolio Position

The overall treasury management portfolio as at 31 December 2023 is shown in Table 9 for both borrowing and investments.

Table 9: Treasury Portfolio

	31 Dec-2023 £000	31-Dec-2023 %
Treasury Investments		
Money Market Funds	27,439	5.34
Bank Current Account	6,099	3.25
Fixed Term Deposits (short term)	1,946	5.62

	35,484	**5.00**
Treasury External Borrowing		
PWLB	28,809	5.12
Ex-WMCC Debt	456	4.18
	29,264	**5.11**
Net Treasury Investments / (Borrowing)	**6,220**	**4.48**

The Authority's investments are managed by Sandwell Council. These are consolidated and apportioned across the various funds alongside the Councils' investments.

The comparable benchmark for investments (overnight SONIA) was 4.89% as at 31 December 2023 and therefore the performance achieved by Sandwell Council Treasury Services are above benchmark with returns being 5.05% for the first 9 months of the year on average investment balances of £41.900 million.

The Authority's forward projections for borrowing are summarised in Table 10. £95k relates to the increase in the principal of the ex-WMCC debt, which is due to be repaid in 2025-26. Internal borrowing will always be considered before external borrowing is undertaken. Table 10 shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 10: Forecast Borrowing

	2023-24 Forecast £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Debt at 1 April	29,677	28,541	33,690	36,702	36,942
Debt Repayment	(1,181)	-	(1,088)	(760)	(801)
New Borrowing	45	5,149	4,100	1,000	4,094
Debt at 31 March	28,541	33,690	36,702	36,942	40,235
CFR	32,593	36,988	40,374	40,437	43,524
Under / (Over) Borrowing	**4,052**	**3,298**	**3,672**	**3,495**	**3,289**

Within the range of prudential indicators there are several 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 does not, except in the short-term, exceed the total of the CFR in the current year plus the estimates of any additional CFR for 2024-25 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 Head of Finance and Procurement (Section 151 Officer) reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

5.2. Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary:

Table 11 shows 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.

Table 11: Operational Boundary

	2023-24 Forecast £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Operational Boundary	36,000	41,000	45,000	45,000	48,000

The Authorised Limit for external debt: This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal 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.

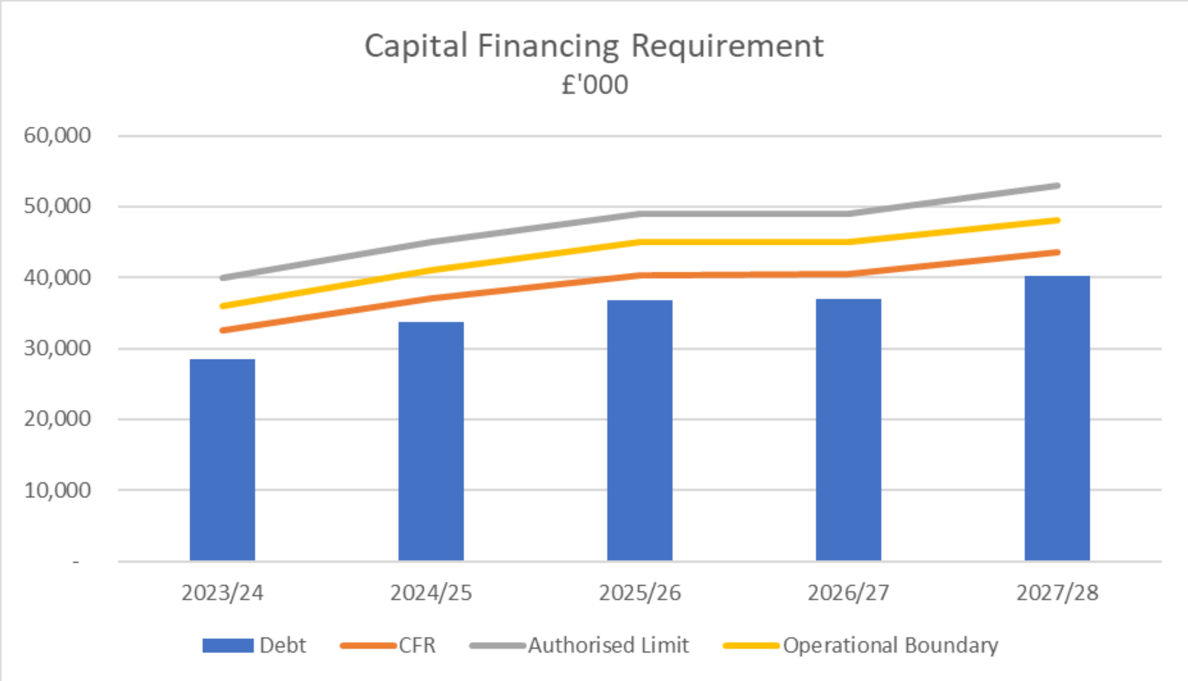
- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authority plans, or those of a specific authority, although this power has not yet been exercised.
- The Authority is asked to approve the Authorised Limit in Table 12.

Table 12: Authorised Limit

	2023-24 Forecast £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Authorised Limit	40,000	45,000	49,000	49,000	53,000

The indicators referred to in Table 10, 11 and 12 are summarised in Graph 13.

Graph 13: Capital Financing Requirement



5.3. Prospects for Interest Rates

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the forecasts in Table 14 on 08 January 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 basis points (bps).

Table 14: Interest Rate Forecasts as at 08 January 2024

Link Group Interest Rate View 08.01.24	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

A summary overview of the future path of bank rate:

- Our central forecast for interest rates was previously updated on 7 November and reflected a view that the Monetary Policy Committee (MPC) would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024 (July onwards). We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring

at least a slowdown or mild recession over the coming months (although most recent gross domestic products (GDP) releases have surprised with their on-going robustness).
- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

PWLB rates:

- The short and medium part of the gilt curve has rallied since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025 than held sway back then. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone. At the time of writing there is c70 basis points difference between the 5 and 50 year parts of the curve.

The balance of risks to the UK economy:

- The overall balance of risks to economic growth in the UK is even.

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

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- The Bank of England has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- Geopolitical risks, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates:

- Despite the tightening in Bank Rate to 5.25%, the Bank of England allows inflationary pressures to remain elevated for a long period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, which may prove inflationary, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Projected gilt issuance, inclusive of natural maturities and quantitative tightening (QT), could be too much for the markets to comfortably digest without higher yields compensating.

LINK Group forecasts:

We expect the MPC will keep Bank Rate at 5.25% until the second half of 2024, to combat on-going inflationary and wage pressures, even if they have dampened somewhat of late. We do not think that the MPC will increase Bank Rate above 5.25%.

Gilt yields and PWLB rates:

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation continues to fall through 2024.

Our target borrowing rates are set two years forward (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out in Table 15.

Table 15: Target Borrowing Rates

PWLB debt	Current borrowing rate as at 08.01.24 p.m.	Target borrowing rate now (end of Q4 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	4.53%	3.70%	3.80%
10 years	4.67%	3.90%	3.80%
25 years	5.19%	4.20%	4.20%
50 years	4.97%	4.00%	4.00%

Borrowing advice:

Our long-term (beyond 10 years) forecast for Bank Rate remains at 3% and reflects Capital Economics' research that suggests artificial intelligence (AI) and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed local authority (LA) to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to factor in Bank Rate reductions for 2024 and later.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out in Table 16.

Table 16: Suggested Budgeted Investment Rates

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.55%	4.70%
2025/26	3.10%	3.20%
2026/27	3.00%	3.00%
2027/28	3.25%	3.25%
2028/29	3.25%	3.25%
Years 6 to 10	3.25%	3.25%
Years 10+	3.25%	3.25%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

5.4. 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 medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half of 2024.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024-25 treasury operations. The Head of Finance and Procurement (Section 151 Officer) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. Any decisions will be reported to Authority as required.

It is highly likely that there will be a requirement to take loan debt during 2024-25 to cover capital financing needs and cash flow requirements. Internal borrowing will always be considered in the first instance before external borrowing is undertaken, dependent on the Authority’s cash position. The strategy once the external borrowing need is determined would be to acquire short-term borrowing due to the borrowing rates expected to be temporarily elevated in the short term. As borrowing rates decrease, and as these loans mature, they would be replaced with longer dated debt at more affordable levels.

5.5 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 a 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.

5.6 Rescheduling

Rescheduling of current borrowing in our debt portfolio may be considered if premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

If rescheduling is to be undertaken, it will be reported to the Audit and Risk Committee at the earliest meeting following its action.

5.7 New Types of Borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. 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 out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

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

6. ANNUAL INVESTMENT STRATEGY

6.1. Investment Policy – Management of Risk

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

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Authority's investment priorities will be security first, portfolio liquidity second and then yield (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Authority's risk appetite.

The guidance from DLUHC and CIPFA places a high priority on the management of risk. The Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. 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.

2. Other information: ratings will not be the sole determinant of the quality of an institution; 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.

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

4. The Authority has defined the list of types of investment instruments that Sandwell Council's Treasury Management team are authorised to use. There are two lists in Appendix H under the categories of 'specified' and 'non-specified' investments.

   Specified investments are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.

   Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. Non-specified and loan investment limits. The Authority has determined that it will set a limit to the maximum exposure of the total treasury management

investment portfolio to non-specified treasury management investments of 30%.

6. Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in section 6.2.

7. Transaction limits are set for each type of investment in section 6.2.

8. The Authority will set a limit for its investments which are invested for longer than 365 days, (see section 6.4).

9. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see section 6.3).

10. The Authority has engaged external consultants, (see paragraph 3.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in sterling.

12. As a result of the change in accounting standards for 2023-24 under IFRS 9, the Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. More recently, a further extension to the over-ride to 31.3.25 has been agreed by Government.

13. If considering 'Property Funds' or other 'Diversified Income Funds' in the future, the Authority may look to use externally appointed fund managers.

The Authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see section 6.5). Regular monitoring of investment performance will be carried out during the year.

6.2. Creditworthiness Policy

The Authority applies the creditworthiness service provided by the Link Group via Sandwell Council. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

1. “watches” and “outlooks” from credit rating agencies,
2. CDS spreads that may give early warning of changes in credit ratings,
3. sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments. The Authority will, therefore, use counterparties within the following durational bands:

Yellow	5 years*
Dark pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
Light pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency’s ratings.

Typically, the minimum credit ratings criteria the Authority uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings are monitored weekly as a minimum. However, Sandwell Council, acting on behalf of the Authority are alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service as and when they occur so adjustments to the counterparty list would be made at each event.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Authority’s minimum criteria, its further use as a new investment will be withdrawn immediately.

- in addition to the use of credit ratings Sandwell Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

Sole reliance will not be placed on the use of this external service. In addition, Sandwell Council will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long-term rating where applicable)	Institution Financial Limit	Time Limit
Banks/ Building Societies *	Yellow	£20m	5 yrs
Banks/ Building Societies	Purple	£20m	2 yrs
Banks/ Building Societies	Orange	£20m	1 yr
Banks – part nationalised	Blue	£20m	1 yr
Banks/ Building Societies	Red	£15m	6 mths
Banks/ Building Societies	Green	£10m	100 days
Banks/ Building Societies	No Colour	Not to be used	
Limit 3 category – Authority's banker (where "No Colour")	n/a	£5m	1 day
DMADF	UK sovereign rating	unlimited	6 months
Local authorities	n/a	£10m	5 yrs
Housing associations	Colour bands	£5m	As per colour band
	Fund rating**	Institution Financial Limit	Time Limit
Money Market Funds CNAV	AAA	£20m	liquid
Money Market Funds LVNAV	AAA	£20m	liquid
Money Market Funds VNAV	AAA	£10m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark Pink / AAA	£10m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.50	Light Pink / AAA	£10m	liquid

** The yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.*

*** "Fund ratings" are different to individual counterparty ratings, coming under either specific "MMF" or "Band Fund" rating criteria.*

In addition to the above counterparty selection criteria where credit ratings have been issued, the Sandwell Council will also include a number of other non-rated organisations where investments may be placed for service or strategic purposes. These will be classified as Non-Specified investments and details of those counterparties are included in Appendix H to this report.

Creditworthiness

Significant levels of downgrades to short and long-term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

CDS prices

Although bank credit default swaps (CDS) prices, (these are market indicators of credit risk), spiked upwards during the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

6.3. Limits

Due care will be taken to consider the exposure of the Authority's total investment portfolio to non-specified investments, countries, groups and sectors.

a) Non-specified treasury management investment limit. The Authority has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 30% of the total treasury management investment portfolio.

b) Country limit. The Authority has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix I. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Other limits. 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.

6.4. 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). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while cash balances are required in order to manage daily cash flows, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

Investment returns expectations

The current forecast shown in paragraph 5.3, includes a forecast for Bank Rate to have peaked at 5.25% in Q4 2023.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as detailed in Table 16.

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

For its cash flow generated balances, the Authority will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits in order to benefit from the compounding of interest.

Investment treasury indicator and limit - total principal funds invested for greater than 365 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 following treasury indicator and limits in Table 17:

Table 17: Investment Treasury Indicator

	2024-25	2025-26	2026-27
Principal sums invested for longer than 365 days	£15m	£15m	£15m

As of 31 December 2023 no treasury investments were for periods greater than 365 days.

6.5. Investment Risk Benchmarking

The Authority will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 7 day, 1, 3, 6 or 12 month compounded / SONIA.

6.6. 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.

Money Market Funds

A large proportion of the Authority's funds are currently managed on a discretionary / pooled basis by the following institutions:

- Aberdeen Standard Liquidity Fund (Lux) – Sterling Fund (Class 1)
- Aviva Investors Sterling Liquidity Fund (Class 3)
- BlackRock Institutional Sterling Liquidity Fund (Heritage)
- BNP Paribas Insticash Sterling (Institutional)
- CCLA – The Public Sector Deposit Fund (Class 4)
- Federated Short-Term Sterling Prime Fund (Class 3)
- Fidelity Institutional Liquidity Sterling Fund (Class A)
- Invesco Sterling Liquidity Portfolio (Institutional)
- Goldman Sachs Sterling Liquid Reserves (Institutional)

The Authority fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund managers. In order to aid this assessment, Sandwell Council are provided with a suite of regular reporting from its managers via both the Institutional Cash Distributions (ICD) Portal and the fund managers themselves.

6.7. External Fund Managers

The Authority's funds are externally managed by Sandwell Council.

The Authority's external fund manager will comply with the Annual Investment Strategy. The agreement between the Authority and the fund manager additionally stipulate guidelines on duration and other limits in order to contain and control risk.

The Authority fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. In order to aid this assessment, the Authority is provided with regular reporting from its manager and will meet with representatives as required.

7. APPENDICES

F. Prudential and Treasury Indicators
G. Economic Background
H. Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
I. Approved Countries for Investment
J. The Treasury Management role of the Section 151 Officer

Appendix F: Prudential and Treasury Indicators

The Authority's capital expenditure plans are the key driver of Treasury Management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

1. The forecast capital expenditure for 2023-24 and estimates for future years recommended for approval are:

	2023-24 Forecast £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Expenditure	4,341	12,996	7,904	2,339	4,094

Prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. The Authority is asked to approve the following indicators:

2. Estimates of the ratio of financing costs to net revenue stream for the current and future years are:

	2023-24 Forecast £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Ratio	2.14%	2.04%	2.21%	2.08%	2.32%

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs) against the net revenue stream.

3. The CFR is 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 through a revenue or capital resource, will increase the CFR.

	2023-24 Forecast £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
CFR	32,593	36,988	40,374	40,437	43,524

4. The Operational Boundary 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.

	2023-24 Forecast £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Operational Boundary	36,000	41,000	45,000	45,000	48,000

5. The Authorised Limit for external debt represents a legal 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.

	2023-24 Forecast £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Authorised Limit	40,000	45,000	49,000	49,000	53,000

6. 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.

Maturity structure of fixed interest rate borrowing 2024/25		
	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 2024/25		
	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%

The limits for under 12 months and up to 2 years have been increased from 2023/24 limits to allow for short term fixed rate debt to be taken during this current period of high interest borrowing rates. This will allow the Authority to refinance for longer periods (subject to interest rates having fallen to acceptable levels) at the time of maturity.

Appendix G: Economic Background

The first half of 2023/24 saw:

- Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).

The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

The fall in the composite Purchasing Managers Index from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0% q/q rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.

The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.

As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017 million in July to 0.989 million in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1 million since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3myy rate rose 7.8% for the period June to August, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.

CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.

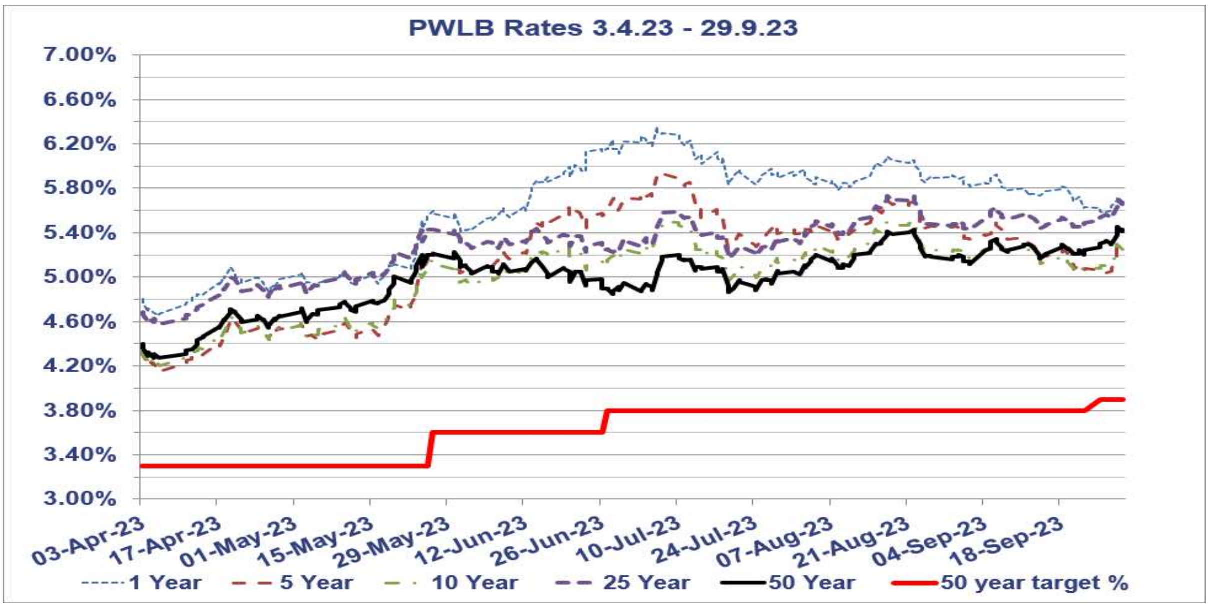
In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.

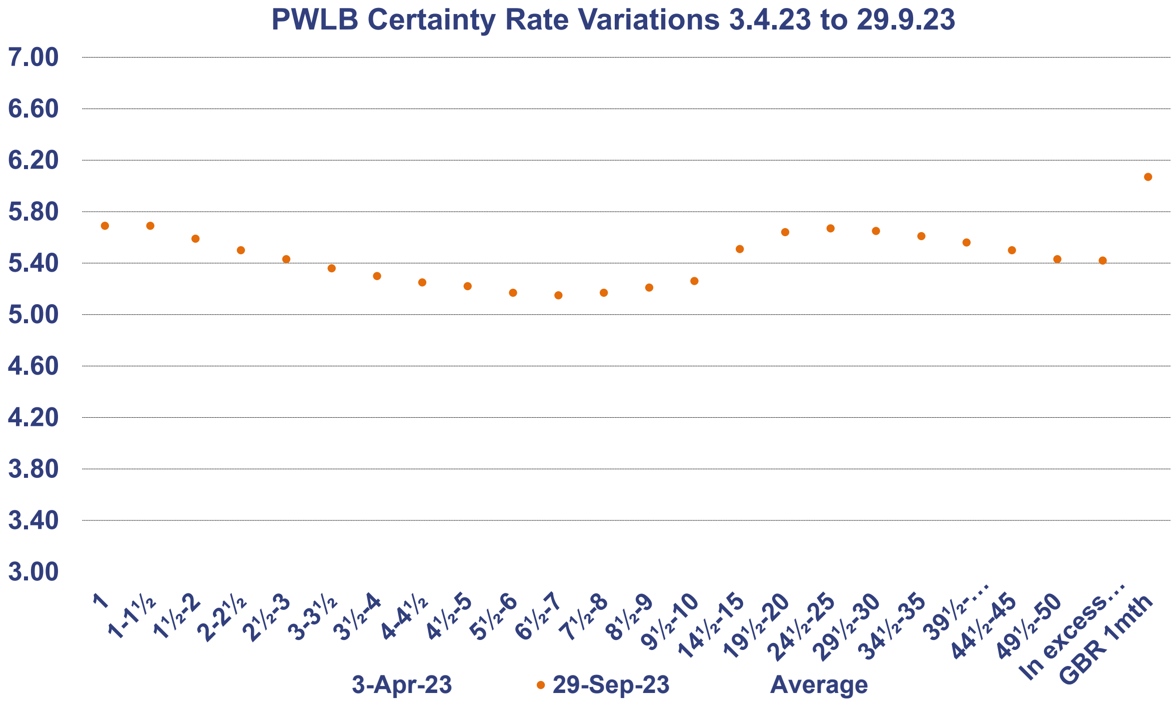
Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time". Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.

This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

In the table below, the rise in gilt yields across the curve as a whole in 2023/24, and therein PWLB rates, is clear to see.

PWLB RATES 01.04.23 - 29.09.23





HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

The peak in medium to longer dated rates has generally arisen in August and September and has been primarily driven by continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

The S&P 500 and FTSE 100 have struggled to make much ground through 2023.

CENTRAL BANK CONCERNS

Currently, the Fed has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. EZ rates have also increased to 4% with further tightening a possibility.

Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

Appendix H: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

Specified Investments: All such investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

Non-Specified Investments: These are any investments which do not meet the specified investment criteria. A maximum of 30% will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to 'high' rated institutions or investment vehicles that could be classified as either Specified Investments or Non-Specified Investments (i.e. where maturities are more than 12 month) are detailed in the table below:

	Minimum credit criteria / colour band	**Max % of total investments / £ limit per institution**	**Max. maturity period ****
DMADF – UK Government	Yellow	100%	6 months (max. is set by the DMO *)
UK Gilts	Yellow	£10m	5 years
UK Treasury Bills	Yellow	£10m	364 days (max. is set by the DMO*)
Bonds issued by multilateral development banks	Yellow	20% / £10m	5 years
Money Market Funds CNAV	AAA	100%/ £20m	Liquid
Money Market Funds LNVAV	AAA	100%/ £20m	Liquid
Money Market Funds VNAV	AAA	50%/ £10m	Liquid

	Minimum credit criteria / colour band	Max % of total investments / £ limit per institution	Max. maturity period **
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	50% / £10m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	50% / £10m	Liquid
Local Authorities	Yellow	100%/ £10m	5 years
Term Deposits with Housing Associations	Blue Orange Red Green No Colour	75% / £10m	12 months 12 months 6 months 100 days Not for use
Term Deposits with Banks and Building Societies	Blue Orange Red Green No Colour	75% / £20m	12 months 12 months 6 months 100 days Not for use
CDs or Corporate Bonds with Banks and Building Societies	Blue Orange Red Green No Colour	75% / £10m	12 months 12 months 6 months 100 days Not for use
Gilt Funds	UK sovereign rating	£10m	

** DMO is the Debt Management Office of HM Treasury*

*** maturities within 12 months would be deemed Specified Investments. All other periods would be classified as Non-Specified Investments.*

The table below lists counterparties and limits for non-rated institutions that would be deemed Non-Specified Investments regardless of time until maturity.

Non-Specified Investment Category	**Limit**
Sandwell Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimized as far as is possible.	£15m
Building Schools for the Future Local Education Partnership. Whilst this is not a usual investment counterparty, Sandwell Council is likely to invest a small amount as part of the wider Building Schools for the Future project.	£1m
Sandwell Inspired Partnership Services. Whilst this is not a usual investment counterparty, Sandwell Council is likely to invest a small amount for the organisation to be use as working capital in its infancy.	£1.5m
Bond funds. Sandwell Council will seek further advice on the appropriateness and associated risks with investments in these categories.	£10m
Property funds the use of these instruments can be deemed to be capital expenditure and as such will be an application (spending) of capital resources. Sandwell Council will seek guidance on the status of any fund it may consider using.	£10m

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by Sandwell Council on behalf of the Authority. To ensure that the Authority is protected from any adverse revenue implications, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

Appendix I: Approved Countries for Investment

This list is based on those countries which have sovereign ratings of AA- or higher as at 19 December 2023, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- Belgium
- France
- Qatar
- U.K.

Although this list includes all countries that have a credit rating above the approved minimum rating, ethical considerations will also be taken into account before a country is included in the final approved list.

Appendix J: The Treasury Management role of the Section 151 Officer

The Section 151 officer is responsible for:

- recommending clauses, Treasury Management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular Treasury Management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the Treasury Management function;
- ensuring the adequacy of Treasury Management resources and skills, and the effective division of responsibilities within the Treasury Management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.