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WIRRAL

Cabinet

Date:	**Wednesday, 12 February 2014**
Time:	**6.15 pm**
Venue:	Committee Room 1 - Wallasey Town Hall

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SUPPLEMENTARY AGENDA

6. MEDIUM TERM FINANCIAL STRATEGY 2014/2017 (Pages 1 - 78)

13. EXEMPT INFORMATION
- EXCLUSION OF THE PRESS AND PUBLIC

The following item contains exempt information.

RECOMMENDATION: That, under section 100 (A) (4) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following item of business on the grounds that it involves the likely disclosure of exempt information as defined by the relevant paragraphs of Part I of Schedule 12A (as amended) to that Act. The Public Interest test has been applied and favours exclusion.

14. EXEMPT APPENDICES (Pages 79 - 84)

The following appendix is exempt in accordance with paragraph 3 by virtue of the commercially sensitive nature of the information it contains.

- **Traffic Signal Maintenance**
  Agenda Item 10 refers
  Appendix 1 – Tender Report

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WIRRAL COUNCIL

CABINET

12 FEBRUARY 2014

SUBJECT	**MEDIUM TERM FINANCIAL STRATEGY 2014/17**
WARD/S AFFECTED	**ALL**
REPORT OF	**DIRECTOR OF RESOURCES**
RESPONSIBLE PORTFOLIO HOLDER	**COUNCILLOR PHIL DAVIES**
KEY DECISION	**YES**

1.0 EXECUTIVE SUMMARY

1.1 This report sets out the Medium Term Financial Strategy 2014/17. It is a strategic, financial document that set outs the Councils financial approach for the planning period 2014/15 to 2016/17. It also incorporates the Treasury Management and Investment Strategy for 2014/17 in accordance with the CIPFA Code of Practice for Treasury Management in Public Services.

2.0 BACKGROUND AND KEY ISSUES

2.1 Over the next three years the services the Council provides are facing a very challenging financial future with a £44 million anticipated funding gap. The size of this funding gap is leading the Council to consider how the total financial resources of the Council and its partners will need to be maximised, prioritised and channelled to the right areas and activities. The Medium Term Financial Strategy focuses on ensuring that resources are matched to priorities as identified in the Corporate Plan whilst ensuring that statutory functions are provided in the most efficient way.

2.2 The Council has and will continue during the period 2014/17 to realign itself to the financial reality it faces. The Government has set out how it aims to eliminate the budget deficit. The savings introduced in the four year period Spending Review 2010 (SR10) 2011/12 to 2014/15 represent the largest reduction in public government spending since the second world war. The Government has subsequently announced that public finances will not be balanced in the current parliament i.e. before it ends in 2015. The latest spending round period (2015/16 was announced in June 2013 (SR13). Local Government will face further funding reductions in real terms. It is anticipated that further reductions due to austerity will continue until at least 2017.

2.3 At the same time the Council is facing financial pressures from the increasing demand for certain services. This increased demand comes from demographic and recession linked changes. In contrast the financial effects of changes in services such as car parking and the introduction of new services will lead to further challenges.

2.4 The Medium Term Financial Strategy as well as providing financial background, sets out the Councils budget strategy over the next few years.

The responses and approaches that will be adopted to meet the challenges faced and close the funding gap. The Medium Term Financial Strategy contains the following sections:

- Overview the period 2014/17
- Forecast Income
- Forecast Expenditure
- General Fund Balances and Earmarked Reserves
- Capital, Treasury Management and Asset Management
- Risk Management and Business Continuity
- Managing the Medium Term Financial Strategy

Wherever a financial estimate can be made of likely events this has been included. Given the level of assumptions for any projection of this type, only significant items have been included. The aim of this Strategy is not to give provisional budget figures, but to provide the Council with a framework with which to support planning considerations for the medium term. The tables within the Medium Term Financial Strategy are dependent on the completion of the 2014/15 budget.

2.5 The Medium Term Financial Strategy incorporates the Treasury Management Strategy. This remains a key area of the financial strategy, especially with low interest rates and limited investment opportunity. It is included in appendix 2 and is subject to approval by the Council at the same time as the budget. The following paragraphs are specific to the strategy and highlighted to assist Members in their consideration of the Treasury Management Strategy.

2.6 CIPFA has defined treasury management as: *"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

The Council endorses this definition and acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is, therefore, committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective treasury management.

2.7 The purpose of the attached Treasury Management Strategy Statement is to set:

- The Treasury Management Strategy for 2014/17 - The long term direction for Council borrowing, debt rescheduling and investments.
- The Prudential Indicators – information to ensure the Council's capital investment is affordable, prudent and sustainable.
- The Minimum Revenue Provision (MRP) Statement – The Council's policy on the repayment of long term debt.
- Authorised signatories for treasury management activities.

3.0 RELEVANT RISKS

3.1 The Medium Term Financial Strategy provides a strategic overview of the issues facing future authority finances and includes a risk assessment.

3.2 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are important and integral elements of its treasury management activities. The main risks to the treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal and Regulatory Risk

4.0 OTHER OPTIONS CONSIDERED

4.1 There are no other options considered in this report.

5.0 CONSULTATION

5.1 The outcome of the What Really Matters consultation ha, and swill, help influence future priorities and service delivery. The Medium Term Financial Strategy links to the Corporate Plan priorities. The Treasury Management Strategy has been written in consultation with the Council's external treasury management advisors, Arlingclose Ltd. There has been no further consultation undertaken or proposed for this strategy report. There are no implications for partner organisations arising out of this report.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are none arising out of this report.

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

7.1 The resource implications are within the Strategy and the financial implications are updated by the Budget Projection reports submitted to Cabinet throughout the year. Approval and implementation of Treasury Management Strategy will limit financial risks while helping to minimise financing costs and maximise investment returns.

8.0 LEGAL IMPLICATIONS

8.1 There are none arising out of this report.

9.0 EQUALITIES IMPLICATIONS

9.1 There are none arising out of this report.

9.2 An Equality Impact Assessment (EIA) is not required.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are none arising out of this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are none arising out of this report.

12.0 RECOMMENDATIONS

12.1 That in respect of the Treasury Management Strategy 2014/17

- i) The Treasury Management Strategy for 2014/17 be approved.
- ii) The Prudential Indicators be adopted.
- iii) The Council's Minimum Revenue Provision policy be approved.
- iv) The Council Officers listed in Appendix G be authorised to approve payments from the Council's bank accounts for all treasury management activities.

12.2 That is respect of the Medium Term Financial Strategy 2014/17

- i) The Medium Term Financial Strategy be approved.
- ii) Regular updates of the Medium Term Financial Strategy be reported to Cabinet.

13.0 REASON FOR RECOMMENDATIONS

13.1 The Corporate Plan identifying how the corporate objectives are to be achieved which are delivered through the setting of the annual Budget. The Medium Term Financial Strategy indicates the resource issues and principles that shape the Budget as by identifying current issues as well as potential developments / related issues the Strategy helps inform future revenue and capital budgets.

13.2 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.

13.2 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) also places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

13.3 Following staffing changes, Members are asked to approve a revised list of Officers to approve treasury management activities.

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APPENDICES

Appendix 1 Medium Term Financial Strategy
Appendix 2 Treasury Management Strategy

REFERENCE MATERIAL

CLG Local Authority Investment Guidance, 2004
CLG Changes to the Capital Financing System Consultation, 2009
Code of Practice for Treasury Management in Public Services (2011 Edition), CIPFA 2011.
Prudential Code for Capital Finance in Local Authorities (2011 Edition), CIPFA 2011.

SUBJECT HISTORY

Council Meeting	**Date**
Medium Term Financial Strategy	
Cabinet - Medium Term Financial Strategy	4 November 2010
Cabinet - Medium Term Financial Strategy	13 October 2011
Cabinet - Medium Term Financial Strategy	18 February 2013
Cabinet - Future Financial Position	10 December 2013
Treasury Management & Investment Strategy	
Cabinet - Treasury Management and Investment Strategy 2012 to 2015	20 February 2012
Cabinet - Treasury Management Annual Report 2011/12	21 June 2012
Cabinet - Treasury Management and Investment Strategy 2013 to 2016	18 February 2013
Cabinet - Treasury Management Annual Report 2012/13	10 October 2013

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2014-17 Medium Term Financial Strategy.

Contents

1 Overview

1.1 Purpose of the Document

The Medium Term Financial Strategy is intended to provide a robust, consistent and sustainable approach to establishing and maintaining a stable and prudent financial basis on which Wirral Council's services can operate. It sets out a broad framework for the Councils future budget and a proposed approach to budget planning.

The Council is facing a challenging financial future. The setting of next and future year's budgets will be difficult. The level of savings required to balance the Councils budget are considerable. Significant savings are expected throughout the next 3 years and beyond as public sector expenditure is reduced.

It is through the MTFS process that the Council sets out how it will respond to the new financial realities it faces over the period 2014-17. The strategy also links with Wirral's Corporate Plan. It shows how our finances will be structured and managed to ensure that they meet future financial challenges, as well as supporting the priorities of the Council and its partners.

Each year there is the short-term requirement to prepare an annual budget and set the council tax. The achievement of Wirral Council's long-term objectives however, with the planning of new initiatives, capital developments and the allocation of resources in response to changing service needs, requires service and financial planning to be undertaken over more than one year. The MTFS therefore looks to take into account the longer term implications of the following:-

- Income - forecast future income levels on both revenue and capital;
- Expenditure - forecast service pressures as a result of the impact of demographic and other changes on service demands;
- Plan - provide a financial framework within which business planning can proceed effectively.

In addition to Wirral Council's annual budget the following are the major strategy documents in support of the MTFS:-

- Capital Strategy including capital programme;
- Asset Management Plan;
- Treasury Management Strategy.

These Strategies lay out the strategic aims of the Councils capital and investment plans. They are integral to the MTFS and also the annual budget setting process. The Capital Strategy sets out how capital investment will be prioritised. The capital resources available to the Council play a key role in how services can be transformed in the future, through investing in innovative approaches to service delivery. There are revenue implications to these capital decisions in the form of capital financing costs and on going maintenance costs. There are two way links to the Treasury Management Strategy and the Asset Management Plan.

The MTFS and annual budget bring together both revenue and capital so that decisions on the amount of borrowing can be made. The challenging financial environment has resulted in restricted capital investment. There is a difficult mix between capital demands and restrictions on the revenue costs of the demands.

1.2 Links to the Corporate Plan

The MTFS complements the Corporate Plan as a means of ensuring that Wirral Council's finances are aligned with its vision, aims & priorities. The Council adopted a new Corporate Plan 2014 – 2016 in December 2013. The approach to the MTFS is to ensure that the Council makes the best use of its financial resources in the delivery of key Corporate Plan outcomes, the key themes of which have been designed to ensure that the Council is focused on the appropriate activities and doing these activities in an appropriate way.

It is clear that the Council needs a focused approach to commissioning its services, to integrating services with others, where relevant, and to ensure that it decommissions services where they do not align with priorities or can not be afforded. This can be considered as an outcomes approach based on life course whereby the Council considers its response to its input and influence at each life course stage from early years to end of life. Work continues on the commissioning strategy. This can be expressed as starting well, developing well, living and working well, and ageing well. The council is being remodelled to ensure alignment to absolute priorities, optimal delivery models and maximum efficiency. The financial resources available will strongly shape the strategy as will the strategy contents significantly affect the financial strategy and prioritisation.

1.3 National and External Influences

National Influences

The MTFS for the three years 2014/15 to 2016/17 has been developed against a difficult financial picture. Despite recent improvement the outlook for the next 3 years for the British economy continues to be uncertain. The Council must realign its services to the reduced funding levels and contain our spending to the overall income available. Wirral has made savings of £106.8m between 2011/12 and 2013/14. This has enabled the Council to respond to the reduced levels of government funding in addition to meeting the additional spending demands faced. The Council is going to need to make new savings in the next 3 years. Less reliance can be placed on government grants and a higher proportion of local income will need to come from local sources – council tax, business rates and economic factors.

The major national influences on the Councils MTFS are detailed in the following paragraphs.

The Governments Deficit Reduction Programme

The public sector since 2010 has seen a permanent reduction of its spending. This has resulted in unprecedented financial challenge for local government.

The Government's aim is to eliminate the budget deficit over 5 years. The annual deficit as a percentage of Gross Domestic Product is forecast to be 6.8% in 2013/14 and a surplus of 0.1% by 2018/19.

The size of the Government policy on deficit reduction is leading to massive change in all public sector services including local government. The forecasts are uncertain and may vary, with the deficit being potentially cleared earlier or later than 2018/19. The estimates of deficit reduction reflect plans on public spending reductions, anticipated tax revenues and the performance of the economy.

The National Economy

The UK economy has performed better during 2013 than was predicted in the March 2013 Budget Statement. However recent announcements have warned that growth in 2013 is unlikely to be continued as strongly in 2014. Economic recovery as mentioned before is key to the Government meeting its deficit reduction targets and in turn spending plans.

The Autumn Statement 2013 announced that in 2014/15 and 2015/16 Government departmental amounts would be reduced by a further 1% over and above the reductions already announced in June 2013 Spending Review. Local Government has been protected from these further reductions and there are no changes to the amounts announced in Spending Review 2013. The Autumn Statement did set out the Governments vision for public spending beyond 2015/16, the current spending round. It is anticipated that there will be a need for further reductions in 2016/17 and 2017/18 of a similar magnitude to the annual reductions which have been made to date in order to meet the deficit reduction target. After this the assumption may be that public spending would be flat in real terms. The key message is though that there will be no increase in public spending, including that on Local Government once the deficit has been eliminated.

The health of the economy is a key factor in the MTFS. This strategy recognises that the economic recovery has begun but that substantial reductions in the public sector including local government spending will take place to enable the government to meet its budget targets.

The National Impact on the Local Outlook

The Spending Round 2013 (SR 2013) June 2013 set out total departmental expenditure limits to 2015/16. The Local Government amount for 2014/15 is based on the Spending Review 2010, revised for subsequent announcements such as that in the March 2013 Chancellors budget that spending for local government would be subject to a further 1% reduction for 2014/15. The reductions for 2015/16 as a result of SR 2013, in baseline funding for local authorities are 13.1%.

There are currently no Spending Review announcements beyond 2015/16 although the Chancellor has indicated that the reductions in the order of those made in 2014/15 and 2015/16 are required so ensuring that the Governments Budget deficit is eliminated. It is therefore not known how further reductions in public sector expenditure or central government spending will affect funding to local government. As such the future year of this MTFS period continues to be cloaked in uncertainty. The risk is that there will be more reductions in the next spending review period from 2015/16. These would be on top of the reductions in Wirral's funding in 2013/14 and 2014/15, announced in the Local Government Finance Settlement. There is however, as stated before, little information available about the funding levels 2016/17.

1.4 Budget Priorities

Wirral Council will seek to safeguard those services that it considers to be highest priority. The Council may make savings in priority areas only if there is no significant adverse impact to quality and level of service provision. For example, the Council may find a more efficient means of delivering services, or partnership funding may be secured. Otherwise, Wirral Council will not make savings that result in diminution in service quality in these areas unless there is absolutely no alternative e.g. inability to balance the budget. The approach will be to not direct cuts to services wherever possible, but to implement transformational change (delivering quality services within the reduced budgets now available).

In approving the budget savings options for 2014/15 the council has had regard for those services deemed to be of the highest priority.

Wirral Council acknowledges the need to provide statutory services, and in many cases these will be consistent with its priorities. Where the link between the need to provide a statutory service and Corporate Plan priorities is not as strong, the Council will provide a level of service consistent with affordability. Efficiency gains and partnership working will be explored as means of providing statutory services to an acceptable level at a lower cost. In some circumstances, Wirral Council will consider reducing the level of service in order to make savings and redirect resources to the Council's highest priorities.

To ensure the Council has rigorously looked to avoid expenditure that directly affects residents it has used a savings prioritisation analysis to minimise cuts and reductions to services - this is detailed at section 3.3.

Subject to the above, unavoidable and essential growth items will be funded by the making of savings from elsewhere within the Wirral Council budget, or the generation of additional income. The Council will manage its budget as a corporate whole, if necessary transferring money from one activity to another if this is what is necessary to match limited resources to the highest priorities.

2. Forecast Income

2.1 Local Government Grant Funding

The October 2010 Spending Review announced departmental spending totals to 2014/15. These totals represented planned reductions in local government spending of 28% over the SR10 timeframe. The Autumn Statement in 2012 announced that the period of austerity would extend to 2017/18 and additional reductions in funding to local government of 2% for 2014/15. The March 2013 Budget announced additional reductions in local government funding of 1% in both 2014/15 and 2015/16. The Spending Review in June 2013 laid out Government spending for 2014/15 and 2015/16 in line with previous announcements.

The decrease in government funding is the single biggest factor driving the forecast funding gap for the Council. Like for like funding has decreased and will continue to take place. The reductions for Wirral since the start of 2010 have been over 50%.

<u>Local Government Finance Settlement</u>

For Wirral, the government's calculation of funding comprises the following:-

	2014/15 Settlement Funding Assessment £m	**2015/16 Indicative Funding £m**
Upper Tier Funding	118.155	**99.078**
Lower Tier Funding	20.825	**17.427**
Formula Funding	**138.980**	**116.505**
Grants held back	0.213	**0**
2011/12 Council Tax Freeze Compensation	3.271	3.270
Early Intervention Funding	**10.251**	**9.375**
Homelessness Prevention Funding	0.065	0.065
Lead Local Authority Funding	0.121	0.121

Learning Disability and Health Reform Funding	7.141	7.138
Total Grants Rolled in	**21.040**	**19.970**
Total Settlement Funding	**160.041**	**136.475**

The total settlement funding is dependent on the business rate retention mechanism. The council's net rate yield is adjusted to take account of the amounts to be paid to central government and a share to be passed to the Merseyside Fire and Civil Defence Authority to give the council's retained business rates (RBR) element:

	£m
Net Forecast rate yield	64.702
Less: Amount to be paid to Central Government (50%)	32.036
Business Rates Baseline	**32.036**
Less: Amount to be paid to Merseyside Fire and Civil Defence Authority (2%)	0.641
Retained Business (RBR) element:	**31.395**

To this RBR is added the retained business rates (RBR) top up which is fixed, and the Revenue Support Grant, also fixed, to give total start-up funding. This is shown in the table below:

		2014/15 £m
Retained Business Rates (RBR)	Variable amount	31.395
RBR Top up from Government	Fixed amount	40.513
Revenue Support Grant	Fixed amount	87.493
Total 2013/14 Funding		**159.401**

Actual retained business rates income for 2014/15 will be dependent on the assessed rateable values, effect of appeals and collection rates. The NNDR1 return estimates this amount. Business rates present significant risk to the Council. Any uncollected business rates, or unfavourable variation from government estimates of rateable values, will impact directly on council resources available and therefore on resources available to fund and to provide services.

Although the business rates retention scheme includes a safety net at 7.5% to protect local authorities from significant reductions in business rates, this means that shortfalls from 0% - 7.5% will not be protected and will have to be borne by the local authority. It would be possible for a local authority to lose just below 7.5% for a number of years and never receive any safety net payment. In addition, the council has to estimate for the impact of appeals. Business rates are clearly very significantly influenced by the overall economic climate.

2.2 Local Taxation

In developing a council tax strategy, Wirral Council has to balance between the needs of service users, who are often some of the most vulnerable people in our society, and the burden of the council tax on local council tax payers. With the Government placing severe constraints upon the level of general grant support, the burden of financing increasing service demand falls primarily upon the level of council tax.

The Council faces two choices - to increase the Council Tax or to take a grant in lieu.

The Government has implemented a referendum regime from 2012 onwards, for Council Tax increases that it regards as excessive. For 2013-14, under the Government's regulations the Council was allowed to increase Council Tax by 2%. The Government has stated the Councils must hold referendums with local residents it if proposes to increase Council Tax by more 2% in 2014-15. The alternative is a Freeze Grant. A freeze grant of 1% will be available to all Council which freeze Council Tax levels.

The three years of Freeze Grants has the following history

2011-12 Council Tax Freeze Grant - income that is received by Wirral

- Percentage - 2.5%
- Grant amount - a grant of £3.285m pa
- Duration – 2011-14 and future years.

2012-13 Council Tax Freeze Grant - income that is received by Wirral

- Percentage - 2.5%
- Grant amount - a grant of £3.285m
- Duration – 2012-13 only.

2013-14 Council Tax Freeze Grant – Decision by Cabinet 18 February not to take Council Tax Freeze Grant

2014-15 Council Tax Freeze Grant – Decision awaited.

3. Forecast Expenditure

3.1 Cost Pressures

The financial pressures in the period 2014-17 facing Wirral Council are considerable. There will be a number of items of additional expenditure that are likely to be incurred in future years. There are also other issues that will occur that will require funding for which uncertainties exist, but will eventually involve expenditure for the Council.

The MTFS projections contain anticipated cost pressures and changes that the Council has to manage. These result from a number of sources and can be summarised as follows:

Growth Changes

- Economic – loss of income and jobs: inflation;
- Demographic – increase in elderly with resultant costs;
- Policy – budget correction, Government Legislation, grant settlement;
- Technology - change in work practises and service possibilities;
- Climate - change in standards, availability of resources and adaptive consequences, such as disease.

There are a number of areas where there may be additional costs to the Council in future years which are uncertain at the present time. The following have not been added into the 3 year forecasts but remain a potential risk to the Council:

- Provision for redundancy/severance. The Council will require an adequate provision for such costs. While an earmarked reserve contains provision for these costs there are no other amounts included over the period of the MTFS.

- Transformation of Services costs. To achieve the required level of future savings the Council will need to be remodelled. The MTFS does not contain any anticipated costs of remodelling our services.

A fundamental issue to be addressed in the period of the MTFS is the Councils approach to cost pressures and growth in a period when our funding is reducing. For 2014/15 growth and inflation has been examined and challenged to explore alternative options for meeting the cost pressures faced. Cost pressures are offset by savings. It is however proposed that in future years Directorates will be required to manage their pressures within their resources as far as possible.

Wirral Council has never attempted this degree of budgetary and organisational change before, both in the size of the task and the pace at which it has to be delivered. The degree of risk in 2014/15 will be reflected in the level of General Fund Balances that the Council should hold to cover exposure to risks. The challenges facing the Council are considerable.

These pressures are a mix of clear cost pressures, which are quantified in-year as part of the normal budget monitoring process and other factors, which are much more challenging to quantify. This is because some external factors are outside the Council's control or influence and therefore best estimates must be made.

A balance needs to be struck between areas where budget pressures need to be recognised within the medium term plan where they are quantifiable, and areas of risk where it is deemed that the level of balances held, derived through a robust risk assessment process will cover any potential realisation of the financial impact of that risk.

3.2 Overall Financial Projections for 2014-17

Bringing together the picture relating to forecast income and forecast expenditure, there is a forecast funding gap of £27.5 m in 2014/15 rising to £83.3m by 2016/17. This is a cumulative position and is reduced by the value of savings agreed in December 2013 to a gap of £44.2m. Details of the build-up of the forecast are set out in the following paragraphs.

Developments in the Overall Financial Projections

The MTFS approved for 2013-16 reflected the financial projects for the Council based on the SR 2010, a forecast impact of changes to local government finance that commenced in April 2013 and a number of budget assumptions. This forecast that the Council would have an overall deficit of £109 million for the period 2013-16.

MTFS March 2013 Forecast Funding Gap 2013-16

	2013/14 £m	**2014/15 £m**	**2015/16 £m**	**Total £m**
Forecast Expenditure (including demographic changes)	22	13	12	47
Forecast Income (including reduced grants)	17	30	15	62
Forecast Funding Gap	**39**	**43**	**27**	**109**

The total savings proposed in the budget by Cabinet on 18 February 2013 for 2013/14 amounted to £41.2m with £27.5m also proposed for the years 2014-

2016. As a consequence at March 2013 some £40.3m still had to be found to achieve the total of £109m by 2016.

In December 2013 the gap presented in the MTFS was updated. The revised position highlighted a gap of £83 million for the period 2014-17. The March 2013 MTFS forecast has been updated for information released in the summer and the savings agreed in February 2013. Further revisions have come from the announcement of the SR 2013 for 2015/16 and the addition of the anticipated budget gap for 2016/17. This resulted in a new financial forecast for the period 2014-17.

MTFS December 2013 Forecast Funding Gap 2014-17

	2014/15 £m	2015/16 £m	2016/17 £m	Total £m
Forecast Expenditure (including demographic changes)	300.3	288.1	275.1	863.5
Forecast Income (including reduced grants)	272.8	257.4	250.0	780.2
Forecast Funding Gap	**27.5**	**30.7**	**25.1**	**83.3**

The forecast funding gap for 2014-17 has been updated below to reflect savings agreed in December 2013 by the Council, the provisional local government finance settlement and revisions to budget assumptions that have been identified.

The updated position shows a “surplus” for 2014-15 of £0.4 m. The forecast funding gap for 2014-17 is over £44 million. This will be subject to change as the Government has yet to finalise the Local Government Finance Settlement for 2014/15 and 2015/16.

MTFS March 2014 Forecast Funding Gap 2014-17

	2014/15 £m	2015/16 £m	2016/17 £m	Total £m
Forecast Expenditure (including demographic changes)	276.3	275.1	276.6	828.0
Forecast Income (including reduced grants)	276.7	257.1	250.0	783.8
Forecast Funding Gap	**(0.4)**	**18.0**	**26.6**	**44.2**

The 3-year financial projections highlights that there continues to be a gap between the Councils available resources and spending pressures. As mentioned before the Council has been, and will continue to work through one of the most challenging financial periods it has ever faced. The Spending Review period to 2014/15 will see the greatest ever post war reduction in Local Government funding. To respond to this the Council must reshape to meet this new financial reality. Wirral has made savings in the period 2011-2014 and will do so again in 2014/15. Significant savings are expected throughout the spending review period and beyond. The Council is working in an increasingly difficult and unpredictable financial environment.

3.3 The Revenue Budget Strategy to meet Pressures

In order to meet these challenges and close the financial gap the Medium Term Financial Strategy will drive forward the financial planning process. Wirral's financial strategy to close the gap will be based on the following principles:-

Prioritisation

The medium term planning cycle aims to link resources to Wirral objectives and priority areas. The Council recognises the pressures on its budget and, while seeking to protect and enhance front-line services as far as possible, will aim to contain these pressures within existing resources. Cabinet Members will examine all budget pressures and seek reductions where possible. The approach will be to continue to avoid direct cuts to services where possible and deliver transformational change. The budget building has been informed by valuing what is most important for residents. To enable this, savings are differentiated between those that do not directly affect residents, such as efficiency gains, and savings that have an impact on residents, such as reduced standards or stopping services.

The priority approach assesses savings options under the following classifications of savings:-

For Savings in 2014/15 and 2015/16 agreed in February 2013 savings were prioritised as follows:

Highest Priority: Savings that affected residents least:

Type of Saving	Nature of Saving
Organisation	Arrange People Better
Lean	Better Processes
Procurement	Buy at a Lower Price
Shared Services	Spread Costs to Others
Capital	Reduce Revenue Costs
Terms & Conditions	Terms and Conditions of Employees
Sweat the assets	Improve Income
Change Assumptions	Revisions to Future Predictions

Lower Priority: Savings that affect residents directly

Type of Saving	Nature of Saving
Change Standards	Usually reduce Service Standards
Stop Doing Things	Cease Services

In developing the 2014/15 Budget during 2013, the Council has adopted a number of principles when proposing budget options that will close the funding gap. The budget consultation has used a priority approach to assess savings options under the following classification of savings:

- Being more efficient – Making sure that we deliver our services in the most cost effective way possible – streamlining processes, joining up our back office functions and never wasting money on administration that could be invested in services.

- Working together – working more in partnership with others in the public, community, voluntary and faith sectors, reducing duplication and delivering better outcomes for residents.

- Promoting Independence – moving away from the Council doing everything and instead encouraging self help and community empowerment and resilience.

- Targeting resources – we have to target our resources on those who need our help the most – this will mean cuts in some services – which we are trying to deliver in a way that is both fair and equitable.

Partnership

The Council will seek new funding and new ways of working with support provided by the outside organisations. Cabinet Members will continue to look at new methods of service delivery over the three-year budget period to improve services to the public and the value for money that they provide.

Efficiency and Productivity
That Council recognises the need to improve efficiency and deliver value for money. Cabinet Members will seek to identify efficiencies that will not impact on service delivery, and to identify options that will improve the value for money services through improving performance and/or reducing service costs.

Pressures
That the Council has determined, that given the financial pressures faced by Wirral, growth can only be supported in priority areas, or where the Council is required to fund new items e.g. by new legislation. Demand across a number of services will increase in the future, especially in social care areas, at a time when grant funding from the Government is reducing.

Multi Year
The budget will be agreed in February 2014 and will cover a three year period to avoid taking a series of annual short term decisions. The vision is to define the outcomes the Council wants to achieve by April 2016 and beyond as part of its commissioning strategy - and look back on how well the journey, over the three years, was accomplished.

Capital and Revenue
The budget is better linked as there are significant revenue costs arising from capital schemes (for example, schools), just as some capital spends, such as refurbishments, can reduce revenue expenditure on maintenance.

Transparent
This year's budget process improved the transparency of decision making. The budget consultation process shared with residents the entire budget saving options at the beginning of the process and categorised them in terms of their effect on residents. Residents were able to see the range of options that Members would consider.

Consultative
The budget process has sought as wide a canvass of views as possible. It has used a number of methods to gain everyone's opinions and views. The Council through What Really Matters, consulted on £17.5 million of savings with further efficiency savings of over £7 million identified and a potential increase in Council Tax to generate over £2 million. All these budget options have helped the Council close its current forecast funding gap for the next financial year.

4. General Fund Balances and Earmarked Reserves

4.1 Background

The maintenance of general fund balances and earmarked reserves is part of the Councils strategic financial planning and approach to the management of risks it will face in the future.

The Councils approach to how it manages its reserves is based on Wirral's local circumstances. The amount held is decided by the Council in line with our perceived future local demands. As such there is no standard approach to the level of reserves that could be applicable to every Council.

Wirral Council adopts a risk-based approach to financial planning, which is used to determine the minimum level of reserves required. The aims of the strategy are to:-

- Ensure the General Fund Balances are set at a reasonable level – this is the Council's 'last line of defence' should unforeseen financial difficulties emerge;
- Ensure earmarked reserves are set at a reasonable level to cover specific financial risks faced by Wirral Council – these may also be used on a short-term temporary basis for other purposes provided the funding is replaced in future years.

4.2 General Fund Balances

Wirral Council's risk-based reserves strategy is applied in the context of the current state of the economy, the other financial risks facing the council and the underlying financial assumptions within the medium term financial plan. The level of the Working Balance has to be maintained at £17.3m for 2014/15 which represents 6.3% of Wirral Council's 2014/15 net revenue budget.

The basis of the level of general fund balances framework is an area of risk, a budget amount, an assessed level of risk, and a percentage factor, which will vary according to the level of risk, which produces a value. The total of the value column is the level of balances required to cover the identified risk. The following example illustrates this:

Salaries budget: £140.936m Risk: low Factor: 0.1% Value: £141k

The areas of risk considered in the general contingency are set out in the Revenue Budget 2014-17 report with an explanation of the potential risks faced by Wirral Council. The calculation of the level of General Reserves Balances is as follows:-

2013/14	2014/15	2015/16	2016/17
£13.0m	£17.3m	£15.4m	£13.9m

4.3 Earmarked Reserves

The Council maintains earmarked reserves in addition to its General Fund Balances, which are set aside for specific purposes. The Council is obliged to maintain a number of Legally Restricted Reserves; these are sums of money that the Council is required to set aside for legally defined purposes (e.g. the Dedicated Schools Grant). The main earmarked reserves are set out in the table below and a brief description of each category of earmarked reserve is given.

- Housing Benefit Reserve - The reserve is held to meet ongoing issues relating to the previous Housing Benefit Supporting People arrangements, the potential claw-back of subsidy against recent years plus further development of the administration of housing benefits.

- Insurance Fund Reserve – This is primarily to cover possible liability insurance claims. The overall estimate of the amount required is based on an actuarial assessment.

- Remodelling the Council – To deliver the Council Vision for 2016 will required funding of restructuring costs and other transformational costs.

- Management of Risks - A number of reserves maintained for very specific uses and risks.

- The Schools Balances are not available for Wirral Council's general use.

4.4 Monitoring and Management

Compliance against a benchmark for general fund balances is monitored on a regular basis and reported to Members through the Financial Monitoring report. The aims of this approach are to:

- Ensure the General Fund Balances are set at a reasonable level- this is the Councils 'last line of defence' should unforeseen financial difficulties emerge;

- Compliance against this benchmark is monitored on a regular basis and reported to Members through the revenue budget monitor.

4.5 Summary

Although the budget position is very challenging and will remain so for the foreseeable future, the Director of Finance considers the level of reserves and balances to be reasonable for 2014/15 based on:-

- Working Balances of £17.3m, which at 6.3% of the 2013/14 net revenue budget is reasonable given the financial risks the council is facing;
- Current level of general fund earmarked reserves.

If the Council uses its reserves instead of making budget reductions they would be used up in a short amount of time. Reserves can be used to smooth budget reductions but they cannot be used to avoid them. In addition using reserves means that the Council is less likely to be able to fund unforeseen events or plan for future transformational changes without the need to make further reductions in expenditure. A key financial priority is the bolstering of reserves to fund the future transformational changes that will be required to close the Councils funding gap.

5. Capital, Treasury Management and Asset Management.

5.1 Balance Sheet Management

Balance sheet management is a comprehensive approach to managing assets and liabilities to ensure that resources are used effectively (both financially and operationally) and that appropriate governance arrangements are in place around the use of public sector assets and liabilities. Failure to do this could expose the authority to a range of operational, reputational and accounting risks.

We already have embedded processes to review our fixed assets and strategies for treasury management and borrowing. Over the course of 2014/15 we will undertake a self-assessment of process for managing and making provisions for outstanding debtors to ensure that it is effective and will implement any appropriate changes.

5.2 Capital Overview

The MTFS includes the capital strategy for a three year period 2014/15 to 2016/17. The strategy is designed to maximise outcomes through a prioritisation of limited resource allocations. The Council will continue to identify future capital resources including a review of its own asset holding, the latter aiming to generate receipts to be reinvested into its capital resources. In addition the strategy seeks to minimise the level of unsupported borrowing where no additional source of income or saving can be identified to cover the ongoing revenue costs.

5.3 Capital Strategy

The Capital Strategy (Appendix1) is concerned with, and sets the framework for, all aspects of the Council's capital expenditure over the 3 year period 2014/15 to 2016/17 – its planning, prioritisation, management and funding. It is closely related to, and informed by, the Council's Asset Management Plan and is an integral aspect of the Council's medium term service and financial planning process as reflected in the Medium Term Financial Strategy (MTFS). It is also essential that the strategy reflects the wider private sector investment into the overall regeneration of the area.

The key aims of the Capital Strategy are:

- how the Council identifies, programmes and prioritises capital requirements and proposals;
- provide a clear context within which proposals are evaluated to ensure that all capital investment is targeted at meeting the Council's Corporate Plan objectives;
- consider options available to maximise funding for capital expenditure;
- identify the resources available for capital investment over the three year planning period;

5.4 Treasury Management

The Treasury Management Strategy is detailed in Appendix 2 and sets out the expected treasury operations for this period, linked to the Council's Medium Term Financial Strategy, Capital Strategy, Asset Management Plan and the Council's Corporate Plan. It is inextricably linked to delivering the Council's priorities and strategy. It contains four key legislative requirements:-

- The Treasury Management Strategy Statement which sets out how the Council's treasury service supports capital decisions, day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit required by S3 of the Local Government Act 2003 and is in accordance with the CIPFA (Chartered Institute of Public Finance & Accountancy) Codes of Practice;
- The reporting of the prudential indicators for external debt and the treasury management prudential indicators as required by the CIPFA Treasury Management Code of Practice;
- The investment strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the Department for Communities and Local Government (DCLG) Guidance on Local Government Investments updated in 2010. It is proposed to reduce the Council's minimum long term credit rating requirement from A to A- to enable investment with a wider group of counterparties whose credit standing has not changed but whose ratings are lower because more stringent tests are now applied by credit rating agencies;
- The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year as required by Local Authorities (Capital Finance and Accounting) Regulations 2008.

Revised editions of the CIPFA Prudential Code for Capital Finance in Local Authorities and CIPFA Treasury Management Code of Practice were published in November 2011. The changes are largely regulatory updates and there is little material change affecting the Council. The Council has adopted the codes and the Treasury Management Strategy Statement 2014-17 reflects the updated codes.

One element of the revised Treasury Management Code is that the wording of the Treasury Policy Statement must be amended to include the reporting of financial instruments used to manage risks. The revised statement also now includes high level policies for borrowing and investments.

5.5 Asset Management

After its staff the council's land and property is the next biggest resource. The Asset Management Plan is vital to ensure that this resource is utilised and managed effectively and efficiently so that the council derives maximum benefit from its assets in support of its strategic aims and priorities, as well as use the asset base to shape and influence the quality of life for local people and businesses.

Assets will therefore only be retained where it can clearly be demonstrated that they:-

- contribute to the effective delivery of business provision (i.e. the condition and performance of the asset does not impede service delivery);
- support and meet the social, economic and environmental well-being objectives of the community;
- assist in the delivery of the Wirral's strategic, economic and regeneration objectives and/or;
- provide value for money (in respect of their current or future investment, capital value and/or ability to influence regeneration).

Where assets do not satisfy the above criteria consideration will be given to the asset either being better utilised, freeing up accommodation elsewhere or disposed.

The asset will be reviewed on a regular basis to challenge the retention of assets on the grounds stated above. A review of accommodation and buildings is on-going which, it is anticipated, will generate savings. A review of the rest of the operational estate has also recently commenced which will look at opportunities for the generation of capital receipts.

Key Challenges

In developing an asset management plan it will need to be flexible to take account of and accommodate a variety of factors and challenges which will impact on the future of the asset base. In summary these include:-

- The reduction in Local Government funding over the coming years and the year on year reduction in available revenue and traditional forms of grant funding;
- Changes in legislation;
- Global and national economic climate and the influence of the local property market;
- Protection of key front line services and better alignment of asset provision to service delivery;
- Growing gap between required investment in the asset base (to tackle maintenance backlog and known growth items) and the availability of funding;
- Maintain existing income levels from letting/use of Council premises by third parties.

6 Risk Management and Business Continuity

The MTFS demonstrates how financial planning over the medium term enables Wirral Council to invest in its priority services, and deliver its objectives within the resources available, whilst ensuring the sustainability of the Council's finances over future years. The degree of certainty about assumptions and figures reduces in relation to future years, so it is vital that the council has the flexibility to manage the risks of reduced funding and growing costs and demands.

Wirral Council is also budgeting to hold a suitable level of general balances, based on an assessment of the financial risks facing the authority. This is summarised in the above section on General Fund Balances and Earmarked Reserves. The level of risk is below the level of balances currently held, which is therefore deemed to be at an appropriate level. The level of balances and reserves will be reviewed on an ongoing basis. Whilst many budgets carry a low level of risk, assumptions concerning demand led services can prove to be inaccurate. Where overspending occurs, directorate monitoring procedures allow it to be identified and addressed at an early stage. These procedures may not be sufficient to mitigate all risk and a residual risk is recognised.

Anticipation of future demand and cost uncertainties are further mitigated by establishing earmarked reserves and drawing them down as need requires.

A statement on the robustness of the estimates for 2014/15 to 2016/17 was reported to Cabinet on the 12th February 2014 giving reasonable assurances about the estimates and setting out the key processes that were followed including:-

- the issuing of clear guidance on preparing budget growth and savings options for the three year period 2014/17;
- peer review by finance staff involved in preparing the standstill [base] budget namely the existing budget plus necessary inflation;
- the use of budget monitoring, and re-alignment of budgets with current demand for 2013/14 and future years;
- a review by the Chief Executive Strategy Group, supported by a series of officer challenge sessions, of proposed savings and their achievability;
- a Member review and challenge of each proposal through the Policy & Performance Committees and Cabinet;
- the Director of Resources providing advice throughout the process on robustness, including inflationary factors, avoiding unallocated savings and reflecting current demand and service standards (unless standards and eligibility are to be changed through a change in policy);
- extensive consultation with the public and various groups including the voluntary sector and community and faith groups.

7 Managing the Medium Term Financial Strategy

7.1 Achieving a Balanced Budget 2014-17

2014/15 Financial Strategy

In developing the 2014/15 Budget the approach to balancing the budget initially focused in February 2013 on the agreement of a range of savings in areas which were identified as those that would affect residents less. This prioritised this type of saving over those that would have greatest effect on residents. Further details of the approach are set out in section 3.3.

Further savings for 2014/15, 2015/16 and 2016/17 were agreed in December 2013. In developing this tranche of savings the Council has adopted a number of principles when proposing budget options. The budget consultation used a priority approach to assess savings options under the following classification of savings:

- Being more efficient – Making sure that we deliver our services in the most cost effective way possible – streamlining processes, joining up our back office functions and never wasting money on administration that could be invested in services.

- Working together – working more in partnership with others in the public, community, voluntary and faith sectors, reducing duplication and delivering better outcomes for residents.

- Promoting Independence –moving away from the Council doing everything and instead encouraging self help and community empowerment and resilience.

- Targeting resources – we have to target our resources on those who need our help the most – this will mean cuts in some services – which we are trying to deliver in a way that is both fair and equitable.

2015/16 – 2016/17 Financial Strategy

To tackle the magnitude of the future financial challenge 2015/16 to 2016/17 requires a new approach to the identification of savings. At the same time the Council needs to make sure that its Medium Term Financial Strategy enables the achievement of the Corporate Plan and its objectives. It is clear that in the period 2014-17 the total financial resources of the Council and its partners need to be maximised, prioritised and matched to key services and activities.

The Council therefore needs to ensure that the resources that are available are focused on our priorities as set out in the Corporate Plan. Since 2010 the Council has examined and challenged the way services are delivered. A lot has been achieved through examining the way our services are being delivered to make cost efficiencies.

The period 2015/16 – 2016/17 will see further reduction in grant funding. There will be significant reduction in the grant funding received from Central Government. This will coincide with increasing demands for our services. The resulting increasing deficit combined with the reduced ability of the Council to get "the same for less" means that there are considerable financial challenges and decisions to be taken. Very difficult decisions are going to be needed to prioritise spend and ensure a viable budget in the future. The emphasis for future years will be challenging services the Council continues to fund, working with partner organisations and driving out efficiencies in the ways of working at the heart of the Council.

However, efficiencies alone cannot solve our funding gap. To resolve the Council must evaluate everything it does, to ensure that we deliver the most sustainable, effective and targeted services possible for our communities.

The One Council approach to change will be one of the key delivery mechanisms used to identify savings in 2015/16 and 2016/17. To implement this every department and service is to be evaluated to assess how services will be delivered in the future. It will examine the structure and make up of the entire Council, its skills, priorities and size. Work is currently underway to gather detailed information on what services do. For every department and service a business case will be used to review and determine how each service will be delivered. This will determine whether it is:

- Delivered directly by the Council.
- Delivered in partnership with other public sector organisations.
- Delivered in another way through the commissioning of services from other providers in the public, private or voluntary sector.

The outcome will be the delivery of a key saving. It will also identify and reduce duplication at the same time as bringing together services to achieve economies of scale. A further result should be the prioritisation of council resources.

There are four key principles to how the Future Council work will be carried out.

1. **All proposals for changes will be subject to a sound business case and options appraisal.**
   This means that **all** options will be assessed to ensure they make good financial and business sense for the council. This approach will be used consistently across the council which means we will be able to make the necessary reductions in staffing in a targeted,

strategic way. A fair and consistent approach will be taken to all employees regardless of service area.

2. **Every team will be assessed.**
   Regardless of how a service may be delivered in the future, all teams will be assessed using the same business case process, as explained above. All teams will be evaluated to see how staffing structures and service delivery can be made more efficient.
3. **Nothing will be done in isolation.**
   Wherever possible, any data or information which is collected will be used to inform all parts of the 'Future Council' project, to avoid duplication.
4. **Communication will be regular.**
   Regular updates will be given through the Chief Executive's weekly email, meetings with groups of employees and 'One Brief'.

The project will cover every council service and includes several key strands of work.

- Remodelling the structure, size and make up of the council;
- Proposals to share services with Cheshire West and Chester, and Cheshire East councils;
- Transforming Business Support - creating consistent, effective administrative and related support across the council;
- A new grading structure and pay line.
- Challenging the delivery models for every service and decommissioning of non priority services

The Future Council project will be one of the key ways savings are identified from 2014. Further work will be undertaken in the coming year, linked to the Corporate Plan, to prioritise resources to the achievement of priorities in addition to identify ways that the Council's funding gap will be closed. This work will result in further plans to implement the medium term financial strategy in the period 2015/16 to 2016/17. Further reports detailing the development of plans will be presented to Members as part of the budget and strategic financial planning process. The approach to commissioning, an outcomes approach to it and a focus on lifecourse thinking (early years, childhood and adolescence, adults, older age, end of life) will be key to a focused discussion and decision making approach to the changes required. The approach to the budget needs a step change in thinking to ensure that real and difficult decisions are made whilst protecting the most vulnerable and protecting future income streams e.g business rates.

Whilst the Future Council project provides a framework for savings the Council continues to assess the more "traditional" approaches to closing our funding gap and balancing our budget. These will include the following:

- Service Reductions – identifying areas where services standards can be reduced or services decommissioned.

- Review Expenditure – across all departments expenditure in specific areas will be examined, this includes looking for savings through the commissioning and procurement of services.

- Income Generation – examine fees and charges and explore the potential for new and increased income from existing areas. This includes a focus on business rates and the effect of regeneration policy and success on the income of the Council.

- Asset Review – examination of the Councils asset base and rationalise to ensure that our properties are in line with our service needs.

- Council Tax Levels – additional income beyond that included in the estimated forecast income for 2015/16- 2016/17 could be realised. However this needs to be assessed against any Council Tax Freeze Grant made available by the Government and the requirement to hold a local referendum in the increase exceeds the amount specified for this to take place.

- Change Future Assumptions – future areas of budgetary growth will be examined to, where possible, reduce the level of financial demands.

7.2 Equality

Equality and diversity themes are embedded into policy development and service planning as well as the budget planning process. We actively promote equality of opportunity and are committed to eliminating unlawful discrimination for all our residents, customers and employees. The Council values diversity, mainstreaming equalities into all of its service planning to enhance quality, improve access and deliver better value.

7.3 Consultation

As part of the preparation of the budget for 2014/15 the Council has consulted on its budget proposals, What Really Matters 2013, to achieve the required savings target included in the Medium Term Financial Strategy by a number of means including:-

- Public consultation sessions with over 100 events were held at many locations throughout the borough, including supermarkets, community centres and libraries;
- A programme of direct engagement events;
- Online communications with emails being sent to Wirral residents;
- Council website also via social media, as well as partner and community owned websites;

- Regular communications were also provided via local and regional media organisations;
- Statutory consultation with the voluntary, community and faith organisations;
- Use of a dedicated email address to ask questions and put forward comments/ suggestions;
- Staff consultation via meetings;
- Trades Union Consultation via meetings with representatives;
- Scrutiny of budget proposals by Overview and Scrutiny Committees;
- Consultation on specific service budget proposals as necessary.

7.4 Review of Medium Term Financial Strategy

The Council is facing a massive challenge to implement its financial strategy. This is in response to the Governments reductions in public expenditure. The budget set for 2014/15 reflects the strategy contained in this MTFS through the minimisation of cost pressures and the plans for savings. It is clear that further savings in the coming years are required to close the funding gap. The MTFS will be reviewed and updated at regular intervals during 2014/15 to assess the Council progress towards this key objective.

Appendices

Appendix 1 Capital Strategy 2014-17
Appendix 2 Treasury Management and Investment Strategy 2014-2017

WIRRAL COUNCIL

CAPITAL STRATEGY 2014-17

CONTENTS

1 PURPOSE AND AIMS OF THE STRATEGY

1.1 The Capital Strategy has been developed as a key document that determines the council's approach to capital. It is an integral aspect of the Council's medium term service and financial planning process as reflected in the Medium Term Financial Strategy (MTFS).

1.2 The Capital Strategy is concerned with, and sets the framework for, all aspects of the Council's capital expenditure over the 3 year period 2014/15 to 2016/17 – its planning, prioritisation, management and funding. It is closely related to, and informed by, the Council's Asset Management Plan and other strategies. It is also essential that the Strategy reflects the wider private sector investment into the overall regeneration of the area.

1.3 The Capital Strategy is reviewed on an annual basis to ensure it continues to reflect the changing needs and priorities of the Council, the borough and our relationships with partners.

1.4 The key aims of the Capital Strategy are:

- how the Council identifies, programmes and prioritises capital requirements and proposals;
- provide a clear context within which proposals are evaluated to ensure that all capital investment is targeted at meeting the Council's Corporate Plan objectives;
- consider options available to maximise funding for capital expenditure;
- identify the resources available for capital investment over the three year planning period;

1.5 The Capital Strategy does not allocate resources. This function is undertaken as part of the decision making process with the Capital Programme being part of the annual budget setting process.

2 INFLUENCES ON THE CAPITAL STRATEGY

2.1 The Council is still faced with unprecedented change and uncertainty which affects all of the public sector and the following are some of the major influences on our Capital Strategy.

2.2 The Coalition Government has put in place stringent reductions in revenue and capital grant funding for public services, with a strong drive towards austerity and value for money. Local authorities are facing rising demand and expectations for Council services. The Council is seeking creative new ways of providing services which may require capital investment to deliver best value for our communities and taxpayers.

2.3 The challenge for any Capital Programme is that due to the nature of capital projects (e.g. building projects delayed by funding, planning or construction issues) they do not always deliver to anticipated timescales or budgets, which can increase costs and create additional revenue pressures. In a challenging financial environment, effective procurement, robust contract management and strong management grip are essential to manage costs and ensure all spend counts.

2.4 Strategic asset management. Capital and assets are two sides of the same coin and it is vital that our Capital Programme complements our emerging Asset Management Plan. The challenge is to generate capital receipts and to turn the inefficient properties into efficient ones or dispose of them. Our asset rationalisation and disposals policy is now more rigorous as there is a need to create funding for future capital schemes.

3 CAPITAL INVESTMENT

3.1 Capital investment shapes the future, ensures the organisation is fit for purpose and can transform services and ways of working. It can act as a catalyst and enabler for change. Our spending on capital remains a significant proportion of overall spend and provides an important driver for service transformation and economic growth.

3.2 With a challenging financial environment for the foreseeable future that is influenced by a variety of external factors, there will only ever be a limited amount of capital resources available. Therefore, it is vital that we target limited resources to maximum effect with a new focus on our strategic and financial priorities.

3.3 Capital plays an important role in delivering long term priorities as it can be targeted in creative and innovative ways. However capital is not unlimited or "free money" – our capital funding decisions can have major revenue implications. Two costs are incurred when a capital scheme is funded from borrowing;

- A Minimum Revenue Provision – the amount we have to set aside each year to repay the loan and this is determined by the life of the asset associated with the capital expenditure; and
- Interest costs for the period of the actual loan.

3.4 On present interest rates every £1 million of prudential borrowing costs approximately £90,000 per annum in financing costs (revenue) up to a maximum of 25 years. This is in addition to any ongoing maintenance and running costs associated with the investment.

3.5 The MTFS shows the pressures on the Council Revenue Budget for 2014/17. These pressures severely limit the scope for unsupported capital expenditure (expenditure that generates revenue costs).

3.6 Wirral's budget planning processes integrate both capital and revenue so that coherent decisions are made on a level of borrowing that is prudent, affordable and sustainable for the Council. The difficult financial environment means we have to spend limited money wisely and there is a delicate balancing act in managing these types of potential pressures effectively.

4. PRIORITISING CAPITAL INVESTMENT

4.1 As the Council has to manage demands for investment within the financial constraints that Wirral operates there has to be a means to prioritise investment. Therefore prioritisation criteria have been developed to assess any capital bids that ensure the Programme is targeted to Council priority areas. The criteria are applied by the Capital Working Group in assessing individual bids and in making recommendations to Cabinet as to which should be included in the Capital Programme.

4.2 All capital bids require the completion of a Business Case that requires

- Outline of the capital scheme or investment.
- The linkages of the submission to delivering Council priorities.
- Details on the total capital cost and funding.
- Risks associated with implementation / non-implementation.

4.3 The prioritisation criteria are reviewed annually to ensure they continue to reflect the changing needs and priorities of the Council, the borough and our relationships with partners.

5 CAPITAL PROGRAMME

5.1 The Capital Programme should support the overall objectives of the Council and act as an enabler for transformation of the Councils aims and priorities.

5.2 Over the last three years Wirral will have spent on average £39 million per year on capital projects. We plan to invest £75 million over the next three years of this £27.4 million or 36% of the programme is funded from unsupported borrowing. This will generate a revenue cost of £2.3 million by 2017, which will impact on our revenue budget.

6 CAPITAL EXPENDITURE

6.1 Capital expenditure is defined under the Financial Reporting Standard (FRS) 15 as expenditure which falls into one of two categories

- **The acquisition, creation or installation of a new fixed asset.** The Council must have the right to some future economic benefit which for the public sector is broadly equivalent to where the expenditure allows us to provide goods and services in accordance with our objectives.

- **Increase the service potential of an asset, rather than just maintaining it by.**
  - Lengthening substantially the life of the asset; or
  - Increasing substantially the asset's market value or
  - Increasing substantially either the extent to which an asset can be used or the quality of its output.

These rights must extend into the future, at least more than one year.

A de minimis level is applied – for Wirral this is £10,000 i.e. anything below this value individually is classed and treated as revenue.

7 CAPITAL FUNDING SOURCES

7.1 There are a variety of different sources of capital funding, each having different complications and risks attached.

Borrowing

7.2 The Prudential Capital Finance system allows local authorities to borrow for capital expenditure without Government consent, provided it is affordable. Local Authorities must manage their debt responsibly and decisions about debt repayment should be made through the consideration of prudent treasury management practice.

7.3 As a guide, borrowing incurs a revenue cost of approximately 8% of the loan each year, comprising interest charges and the repayment of the debt (known as the Minimum Revenue Provision or MRP). The Council needs to be satisfied that it can afford this annual revenue cost i.e. for every £1 million of borrowing our revenue borrowing costs are around £0.9 million.

7.4 The Government has given Local Authorities greater freedom in the way they provide for their debts. Local Authorities have to earmark revenues each year as provision for repaying debts incurred on capital projects. When the MRP regime changed on 31 March 2008 it became a duty on each local authority to make provision for debt which the local authority considers prudent.

7.5 The Council has determined that the most prudent method of earmarking revenues to repay unsupported borrowing is by matching the debt repaid each year to the life of the asset which the borrowing helped to finance. As an example, if the Council borrowed £5 million to build a new asset with a life of 20 years then revenue costs would be £0.25 million each year for 20 years plus the interest cost of the borrowing.

Grants

7.6 The challenging financial environment means that national government grants are reducing, or changing in nature. A large proportion of this funding is currently unringfenced which means it is not tied to particular projects but it is often tied to a particular area such as education or highways so we do not have complete freedom on where to spend our grants. Our aim is to use only up to the level of grant provided and we will not use unsupported borrowing to 'top up'. However, we must also meet our statutory obligations and where the grant is not sufficient, other sources of funding will be sought to fund the gap.

Capital Receipts

7.7 Capital receipts are estimated and are based upon the likely sales of assets as identified under the developing Asset Management Plan. These include development sites, former school sites and the agreement with Wirral Partnership Homes / Magenta Living for the sharing of receipts from sales of former Council houses. Receipts are critical to delivering our capital programme and reducing the level of borrowing we require.

Revenue / Other Contributions

7.8 The Prudential Code allows for the use of additional revenue resources within agreed parameters. Contributions are received from other organisations to support the delivery of schemes with the main area being within the education programme with contributions made by individual schools.

8 CAPITAL PROGRAMME MANAGEMENT

8.1 This officer Capital Working Group oversees the co-ordination and management of the Capital Programme. The Group includes representatives from all Directorates and the Terms of Reference of this Group include:-

- Review of the Capital Strategy and policies relating to capital.
- Review and recommend new schemes to Cabinet for inclusion in the Programme.
- Manage the delivery of the approved Capital Programme.

The role of the Capital Working Group (Disposals) is to maximise Capital Receipts from the sale of surplus assets.

8.2 The Capital Programme is kept under continual review during the year. Each scheme is allocated a project officer whose responsibility is to ensure the project is delivered on time, within budget and achieves the desired outcomes.

8.3 Cabinet will receive monthly reports on the progress of the Capital Programme and its funding. This includes recommendations to change the Programme to reflect movements in resources and variations from planned spending on schemes.

CAPITAL PROGRAMME PRIORITISATION EVALUATION CRITERIA

Scheme Title				
		(A) Score 1 to 5	**(B) Multiplier**	**Weighted Score (A x B)**
A	**Direct Links to Council Themes (18%)**			
1	Investing in our future		6	
2	Promoting independence		6	
3	Transforming the Council		6	
B: Outcomes (32%)				
1	Realistic and detailed time table with key events and dependencies rigorously addressed		5	
2	Realistic and clearly stated outcomes with achievable, measured outputs that the investment will produce.		15	
3	Demonstrates need for, benefits of and priority for investing and evaluation of alternate options.		12	
C: Finance (50%)				
1	Business case demonstrates achievable and realistic revenue savings.		15	
2	Attracts noticeable outside funding		20	
3	Accommodates all revenue borrowing or ongoing revenue running costs.		15	
OVERALL WEIGHTED SCORE				
(Scoring scheme: 1 poor, 2 below average, 3 average, 4 good, 5 very good) A scoring threshold of 300 has been used to determine those schemes to be recommended for inclusion in the Capital Programme.				

Wirral Council Treasury Management Strategy Statement 2014-17

CONTENTS

APPENDICES

1. BACKGROUND

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services 2011 (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance (revised 2010).

1.2 This Statement fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG guidance.

1.3 Wirral Council defines its treasury management activities as:

"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.4 The Council will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement (see Appendix A), stating the policies, objectives and approach to risk management of its treasury management activities.

- Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.5 Treasury Management is about the management of risk. The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk.

1.6 As per the requirements of the Prudential Code, the Authority has adopted the CIPFA Treasury Management Code. All treasury activity will comply with relevant statute, guidance and accounting standards.

1.7 The purpose of this Treasury Management Strategy Statement is to approve:

- Treasury Management Strategy for 2014-17.
- Annual Investment Strategy for 2014/15
- Minimum Revenue Provision (MRP) Statement
- Treasury Management Policy Statement
- Prudential Indicators for 2014/15, 2015/16 and 2016/17
- Authorised Signatories for Treasury Management Activity

2. CAPITAL FINANCING REQUIREMENT

2.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's strategy will be to minimize external borrowing, where possible, through, the utilisation of investment balances, sometimes known as internal borrowing.

2.2 The Authority's current level of debt and investments are set out in Appendix B.

2.3 CIPFA's Prudential Code of Practice recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.

2.4 The forecast movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years.

Table 1: Balance Sheet Summary Analysis

	31-Mar-14 Estimate £m	31-Mar-15 Estimate £m	31-Mar-16 Estimate £m	31-Mar-17 Estimate £m
Capital Financing Requirement (CFR)	360	362	351	335
Less: Existing Profile of Borrowing and Other Long Term Liabilities	277	257	247	237
Cumulative Maximum External Borrowing Requirement	**83**	**105**	**104**	**98**
Usable Reserves	60	47	40	38
Cumulative Net Borrowing Requirement	**23**	**58**	**64**	**60**

2.5 Table 1 shows that the capital expenditure plans of the Authority over the next three years cannot be funded entirely from other sources and external borrowing is required.

3. BORROWING STRATEGY

3.1 The Authority currently holds £222 million of loans, a decrease of £25 million from March 2013, as part of its strategy for funding previous years' capital programmes. The Balance Sheet forecast in table 1 shows that in theory the Authority could borrow up to £105 million in 2014/15. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £357 million.

3.2 The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

3.3 Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

3.4 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. The Authority's Treasury Management advisors will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2014/15 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

3.5 In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

3.6 The approved sources of long term and short term borrowing are:

- PWLB
- Local authorities
- Any institution approved for investments
- Any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds (with the exception of Merseyside Pension Fund)

- Capital market bond investors
- Special purpose companies created to enable joint local authority bond issues
- Leasing

3.7 At present, the PWLB remains the Council's preferred source of borrowing given the transparency and control that its facilities continue to provide. However, we will continue to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

Type of borrowing

3.8 As the cost of carry remains high there is a greater reliance upon shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Authority's exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the spread between variable rate and longer term borrowing costs. A narrowing in the spread by 0.5% will result in an immediate review of the borrowing strategy to determine whether the exposure to short dated and variable rates is maintained or altered.

LOBOs

3.9 The Authority has £155m of exposure to LOBO loans (Lender's Option Borrower's Option) of which £145m of these can be called within 2014/15. A LOBO is called when the Lender exercises its rights to amend the interest rate on the loan at which point the Borrower can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the Authority since the decision to call a LOBO is entirely at the lender's discretion.

3.10 Any LOBOs called will be discussed with our Treasury Management advisors prior to acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted.

Debt Rescheduling

3.11 The Authority's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.

3.12 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk. The lower interest rate environment has adversely affected the scope to undertake meaningful debt restructuring although occasional opportunities may arise. The rationale for undertaking debt rescheduling would be one or more of the following:

- Savings in risk adjusted interest costs
- Rebalancing the interest rate structure of the debt portfolio
- Changing the maturity profile of the debt portfolio

3.13 The affordability, prudence and sustainability of borrowing plans will be regulated by a range of Prudential Indicators, which can be found in Appendix D.

3.14 Borrowing and rescheduling activity will be reported to Cabinet in the Annual Treasury Management Report and the Treasury Management monitoring reports.

4. ANNUAL INVESTMENT STRATEGY

4.1 In accordance with Investment Guidance issued by the CLG and best practice this Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yields earned on investments are important but are secondary considerations.

4.2 The Authority and its advisors continually assess economic and market conditions for signs of credit or market distress that might adversely affect the Authority.

4.3 As at 31 December 2013, the Authority held £50 million invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £42 and £143 million, and similar levels are expected to be maintained in the forthcoming year, depending of the levels of grant received and the payment profiles.

4.4 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Specified investments are sterling denominated investments with a maximum maturity of one year. They would also not be deemed capital expenditure investments under Statute. Non-specified investments are effectively, everything else. Both types of investment would have to meet the high credit quality as determined by the Authority.

4.5 The Authority may invest its surplus funds with any of the counterparties shown in Appendix C, subject to the cash and time limits shown.

4.6 There is no intention to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the above credit rating criteria. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the Banking Reform Act 2014 and the EU Bank Recovery and Resolution Directive are implemented. In addition, the Authority may invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Authority's treasury management adviser.

4.7 **Current Account Bank:** Following a competitive tender exercise held in 2012, the Authority's current accounts are held with Lloyds Bank plc which is currently rated above the minimum A- rating in Appendix C. Should the credit ratings fall below A-, the Authority may continue to deposit surplus cash with Lloyds Bank plc providing that investments that can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB - (the lowest investment grade rating).

Registered Providers: Formerly known as Housing Associations, Registered Providers of Social Housing are tightly regulated by the Homes and Communities Agency and retain a high likelihood of receiving government support if needed. The Authority will consider investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.

Building Societies: The Authority takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Authority's deposits would be paid out in preference to retail depositors. The Authority will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.

Money Market Funds: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Authority. Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while funds whose value changes with market prices and/or have a notice period will be used for longer investment periods. The Authority will also seek to restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF. In the case of

Government Liquidity Funds, the Council's exposure to a Fund will not exceed 2%.

Other Pooled Funds: Subject to the Authority having substantial cash balances available it will continue to use pooled bond, equity and property funds that offer enhanced returns over the longer term, but are potentially more volatile in the shorter term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly. The Authority's current investments in pooled funds (other than MMFs) are with the Payden and Rygel Sterling Reserve Fund.

Other Organisations: The Authority may also invest cash with other organisations, for example by making loans to small businesses. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Authority's Treasury Management advisor.

4.8 **Risk Assessment and Credit Ratings:** The Authority uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a [A-] rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn [on the next working day] will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

4.9 **Other Information on the Security of Investments:** The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

4.10 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

4.11 **Specified Investments:** The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

4.12 **Non-specified Investments**: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in Appendix C.

4.13 In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

4.14 **Investment Limits:** In order that the risk to the Authority's finances is further minimised in the case of a single default, a group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts (e.g. King & Shaxson), foreign countries and industry sectors as referred to in Appendix C.

4.15 **Approved Instruments:** The Authority may lend or invest money using any of the following instruments:

- interest-bearing bank accounts,
- fixed term deposits and loans,
- callable deposits and loans where the Authority may demand repayment at any time (with or without notice),
- certificates of deposit,
- bonds, notes, bills, commercial paper, other marketable instruments, and
- shares in money market funds and other pooled funds.

Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

4.16 **Liquidity management:** The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

4.17 **Debt Management Office:** In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office or UK Treasury Bills. The rates of interest from the Debt Management Account Deposit Facility are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.

4.18 The Director of Resources, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to Cabinet meetings.

5. OTHER ITEMS AS REQUIRED BY CIPFA OR CLG

5.1 **Derivative Instruments:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

5.2 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

5.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

5.4 The local authority will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

5.5 **Investment Training**: The needs of the Authority's treasury management staff for training in investment management are assessed every six months as part of the staff Key Issues process and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA and other appropriate organisations.

5.6 **Investment Advisors:** The Authority continues to use Arlingclose Ltd. as independent treasury advisors who provide the following services:

- Credit advice
- Investment advice
- Technical advice

- Economic & interest rate forecasts
- Workshops and training events

The Treasury Management Team within Accountancy monitor the quality of the service provided.

5.7 **Investment of Money Borrowed in Advance of Need:** The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

5.8 In 2014/15 the total amount borrowed will not exceed the authorised borrowing limit of £357 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

6. INTEREST RATE FORECAST

6.1 The economic interest rate forecast provided by the Authority's treasury management advisor is attached at Appendix F. The Authority will reappraise its strategies from time to time in response to evolving economic, political and financial events.

7. POLICY ON DELEGATION

7.1 The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Director of Resources who will act in accordance with the Council's Strategy Statement, Treasury Management Practices (TMPs) and CIPFA's Standard of Professional Practice on Treasury Management.

7.2 On a day to day basis the Treasury Management Team within Financial Services undertakes the treasury management activities.

7.3 Decisions on short term investments and short term borrowings may be made on behalf of the Director of Resources by the Finance Manager for Treasury Management and Capital or any other members of that team who are empowered to agree deals subject to their conforming to the Authority's Treasury Management Strategy and policies outlined in this report.

7.4 Actual authorisation of payments from the Authority's bank account will be made by those listed in Appendix G.

7.5 Decisions on long term investments or long term borrowings (i.e. for periods greater than one year) may be made on behalf of the Director of Resources by the Finance Manager or the Senior Assistant Accountant on the Treasury Management Team and will be reported to Cabinet.

7.6 All officers will act in accordance with the policies contained within this document.

8. PERFORMANCE MONITORING AND REPORTING

8.1 The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close in the form prescribed in its TMPs.

8.2 To ensure adherence to this, the Director of Resources will report to Cabinet on treasury management policies, practices and performance as follows:

- Quarterly against the strategy approved for the year.
- The Council will produce an Outturn Report on its treasury activity no later than 30 September after the financial year end.

APPENDIX A

TREASURY MANAGEMENT POLICY STATEMENT

1. Introduction and background

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;

- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Director of Resources who will act in accordance with the Council's Strategy Statement, Treasury Management Practices (TMPs) and CIPFA's Standard of Professional Practice on Treasury Management.

2. Policies and objectives of treasury management activities

2.1 The Council defines its treasury management activities as:

> "The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

APPENDIX B

EXISTING INVESTMENT & DEBT PORTFOLIO POSITION

	Current Portfolio as at 31 Dec 13 **£m**
External Borrowing:	
Fixed Rate – PWLB	65
Fixed Rate – Market	157
Variable Rate – PWLB	0
Variable Rate – Market	0
Total External Borrowing	222
Other long-term liabilities:	
PFI	54
Finance Leases	1
Total Other Long-Term Liabilities	55
Total External Debt	277
Investments:	
Managed in-house	
Deposits with Banks and Building Societies	14
Deposits with Money Market Funds	2
Deposits with other Public Sector Bodies	18
Deposits in Supranational Bonds and Gilts	7
Managed externally	
Payden Sterling Reserve	1
Total Investments	42
Net Borrowing Position	235

APPENDIX C

APPROVED INVESTMENT COUNTERPARTIES

Specified Investments

New specified investments will be made within the following limits:

Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counterparty Limits £m**
Term Deposits	UK	Debt Management Account Deposit Facility (DMADF), Debt Management Office (DMO)	No limit
Term Deposits Call Accounts	UK	Other UK Local Authorities	Maximum of 15% per authority
Term Deposits Call Accounts Certificates of Deposit	UK and Non-UK	Counterparties rated at least A- (or equivalent) Long Term in the UK and select non-UK countries with a Sovereign Rating of at least AA+	Maximum of 15% per counterparty
Gilts	UK	DMO (Debt Management Office)	Maximum of 25% of portfolio
T-Bills	UK	DMO (Debt Management Office)	Maximum of 100% of portfolio
Money Market Funds	UK/Ireland/ Luxembourg domiciled	Constant Net Asset Value (CNAV) MMFs Variable Net Asset Value (VNAV) MMFs	Maximum of 10% of portfolio per MMF
Other MMFs and CIS	UK/Ireland/ Luxembourg domiciled	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	Maximum of 10% of portfolio per fund/scheme

Non-Specified Investments

Instrument	**Maximum maturity**	**Max %/£M of portfolio**	**Capital expenditure?**
Term deposits with banks, building societies which meet the specified investment criteria (on advice from TM Adviser)	*2 years*	15% per Counterparty	No
Term deposits with local authorities	*5 years*	15% per Counterparty	No
CDs and other negotiable instruments with banks and building societies which meet the specified investment criteria (on advice from TM Adviser)	*5 years*	15% per Counterparty	No
Investments with organisations which **do not meet** the specified investment criteria (subject to an external credit assessment and specific advice from TM Adviser)	*3 months*	*£5m per counterparty*	No
	1 year	*£1m per counterparty*	No
	2 years	*£1m per counterparty*	Yes/no[1]
Deposits with registered providers of Social Housing with a credit rating of BBB- or higher	*5 years*	15% per Counterparty	No
Gilts	5 years	25% per Counterparty	No
Bonds issued by multilateral development banks	5 years	15% per Counterparty	No
Sterling denominated bonds by non-UK sovereign governments	5 years	15% per Counterparty	No

[1] Depending on the nature of the transaction with the third party

Money Market Funds and Collective Investment Schemes	These funds do not have a defined maturity date	15% per fund	No
Corporate and debt instruments issued by corporate bodies purchased from 01/04/12 onwards	*3 years*	15% per Counterparty	No
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573 and subsequent amendments	These funds do not have a defined maturity date	15% per fund	Yes

APPENDIX D

PRUDENTIAL INDICATORS

1. **Background**

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "Prudential Code") when setting and reviewing their Prudential Indicators.

2. **Estimates of Capital Expenditure**

It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Table A:

	2013/14 Approved £000	**2013/14 Revised £000**	**2014/15 Estimate £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**
Capital Expenditure	**37,464**	**36,644**	**46,675**	**17,468**	**11,020**

Capital expenditure is expected to be financed and funded as follows:

Capital Financing	**2013/14 Approved £000**	**2013/14 Revised £000**	**2014/15 Estimate £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**
Supported Borrowing	0	0	0	0	0
Unsupported Borrowing/Capital Receipts	11,041	14,511	22,217	9,824	4,376
Capital Grants	25,535	20,502	24,168	7,644	6,644
Revenue Contribution	888	1,631	290	0	0
Total Financing and Funding	**37,464**	**36,644**	**46,675**	**17,468**	**11,020**

3. **Incremental Impact of Capital Investment Decisions:**

As an indicator of affordability the table below shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Table B:

Incremental Impact of Capital Investment Decisions	2013/14 Approved £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
Increase in Band D Council Tax	8.61	10.55	16.88	5.75

4. Ratio of Financing Costs to Net Revenue Stream

The estimate for interest payment in 2013/14 is £14.2 million and for interest receipts is £0.6 million. The ratio of financing costs to the Council's net revenue stream is an indicator of affordability. It highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of revenue budget required to meeting borrowing costs. The ratio is based on costs net of investment income.

Table C:

Ratio of Finance Costs to net Revenue Stream	2013/14 Estimate %	2014/15 Estimate %	2015/16 Esimate %	2016/17 Estimate %
Ratio	8.7	10.0	10.9	11.3

5. Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and it's financing.

Table D:

Capital Financing Requirment	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Esimate £m	2016/17 Estimate £m
CFR	365	360	362	351	335

6. Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. Its purpose is to ensure that over the medium term, gross debt will only be for a capital purpose. In order to ensure this the Authority should ensure that debt does not, except in the short term exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and the next two financial years.

The Authority had no difficulty meeting this requirement in 2013/14, nor does the Director of Resources envisage any difficulties meeting it in future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

7. **Actual External Debt**

The Council's balance of Actual External Debt (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities) as at 31 March 2013 was **£306m**. A breakdown of this figure is provided in Table E below. This Prudential Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Table E:

Actual External Debt as at 31 March 2013	**2012/13 £m**
Borrowing	247
Other Long Term Liabilities	59
Total	**306**

8. **The Authorised Limit**

The Authorised Limit sets the maximum level of external debt on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external debt items on the Balance Sheet and is the statutory limit determined under Section 3 (1) of the Local Government Act 2003.

Table F:

Authorised Limit for External Debt	**2013/14 Approved £m**	**2013/14 Revised £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**
Borrowing	489	373	357	344	331
Other Long-term Liabilities	8	85	85	85	85
Total	**497**	**458**	**442**	**429**	**416**

9. **The Operational Boundary**

The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included with the Authorised Limit.

Table G:

Operational Boundary for External Debt	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Borrowing	361	363	347	334	321
Other Long-term Liability	80	80	80	80	80
Total	**441**	**443**	**427**	**414**	**401**

The Director of Resources has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Cabinet.

10. Upper Limits for Fixed Interest Rate Exposure & Variable Rate Exposure

The following Prudential Indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

In order to increase the understanding of this indicator, separate upper limits for the percentage of fixed and variable rates are shown for borrowing and investment activity, as well as the net limit.

Table H:

	2013/14 Approved %	2013/14 Revised %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
Upper Limit for Fixed Interest Rate Exposure					
Borrowings	100	100	100	100	100
Investments	100	100	100	100	100
Net	**200**	**200**	**200**	**200**	**200**
Upper Limit for Variable Interest Rate Exposure					
Borrowings	100	100	100	100	100
Investments	100	100	100	100	100
Net	**200**	**200**	**200**	**200**	**200**

The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's Treasury Management Strategy.

11. Maturity Structure of Fixed Rate Borrowing

The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. Limits in the following table are intended to offer flexibility against volatility in interest rates when refinancing maturing debt.

Table I:

Maturity structure of fixed rate borrowing	Lower Limit 2014/15 %	Upper Limit 2014/15 %
Under 12 months	0	80
12 months and within 24 months	0	50
24 months and within 5 years	0	50
5 years and within 10 years	0	50
10 years and over	0	100

12. Upper Limit for Total Principal Sums Invested over 364 Days

The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Table J:

	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Upper Limit for total principal sums invested over 364 days	30	30	30	30	30

13. Credit Risk

The Authority considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Authority's assessment of counterparty credit risk. The Authority also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

14. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Council has adopted the principles of best practice.

The Council has previously approved the adoption of the CIPFA Treasury Management Code 2011 Edition.

APPENDIX E

2014/15 MINIMUM REVENUE PROVISION (MRP) STATEMENT

1.1 Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision most recently issued in 2012.

1.2 The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

1.3 The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

1.4 For capital expenditure incurred before 1st April 2008, and for supported capital expenditure incurred on or after that date, MRP will be determined in accordance with the former regulations that applied on 31 March 2008, incorporating an "Adjustment A" of £11.5 million. (Option 1 in England & Wales)

1.5 For unsupported capital expenditure incurred after 31 March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments starting in the year after the asset becomes operational. (Option 3 in England and Wales). For prudence, when Option 3, the asset life method, is applied to the funding of an asset with a life greater than 25 years the Council will apply a default asset life of 25 years. Estimating assets lives over 25 years is difficult to achieve accurately; therefore, using a default of 25 years is considered the most prudent approach and is in keeping with the Regulations.

1.6 For assets acquired by finance leases or the Private Finance Initiative and for the transferred debt from Merseyside County Council, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

1.7 Capital expenditure incurred during 2014/15 will not be subject to a MRP charge until 2015/16.

1.8 The MRP Statement will be submitted to Council before the start of the 2014/15 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised Statement should be put to Council at that time.

Based on the Authority's estimate of its Capital Financing Requirement on 31 March 2014, the budget for MRP has been set as follows:

	31.03.2014 Estimated CFR £m	**2014/15 Estimated MRP £m**
Capital expenditure before 01.04.2008	186.1	7.3
Supported capital expenditure after 31.03.2008	10.9	0.5
Unsupported capital expenditure after 31.03.2008	48.1	2.1
Finance leases and Private Finance Initiative	55.4	2.2
Transferred debt	59.6	4.9
Loans to other bodies	0	Nil
Total General Fund	**360.1**	**17.0**

APPENDIX F

Arlingclose's Economic and Interest Rate Outlook

Underlying assumptions:

- Growth continues to strengthen with the second estimate for Q3 growth coming in at an unrevised 0.8%. The service sector remains the main driver of growth, boosted by a contribution from construction.
- The unemployment rate has fallen to 7.6%. The pace of decline in this measure will be dependent on a slower expansion of the workforce than the acceleration in the economy, alongside the extent of productivity.
- The CPI for November has fallen to 2.1%, a much more comfortable position for the MPC. Utility price increases are expected to keep CPI above the 2% target in 2014, before falling back again.
- The principal measure in the MPC's Forward Guidance on interest rates is the Labour Force Survey (LFS) unemployment rate. The MPC intends not to raise the Bank Rate from its current level of 0.5% at least until this rate has fallen to a threshold of 7%.
- The reduction in uncertainty and easing of credit conditions have begun to unlock demand, much of which has fed through to the housing market. In response to concerns over a house price bubble, the Bank of England announced a curtailment of the Funding for Lending Scheme, which will henceforth concentrate on business lending only.
- The MPC will not hesitate to use macro prudential and regulatory tools to deal with emerging risks (such as curtailing the FLS). Absent risks to either price stability or financial stability, the MPC will only tighten policy when it is convinced about the sustained durability of economic growth.
- Federal Reserve monetary policy expectations - the slowing in the pace of asset purchases ('tapering') and the end of further asset purchases - will remain predominant drivers of the financial markets. Tapering of asset purchases will begin in Q1 2014. The US political deadlock over the debt ceiling will need resolving in Q1 2014.
- The European backstop mechanisms have lowered the risks of catastrophic meltdown. The slightly more stable economic environment at the aggregate Eurozone level could be undone by political risks and uncertainty in Italy, Spain and Portugal (doubts over

longevity of their coalitions). The ECB has discussed a third LTRO, as credit conditions remain challenging for European banks.

- China data has seen an improvement, easing markets fears. Chinese leaders have signalled possible monetary policy tightening.
- On-going regulatory reform and a focus on bail-in debt restructuring is likely to prolong banking sector deleveraging and maintain the corporate credit bottleneck.

Forecast:

- Our projected path for short term interest rates remains flat. Markets are still pricing in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. The MPC will not raise rates until there is a sustained period of strong growth. However, upside risks weight more heavily at the end of our forecast horizon.
- We continue to project gilt yields on an upward path through the medium term. The recent climb in yields was overdone given the soft fundamental global outlook and risks surrounding the Eurozone, China and US.

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	1.00
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk													
3-month LIBID rate													
Upside risk	0.20	0.25	0.30	0.35	0.40	0.50	0.55	0.60	0.65	0.70	0.75	0.90	0.95
Arlingclose Central Case	0.45	0.45	0.50	0.55	0.65	0.75	0.75	0.75	0.75	0.75	0.80	0.80	0.80
Downside risk			0.05	0.10	0.20	0.30	0.30	0.30	0.30	0.30	-0.35	-0.35	-0.35
1-yr LIBID rate													
Upside risk	0.35	0.30	0.35	0.40	0.45	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.80
Arlingclose Central Case	0.90	0.95	0.95	0.95	1.00	1.05	1.10	1.15	1.20	1.25	1.30	1.40	1.40
Downside risk	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	1.45	1.50	1.55	1.60	1.65	1.70	1.75	1.85	1.95	2.10	2.30	2.50	2.50
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
10-yr gilt yield													
Upside risk	0.50	0.50	0.50	0.65	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	3.00	3.10	3.30	3.50	3.50
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
20-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.25	3.30	3.35	3.40	3.45	3.50	3.55	3.65	3.75	3.85	4.05	4.15	4.15
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80
50-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.45	3.50	3.55	3.60	3.65	3.70	3.75	3.80	3.85	3.95	4.05	4.15	4.15
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Official Bank Rate													
Upside risk			0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month LIBID													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.50	0.55	0.55	0.55	0.60	0.60
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
1-yr LIBID													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.85	0.90	0.95	0.95	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.10	1.10
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	0.95	0.95	0.95	0.95	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.20	1.20
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
Central case	2.00	2.00	2.05	2.05	2.05	2.05	2.10	2.10	2.10	2.20	2.20	2.20	2.20
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.00	3.10	3.10	3.10	3.10	3.10
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00
Central case	3.35	3.35	3.35	3.40	3.40	3.40	3.50	3.50	3.50	3.50	3.60	3.60	3.60
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

Underlying Assumptions:

- UK growth is unlikely to return to above trend for the foreseeable future. Q3 GDP was strong at 0.9% but this momentum is unlikely to be sustained in Q4 or in 2013. The rebalancing from public-sector driven consumption to private sector demand and investment is yet to manifest, and there is little sign of productivity growth. Further contraction in the Eurozone, including Germany's powerful economy, and slower forecast growth in the emerging economies (Brazil/Mexico/India) are exacerbating the weakness.

- Consumer Price Inflation has fallen to 2.7 % from a peak of 5.2%. Near term CPI is likely to be affected by volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated. Real wage growth (i.e. after inflation) is forecast to remain weak.

- The fiscal outlook for bringing down the structural deficit and stabilise debt levels remains very challenging. Weakened credibility of the UK reining its levels of debt poses a risk to the AAA status, but recent history (US, France) suggests this may not automatically result in a sell-off in gilts.

- In the absence of large, unexpected decline in growth, QE is likely to remain on hold at £375bn for now. The availability of cheaper bank borrowing and subsequently for corporates through the Funding for Lending Scheme (FLS) is a supporting factor.

- The US Federal Reserve's shift in its rate guidance from a date-based indication to economic thresholds (6.5% unemployment, inflation 1 – 2 years out projected to remain below 2.5%, longer term inflation expectations remain well anchored) is likely to increase market uncertainty around the highly volatile US employment data releases.
- The Eurozone is making slow headway which has curtailed some of the immediate risks although peripheral countries continue to struggle. Fully-fledged banking and fiscal union is still some years away.
- In the US, the issues of spending cuts, reducing the budget deficit and raising the country's debt ceiling remain unresolved. A failure to address these by March 2013 could lead to a similar showdown and risks a downgrade to the US sovereign credit rating by one or more agencies.
- A reversal in market risk sentiment from current "risk on" to "risk off" could be triggered by economic and/or political events – impending Italian and German elections, US debt ceiling impasse, difficulty surrounding Cyprus' bailout, and contagion returning to haunt the European peripheral nations – could inject renewed volatility into gilts and sovereign bonds.

APPENDIX G

AUTHORISED SIGNATORIES

The following officers are authorised to make payments, either via the Council's online banking system or by signing cheques, and issue other instructions relating to Treasury Management transactions on behalf of Wirral Borough Council:

Director of Resources – Vivienne Quayle

Head of Business Processes – Malcolm J. Flanagan

Head of Financial Services – Tom Sault

Senior Finance Manager – Peter J. Molyneux

Senior Finance Manager – Jenny Spick

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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