

# **2013-16 Medium Term Financial Strategy.**

## **Contents**

- 1 Overview**
- 2 Resources**
- 3 Revenue**
- 4. Working Balances and Earmarked Reserves**
- 5. Capital, Treasury, IT and Assets**
- 6 Risk Management and Business Continuity**
- 7 Procurement**
- 8 Consultation**

### **Appendices**

Appendix 1	Population Trends
Appendix 2	Capital Strategy
Appendix 3	Treasury Management
Appendix 4	Asset Management Plan

# **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 improvement and transformation of Wirral Council's services can progress.

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 Council's budget are significant and will be of a similar size to those that occurred in 2011/12 and 2012/13. Significant savings are expected throughout the next 3 years and beyond as public sector expenditure is reduced.

It is through the MTFFS process that the Council sets out how it will respond to the new financial realities it faces over the period 2013-16. The strategy also links with Wirral's vision and priorities. 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 MTFFS therefore looks to take into account the longer term implications of the following:-

- Resources – forecast future resource levels on both revenue and capital;
- Revenue - forecast service pressures as a result of the impact of demographic and other changes on service demands;
- Prioritise - relate service demands and priorities to likely resource availability;
- Plan - provide a financial framework within which business planning can proceed effectively.

In addition to the Wirral Council's annual budget the following are the major strategy documents in support of the MTFFS – all of which are identified as appendices:-

- Capital Strategy
- Corporate Asset Management Plan
- Capital Programme Summary
- Treasury Management Strategy
- IT Strategy

## **1.2 Links to Key Corporate Plans and Strategies**

The MTFFS complements the Corporate Plan as a means of ensuring that Wirral Council's finances are aligned with its vision, aims & priorities.

## **1.3 National and External Influences**

### National Influences

The MTFS for the three years, 2013-14 to 2015-16 has been developed against an uncertain financial economic picture. The outlook for the next 3 years for the British economy continues to be uncertain. The major national influences on the Councils MTFS are detailed in the following paragraphs.

#### The Governments Deficit Reduction Programme

The Governments Spending Review 2010 (October 2010) covering the period 2011/12 to 2014-15; during this period Local Government funding has been reduced by more than average for the public sector as a whole. The cuts were front loaded with the largest reductions taking place in 2011/12 and 2012/13.

The Autumn Statement (November 2011) announced a further two years of cuts for 2015/16 and 2016/17. The allocation to specific Government departments and so to local government has yet to be announced.

The Autumn Statement (November 2012) announced a further 2% cut to local government spending in 2014-15, over and above the already announced Spending Review 2010 reductions.

#### The National Economy

A one year spending Review will be finalised in 2013 for 2015/16. It is anticipated that further reductions will be made in areas such as Local Government. The level of Central Government funding is the biggest financial factor influencing the Council. This level is in turn influenced by the state of the national economy.

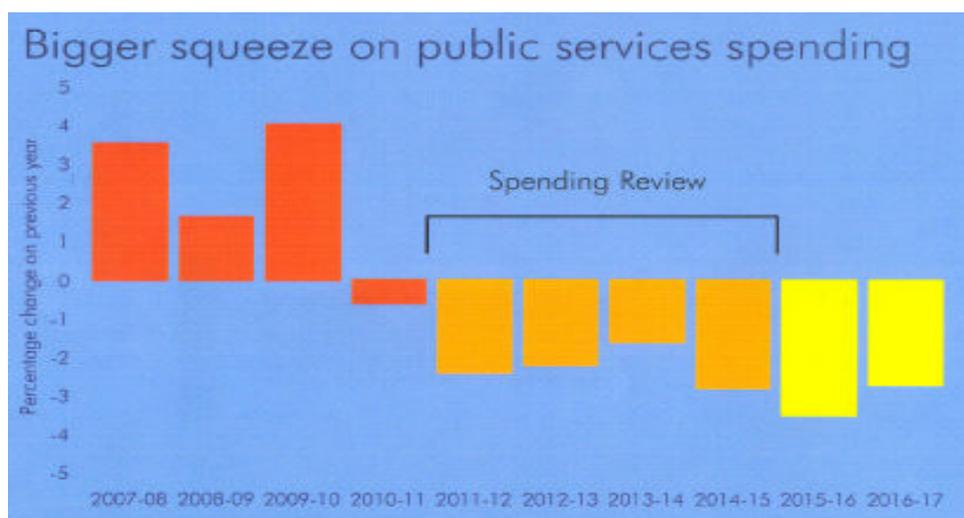
The national economic outlook is unclear over the next five years. This is due to the effect of the following:-

- The Governments continued fiscal reductions and austerity measures;
- Higher than expected inflation, especially in items such as food and fuel;
- The Euro area crisis. There continues to be economic instability and uncertainty in the Eurozone. This is feeding through to household and business decisions and to tighter credit conditions. All of these impact on the health of the British Economy.

#### The National Impact on the Local Outlook

The period beyond 2013/14 is uncertain in terms of the support that the Council receives from Central Government.

## Two further years of austerity 2015/17



Source: Office for Budget Responsibility (November 2011)

It is not known how further reductions in public sector expenditure or central government spending will affect funding to local government. As such the future years 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, as stated before, little information available about the funding levels in 2015/16 and 2016/17. In the coming years the national economic situation will impact on all public sector organisations in Wirral and the wider Wirral region.

### 1.4 Local Factors

#### Population

A number of local factors have an impact on service delivery and associated costs; as well as levels of demand for services and allocation of funding by central Government. The most significant of these factors is population.

#### Population Trends

The current resident population of Wirral, as at mid 2011, is 310,400 (using 2010 ONS estimates). Population projections have not yet been produced which take into account the results of the 2011 Census. The latest ONS population forecast is based on the mid year 2010 figures. ONS have predicted a 5.68% increase in Wirral by 2031. This contrasts with a significantly larger increase for England and the North West overall, which are projected to increase by 14% and 12% respectively over the same period. By age, the population of younger people aged 0-15 is expected to rise slightly, but then tail off again after 2026. A striking feature of these projections is the percentage decrease in Wirral (and Merseyside overall) in the working age population, those aged 16 to 64. In Wirral, there is projected to be a 5.16% decrease in the population, compared to a 2.7% decrease in Merseyside, a 6.92% increase in England and a 3.41% increase in the North West.

The population of older people aged 65 and over is projected to increase by 16.03% over the period 2010 to 2016. In addition the percentage of people aged 75 plus continues to increase. Forecasts suggest that the percentage of the population aged 75+ will increase from 12.17% in 2012 to 12.60% in 2016. This is anticipated to lead to an increased demand for older people's services resulting from both an increasing older people's population and also an increase in the average age of older people.

### Deprivation

Deprivation has been identified using the Index of Multiple Deprivation (IMD) 2010. This shows that the majority of the areas of acute deprivation are in Bidston and St James and Birkenhead and Tranmere wards. The majority of the least deprived areas of Wirral are in Heswall ward (Gayton and Heswall) with some other areas in West Kirby and Thurstaston Ward (Caldy area), Hoylake ward and Clatterbridge ward. In summary there is a north and east/west and south split in Wirral with regard to deprivation.

### Effect on Services

The Council is continuing to analyse the impact of population forecasts in terms of its medium term planning of services. Appendix 1 contains further details on Wirral's local population and its characteristics.

## **1.5 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 2013-14 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.

## **1.6 Data Quality**

We are committed to maintaining and improving the quality of the financial and non financial data underpinning our medium term financial strategy. This will be achieved through greater integration of both financial and non financial planning, so that we are using the same data for service and financial planning.

The Council participates in a number of benchmarking arrangements at both sub-regional and national level to enable it to assess performance against similar organisations and geographic neighbours. The use of benchmarking data assists in the continuous improvement in both delivery and value for money of the services it provides.

## **1.7 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.

## 2. Resources

### 2.1 Local Government Funding

The 2013/14 year will see the implementation of a major change to how local government is funded. The fundamental changes and implications for future Council resources include:-

- Changes to the local financing system, including the localisation of business rates;
- Changes to formula funding and the calculation of baseline funding for the Council, called Start Up funding;
- A new treatment of specific grants such as Early Intervention Grant;
- Welfare reform including the localisation of Council Tax Benefits;
- Council Tax reforms, including changes to exemptions and discounts.

The Local Government Finance Settlement announced our funding allocations for 2013/14 and 2014/15 (indicative). This is set out in the following sections:-

#### Start-Up Funding

The Government, as part of the consultation on the changes to the local government finance system, announced that for 2013/14 no local authority would be better or worse off than they would have been under the current formula grant system. To ensure that local authorities have a stable starting point at the beginning of the new business rates retention scheme, the Government has calculated a start-up allocation based on 2012/13 formula and current data.

For 2013/14 and 2014/15, each council has been assigned a Start-Up Funding Assessment. This combines formula funding (what formula grant would have been had it continued) and rolled-in grants (previously specific grants now deringfenced and included in the single assessment).

The formula funding element has been calculated on a similar basis to formula grant in 2012/13. This calculation has been adjusted for technical changes that were part of the July 2012 consultation on the data components.

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

	<b>2013/14 Start -up Funding £m</b>	<b>2014/15 Indicative Funding</b>
Grants Rolled in Using Tailored Distributions	Tbc-final settlement figures	Tbc-final settlement figures
Relative Needs Amount		
Relative Resource Amount		
Central Allocation		

Floor Damping		
Central Education Functions within LACSEG		
Formula Funding		
Add Grants rolled in		
2011/12 Council Tax Freeze Compensation		
Council Tax Support Funding		
Homelessness Prevention Funding		
Lead Local Authority Funding		
Learning Disability and Health Reform Funding		
Total Grants Rolled in		
Total Start Up Funding		

The total start-up funding is dependent on the business rate retention mechanism. The council's net rate yield is adjusted to take account of the central government to give the council's retained business rates (RBR) element:

	£m
Net Forecast rate yield	Tbc-final settlement figures
Less: Amount to be paid to Central Government	
<b>Retained Business (RBR) element:</b>	

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:

		<b>2013/14 £m</b>
Retained Business Rates (RBR)	Variable amount	Tbc-final settlement figures
RBR Top up from Government	Fixed amount	
Revenue Support Grant	Fixed amount	
<b>Total 2013/14 Funding</b>		

Actual retained business rates income for 2013/14 will be dependent on the assessed rateable values, effect of appeals and collection rates. The NNDR1 return will estimate this amount and is due to be submitted to the DCLG in March.

There is uncertainty over the operation of the business rates retention scheme. This presents significant risk to the Council. Any uncollected business rates, or unfavourable variation from government estimates of rateable values, will impact directly on council resource available and therefore on resources available to fund and to provide services.

Although the business rates retention scheme will include 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.

### Revenue Spending Power

As part of the 2013/14 finance settlement the government announced for all councils reductions in their spending power when compared to the previous year. According to DCLG analysis, Wirral has incurred a £xxm reduction (x%). This compares with a reduction for Metropolitan Districts of £m. At a national level the reduction is £m (xx%).

The analysis of movements from 2012/13 to 2013/14 is extremely complex as new funding arrangements are introduced. In total, reductions for 2013/14 are as predicted and in many respects as expected from the Spending Review.

## Education Funding and Schools

The Dedicated Schools Grant (DSG) is funded 100% by government with no funding from local taxation (Council Tax or business rates). The grant is specific and has to be spent on schools (although local authorities are able to provide a top-up from Council Tax or other local sources).

There have been significant changes to how DSG will be determined in future. Previously the overall value of DSG has only been updated for changes in pupil numbers through the Guaranteed Unit of Funding (GUF). In the last two years GUF has been the same as the previous years. The DSG did not take account of any other changes in pupil characteristics e.g. relative age, levels of special need/deprivation.

Following extensive consultation the DSG will in future be calculated in three blocks; Schools, Early Years and High Needs. The Schools and Early Years block are both allocated on a per pupil basis. The amount per pupil is determined by splitting the 2012/13 DSG for each authority into the relevant blocks. For Schools and Early Years this is divided by the number of pupils used to allocate 2012/13 DSG to determine the amount per pupil. The same amounts per pupil are used to allocate 2013/14 provisional DSG (based on October 2012 schools census). This methodology means that each authority receives a different amount of DSG per pupil for these two blocks (based on historical allocations under the previous arrangement), and for 2013/14 receives the same per pupil as they would have received under the old GUF (allocations now reflect changes in early years and school pupil numbers).

The calculation of the high needs block is based on the 2012/13 baseline (i.e. not adjusted for any changes in the number of high needs pupils or their needs). The baseline is set on an agreed number of high need places (based on local authority returns) and includes the removal of inter authority recoupment. There is also an adjustment relating to changes in 16+ high needs pupils not the responsibility of the Education Funding Agency (EFA) for the academic year starting August 2013.

The provisional DSG for 2013/14 includes additional funding for the expansion of the two year old programme (including the transfer from local authority EIG), transition funding following the end of floor protection for 3 year old funding and transfer of funding for induction of newly qualified teachers (NQTs). Finally, there is provision for a cash floor to protect any overall reduction due to falling pupil numbers to no more than 2% (although no authority qualifies for this floor in 2013/14 provisional allocations).

Although the overall value of DSG has increased this is mainly due to the additional pupils within the Schools block, the transfer of responsibility for 16+ high needs students, the transfer of additional responsibilities for 2 year olds and NQT induction. Individual schools allocations are still governed by a minimum funding guarantee (MFG) of -1.5% per pupil which the Government has confirmed will apply in 2013/14 and 2014/15.

The responsibility for local authority central spend equivalent grant (LACSEG) has transferred to DfE. Current spending at a national level (adjusted for planned reductions in SR2010 spending totals) has been deducted from the baseline used for the new business rates arrangements. DfE will allocate a new Education Services Grant (ESG) to individual local authorities on a national per pupil basis to provide central services for maintained schools. The 2013/14 ESG for local authorities has been announced as £116 per pupil in maintained schools plus £15 per pupil in all schools to reflect statutory duties

not transferring to academies although provisional allocations have not yet been released. Academies will also receive an ESG allocation of £150 per pupil in 2013/14, (reducing to £140 in 2014/15), some academies will also receive transitional protection to mitigate reductions against previous higher LACSEG allocations.

## **2.2 Council Tax strategy for financial planning purposes**

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 have proposed a referendum regime from 2012 onwards, for Council Tax increase that it regards as excessive. For 2013-14 the measure is a maximum +2.0%, defined on a part of the Council's Council Tax (the relevant basic amount). The definition removes 40% of the Council Tax Base over which an increase can be affected, reducing the benefit of a 2.0% increase from £2.0m to £1.2m. However the increase is available in future years.

The alternative is a Freeze Grant.

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 - no decision taken yet**

- Percentage – 1.0%
- Grant amount - a grant of approximately £1.329m
- Duration – 2013-14 only.

### 2.3 Projections for General Fund Resources 2013-14 to 2015-16

The forecast level of overall general fund resources available to the Council, including Formula Grant and Council Tax income, over the next planning period is as follows:

**Table 3: General Fund Resources 2012-16**

Financial Year	Formula Grant/ Localised Rates £m	Council Tax Freeze Grant £m	Council Tax Income £m	Collection Fund £m	Overall Financial Resources £m	Change from Previous Year %
2012-13						
2013-14						
2014-15						
2015-16						

*NB. Localised Business Rates from 2013/14 onwards.*

There was no change to the council tax base resulting in no change in Council Tax income in 2013-14 compared to the previous year. The figures assume no increase in Council Tax for 2013-14 or thereafter, but the acceptance of the freeze grant in 2013-14.

### 3. Revenue

#### 3.1 Cost Pressures

The financial pressures in the period 2013/16 facing Wirral Council are considerable. There are five lines of enquiry for cost pressures and change that the Council has to manage. These result from events beyond the Councils control but must be faced.

##### 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.

As part of 2013/16 growth will be examined and challenged to explore alternative options for meeting the cost pressures faced.

Wirral Council, as mentioned, 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 enhanced degree of risk in 2013-14 will be reflected in the level of Working Balances the Council should hold to cover the greater exposure. The challenges facing the Council are considerable.

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 the text:

Salaries budget: £tbcn Risk: low Factor: tbc% Value: £tbck

The areas of risk considered in the general contingency are set out in the Cabinet on the 18th February 2012, with an explanation of the potential risks faced by the Wirral Council. The calculation of the level of General Reserves Balances is as follows:-

2012-13	2013-14	2014-15	2015-16
£tbcn	£tbcn	£tbcn	£tbcn

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 2013-14 to 2015-16

	2013/14 £m	2014/15 £m	2015/16 £m	Total £m
<b>Increased costs (including demographic changes)</b>	22	13	12	47
<b>Reduced Grants</b>	17	30	15	62
<b>Funding Gap</b>	<b>39</b>	<b>43</b>	<b>27</b>	<b>109</b>

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 be, in 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 2011-2013 and will do so again in 2013/14. 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:-

#### 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:-

Savings affecting residents less

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

Savings that affect residents directly

Change Standards	Usually reduce Service Standards
Stop Doing Things	Cease Services

Finally, to guide the identification of savings opportunities, the Council has adopted a cost/performance analysis to identify high cost or low performing services. The work is complex and will become available from June 2013 onwards, for use in 2014-15 budget round.

#### 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 early March 2013, and will cover a three year period to avoid taking a series of annual short term decisions. The vision is to imagine the Council in April 2016, 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.

#### 4. Working Balances and Earmarked Reserves

Wirral Council adopts a risk-based approach to financial planning, which is used to determine the minimum level of reserves required. Compliance against this benchmark is monitored on a regular basis and reported to Members through the revenue budget monitor. The aims of the strategy are to:-

- Ensure the Working Balance is 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.

Wirral Council's risk-based reserves strategy needs to be 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 been maintained at £xxm for 2013-14 which represents xx% of Wirral Council's 2013-14 net revenue budget.

The Council maintains earmarked reserves in addition to its Working Balances, which are set aside for specific purposes. The main earmarked reserves are set out in the table below and a brief description of each category of earmarked reserve is set out below:

- 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 is ring-fenced and can only be used as defined in the Schools Finance (England) Regulations 2009).
- The Schools Balances are not available for Wirral Council's general use.

**Table Earmarked Reserves 2011/12**

	Balance at 1 April 2012		Current Balance
	£'000	£'000	£'000
<b>Earmarked Reserves</b>			
<b>General Fund Reserves</b>	tbc	tbc	tbc
Schools Balances			

<b>TOTAL RESERVES</b>	<b>tbc</b>	<b>tbc</b>	<b>Tbc</b>
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A statement on the robustness of the estimates for 2013/14 to 2015/16 was reported to Cabinet on the 18<sup>th</sup> February 2013 giving reasonable assurances about the estimates and setting out the key processes that were followed including:-

To be detailed and linked to report on reasonable assurances.

In summary, although the budget position is very challenging and will remain so for the foreseeable future, the Director of Finance and Resources considers the level of reserves and balances to be reasonable for 2013-14 based on:-

- Working Balances of £m, which at % of the 2013-14 net revenue budget is reasonable given the financial risks the council is facing;
- Current general fund earmarked reserves totalling £m (of which £m are related to identified risks)

A framework for a risk based approach to reserves and balances is the subject of a separate report to Cabinet on the 18th February 2013. Whilst the level of reserves and balances have been determined as sufficient for 2013/14 the report sets out an increased level of risks that will apply from 2013/14 when significant risks are transferred from Central Government to Local Government through legislative changes and new burdens including the localisation of business rates, benefit changes, health reforms etc. The level of Working Balance has been determined as £tbcm for 2013-14, £tbcm for 2014-15, and £tbcm for 2015-16.

## **5. Capital, Treasury, IT and Assets.**

### **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 2013-14 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 2013-14 to 2015-16. 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 (Appendix 2) is concerned with, and sets the framework for, all aspects of the Council's capital expenditure over the 3 year period 2013-14 to 2015-16 – 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 arising from the Asset Management Plan (AMP) and other related strategies;
- provide a clear context within which proposals are evaluated to ensure that all capital investment is targeted at meeting the Council's Vision, Aims and Priorities;
- consider options available to maximise funding for capital expenditure;
- identify the resources available for capital investment over the three year planning period;
- establish effective controls for the management of capital expenditure.

### **5.4 Treasury Management**

The Treasury Management Strategy is detailed in Appendix 3 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 2013-14 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 Information Technology**

The ICT Strategy for 2013 to 2015 will be submitted to Cabinet separately. Its key components include implementing the conclusion of the Strategic Review of Social Care information systems in DASS and CYPD over the next year, starting the project investigating joining the Cheshire West and Cheshire East ICT Shared Service facility, and the investment in enhanced Broad Band facilities across the Wirral. In addition the Authority has begun the full Agile working programme for Council staff supported by ICT changes. This will facilitate working away from Wirral offices, supporting the use of mobile devices for staff working in the field, and reducing the need for office space by supporting hot desk working and secure working from remote locations. The strategy also plans for a refresh across the Council of obsolete equipment. This will make all staff more efficient and reduce the maintenance load on much of the desktop equipment.

## **5.6 Asset Management**

After its staff the council's land and property is the next biggest resource. The Asset Management Plan is detailed in Appendix 4 which 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. Further details of the current level of gap are set out in appendix 4;
- 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 Balances and 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.

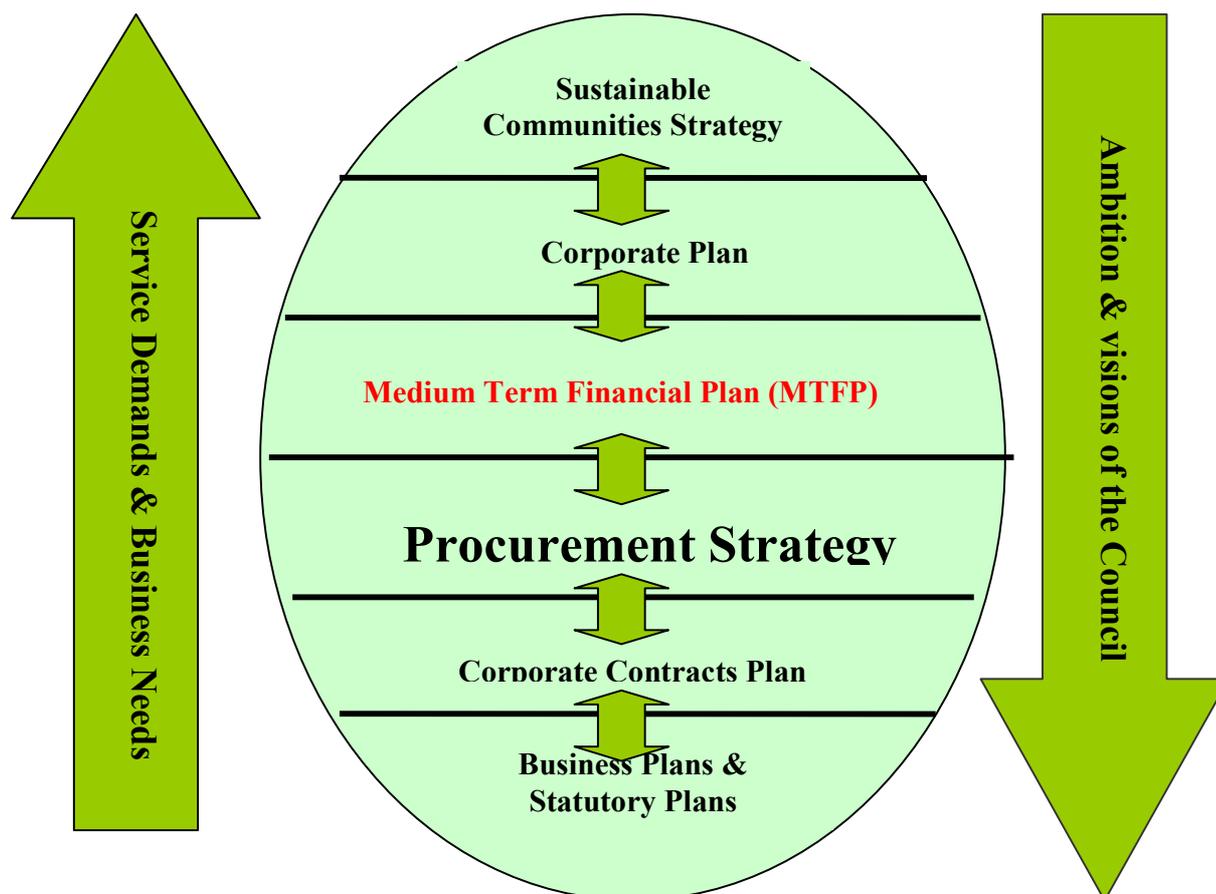
Anticipation of future demand and cost uncertainties are further mitigated by establishing earmarked reserves and drawing them down as need requires.

## 7 Procurement

### 7.1 Links to Key Strategies

The Corporate Procurement Strategy supports the Medium Term Financial Plan (which is itself underpinned by the Capital Strategy, Treasury Management Plan and Asset Management Plan).

The relationship and hierarchy between these strategies is set out below;



### 7.2 Efficiency

We are faced with a challenging local Government funding settlement and a major cut in Government grant at a time when demands on council services are increasing. Procurement and commissioning functions will deliver a significant proportion of the budget savings required to meet this challenge.

The vision to transform procurement to enable it to meet its challenging savings targets and sustainability agenda (in particular to support our local businesses) includes:-

- Ensuring that procurement is appropriately structured and has the critical mass to possess and retain the procurement expertise, commercial skills and market knowledge needed to maximise the opportunities to improve services and deliver savings and efficiencies from third party expenditure;
- The professional development of procurement staff;
- Developing the understanding and knowledge of strategic procurement of key Members and the staff;
- Training for transactional procurement staff to appreciate the intrinsic links between their roles and strategic procurement, to assist them to “close the loop” and help deliver service improvement;
- Make effective use of collaborative procurement when that is appropriate.

### **7.3 Savings strategy**

We will deliver budget savings through procurement as set out in the Procurement Strategy. Further work is being undertaken to develop the Councils procurement activities as part of the budget setting process and combines opportunities identified through the analysis of third party expenditure and procurement themed budget proposals.

From this early analysis, deliverable savings opportunities will be produced for the 3 years of the MTF5. These target savings will be realistic and based on the knowledge that the Council has made year on year savings from procurement for a number of years. However it is anticipated that a higher % of savings can be delivered for specific categories of spend, and this will be reflected in the Procurement Strategy in future years.

To achieve the savings targets there will have to be a number of work streams set up which will:-

- Greatly improve the visibility of spend data and the joint ownership of savings initiatives;
- Develop the procurement functionality within the Council’s financial system;
- Introduce category and contract strategies that will benefit the Council;
- Reduce commodity and contract costs and prices;
- Value engineer specifications in conjunction with budget holders;
- Deliver early procurement involvement in “make or buy” decisions;
- Obtain added value or additional services for the same or lower price;
- Source lower cost or economically more advantageous products and services;
- Renegotiate contracts with existing providers to deliver savings and greater efficiencies and improve services;
- Rationalise the supply base;
- Decommissioning of low priority and non essential activity having regard to local priorities and customer expectations;
- Achieve compliance with corporate contracts and corporate procurement policies and procedures;
- Make the best use of collaborative procurement opportunities, and existing framework agreements;
- Simplify the purchase to pay process;
- Reduce procurement transaction costs;
- Improve commissioning and procurement knowledge across the Council.

## **7.4 Sustainable Procurement**

Sustainable procurement needs to be considered in its fullest context and at the very earliest opportunity in the commissioning and procurement cycle.

Not only should we consider the impact of our requirements on the environment, but also we need to look at the opportunities to sustain local communities and to create a thriving business sector. The Corporate Procurement Strategy addresses both issues directly, and there is a commitment to increase opportunity for local and SME businesses to compete for Council contracts through the increased visibility of those opportunities and the development of a risk based approach to the procurement process.

## 8 Consultation

As part of the preparation of the budget for 2013-14 the Council has consulted on its budget proposals, What Really Matters, to achieve the required savings target included in the MTF5 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;
- What Really Matters Consultation Phases1 & 2;
- 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.

### **Appendices**

Appendix 1	Population Trends
Appendix 2	Capital Strategy
Appendix 3	Treasury Management
Appendix 4	Asset Management Plan

**Population projections and deprivation briefing for Wirral: November 2012**

Sub-National Population Projections produced by the Office for National Statistics (ONS) are one of the main determinants of future funding from central Government.

Population projections have not yet been produced which take into account the results of the 2011 Census (they are only produced every 2 years or so and were last produced in 2010). As the most current projections are based on Mid-Year 2010 figures, it is now thought that they have under-estimated Wirral's population (based on the preliminary information released from the Census so far).

ONS have predicted a 5.68% increase in the population of Wirral by 2031. This contrasts with significantly larger increases for England and the North-West overall, which are projected to increase by 14% and 12% respectively over the same period.

Wirral appears to show a similar increase to that of Merseyside overall and some Industrial Hinterlands\* near statistical neighbours Sefton and Kingston-upon-Hull (but is noticeably different from other neighbour Redcar & Cleveland in the North-East which is projected to lose 2.33% of its population by 2031).

See Table 1 for figures (shown in thousands).

**Table 1:** Percentage change in population 2011 to 2031 (using 2010 ONS estimates)

	2011	2016	2021	2026	2031	2011-31 % Change
<b>England</b>	52655.4	54909.8	57020.4	58982.8	60751.1	14.05
<b>North West</b>	6980.2	7204.4	7423.2	7623.9	7800.0	12.41
<b>Merseyside</b>	1356.3	1377.3	1399.3	1420.2	1439.1	6.40
<b>Wirral</b>	310.4	314.5	319.5	323.9	327.3	5.68
<b>Sefton*</b>	275.0	276.9	280.1	283.4	286.3	4.15
<b>Redcar &amp; Cleveland*</b>	137.1	136.4	135.9	135.1	134.0	-2.33
<b>Kingston upon Hull*</b>	259.5	264.0	267.4	270.8	274.4	6.07

\* Industrial Hinterlands Group is one of seven groupings devised by the Office of National Statistics to classify areas using indicators from the Census such as employment and housing. The groupings enable more relevant comparisons to be made between demographically similar areas.

The information shown in Table 1 above is also shown in Figure 1 below.

**Figure 1:** Population Projections (percentage increases) for England, North-West, Merseyside, Wirral and three Industrial Hinterlands\* comparators, 2011-2031

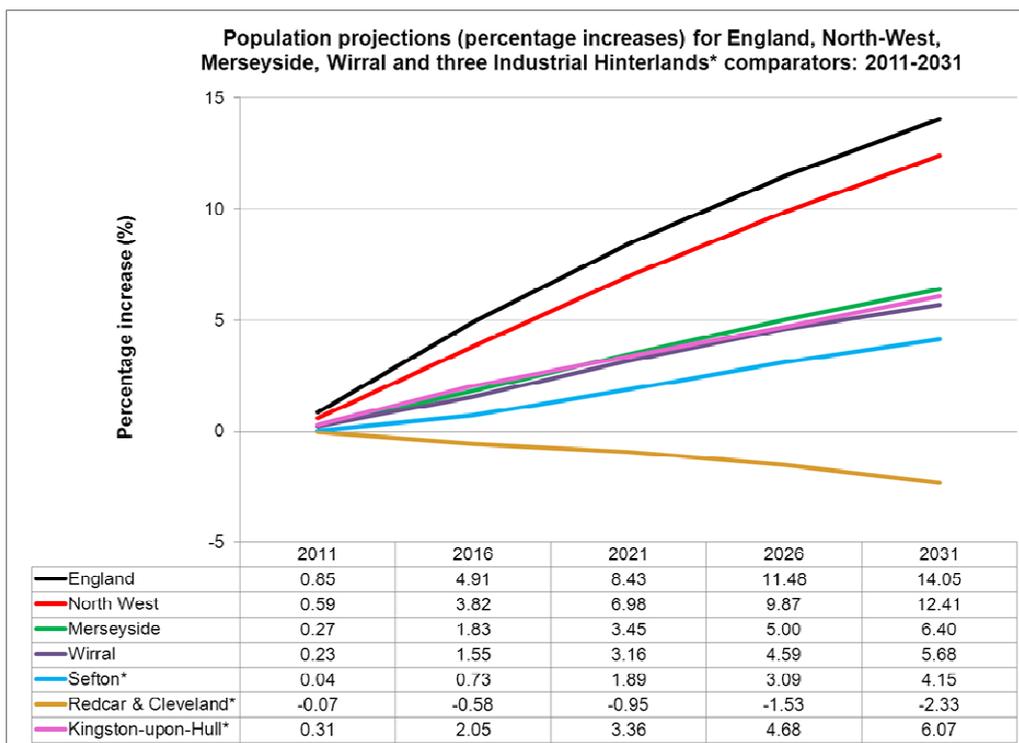
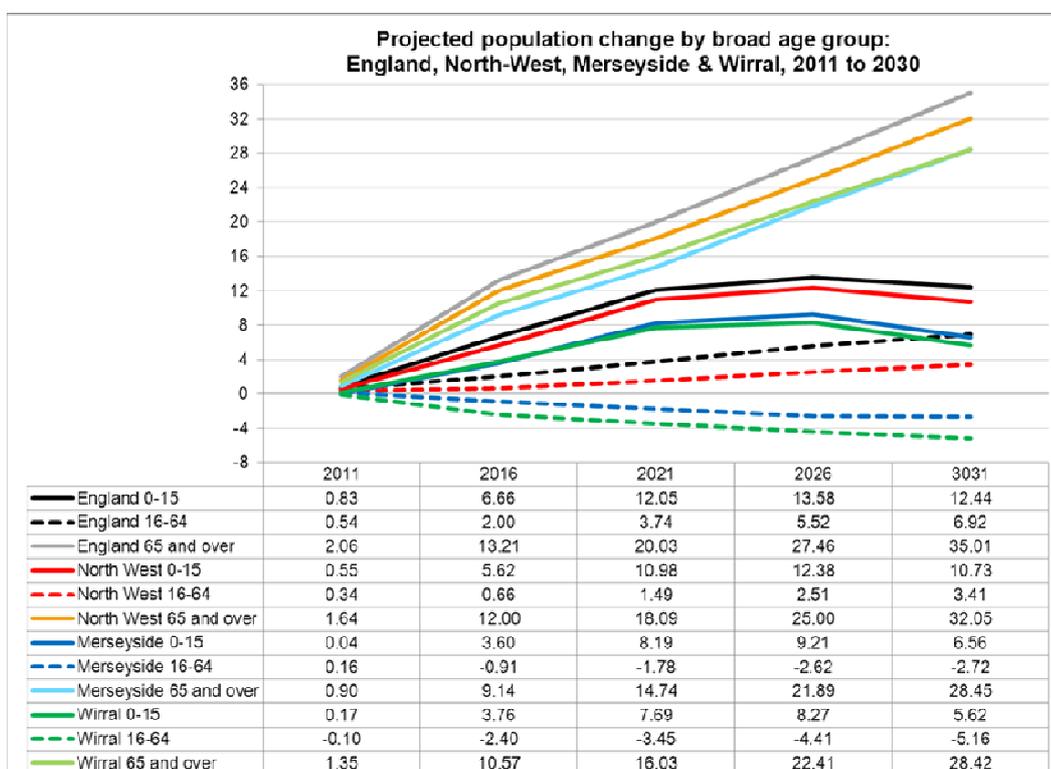


Figure 1 shows all ages, the considerable variation by age group is shown in Figure 2 below.

**Figure 2:** Projected population change by broad age group: England, North-West, Merseyside & Wirral, 2011-2031

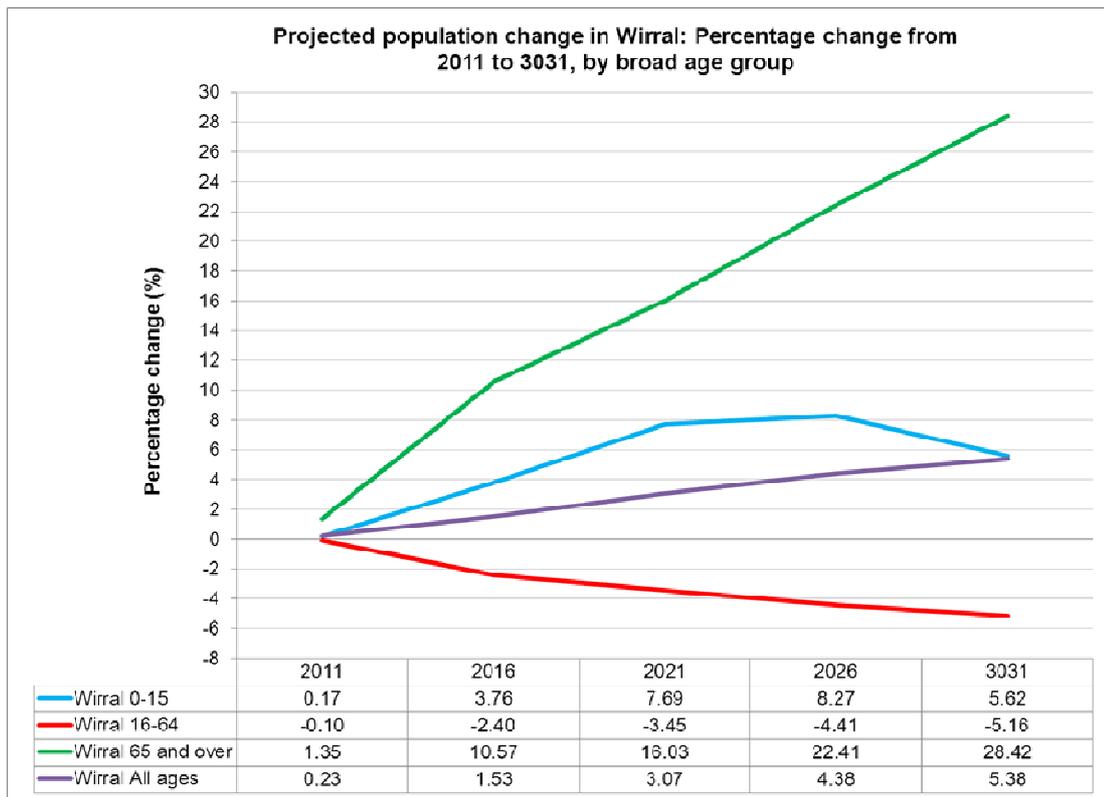


As Figure 2 above shows, population change looks considerably different when split by broad age group. It can be seen very clearly, that even in England and the North-West, most of the projected increase in population will be amongst those aged 65+.

The population of younger people aged 0-15 is expected to rise slightly, but then tail off again after 2026 in all the areas and regions shown.

A striking feature of these projections is the percentage decrease in Wirral (and Merseyside overall) in the working age population of those aged 16 to 64 (shown by the broken lines). In Wirral, there is projected to be a 5.16% decrease in this population, compared to a 2.72% decrease in Merseyside, a 6.92% increase in England and a 3.41% increase in the North West. Figure 3 below, shows these percentage changes just for Wirral (for clarity).

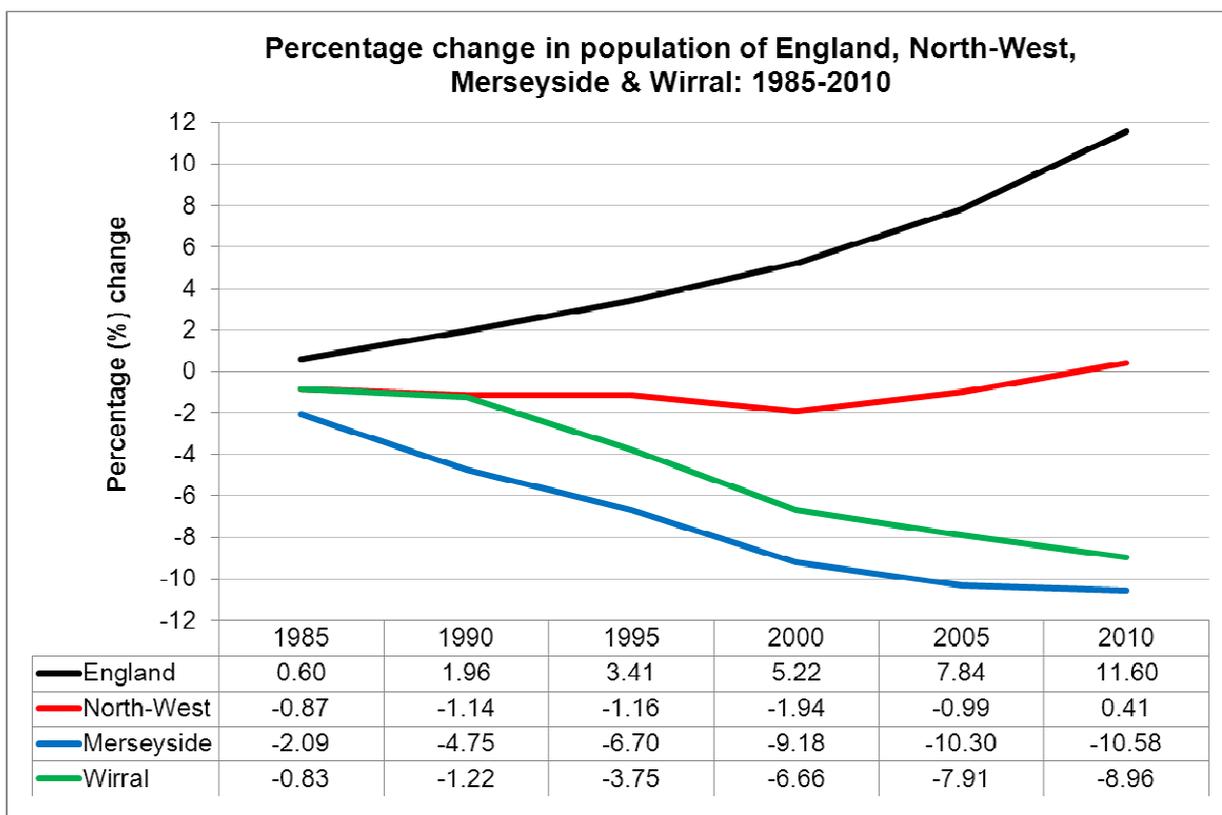
**Figure 3:** Projected population change by broad age group (Wirral only): 2011-2031



Overall, the population of Wirral (and Merseyside) has been declining since the 1980's (1982 was the year used as baseline for Figure 4 below). The North-West also saw a declining population over this time period, but as of 2010, experienced a slight population increase.

England overall saw steady increases in its population over the time period, with a percentage increase of 12% between 1985 and 2010. See Figure 4 below.

**Figure 4:** Percentage change in population of England, North-West, Merseyside & Wirral: 1985-2010



**Figure 5:** Trend in population density in England, North-West & Wirral: 1981-2011 (persons per Mile<sup>2</sup>)

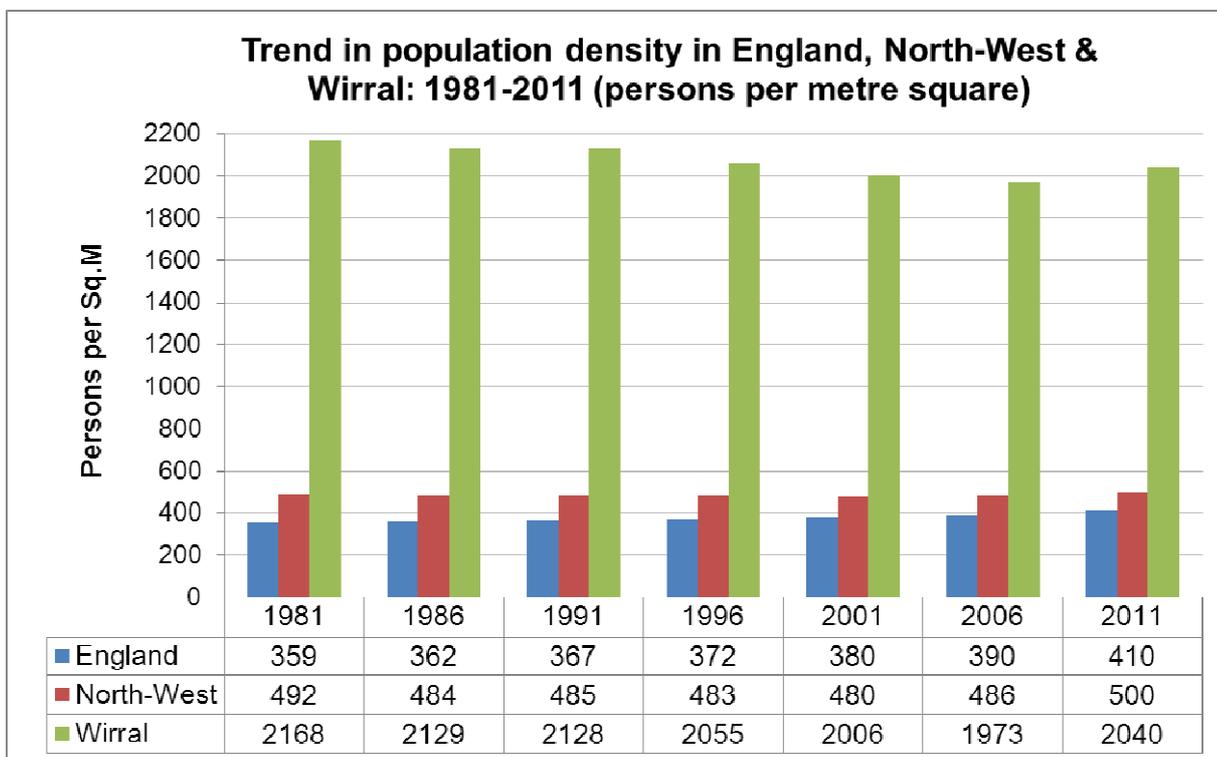


Figure 5 above shows the trend in population density over time in Wirral, England and the North-West. As the charts shows, although Wirral is much more densely populated than England and the North-West overall, the area still showed a decline during the 1980's and 1990's in population density, but this now seems to be reversing.

It is still much less densely populated than other areas of Merseyside however, with the Liverpool area for example, having a population density of 4,000+ persons per mile square.

### Future projections

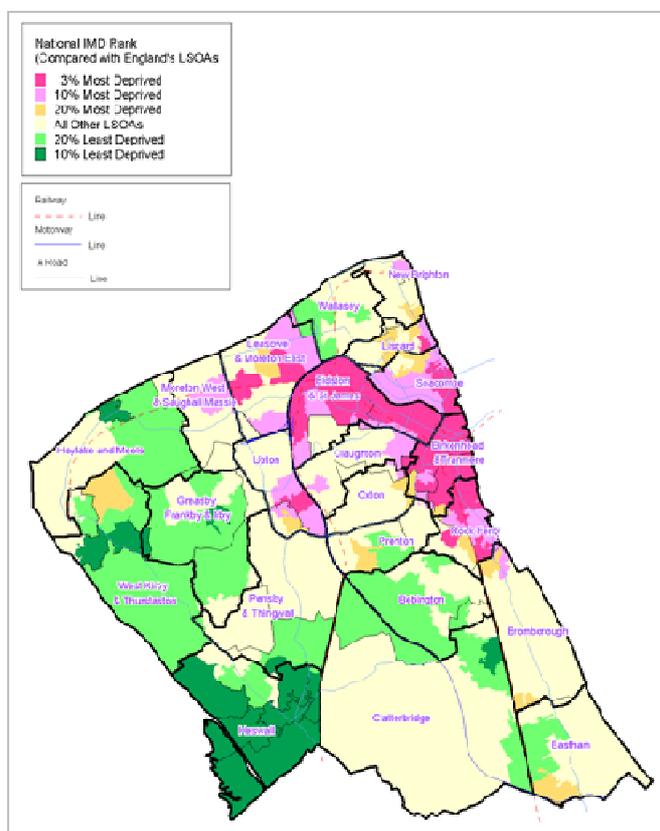
The results of the 2011 Census are expected to be released in stages during 2013. Some very basic information has already been released, which as mentioned before, appears to show that ONS have been *under*-estimating the Wirral population in recent years.

### Deprivation

The Index of Multiple Deprivation (IMD) is a measure of relative deprivation at a small area level. It is an important tool to identify disadvantaged areas so that policy makers can target limited resources where they are most needed.

Deprivation covers a broad range of issues and refers to unmet need caused by a lack of resources of all kinds, not just financial resources. Map 1 one below shows deprivation in Wirral as classified by the IMD in 2010.

**Map 1: Deprivation according to the IMD 2010 in Wirral (overlaid with ward boundaries)**



Map1 (left) shows the distribution of deprivation in Wirral visually. As the map shows, the majority of the areas of acute deprivation are in Bidston & St. James and Birkenhead & Tranmere wards.

Rock Ferry and Seacombe wards also have a large number of very deprived LSOAs.

There are also several areas in south and west Wirral (Acre Lane area of Bromborough, part of Eastham and area around Anglesea Road in West Kirby) which fall into the 20% most deprived, but generally speaking, there is a north & east/west & south split in Wirral with regard to deprivation.

The majority of the least deprived areas of Wirral are in Heswall ward (Gayton and Heswall) with some other pockets in West Kirby & Thurstaston ward (Caldy area), Hoyle ward and Clatterbridge ward.

The IMD attempts to capture deprivation in its broadest sense, using seven distinct 'domains'. These 'domains' (or different dimensions of deprivation) which together make up the overall IMD are: income, employment, education & skills & training, health deprivation and disability, barriers to housing and services, crime and living environment.

Table 2 below, shows how many of the 207 Lower Super Output Areas (LSOAs) in Wirral fall into the most deprived 1%, 10% and 20% in England on each of the seven separate domains.

**Table 2: Number of Wirral LSOAs classified as being amongst the 1%, 10% and 20% most deprived nationally, by IMD 2010 domain**

IMD Domain	Number of LSOAs		
	In most deprived 1%	In most deprived 10%	In most deprived 20%
<b>Income</b>	13	45	67
<b>Employment</b>	21	63	89
<b>Education, Skills &amp; Training</b>	1	17	41
<b>Health Deprivation &amp; Disability</b>	16	62	90
<b>Barriers to Housing &amp; Services</b>	0	0	2
<b>Crime</b>	0	3	9
<b>Living Environment</b>	0	27	52

Note: LSOAs compared on rank in each domain. Those ranking 1-324 classed as most deprived 1%, 325-3,248 ranked in most deprived 10% 3,249-6,496 ranked in most deprived 20%.

As Table 2 shows, Wirral performs particularly poorly on three domains (Employment, Health Deprivation & Disability and Income), with a large number of LSOAs (out of the total of 207) falling into the most deprived 1%, 10% and 20% nationally.

Wirral performs fairly well or is similar to England averages on the remaining four domains of Barriers to Housing and Services, Crime, Living Environment and Education. These domains are less heavily weighted than the Income, Employment and Health & Disability domains however.

As the IMD is heavily weighted toward the Income and Employment domains (together they make up 45% of the overall IMD), this goes a long way to explaining the poor performance of the borough on the overall IMD and its classification as being one of the 20% most deprived areas in England.

**Capital Strategy**

**Appendix 2**

Strategy to be included following Budget Cabinet 18 February 2013.



# Wirral Council's Treasury Management and Investment Strategy 2013-2016

## **CONTENTS**

1. Background
2. Capital Financing Requirement
3. Borrowing Strategy
4. Annual Investment Strategy
5. Outlook for Interest Rates
6. Policy on Delegation
7. Balanced Budget Requirement
8. 2013/14 Minimum Revenue Provision Statement
9. Performance Monitoring and Reporting

## **APPENDICES**

- A. Treasury Management Policy Statement
- B. Existing Investment and Debt Portfolio Position
- C. Specified and Non-Specified Investments
- D. Prudential Indicators 2013/14 – 2015/16
- E. Arlingclose's Economic and Interest Rate Outlook
- F. Authorised Signatories

## 1. BACKGROUND

1.1 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 Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.

1.2 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."*

1.3 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.

1.4 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.

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

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

- Treasury Management Strategy for 2013/14 (including the adoption of the revised CIPFA Treasury Management Code of Practice).
- Annual Investment Strategy for 2013/14
- Minimum Revenue Provision (MRP) Statement
- Treasury Management Policy Statement
- Prudential Indicators for 2013/14, 2014/15 and 2015/16
- 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). The CFR, together with Usable Reserves are the core drivers of treasury management activity.
- 2.2 The Authority's current level of debt and investments are set out in Appendix B.
- 2.3 The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2015/16. 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-13 Estimate £m	31-Mar-14 Estimate £m	31-Mar-15 Estimate £m	31-Mar-16 Estimate £m
Capital Financing Requirement (CFR)	371	365	349	332
Less: Existing Profile of Borrowing and Other Long Term Liabilities	307	273	257	248
<b>Cumulative Maximum External Borrowing Requirement</b>	<b>64</b>	<b>92</b>	<b>92</b>	<b>84</b>
Usable Reserves	95	60	50	40
<b>Cumulative Net Borrowing Requirement / (Investments)</b>	<b>(31)</b>	<b>32</b>	<b>42</b>	<b>44</b>

- 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 would eventually be required.

### **3. BORROWING STRATEGY**

3.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast, provided in Appendix E, indicates that an acute difference between short and longer term interest rates is expected to continue for the foreseeable future. This difference creates a “cost of carry” for any new longer term borrowing. Cost of carry is the difference between what is paid on the borrowing and the investment income that can be earned while the borrowed monies are temporarily held as investments until needed to fund capital expenditure. Whilst the cost of carry can be assumed to be a reasonably short term issue, since borrowing is often for longer dated periods (anything up to 50 years), it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Authority’s wider financial position.

3.2 As indicated in Table 1, the Authority has a gross borrowing requirement, with an underlying potential to borrow, from internal or external sources, of up to £92m in 2013/14. The Authority will adopt a flexible approach to this borrowing in consultation with its treasury management advisers. The following issues will be considered prior to undertaking any external borrowing:

- Affordability;
- Maturity profile of existing debt;
- Interest rate and refinancing risk;
- The borrowing source.

#### **Borrowing source**

3.3 In conjunction with advice from Arlingclose, the Authority will keep under review the following borrowing sources:

- Internal
- PWLB
- Local authorities
- Commercial banks
- European Investment Bank
- Capital market (stock issues, commercial papers and bills)
- Structured finance
- Leasing

3.4 At present, the PWLB remains the Council’s preferred source of borrowing given the transparency and control that its facilities continue to provide

#### **Type of borrowing**

3.5 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**

- 3.6 The Authority has £171m of exposure to LOBO loans (Lender's Option Borrower's Option) of which £161m of these can be called within 2013/14. 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.
- 3.7 Any LOBOs called will be discussed with Arlingclose 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**

- 3.8 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.
- 3.9 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring although occasional opportunities 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
- 3.10 The affordability, prudence and sustainability of borrowing plans will be regulated by a range of Prudential Indicators, which can be found in Appendix D.
- 3.11 Borrowing and rescheduling activity will be reported to Cabinet in the Annual Treasury Management Report and the regular treasury management 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 remain on a heightened state of alert for signs of credit or market distress that might adversely affect the Authority.
- 4.3 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.
- 4.4 The types of investments that will be used by the Authority and whether they are specified or non-specified are as follows:

**Table 2: Specified and Non Specified Investments**

Investments	Specified	Non-Specified
Term deposits with banks & building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Investments with Registered Providers	✓	✓
Certificates of deposit with banks & building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	✗
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	✗
Commercial Paper	✓	✗
Corporate Bonds	✓	✓
AAA rated Money Market Funds	✓	✗
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	✗
Investments with other organisations <sup>1</sup>	✗	✓

<sup>1</sup> *Subject to an external credit assessment and specific advice from Arlingclose*

Further information regarding Specified and Non-Specified Investments can be found in Appendix C.

- 4.5 Two changes have been implemented to investment strategy for 2013/14 in response to evolving conditions in financial markets. This has resulted in the inclusion of 'Registered Providers' (RPs) and 'Investments with Other Organisations'. Investments with RPs will be analysed on an individual basis and discussed with Arlingclose prior to investing. 'Investments with Other Organisations' would include investment opportunities with small and medium sized enterprises and other businesses across the UK. Due to perceived higher credit risks of such organisations, considerably higher rates of return may be offered. An external credit assessment will be undertaken and advice from Arlingclose will be sought (where available) before any investment decision is made.
- 4.6 The Authority and its advisors, Arlingclose Ltd, select countries and financial institutions after analysis and ongoing monitoring of:
- Published credit ratings for financial institutions - **minimum long term rating of A- or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns**. Counterparties with a credit rating of A- are defined as having high credit quality, low credit risk and a strong ability to repay.
  - Credit Default Swaps (where quoted)
  - Economic fundamentals (for example Net Debt as a percentage of GDP)
  - Sovereign support mechanisms
  - Share Prices
  - Corporate developments, news, articles, markets sentiment and momentum
  - Subjective overlay – or, put more simply, common sense.
- 4.7 Any institution can be suspended or removed should any of the factors identified above give rise to concern.
- 4.8 It remains the Authority's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.
- 4.9 The Authority banks with Lloyds TSB Bank Plc. Lloyds started providing the Authority's banking service at the start of December 2012, following a competitive procurement exercise. At present Lloyds meets the proposed minimum credit criteria of A-. If the credit rating of Lloyds or any other bank supplying the main banking services did fall below the Authority's minimum credit criteria, the bank would continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.
- 4.10 With short term interest rates forecast to remain low, an investment strategy would typically propose a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of risk.
- 4.11 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.

### **Money Market Funds**

- 4.12 Money market funds (MMFs) are pooled funds that invest in short-term debt instruments. They provide the benefits of pooled investment, as investors can participate in a more diverse and high quality portfolio than they otherwise could. The principal objective of a MMF is the preservation of capital, very high liquidity and competitive returns commensurate with security and liquidity. MMFs will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to diversify any exposure by utilising more than one MMF. 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%.

### **Pooled Funds**

- 4.13 The Authority has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Authority to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns.
- 4.14 Investments in pooled funds will be undertaken with advice from Arlingclose Ltd. The Authority's current investments in pooled funds (other than MMFs) are with the Payden and Rygel Sterling Reserve Fund: their performance and continued suitability in meeting the Authority's investment objectives are regularly monitored.

### **Derivative Instruments**

- 4.15 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
- 4.16 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.
- 4.17 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.

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

### **Debt Management Office**

- 4.19 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 DMADF are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.)
- 4.20 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. INTEREST RATE FORECAST**

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

## **6. POLICY ON DELEGATION**

- 6.1 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.
- 6.2 On a day to day basis the Treasury Management Team within the Accountancy Section carries out the treasury management activities.
- 6.3 Decisions on short term investments and short term borrowings may be made on behalf of the Director of Resources by the Group Accountant for Treasury Management or any of the members of the Treasury Management Team who are empowered to agree deals subject to their conforming to the Authority's Treasury Management Strategy and policies outlined in this report.
- 6.4 Actual authorisation of payments from the Authority's bank account will be made by those listed in Appendix F.
- 6.5 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 Group Accountant or the Senior Assistant Accountants on the Treasury Management Team and will be reported to Cabinet.

- 6.6 All officers will act in accordance with the policies contained within this document.
- 6.7 The Council nominates the Council Excellence Overview and Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

## **7. BALANCED BUDGET REQUIREMENT**

- 7.1 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

## **8. 2013/14 MRP STATEMENT**

- 8.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place 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.

- 8.2 The four MRP options available are:

Option 1: Regulatory Method  
Option 2: CFR Method  
Option 3: Asset Life Method  
Option 4: Depreciation Method

NB this does not preclude other prudent methods

- 8.3 MRP in 2013/14: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).
- 8.4 The MRP Statement will be submitted to Council before the start of the 2013/14 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.
- 8.5 The Council will apply Option 1 in respect of supported capital expenditure and Option 3 in respect of unsupported capital expenditure.
- 8.6 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.
- 8.7 MRP in respect of PFI and leases brought on Balance Sheet under International Financial Reporting Standards (IFRS) will also be calculated using Option 3 and will match the annual principal repayment for the associated deferred liability.

## **9. PERFORMANCE MONITORING AND REPORTING**

- 9.1 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.
- 9.2 To ensure adherence to this, the Director of Resources will report to Cabinet on treasury management policies, practices and activities activity / 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.
  - Council Excellence Overview and Scrutiny Committee will be responsible for the scrutiny of treasury management activity and practices.

## **10. TREASURY ADVISORS**

- 10.1 The Authority continues to use Arlingclose Ltd. for external, independent treasury management advice. With approval from Corporate Procurement, an extension to the contract with Arlingclose was agreed, which runs until 31<sup>st</sup> March 2014.
- 10.2 Arlingclose 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.

## 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.
- 1.5 The Council nominates the Council Excellence Overview and Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

#### 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

	<b>Current Portfolio</b> as at 31 Dec 12 £m
<b>External Borrowing:</b>	
Fixed Rate – PWLB	80
Fixed Rate – Market	170
Variable Rate – PWLB	0
Variable Rate – Market	0
<b>Total External Borrowing</b>	<b>250</b>
<b>Other long-term liabilities:</b>	
PFI	59
Finance Leases	2
<b>Total Other Long-Term Liabilities</b>	<b>61</b>
<b>Total External Debt</b>	<b>311</b>
<b>Investments:</b>	
<i>Managed in-house</i>	
Deposits with Banks and Building Societies	49
Deposits with Money Market Funds	3
Deposits with other Public Sector Bodies	39
Deposits in Supranational Bonds and Gilts	8
<i>Managed externally</i>	
Payden Sterling Reserve	1
<b>Total Investments</b>	<b>100</b>
<b>Net Borrowing Position</b>	<b>211</b>

## APPENDIX C

### Specified Investments

New specified investments will be made within the following limits:

<b>Instrument</b>	<b>Country/ Domicile</b>	<b>Counterparty</b>	<b>Maximum Counterparty Limits £m</b>
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)	<i>2 years</i>	15% per Counterparty	No
Term deposits with local authorities	<i>5 years</i>	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)	<i>5 years</i>	15% per Counterparty	No
Investments with organisations which <b>do not meet</b> the specified investment criteria (subject to an external credit assessment and specific advice from TM Adviser)	<i>3 months</i>	<i>£5m per counterparty</i>	No
	<i>1 year</i>	<i>£1m per counterparty</i>	No
	<i>2 years</i>	<i>£1m per counterparty</i>	Yes/no <sup>1</sup>
Deposits with registered providers	<i>3 years</i>	15% per Counterparty	No
Gilts	<i>5 years</i>	25% per Counterparty	No
Bonds issued by multilateral development banks	<i>5 years</i>	15% per Counterparty	No
Sterling denominated bonds by non-UK sovereign governments	<i>5 years</i>	15% per Counterparty	No

<sup>1</sup> Depending on the nature of the transaction with the third party  
Version as at 8.2.2013

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 2013/14 – 2015/16

**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. In 2011 the CIPFA Prudential Code was revised and the changes have been incorporated into the Prudential Indicators below.

**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:**

	2012/13 Approved £000	2012/13 Revised £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Capital Expenditure	41,978	49,185	41,808	10,787	1,385

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

Capital Financing	2012/13 Approved £000	2012/13 Revised £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Supported Borrowing	0	0	0	0	0
Unsupported Borrowing	9,035	13,175	11,985	1,818	357
Capital Receipts	3,000	3,000	400	0	0
Capital Grants	29,643	30,562	29,423	8,969	1,028
Revenue Contribution	300	2,448	0	0	0
<b>Total Financing and Funding</b>	<b>41,978</b>	<b>49,185</b>	<b>41,808</b>	<b>10,787</b>	<b>1,385</b>

**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	2012/13 Approved £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £
Increase in Band D Council Tax	5.30	8.61	4.53	1.23

#### 4. **Ratio of Financing Costs to Net Revenue Stream**

The estimate for interest payment in 2013/14 is £14m and for interest receipts is £1m. 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:**

<b>Ratio of Finance Costs to net Revenue Stream</b>	<b>2012/13 Approved %</b>	<b>2012/13 Revised %</b>	<b>2013/14 Estimate %</b>	<b>2014/15 Estimate %</b>	<b>2015/16 Estimate %</b>
Ratio					

#### 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 its financing.

**Table D:**

<b>Capital Financing Requirement</b>	<b>2012/13 Approved £m</b>	<b>2012/13 Revised £m</b>	<b>2013/14 Estimate £m</b>	<b>2014/15 Estimate £m</b>	<b>2015/16 Estimate £m</b>
CFR	384	371	365	349	332

#### 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, net 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 2012/13, 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 2012 was **£326m**. 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:**

<b>Actual External Debt as at 31 March 2012</b>	<b>2011/12</b>
	<b>£m</b>
Borrowing	264
Other Long Term Liabilities	62
<b>Total</b>	<b>326</b>

**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 G:**

<b>Authorised Limit for External Debt</b>	<b>2012/13 Approved £m</b>	<b>2012/13 Revised £m</b>	<b>2013/14 Estimate £m</b>	<b>2014/15 Estimate £m</b>	<b>2015/16 Estimate £m</b>
Borrowing	489	371	355	342	328
Other Long-term Liabilities	8	85	85	85	85
<b>Total</b>	<b>497</b>	<b>456</b>	<b>440</b>	<b>427</b>	<b>413</b>

**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 H:**

<b>Operational Boundary for External Debt</b>	<b>2012/13 Approved £m</b>	<b>2012/13 Revised £m</b>	<b>2013/14 Estimate £m</b>	<b>2014/15 Estimate £m</b>	<b>2015/16 Estimate £m</b>
Borrowing	479	361	345	332	318
Other Long-term Liability	3	80	80	80	80
<b>Total</b>	<b>482</b>	<b>441</b>	<b>425</b>	<b>412</b>	<b>398</b>

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 I:**

	<b>2012/13 Approved %</b>	<b>2012/13 Revised %</b>	<b>2013/14 Estimate %</b>	<b>2014/15 Estimate %</b>	<b>2015/16 Estimate %</b>
<b>Upper Limit for Fixed Interest Rate Exposure</b>					
Borrowings	100	100	100	100	100
Investments	100	100	100	100	100
<b>Net</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>
<b>Upper Limit for Variable Interest Rate Exposure</b>					
Borrowings	100	100	100	100	100
Investments	100	100	100	100	100
<b>Net</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>

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 J:**

<b>Maturity structure of fixed rate borrowing</b>	<b>Lower Limit 2013/14 %</b>	<b>Upper Limit 2013/14 %</b>
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 K:**

	<b>2012/13 Approved £m</b>	<b>2012/13 Revised £m</b>	<b>2013/14 Estimate £m</b>	<b>2014/15 Estimate £m</b>	<b>2015/16 Estimate £m</b>
<b>Upper Limit for total principal sums invested over 364 days</b>	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 previously approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 1 March 2010.

The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

## APPENDIX E

### Arlingclose's Economic and Interest Rate Outlook

	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
<b>Official Bank Rate</b>													
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
<b>3-month LIBID</b>													
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
<b>1-yr LIBID</b>													
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
<b>5-yr gilt</b>													
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
<b>10-yr gilt</b>													
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
<b>20-yr gilt</b>													
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
<b>50-yr gilt</b>													
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 the haunt the European peripheral nations – could inject renewed volatility into gilts and sovereign bonds.

## **APPENDIX F**

### **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:

Interim Director of Finance – Peter Timmins

Deputy Director of Finance – David L.H. Taylor-Smith

Head of Benefits, Revenue and Customer Services – Malcolm J. Flanagan

Head of Financial Services – Tom Sault

Chief Accountant – Peter J. Molyneux

Chief Accountant – Jenny Spick

The plan is to be included following Budget Cabinet 18 February 2013.