Appendix 1

2015-18 Medium Term Financial Strategy

Contents

1 Overview

1.1 Purpose of the Document

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

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

It is through the MTFS process that the Council sets out how it will respond to the new financial realities it faces over the period 2015-18. The strategy also links with Wirral's Corporate Plan. It shows how our finances will be structured and managed to ensure that they meet future financial challenges, as well as supporting the priorities of the Council and its partners.

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

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

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

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

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

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

1.2 Links to the Corporate Plan

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

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

1.3 National and External Influences

National Influences

The MTFS for the three years 2015/16 to 2017/18 has been developed against a difficult financial picture. Despite recent improvement the outlook for the next 3 years for the British economy continues to be uncertain. The Council must realign its services to the reduced funding levels and contain its spending to the overall income available. Wirral has made savings of £147.2m between 2011/12 and 2014/15. This has enabled the Council to respond to the reduced levels of government funding in addition to meeting the additional spending demands faced. The Council is going to need to make new savings in the next 3 years. Less reliance can be placed on government grants and a higher proportion of local income will need to come from local sources – council tax, business rates and economic factors.

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

The Governments Deficit Reduction Programme

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

The Government's aim is to eliminate the budget deficit. In the Chancellor's Autumn Statement on 3 December 2014 the Public Sector net borrowing (PSNB) requirement for 2014/15 was forecast to be £91.3bn. This is £6.3bn below last year but the decline is only half that forecast in the March 2014 Budget. The deficit represents 5% of Gross Domestic product and is half the peak it reached in 2009/10. PSNB is forecast to fall to 4% of GDP in 2015-16, the final year for which the government has set departmental spending plans; and to reach a small surplus of 0.2% of GDP in 2018/19 and 1% of GDP in 2019/20. The size of the Government policy on deficit reduction is leading to massive change in all public sector services including local government. The forecasts are uncertain and may vary, with the deficit being potentially cleared in 2018/19.

The Government has in two Spending Rounds (2010 and 2013) set out plans to reduce public expenditure as part of its strategy to eliminate the deficit and eventually reduce the debt. The Government's Spending Round 2013 set out public expenditure plans (including local government expenditure) up to and including 2015/16. This followed on from and was similar to the Spending Round 2010 and entailed cuts in expenditure in certain areas including local government and increases in other areas such as Health, Schools and Overseas Aid. Whilst the next Spending Round that will cover the years 2016/17 onwards, being determined by the next Government, the current Government has said that they expect public expenditure to continue to fall in real terms up to 2017/18 in roughly the same proportion as it fell in the period set out in the 2010 Spending Round. If protection is again given to Health, Schools and Overseas Aid then local government expenditure will be lower in 2017/18 compared to 2014/15. The Autumn Statement 2014 suggests that with continued ring-fencing of these services, the cuts to local government funding will continue.

The National Economy

The UK economy performed better during 2014 than was predicted. Economic recovery as mentioned before is key to the Government meeting its deficit reduction targets and in turn spending plans.

The Office for Budget Responsibility (OBR) has published revised economic predictions. The economic forecast for this year has been confirmed at 3% and it is estimated to be 2.4% in 2015/16, 2.2% in 2016/17, 2.4% in 2017/18 and 2.3% in 2018/19 and 2019/20.

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

The National Impact on the Local Outlook

The Spending Round 2013 (SR 2013) June 2013 set out total departmental expenditure limits to 2015/16. The Local Government amount for 2015/16 is based on the Spending Review 2013. The reductions for 2015/16, as a result of SR 2013, in baseline funding for local authorities are 13.1%.

There are currently no Spending Review announcements beyond 2015/16. However there are initial indications that the age of austerity will continue until at least 2018/19 no matter which political party is elected in May 2015. The Chairman of the Office for Budget Responsibility (OBR) has recently commented that the next parliament will see a "very sharp squeeze" on spending. The OBR has stated that the implied cuts in the next parliament would "pose a significant challenge if they are confirmed as firm policy, one that would be all the greater if existing projections were maintained."

The Autumn Statement 2014 announced the government's high level expenditure plans for the next parliament. These show that total managed expenditure will fall in real terms in 2016/17 and 2017/18 at the same rate as between 2010/11 and 2014/15. Therefore it can be assumed that the level of reductions over the 2 years will be consistent with the total reductions between 2010/11 and 2014/15. This means that challenging reductions will take place in the two years 2016/17 and 2017/18. 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. There is however, as stated before, little information available about future funding levels.

1.4 Budget Priorities

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

In approving the budget savings options for 2015/16 the council has had regard for those services deemed to be of the highest priority.

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

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

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

2. Forecast Income

2.1 Local Government Grant Funding

The Spending Review 2013 (SR2013) announced departmental spending totals to 2015/16. These totals represented planned reductions in local government spending of 28% over the SR2010 timeframe. Beyond 2015/16 the Government has made no detailed announcements, this will take place following the election in May 2015. The Autumn Statement in 2014 updated the forecasts for Government finances; these indicated that the period of austerity will continue in future years. The decrease in government funding is the single biggest factor driving the forecast funding gap for the Council. Like for like funding has decreased and this will continue to take place. The reductions for Wirral since the start of 2010 have been over 50%. The latest announcement of grant funding to the Council was made in December 2014 and was in line with SR2013 plus the Councils own projections.

Local Government Finance Settlement

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

	2014/15 Funding £m	**2015/16 Funding £m**
Upper Tier Funding	118.155	97.742
Lower Tier Funding	20.825	17.402
Formula Funding	**138.980**	**115.144**
Grants Held Back	0.213	0
Council Tax Freeze Compensation Part 1	3.271	3.259
Council Tax Freeze Compensation Part 2	n/a	1.354
Early Intervention Funding	10.251	9.336
Homelessness Prevention Funding	0.065	0.065
Lead Local Authority Funding	0.121	0.120
Learning Disability and Health Reform	7.141	7.114

Funding		
Local Welfare Provision 2015/16 only.	n/a	1.210
Total Grants Rolled in	**21.062**	**22.458**
Total Settlement Funding	**160.042**	**137.602**

*For 2014/15 Council Tax Freeze Compensation Part 2 was paid as a separate grant. In 2015/16 the grant has been rolled into general grants. Local Welfare Assistant Grant was paid in 2014/15 as a specific grant. This ceased in 2015/16. The amount included above is a purely indicative figure and no grant has rolled in.

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

	£m	**£m**
Net Forecast rate yield	65.377	66.629
Less: Amount to be paid to Central Government (50%)	32.689	33.314
Business Rates Baseline	**32.688**	**33.315**
Less: Amount to be paid to Merseyside Fire and Civil Defence Authority (1%)	0.654	0.666
Retained Business (RBR) element:	**32.034**	**32.649**

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

		2014/15 £m	2015/16 £m
Retained Business Rates (RBR)	Variable amount	32.034	32.649
RBR Top up from Government	Fixed amount	40.513	41.287
Revenue Support Grant	Fixed amount	87.493	63.667
Total Funding		**160.040**	**137.603**

Actual retained business rates income for 2015/16 will be dependent on the assessed rateable values, effect of appeals and collection rates. The NNDR1 return estimates this amount and this is the amount that is included in the Councils budget. Business rates present significant risk to the Council. Any uncollected business rates, or unfavourable variation from government estimates of rateable values, will impact directly on council resources available and therefore on resources available to fund and to provide services.

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

2.2 Local Taxation

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

The Government has implemented a referendum regime from 2012 onwards, for Council Tax increases that it regards as excessive. For 2014/15, under the Government's regulations the Council was allowed to increase Council Tax by 2%. The Government has stated the Councils must hold referendums with local residents it if proposes to increase Council Tax by more than 2% in 2015/16. The alternative is a Freeze Grant. A freeze grant of 1% will be available to all Councils who freeze Council Tax levels.

The five 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 £3.285 million pa

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

- Percentage - 2.5%
- Grant amount - a grant of £3.285 million pa

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

2014/15 Council Tax Freeze Grant – income that is received by Wirral

- Percentage - 1%
- Grant amount - a grant of £1.354 million pa

2015/16 Council Tax Freeze Grant – Decision to take grant was provisionally agreed by Cabinet 9 December 2014

- Percentage - 1%
- Grant amount - a grant of £1.358 million pa

3. Forecast Expenditure

3.1 Cost Pressures

The financial pressures in the period 2015-18 facing Wirral Council are considerable. There will be a number of items of additional expenditure that are likely to be incurred in future years. There are also other issues that will occur that will require funding for which uncertainties exist, but will eventually involve expenditure for the Council.

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

Growth Changes

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

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

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

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

A fundamental issue to be addressed in the period of the MTFS is the Council's approach to cost pressures and growth in a period when it's funding is reducing. For 2015/16 growth and inflation has been examined and challenged to explore alternative options for meeting the cost pressures faced. Cost pressures are offset by savings. It is however proposed that in future years Directorates will be required to manage their pressures within their resources as far as possible.

Wirral Council has never attempted this degree of budgetary and organisational change before, both in the size of the task and the pace at which it has to be delivered. The degree of risk in 2015/16 will be reflected in the level of General Fund Balances that the Council should hold to cover exposure to risks. The challenges facing the Council are considerable.

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

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

3.2 Overall Financial Projections for 2015-18

Bringing together the picture relating to forecast income and forecast expenditure, there is a forecast funding gap of £18 m in 2015/16 rising to £70m by 2017/18. This is a cumulative position and is reduced by the value of savings agreed in December 2014 to a gap of £49m. Details of the build-up of the forecast are set out in the following paragraphs.

Developments in the Overall Financial Projections

The MTFS approved for 2014-17 reflected the financial projections for the Council based on the SR 2013, a forecast of reductions in funding for 2016/17 beyond SR2013 and a number of budget assumptions. This forecast that the Council would have an overall deficit of £45 million for the period 2014-17.

MTFS March 2014 Forecast Funding Gap 2014-17

	2014/15 **£m**	**2015/16** **£m**	**2016/17** **£m**	**Total** **£m**
Forecast Expenditure (including demographic changes)	276	275	277	828
Forecast Income (including reduced grants)	276	257	250	783
Forecast Funding Gap	**0**	**18**	**27**	**45**

In December 2014 the gap presented in the MTFS was updated. The revised position highlighted a gap of £70 million for the period 2015/18. The March 2014 MTFS forecast has been updated for the announcement of the Autumn Statement in December, a review of assumptions and the addition of the anticipated budget gap for 2017/18. This has resulted in a new financial forecast for the period 2015-18.

MTFS December 2014 Forecast Funding Gap 2015-18

	2015/16 £m	**2016/17 £m**	**2017/18 £m**	**Total £m**
Forecast Expenditure (including demographic changes)	275	277	264	816
Forecast Income (including reduced grants)	257	250	239	746
Forecast Funding Gap	**18**	**27**	**25**	**70**

The forecast funding gap for 2015-18 has been updated below to reflect savings agreed in December 2014 by the Council, the provisional local government finance settlement and revisions to budget assumptions that have been identified.

The updated position shows a balanced budget for 2015/16. The forecast funding gap for 2015-18 is £49 million. This will be subject to change as the Government has yet to finalise the Local Government Finance Settlement for 2015/16 and the Spending Review for the final two years of the period will not be announced until after the election in May 2015.

MTFS February 2015 Forecast Funding Gap 2017-18

	2015/16 £m	**2016/17 £m**	**2017/18 £m**	**Total £m**
Forecast Funding Gap	**0**	**24**	**25**	**49**

Note: The following table is to be confirmed following agreement of the Revenue Budget 2015/18.

The 3-year financial projections highlights that there continues to be a gap between the Councils available resources and spending pressures. As mentioned before the Council has been, and will continue to work through one of the most challenging financial periods it has ever faced. The Spending Review period to 2015/16 has seen the greatest ever post war reduction in Local Government funding. It is anticipated that similar reductions will occur in 2016/17 and 2017/18. To respond to this the Council must reshape to meet this new financial reality. Wirral has made savings in the period 2011-2015 and will do so again in 2015/16. Significant savings are expected throughout the spending review period and beyond. The Council is working in an increasingly difficult and unpredictable financial environment.

3.3 The Revenue Budget Strategy to meet Pressures

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

Prioritisation

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

In setting the budgets for 2013/14, 2014/15 and 2015/16 the Council has agreed savings which impacted upon those years as well as into 2015/16 and 2016/17. The priority approach in each year has assessed savings options under the following classifications of savings:-

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

Highest Priority: Savings that affected residents least:

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

Lower Priority: Savings that affect residents directly

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

For savings in 2015/16 agreed in December 2013 the Council adopted a number of principles when proposing budget options. The budget consultation used a priority approach to assess savings options under the following classification of savings:

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

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

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

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

For savings in 2015/16 agreed in December 2014 the focus has again been on series of changes to services without closing services that residents rely on. The following programmes have been used to classify and assess proposed savings:

Delivery Programmes

- Delivering Differently – Assessing the best means of delivering a service-choosing the most efficient and effective option.

- Managing Demand – Reducing demand and the costs of specialist, substantial services through empowering people and communities to help themselves.

- Income and Efficiency – By stopping subsidising chargeable services unless it helps up to meet another objective.

- Customer Contact – Moving Council customers away from expensive forms of contact and targeting those who need face to face support.

Support Programmes

- People – Enabling the Council to define and deliver workforce requirements for the future, enabling people based change such as culture, up-skilling of staff and ensuring appropriate policies and procedures are in place.

- Technology and Information – Driving a strategic approach to the use of systems, data and information to support Council Services.

- Assets – Delivering the consolidated asset requirements of the services, enabling key service changes through the rationalisation and future proofing of the asset base.

Partnership
The Council will seek new funding and new ways of working with support provided by the outside organisations. The Council 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. The Council will seek to identify efficiencies that will not impact on service delivery, and to identify options that will improve the value for money services through improving performance and/or reducing service costs.

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

Multi Year
The budget will be agreed in February 2015 and will cover a three year period to avoid taking a series of annual short term decisions. The vision is to define the outcomes the Council wants to achieve by April 2016 and beyond as part of its commissioning strategy - and look back on how well the journey, over the three years, was accomplished.

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

Transparent
The budget consultation process shared with residents budget saving options at the beginning of the process and categorised them in terms of their effect on residents. Residents were able to see the range of options that Members would consider.

Consultative
The budget process has sought as wide a canvass of views as possible. It has used a number of methods to gain everyone's opinions and views. The Council through What Really Matters 2014, consulted on £4 million of the Chief Executive's savings.

4. General Fund Balances and Earmarked Reserves

4.1 Background

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

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

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

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

4.2 General Fund Balances

Wirral Council's risk-based reserves strategy is applied in the context of the current state of the economy, the other financial risks facing the council and the underlying financial assumptions within the medium term financial plan. The level of the Working Balance has to be maintained at £17.4m for 2015/16.

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

Salaries budget: £121.286m Risk: low Factor: 0.1% Value: £121k

The areas of risk considered in the general contingency are set out in the report on the Revenue Budget 2015-18, with an explanation of the potential risks faced by Wirral Council. The calculation of the level of General Reserves Balances is as follows:-

2014/15	2015/16	2016/17	2017/18
£17.3m	£17.4m	£17.3m	£17.0m

4.3 Earmarked Reserves

The Council maintains earmarked reserves in addition to its General Fund Balances, which are set aside for specific purposes. The Council is obliged to maintain a number of Legally Restricted Reserves; these are sums of money that the Council is required to set aside for legally defined purposes (e.g. the Dedicated Schools Grant). Reserves are set aside by the Council to meet future expenditure such as decisions causing anticipated expenditure to be delayed. As such they are only available to be spent on specific purposes. The categories of earmarked reserves are as follows:

Category and Description
INSURANCE AND TAXATION Assessed liabilities including potential cost of meeting outstanding Insurance Fund claims, Business Rates appeals, etc.
RE-MODELLING Support Future Council which includes costs of investment to deliver future savings and one-off workforce reduction costs.
SCHOOLS RELATED Balances and sums for school-related services which can only be used by schools and not available to pay for Council services.
SUPPORT SERVICE ACTIVITIES AND PROJECTS Includes Government Grant funded schemes when the grant is received and spend incurred in the following year such as Public Health, Supporting People and Troubled Families and were the sums held are earmarked for the completion of Council programmes such as Community Asset Transfer, planned maintenance and parks improvements and waste development initiatives.

4.4 Monitoring and Management

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

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

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

4.5 Summary

Although the budget position is very challenging and will remain so for the foreseeable future, the Acting Section 151 Officer considers the level of reserves and balances to be reasonable for 2015/16 based on:-

- Working Balances of £17.4m, which assessed as reasonable given the financial risks the council is facing;
- Current level of general fund earmarked reserves.

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

5. Capital, Treasury Management and Asset Management.

5.1 Balance Sheet Management

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

The Council already have embedded processes to review its fixed assets and strategies for treasury management and borrowing. Over the course of 2015/16 it 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 2015/16 to 2017/18. The strategy is designed to maximise outcomes through a prioritisation of limited resource allocations. The Council will continue to identify future capital resources including a review of its own asset holding, the latter aiming to generate receipts to be reinvested into its capital resources. In addition the strategy seeks to minimise the level of unsupported borrowing where no additional source of income or saving can be identified to cover the ongoing revenue costs.

5.3 Capital Strategy

The Capital Strategy (Appendix1) is concerned with, and sets the framework for, all aspects of the Council's capital expenditure over the 3 year period 2015/16 to 2017/18 – its planning, prioritisation, management and funding. It is closely related to, and informed by; the Council's Asset Management Plan and is an integral aspect of the Council's medium term service and financial planning process as reflected in the Medium Term Financial Strategy (MTFS). It is also essential that the strategy reflects the wider private sector investment into the overall regeneration of the area.

The key aims of the Capital Strategy are:

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

5.4 Treasury Management

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

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

Revised editions of the CIPFA Prudential Code for Capital Finance in Local Authorities and CIPFA Treasury Management Code of Practice were published in November 2011. The changes are largely regulatory updates and there is little material change affecting the Council. The Council has adopted the codes and the Treasury Management Strategy Statement 2015-18 reflects the updated codes.

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

5.5 Asset Management

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

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

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

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

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

Key Challenges

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

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

6 Risk Management and Business Continuity

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

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

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

A statement on the robustness of the estimates for 2015/16 to 2017/18 was reported to Cabinet on the 10 February 2015 giving reasonable assurances about the estimates and setting out the key processes that were followed including:-

- the issuing of guidance on preparing budget growth and savings options for the three year period 2015-18.
- peer review by finance staff involved in preparing the base budget namely the existing budget plus necessary inflation.
- the use of financial monitoring, and re-alignment of budgets with current demand for 2014/15 and future years.
- a review by the Chief Executive Strategy Group of proposed savings and their achievability.
- a Member review and challenge of proposals through the Policy & Performance Committees and Cabinet.
- the Director of Resources providing advice throughout the process on robustness, including inflationary factors, avoiding unallocated savings and reflecting current demand and service standards (unless standards and eligibility are to be changed through a change in policy).
- consultation with the public and various groups including the voluntary sector and community and faith groups.

In assessing the robustness of Revenue Budgets it is expected that the key risks remaining will be:

- The actual delivery of the approved savings and efficiencies and, in particular those relating to Remodelling the Council, Social Services and commissioning/procurement.
- Changes to employees' costs including equal pay as the Council has yet to conclude its equal pay arrangements.
- The ongoing impact of increasing demand for services, particularly within care services, and reducing grant funding from which the Government have made no detailed announcements beyond 2015/16.
- The confirmation of Government grants, of which a number remain currently unknown.
- The adequacy of the New Burdens funding in meeting the demands such as those from the Care Act.
- Changes to the Capital Programme, to achieve the policy objective of eliminating Prudential Borrowing and associated revenue costs.
- The possibility of legal challenge including judicial review.
- On-going review of the risks relating to Council Tax and Business Rates collection levels and appeals as the new schemes start to have an effect.

7 Managing the Medium Term Financial Strategy

7.1 Achieving a Balanced Budget 2015-18

2015/16 Financial Strategy
In developing the 2015/16 Budget the approach to balancing the budget initially focused in February 2013 on the agreement of a range of savings in areas which were identified as those that would affect residents less. This prioritised this type of saving over those that would have greatest effect on residents. Further details of the approach over a number of years are set out in section 3.3.

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

Delivery Programmes

- Delivering Differently – Assessing the best means of delivering a service-choosing the most efficient and effective option.

- Managing Demand – Reducing demand and the costs of specialist, substantial services through empowering people and communities to help themselves.

- Income and Efficiency – By stopping subsidising chargeable services unless it helps up to meet another objective.

- Customer Contact – Moving Council customers away from expensive ways of contacting us and targeting those who need face to face support.

Support Programmes

- People – Enabling the Council to define and deliver workforce requirements for the future, enabling people based change such as culture, up-skilling of staff and ensuring appropriate policies and procedures are in place.

- Technology and Information – Driving a strategic approach to the use of systems, data and information to support Council Services.

- Assets – Delivering the consolidated asset requirements of the services, enabling key service changes through the rationalisation and future proofing of the asset base.

2016/17-2017/18 Financial Strategy

To tackle the magnitude of the future financial challenge 2016/17 to 2017/18 requires a new approach to the identification of savings. At the same time the Council needs to make sure that its Medium Term Financial Strategy enables the achievement of the Corporate Plan and its objectives. It is clear that in the period 2015-18 the total financial resources of the Council and its partners need to be maximised, prioritised and matched to key services and activities.

The Council therefore needs to ensure that the resources that are available are focused on its priorities as set out in the Corporate Plan. Since 2010 the Council has examined and challenged the way services are delivered. A lot has been achieved through examining the way its services are being delivered to make cost efficiencies. The experience in recent years is that reducing budgets across all services is not the most effective way to respond to the reductions required since 2010. This has and will continue to take a planned, longer term approach. It will examine how to prioritise resources over a number of years to determine how to provide services with less funding.

The period 2016/17-2017/18 will see further reductions in grant funding. There will be significant reductions in the grant funding received from Central Government. This will coincide with increasing demands for our services. The resulting increasing deficit combined with the reduced ability of the Council to get "the same for less" means that there are considerable financial challenges and decisions to be taken. Very difficult decisions are going to be needed to prioritise spend and ensure a viable budget in the future. The emphasis for future years will be challenging services the Council continues to fund, working with partner organisations and driving out efficiencies in ways of working.

However, efficiencies alone cannot solve the funding gap. To resolve the Council must evaluate everything it does, to ensure that it delivers the most sustainable, effective and targeted services possible for its communities. By continuing the approach developed since 2013/14 of getting better value for money and using new ways of providing services the aim remains of reducing the impact on front line services.

The approach that the Council has taken through Future Council is different from arbitrary cutting budgets across the board. It has led to service reviews to consider proposals on how the Council can achieve key outcomes with less funding.

It is planned to continue to use the Future Council approach in developing savings for future years. The key focus is on outcomes instead of reducing every Council service by a set amount. This enables Wirral to maintain what its residents want the most and keep those key services that make a real difference. There is and will continue in the future to be a commitment to reduce the impact of any changes on the most vulnerable members of society.

There are four key principles to how this work is being carried out:

1. **All proposals for changes will be subject to a sound business case and options appraisal.**
   This means that **all** options will be assessed to ensure they make good financial and business sense for the council. This approach will be used consistently across the council which means we will be able to make the necessary reductions in staffing in a targeted, strategic way. A fair and consistent approach will be taken to all employees regardless of service area.
2. **Every team will be assessed.**
   Regardless of how a service may be delivered in the future, all teams will be assessed using the same business case process, as explained above. All teams will be evaluated to see how staffing structures and service delivery can be made more efficient.
3. **Nothing will be done in isolation.**
   Wherever possible, any data or information which is collected will be used to inform all parts of the 'Future Council' project, to avoid duplication.
4. **Communication will be regular.**
   Regular updates will be given through the Chief Executive's weekly email, meetings with groups of employees and 'One Brief'.

Further work will be undertaken in the coming year, linked to the Corporate Plan, to prioritise resources to the achievement of priorities in addition to identify ways that the Council's funding gap will be closed. This work will result in further plans to implement the medium term financial strategy in the period 2016/17 to 2017/18 and beyond. Reports detailing the development of plans will be presented to Members as part of the budget and strategic financial planning process. The approach to commissioning, an outcomes approach to it and a focus on lifecourse thinking (early years, childhood and adolescence, adults, older age, end of life) will be key to a focused discussion and decision making approach to the changes required. The approach to the budget needs a step change in thinking to ensure that real and difficult decisions are made whilst protecting the most vulnerable and future income streams e.g. business rates.

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

- Service change – identifying areas where services standards can be changed or services decommissioned. Focusing resources towards priority areas.

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

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

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

- Council Tax Levels – additional income beyond that included in the estimated forecast income for 2016/17- 2017/18 could be realised. However this needs to be assessed against any Council Tax Freeze Grant made available by the Government and the requirement to hold a local referendum if the increase exceeds the amount specified for this to take place.

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

These approaches are the way savings will be identified. It will result in an analysis of how, with fewer resources, the Council plans with less funding, to continue to provide services and work on the areas challenging social and economic issues. Reducing all budgets in all Council services is being avoided. However the approach adopted still requires difficult decisions to be made in the future. But the approach will provide a rationale for decisions rather than cutting all services.

The Council's approach over the last few years has been led by its core values and objectives as set out in the Corporate Plan. It sets out what and how the Council will tackle the most challenging issues the area faces and deliver services. The Councils vision is:

"Wirral will be a place where the vulnerable are safe and protected, where employers want to invest and local businesses thrive, and where good health and an excellent quality of life is within the reach of everyone who lives here"

As discussed above the Council has used and will continue to use the Future Council approach to balance its budget. The overriding aim is to deliver on the outcomes in the Corporate Plan whilst meeting our statutory obligations. This means that the approach will continue to be around:

- Matching available resources to the achievement of key corporate plan outcomes.
- The identification of efficiencies and the protection of front line services.

Since 2010 the savings have been hard to make, significant savings have been made in back office functions and this has reduced the impact on front line services. The scope for making such savings has reduced. Many savings agreed in 2014/15 and 2015/16 are efficiencies and changes in management so protecting front line services. However the size of the challenge to save in future years is so great it means that it is not possible to continue to provide the same services in the same way.

7.2 Equality

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

7.3 Consultation

The Future Council project for 2015/16 identified £15.5 million of changes and efficiencies that did not require public consultation. Options were proposed for public consultation that totalled £3.7 million. Of these £2.5 million was required to close the budget gap. These budget proposals through Future Council were consulted on using a number of means including:-

- Questionnaire and consultation pack;
- 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;
- Targeted consultation with specific groups;
- 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 Members of the Policy and Performance Committees and Constituency Committees;
- Partner agencies were engaged through the Public Services Board;
- Consultation on specific service budget proposals as necessary.

7.4 Review of Medium Term Financial Strategy

The Council is facing a massive challenge to implement its financial strategy. This is in response to the Governments reductions in public expenditure. The budget set for 2015/16 reflects the strategy contained in this MTFS through the minimisation of cost pressures and the plans for savings. It is clear that further savings in the coming years are required to close the funding gap. The MTFS will be reviewed and updated at regular intervals during 2015/16 to assess the Council progress towards this key objective.

Appendices

Appendix 1 Capital Strategy 2015-18
Appendix 2 Treasury Management and Investment Strategy 2015-18

Appendix 1

WIRRAL COUNCIL

CAPITAL STRATEGY 2015-18

CONTENTS

Overview and Purpose of the Capital Strategy

The capital strategy sets out the strategic direction for the Council's capital management and investment plans, and is an integral part of our financial and service medium-long term planning and budget setting process. It sets the principles for prioritising our capital investment under the prudential system.

Capital plays an important role in delivering long term priorities as it can be targeted in creative and innovative ways.

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

With a challenging financial environment for the foreseeable future that is influenced by a variety of external factors, there will only ever be a limited amount of capital resources available. The more funded from capital receipts (nil revenue impact) the less the pressure imposed on otherwise scarce revenue resources. Therefore, it is vital that we target limited resources to maximum effect with a focus on our strategic and financial priorities.

The Council's 2015-18 revenue budgets severely limit the scope for unsupported capital expenditure (that generated revenue costs) compared to schemes that generate revenue savings. This is evidenced by the £1.7 million reduction in the financing costs budget for 2015/16 and increased emphasis on realising capital receipts as part of the overall package of revenue savings.

The Council does have a duty of care and certain statutory responsibilities. Therefore, priority will be given to:

a) Invest to Save schemes
b) Essential health and safety works
c) Grant funded schemes
d) Schemes generating capital receipts

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

Influences on the Capital Strategy

We are still faced with unprecedented change and uncertainty in the public sector and the following are some of the major influences on our capital strategy.

A difficult economic environment
The Coalition Government has put in place stringent reductions in revenue and capital grant funding for public services, with a strong drive towards austerity and value for money. Even a change of Government in the forthcoming election is unlikely to provide any relief. Local authorities are facing rising demand and expectations for Council services. The Council is seeking creative new ways of providing services which may require capital investment to deliver best value for our communities and taxpayers. Our future capital programme must deliver benefits that support the delivery of the Corporate Plan and our financial aims and requirements.

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

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

Definition and Eligibility of Capital Expenditure

Local authority capital expenditure must comply with legislative and accounting requirements.

Capital expenditure can fall into one of two main categories

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

Increase the service potential of an asset, rather than just maintaining it by.

Lengthening substantially the life of the asset; or
Increasing substantially the asset's market value or
Increasing substantially either the extent to which an asset can be used or the quality of its output.

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

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

Expenditure which merely maintains the value of an existing asset cannot be classified as capital expenditure.

In addition to the categories above an Authority can in certain circumstances also give of a loan, grant or other financial assistance to any person, whether for use by that person or by a third party, towards expenditure which would, if incurred by the authority, be capital expenditure.

Under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, the secretary of state has powers to widen (or indeed narrow) the definition of capital expenditure and can issue specific capitalisation directions to local authorities whereby expenditure that is revenue in nature can be capitalised if a number of strict criteria are met. These powers have in the past been used sparingly.

Financial Implications of the Capital Programme

Over the last three years Wirral will have spent on average £35m per year on capital projects. We plan to invest £84 million over the next three years. Out of this £22.6 million or 27% of the programme will be funded from unsupported borrowing. If the Council actually borrowed this from the various financial institutions it would generate a revenue cost of £2.0 million by March 2018. Taking into account re-profiling from 2014/15 a net increase in the revenue budget of £1.2 million would actually be required. Internal borrowing, the temporary use of cash flow monies arising from the Council's holding of earmarked reserves and balances to delay external borrowing has been used to reduce interest costs. The importance of internal borrowing is referred to in the Capital Programme 2015-18.

"The policy of internal borrowing in 2014/15 has produced significant savings in interest payments associated with long term borrowing. On the assumption therefore that the 2015/16 interest budget will be maintained at its current level the additional costs referred to above can be accommodated from existing resources".

Capital resources are not unlimited or "free money" – our capital funding decisions can have major revenue implications. Two costs are incurred when a capital scheme is funded from borrowing;
A Minimum Revenue Provision – the amount we have to set aside each year to repay the loan and this is determined by the life of the asset associated with the capital expenditure; and
Interest costs for the period of the actual loan.

The capital programme should support the overall objectives of the Council and act as an enabler for transformation of the Councils aims and priorities.

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

Sources of Capital Funding

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

Borrowing
By the end of March 2015 it is estimated that Wirral's long term borrowing will be in the region of £204 million. Our policy is that net debt costs must not exceed 10.5% of the net revenue budget over the next three years. The level of borrowing to fund the capital programme must take into account the revenue implications. The Prudential Capital Finance system allows Local Authorities to borrow for capital expenditure without Government consent, provided it is affordable. Local authorities must manage their debt responsibly and decisions about debt repayment should be made through the consideration of prudent treasury management practice.

As a guide, borrowing incurs a revenue cost of approximately 9% of the loan each year, comprising interest charges and the repayment of the debt (known as the Minimum Revenue Provision or MRP). The Council needs to be satisfied that it can afford this annual revenue cost i.e. for every £1 million of borrowing our annual revenue borrowing costs are around £90,000.

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

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

Grants
The challenging financial environment means that national government grants are reducing, or changing in nature. A large proportion of this funding is currently not ring-fenced which means it is not tied to particular projects. However, it is often tied to a particular area such as education or highways so we do not have complete freedom on where to spend our grants. Where possible we will not use unsupported borrowing as a 'top up' for a scheme unless there is a sound business case or an element of match funding is required. We must also meet our statutory obligations and where the grant is not sufficient, other sources of funding will be sought to fund the gap.

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

The following table shows the anticipated receipts and how they will be used to fund the capital programme. This profile forms an integral part in calculating a number of the Prudential Indicators.

	2014/15	**2015/16**	**2016/17**	**2017/18**
	£000	£000	£000	£000
Capital Receipts Reserve	8,800	3,227	534	8,399
In – Receipts Assumption	2,500	10,000	14,000	1,000
Out - Funding assumption	-8,073	-12,693	-6,135	-2,414
Closing Balance	3,227	534	8,399	6,985

The anticipated receipts are only estimates at this stage and will likely change. In the main they reflect the anticipated dates for the disposal of the 3 major sites- Acre Lane, Manor Drive and the former Rock Ferry High School.

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

Investment decisions

The strategy requires a mechanism for determining the Councils most important schemes that will implement change in Council services and yet are in line with the financial constraints that Wirral operates under. This means that decisions have to be made as to which projects go ahead and which don’t. The following table explains the criteria that have been developed to assess capital bids, to ensure that our capital programme is targeted to our priority areas. This forms the basis for the Capital Working Group to independently assess individual bids before recommending them or not for inclusion in the draft Capital Programme presented to Cabinet for approval.

Factor to be used to appraise and assess bids for the capital programme 2015-2018				
Investment Title			**Dept**	**Date**
A: Direct links to Council Themes (16%)		**(A) Score 1 to 5**	**(B) Multiplier**	**Weighted Score (A * B)**
1	Driving growth in our economy		5	
2	Protecting the vulnerable		5	
3	Tackle health inequalities		5	
.				
B: Outcomes (32%)				
1	Realistic and detailed time table with key events and dependencies rigorously addressed		6	
2	Realistic and clearly stated outcomes with achievable, measured outputs that the investment will produce.		12	
3	Demonstrates need for, benefits of and priority for investing and evaluation of alternate options.		12	
C: Finance (52%)				
1	Business case demonstrates achievable and realistic revenue savings.		15	
2	Attracts significant funding or generates capital receipts.		20	
3	Accommodates all revenue borrowing or ongoing revenue running costs.		15	
Total weighted score – maximum 475				
Scored by: Name		**Position**		
(Scoring scheme: 1 poor, 2 below average, 3 average, 4 good, 5 very good)				

Governance and process
In order to deliver the strategy, there needs to be a governance framework. Cabinet will receive monthly reports on the progress of the capital programme and its funding.

The terms of reference for the Capital Working Group are included in Appendix 2A.

Capital Programme and Financing 2015-18
Cabinet on 10 February 2015 agreed a capital programme and financing 2015-18.

TO BE INCLUDED AFTER PROGRAMME AGREED

Capital Working Group – Terms of Reference

The CWG shall meet fortnightly and at a minimum shall comprise Senior Managers/Heads of Service or above from each of the three Strategic Directorates.

Specifically the group will:

1. Agree the format and content of the monthly capital monitoring reports, prior to submission to the Chief Executive's Strategy Group (CESG).
2. Develop, monitor and keep under review the Council's capital investment appraisal system which will provide guidance for departments when submitting annual bids for possible inclusion in the three year capital programme. This guidance should support corporate priorities and the overall budget and planning processes.
3. To assess, approve or reject such bids in accordance with the above appraisal system. This will form the basis of the new capital programme presented to CESG for their consideration.
4. To determine the annual Capital Strategy report.
5. To ensure that programme managers produce a realistic expenditure profile for all capital schemes for which they have responsibility.
6. To assess any in year demands to increase the capital programme, being mindful of any impact on the revenue budget.
7. Monitor and review the progress of projects through the Concerto system and provide the necessary leadership to ensure that Concerto is being used to its full potential.
8. To discuss any ad hoc items that might be of relevance in the context of the capital programme.
9. The Group should review the risks managed in respect to completed Capital Projects and undertake a formal assessment to identify areas where the programming and monitoring can be improved and also areas of good practice.

Wirral Council's Treasury Management Strategy Statement 2015/18

CONTENTS

APPENDICES

1. BACKGROUND

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

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

1.3 Wirral Council defines its treasury management activities as:

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

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

- A Treasury Management Policy Statement (see Appendix A), stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

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

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

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

- Treasury Management Strategy for 2015/18.
- Annual Investment Strategy for 2015/16
- Minimum Revenue Provision (MRP) Statement
- Treasury Management Policy Statement

- Prudential Indicators for 2015/16, 2016/17 and 2017/18
- Authorised Signatories for Treasury Management Activity

2. CAPITAL FINANCING REQUIREMENT

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

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

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

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

Table 1: Balance Sheet Summary Analysis

	31-Mar-15 Estimate £m	31-Mar-16 Estimate £m	31-Mar-17 Estimate £m	31-Mar-18 Estimate £m
Capital Financing Requirement (CFR)	344	346	332	314
Less: Existing Profile of Borrowing and Other Long Term Liabilities	257	266	260	249
Cumulative Maximum External Borrowing Requirement	**87**	**80**	**72**	**65**
Usable Reserves	77	63	52	46
Cumulative Net Borrowing Requirement	**10**	**17**	**20**	**19**

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 will eventually be required.

3. BORROWING STRATEGY

3.1 The Authority currently holds £205 million of longer term loans, a decrease of £12 million from March 2014, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that in theory the Authority could borrow up to £80m in 2015/16. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £356 million, as per Appendix D, Table G.

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

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

3.4 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the short term as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. The Authority's Treasury Management advisors will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2015/16 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

3.5 In addition, the Authority may borrow short-term to cover unexpected cash flow shortages.

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

- Public Works Loan Board (PWLB) and its successor body
- Local authorities
- Any institution approved for investments
- any other bank or building society authorised to operate in the UK

- UK public and private sector pension funds (with the exception of Merseyside Pension Fund)
- Capital market bond investors
- Local Capital Finance Company and other special purpose companies created to enable joint local authority bond issues
- Leasing

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

3.8 The Department of Communities & Local Government (CLG) has now confirmed that HM Treasury (HMT) are taking the necessary legislative steps to abolish the Public Works Loan Board (PWLB) in the coming months. This development is purely being taken to address the governance of the PWLB. The CLG have stated that it will have no impact on existing loans held by local authorities or the government's policy on local authority borrowing. Despite its abolition, HMT has confirmed that its lending functions will continue unaffected albeit under a different body. LAs will continue to access borrowing at rates which offer good value for money. Borrowing from the new successor body will be via a similar process to the one that currently exists.

3.9 The Treasury Management team will continue to investigate other sources of finance, such as local authority loans and bank loans, which may be available at more favourable rates.

3.10 The Local Government Association (LGA) Bond Agency: Local Capital Finance Company was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for three reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; there will be a lead time of several months between committing to borrow and knowing the interest rate payable; and up to 5% of the loan proceeds will be withheld from the Authority and used to bolster the Agency's capital strength instead. Any decision to borrow from the Agency will therefore be the subject of a separate report to Council.

Type of borrowing

3.11 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

3.12 The Authority has £155m of exposure to LOBO loans (Lender's Option Borrower's Option) of which £140m of these could theoretically be called within 2015/16. 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. This refinancing risk is mitigated by the continued climate of low interest rates which reduces the likelihood of options being called.

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

Debt Rescheduling

3.14 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.

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

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

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

3.17 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 continually assess economic and market conditions for signs of credit or market distress that might adversely affect the Authority.

4.3 As at 31st December 2014, the Authority held £56 million of invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £42 million and £136 million. A similar range in investment level is expected in the forthcoming year, depending of the levels of grant received and the payment profiles.

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

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

4.6 In the past, if a bank failed then the Government could intervene to rescue the bank using public money via a 'bail-out'. In light of the 2008 banking crisis, governments across the world looked for an alternative approach, should banks fail in the future, rather than funding a rescue with public funds. It was this that led to the concept of a 'bail-in'. A 'bail-in' allows regulatory authorities to keep a failing bank open for essential business, but passes the cost of that failure onto investors instead of taxpayers via a bail-out. Previously, bondholders and depositors would only lose money if a bank entered insolvency. Under a bail-in regime, the regulator can take a proportion of bonds and deposits to reduce a bank's liabilities and therefore increase its equity capital, without interrupting the provision of current accounts, mortgages and business loans. As an investor, the council could be subject to such a loss on an investment, should a bank fail in the future.

4.7 Under the regime being created, a clear pecking order for this support is set out: shareholders are first; certain types of bondholders; and then customers who have deposits over the guaranteed level of €100,000 (£85,000). These three types of creditors would need to take minimum losses of 8% of a troubled bank's total liabilities. Under the Deposit Guarantee Directive 2014/49/EU it has been deemed that “Public authorities have much better access to credit than citizens, so should not be eligible for protection”. Secured bonds are exempt from bail-in. However, traditional local authority term deposits and call accounts do not fall under this category. The loss incurred by creditors depends on the bank’s actual losses and the proportion of secured bonds and other liabilities that are exempt from a bail-in. The greater these elements, the higher the loss to the creditor.

4.8 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2015/16. This is especially the case for funds that are available for longer-term investment. The majority of the Authority’s surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This diversification will therefore represent a substantial change in strategy over the coming year.

4.9 **Banks Unsecured Investments**: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Authority’s current account bank [Lloyds Bank plc].

Banks Secured Investments: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank’s assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

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

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

- no new investments will be made,

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

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

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

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

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

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

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

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

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

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

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

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

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

4.20 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. OTHER ITEMS OBLIGED BY CIPFA OR CLG TO BE INCLUDED IN THE TREASURY MANAGEMENT STRATEGY

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

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

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

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

5.5 **Investment Training**: The needs of the Authority's treasury management staff for training in investment management are assessed regularly as part of the staff 'Performance Appraisal Development' process and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

Relevant staff are also encouraged to study professional qualifications from CIPFA and other appropriate organisations.

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

- Credit advice
- Investment advice
- Technical advice
- Economic & interest rate forecasts
- Workshops and training events

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

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

5.8 In 2015/16 the total amount borrowed will not exceed the authorised borrowing limit of £356 million as per Appendix D, Table G. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

6. INTEREST RATE FORECAST

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

7. POLICY ON DELEGATION

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

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

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

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

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

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

8. PERFORMANCE MONITORING AND REPORTING

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

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

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

APPENDIX A

TREASURY MANAGEMENT POLICY STATEMENT

1. Introduction and background

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

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

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

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

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

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

2. Policies and objectives of treasury management activities

2.1 The Council defines its treasury management activities as:

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

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

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

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

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

APPENDIX B

EXISTING INVESTMENT & DEBT PORTFOLIO POSITION

	Current Portfolio as at 31 Dec 14 £m
External Borrowing:	
Fixed Rate – PWLB	47
Fixed Rate – Market (LOBO and Other Loans)	157
Variable Rate – PWLB	0
Variable Rate – Market	0
Total External Borrowing	204
Other liabilities:	
PFI	54
Finance Leases	0
Total Other Long-Term Liabilities	54
Total External Debt	258
Investments:	
Managed in-house	
Deposits with Banks and Building Societies	37
Deposits with Money Market Funds	10
Deposits with other Public Sector Bodies	8
Deposits in Supranational Bonds and Gilts	0
Managed externally	
Payden Sterling Reserve	1
Total Investments	56
Net Borrowing Position	202

APPENDIX C

APPROVED INVESTMENT COUNTERPARTIES

Investment Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	10% 5 years	15% 20 years	15% 50 years	5% 20 years	5% 20 years
AA+	10% 5 years	15% 10 years	15% 25 years	5% 10 years	5% 15 years
AA	10% 4 years	15% 5 years	15% 15 years	5% 5 years	5% 15 years
AA-	10% 3 years	15% 4 years	15% 10 years	5% 4 years	5% 15 years
A+	10% 2 years	15% 3 years	10% 5 years	5% 3 years	5% 5 years
A	10% 13 months	15% 2 years	10% 5 years	5% 2 years	5% 5 years
A-	10% 6 months	15% 13 months	10% 5 years	5% 13 months	5% 5 years
BBB+	7.5% 100 days	10% 6 months	7.5% 2 years	2.5% 6 months	2.5% 2 years
BBB or BBB-	7.5% next day only	10% 100 days	n/a	n/a	n/a
None	£1m 6 months	n/a	10% 25 years	£50,000 5 years	5% 5 years
Pooled funds	10% per fund				

*Limits are shown as a percentage of the cash to be invested, however these will be converted into round fixed sums of money for practical purposes. As the amount of cash to be invested will fluctuate throughout the year, limits will also vary. These variations will be monitored by the Treasury Management section.

Non-Specified Investments Limits

	Cash limit
Total long-term investments i.e. longer than 364 days	£30m
Total investments without credit ratings or rated below [BBB+]	£15m
Total investments with institutions domiciled in foreign countries rated below [AA+]	£20m

Group Investment and Industry Sector Limits

	Cash limit
Any single organisation, except the UK Central Government	10% each
UK Central Government	unlimited
Any group of organisations under the same ownership	10% per group
Any group of pooled funds under the same management	25% per manager
Negotiable instruments held in a broker's nominee account	50% per broker
Foreign countries	20% per country
Registered Providers	25% in total
Unsecured investments with Building Societies	10% in total
Loans to unrated corporates	10% in total
Money Market Funds	50% in total

APPENDIX D

PRUDENTIAL INDICATORS AND MRP STATEMENT 2015/ 2016

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. The table below is based on the proposed capital programme, which is subject to approval and included in the same agenda as this report. As such, these figures may vary depending on Cabinet decision regarding the capital programme.

Table A:

	2014/15 Approved £000	2014/15 Revised £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Capital Expenditure	**45,294**	**45,289**	**49,954**	**21,849**	**11,991**

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

Capital Financing	2014/15 Approved £000	2014/15 Revised £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Supported Borrowing	0	0	0	0	0
Unsupported Borrowing	20,717	10,884	18,990	3,626	0
Capital Receipts	3,000	8,073	12,693	6,135	2,414
Capital Grants	21,287	25,587	17,734	11,968	9,511
Revenue Contribution	290	745	537	120	66
Total Financing and Funding	**45,294**	**45,289**	**49,954**	**21,849**	**11,991**

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	2014/15 Approved £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Increase in Band D Council Tax	2.48	10.26	13.04	2.84

4. Ratio of Financing Costs to Net Revenue Stream

The estimate for interest payments in 2014/15 is £12.7 million and for interest receipts is £0.4 million. The ratio of financing costs to the Council's net revenue stream is an indicator of affordability. It highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of revenue budget required to meeting borrowing costs. The ratio is based on costs net of investment income.

Table C:

Ratio of Finance Costs to net Revenue Stream	2014/15 Estimate %	2015/16 Estimate %	2016/17 Esimate %	2017/18 Estimate %
Ratio	8.6	9.4	10	10.5

5. Capital Financing Requirement

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

Table D:

Capital Financing Requirment	2014/15 Approved £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Esimate £m	2017/18 Estimate £m
CFR	362	344	346	332	314

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 2014/15, nor do we 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 2014 was **£272m**. A breakdown of this figure is provided in Table E below. This Prudential Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Table E:

Actual External Debt as at 31 March 2014	2013/14
	£m
Borrowing	217
Other Liabilities	55
Total	**272**

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 determine under Section 3 (1) of the Local Government Act 2003.

Table G:

Authorised Limit for External Debt	2014/15 Approved £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Borrowing	357	370	356	341	325
Other Long-term Liabilities	85	65	63	61	59
Total	**442**	**435**	**419**	**402**	**384**

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:

Operational Boundary for External Debt	**2014/15 Approved £m**	**2014/15 Revised £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**
Borrowing	347	360	346	331	315
Other Long-term Liability	80	60	58	56	54
Total	**427**	**420**	**404**	**387**	**369**

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:

	2014/15 Approved %	2014/15 Revised %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
Lower Limit for Fixed Interest Rate Exposure					
Borrowings	0	0	0	0	0
Investments	0	0	0	0	0
Upper Limit for Fixed Interest Rate Exposure					
Borrowings	100	100	100	100	100
Investments	100	100	100	100	100
Lower Limit for Variable Interest Rate Exposure					
Borrowings	0	0	0	0	0
Investments	0	0	0	0	0
Upper Limit for Variable Interest Rate Exposure					
Borrowings	100	100	100	100	100
Investments	100	100	100	100	100

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:

Maturity structure of fixed rate borrowing	Lower Limit 2015/16 %	Upper Limit 2015/16 %
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:

	2014/15 Approved £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Upper Limit for total principal sums invested over 364 days	30	30	30	30	30

13. Credit Risk

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

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

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

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

14. Adoption of the CIPFA Treasury Management Code

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

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

APPENDIX E

2015 / 2016

2015/16 MINIMUM REVENUE PROVISION (MRP) STATEMENT

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

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

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

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

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

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

1.7 Capital expenditure incurred during 2015/16 will not be subject to a MRP charge until 2016/17

1.8 The MRP Statement will be submitted to Council before the start of the 2015/16 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

Based on the Authority's estimate of its Capital Financing Requirement on 31st March 2015, the budget for MRP has been set as follows:

	31.03.2015 Estimated CFR £m	**2015/16 Estimated MRP £m**
Capital expenditure before 01.04.2008	179.1	7.0
Supported capital expenditure after 31.03.2008	10.5	0.4
Unsupported capital expenditure after 31.03.2008	46.6	2.4
Finance leases and Private Finance Initiative	53.1	2.2
Transferred debt	54.6	4.9
Loans to other bodies	0	Nil
Total General Fund	**343.9**	**16.9**

APPENDIX F

Arlingclose's Economic and Interest Rate Outlook

Underlying assumptions:

- The UK economic recovery has continued. Household consumption remains a significant driver, but there are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP throughout this year.
- We expect consumption growth to slow, given softening housing market activity, the muted outlook for wage growth and slower employment growth. The subdued global environment suggests there is little prospect of significant contribution from external demand.
- Inflationary pressure is currently low and is likely to remain so in the short-term. Despite a correction in the appreciation of sterling against the US dollar, imported inflation remains limited. We expect commodity prices will remain subdued given the weak outlook for global growth.
- The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.
- Nominal earnings growth remains weak and below inflation, despite large falls in unemployment, which poses a dilemma for the MPC. Our view is that spare capacity remains extensive. The levels of part-time, self-employment and underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.
- However, we also expect employment growth to slow as economic growth decelerates. This is likely to boost productivity, which will bear down on unit labour costs and inflationary pressure.
- In addition to the lack of wage and inflationary pressures, policymakers are evidently concerned about the bleak prospects for the Eurozone. These factors will maintain the dovish stance of the MPC in the medium term.
- The continuing repair of public and private sector balance sheets leave them sensitive to higher interest rates. The MPC clearly believes the appropriate level for Bank Rate for the post-crisis UK economy is significantly lower than the previous norm. We would suggest this is between 2.5 and 3.5%.
- While the ECB is likely to introduce outright QE, fears for the Eurozone are likely to maintain a safe haven bid for UK government debt, keeping gilt yields artificially low in the short term.

- The probability of potential upside risks crystallising have waned a little over the past two months. The primary upside risk is a swifter recovery in the Eurozone.

Forecast:

- Arlingclose continues to forecast the first rise in official interest rates in Q3 2015; general market sentiment is now close to this forecast. There is momentum in the economy, but inflationary pressure is benign and external risks have increased, reducing the likelihood of immediate monetary tightening.
- We project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; we believe the normalised level of Bank Rate post-crisis to range between 2.5% and 3.5%.
- The short run path for gilt yields is flatter due to the deteriorating Eurozone situation. We project gilt yields on an upward path in the medium term.

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Dec-17	Mar-18
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75
Downside risk				0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
3-month LIBID rate													
Upside risk	0.05	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.55	0.60	0.65	0.85	1.00	1.15	1.30	1.45	1.60	1.75	1.85	2.05	2.15
Downside risk	0.10	0.15	0.20	0.30	0.40	0.55	0.65	0.75	0.85	-0.95	-0.95	-0.95	-1.00
1-yr LIBID rate													
Upside risk	0.10	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.95	1.00	1.05	1.20	1.35	1.50	1.65	1.80	1.95	2.10	2.20	2.40	2.50
Downside risk	-0.30	-0.35	-0.40	-0.45	-0.50	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80	-0.80
5-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	1.70	1.75	1.90	2.00	2.10	2.20	2.30	2.40	2.50	2.60	2.70	2.90	2.95
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.60	-0.65	-0.70	-0.70	-0.70
10-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	2.40	2.45	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	3.05	3.10
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60
20-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	2.90	2.95	3.05	3.10	3.15	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.55
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.50	-0.55	-0.55	-0.60	-0.60	-0.60
50-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	3.00	3.05	3.10	3.15	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.55	3.60
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60

APPENDIX G

AUTHORISED SIGNATORIES

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

Head of Business Processes – Malcolm J. Flanagan

Head of Branch (Planning & Resources) – Andrew Roberts

Head of Financial Services – Tom Sault

Senior Finance Manager – Peter J. Molyneux

Senior Finance Manager – Jenny Spick