



COUNCILLOR PHIL DAVIES

**CABINET
22 FEBRUARY 2016**

**MEDIUM TERM FINANCIAL STRATEGY 2016/17 –
2020/21**

Councillor Phil Davies said:

“Making sure the Council’s finances are managed in a robust and pragmatic manner for the medium term is of vital importance to this borough.

“This report provides Cabinet with a Medium Term Financial Strategy which manages our approach to finance for the next five years and – importantly – ensures our resources are targeted at those areas which are most important to residents, our 20 Pledges.”

REPORT SUMMARY

The Autumn Statement and Spending Review 2015 confirmed that the Councils funding will reduce into the medium term and that reductions to core funding will continue. This report presents the Medium Term Financial Strategy 2016/17-2020/21 based on what is an evolving system of funding for local Councils. A number of key operational questions are yet to be answered. However it is clear that the scale of the financial challenges remains. The report sets out the initial steps we are proposing to take to ensure the Council sets balanced budgets beyond 2016/17 while continuing to deliver the Wirral Plan and its vision.

The Medium Term Financial Strategy will be developed over the coming year in order to close the Council’s medium term budget gap. The approach will also ensure the Council’s resources are prioritised to those actions that achieve most in terms of

the delivery of the Wirral Plan outcomes. Since the approval of the Wirral Plan in July 2015, considerable progress has been made in all areas of the Wirral Plan and our Annual Report provides details of this. At the same time the Council has been moving forward with an integrated approach to planning policy and financial strategy. This is to ensure that our resources are targeted in accordance with the priorities identified in the Wirral Plan. This report, details the approach to integrating budget development over the coming year with the delivery of the priorities in the Wirral Plan.

This matter affects all Wards within the Borough and is therefore a key decision.

RECOMMENDATION/S

The Cabinet is asked to agree and recommend to Full Council:

In respect to the Treasury Management Strategy 2016-19

- i) The Treasury Management Strategy 2016-19.
- ii) The adoption of the Prudential Indicators.
- iii) The Minimum Revenue Provision policy for 2016/17.
- iv) The Council Officers listed in Annex G to approve payments from the Council's bank account for all treasury management activities.

In respect Medium Term Financial Strategy 2016/17-2020/21

- i) The Medium Term Financial Strategy 2016-21.
- ii) To regular updates of the Medium Term Financial Strategy in accordance with the action plan.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 An effective Medium Term Financial Strategy and Wirral Plan are necessary to ensure that the Council functions well. It is important that Councillors and residents are aware of the scale of the financial issues facing the Council. Updates to the financial projections for future years are made on a regular basis. While the Wirral Plan identifies how the 20 Pledges are to be achieved, the annual budget demonstrates in part how these are to be delivered. The Medium Term Financial Strategy indicates the resource issues and principles that shape not only the Budget for 2016/17 but also the future budgets by identifying current issues as well as potential developments / related issues. It is through the Strategy that future revenue and capital budgets are developed.
- 1.2 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.
- 1.3 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 The Wirral Plan and the Medium Term Financial Strategy are key policy documents and drive all other business planning processes within the Council. Consequently they are vital for the Council's future development. Therefore no other options were considered.

3.0 MEDIUM TERM FINANCIAL STRATEGY 2016/17-2020/21

- 3.1 Over the period 2016/17-2020/21 the Council will face further financial challenges. The Medium Term Financial Strategy focuses on ensuring that resources are targeted to the 20 Pledges while operating within the reduced financial resources that will be available. The last Medium Term Financial Strategy was approved in February 2015 and covered 2015/16-2017/18. With the development of the Wirral Plan the Medium Term Financial Strategy has been moved on a year and extended to cover a five year period 2016/17-2020/21.

3.3 Budget Gap Updated Position

Original Budget Gap

2016/17	2017/18	2018/19	2019/20	2020/21	Total
£24m	£24m	£26m	£27m	£25m	£126m

3.4 The projected 5-year budget gap reported to Cabinet in December 2015 was £126m. The Local Government Settlement announced in February has provided further details of potential funding for the MTF period. However the figures announced should be treated with caution and not yet viewed as definitive. This is because a number of elements of future funding are subject to development and further decision. This means that there is as high degree of uncertainty on elements such as:

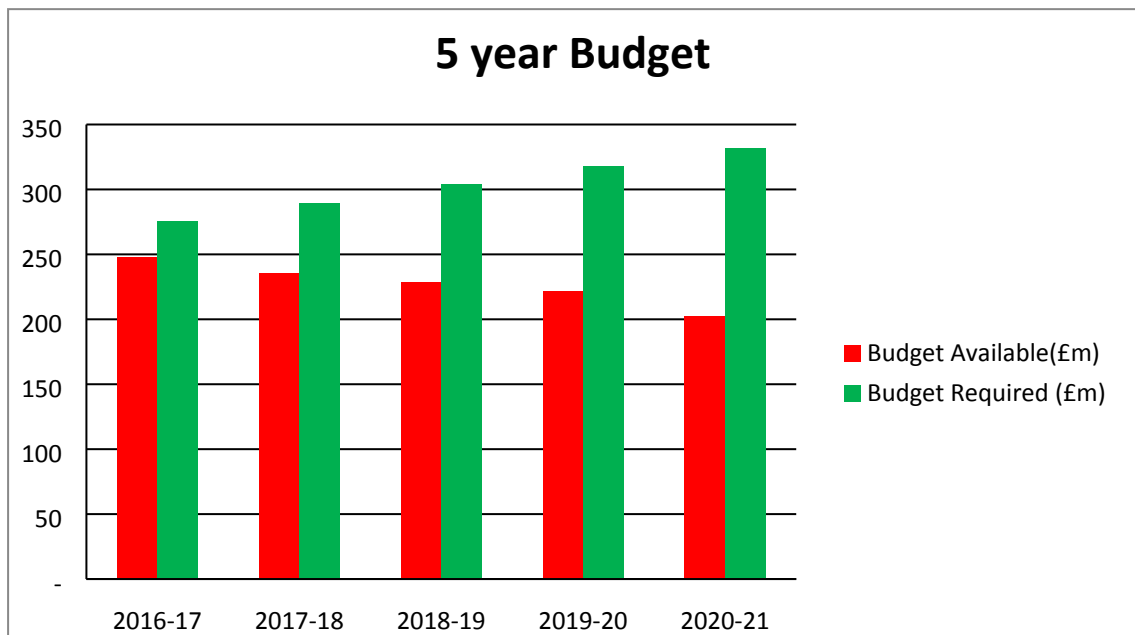
- The phasing out of Revenue Support Grant and the retention of all business rates generated nationally.
- The related transfer of new responsibilities including the funding of public health to local government.
- The retention of any mechanism to fund needs in areas where the potential to self-fund services is limited.
- The offer of four year funding settlements linked to Councils producing efficiency plans.
- Consultation over the operation of New Homes Bonus over four years instead of the current six years.
- The relaxation of the use of capital receipts to fund transformation.
- The treatment and level of specific grants.

3.5 Using the details announced in February to revise the projections for the Council means that the total budget gap for the MTF period is anticipated to be similar to that originally forecast. However the phasing of the size of the gap is different with the gap being greater in the earlier years.

Revised Budget Gap

2016/17	2017/18	2018/19	2019/20	2020/21	Total
£28m	£26m	£21m	£21m	£33m	£129m

3.6 The Government has made announcements on funding up to and including 2019/20. The graph below illustrates the difference between the budget based on funding announced and the budget that which is predicted to be required. It provides a cumulative picture of the gap increasing over the MTFS period.



3.7 The Medium Term Financial Strategy, as well as providing further financial background to the period 2016/17, sets out the Councils financial strategy over the next few years, the responses and approaches that may be adopted to meet the challenges faced and to close the funding gap. The Medium Term Financial Strategy contains the following sections:

- Overview of the period 2016/17-2020/21
- Financial overview of 2016/17-2020/21
- Financial Strategy 2016/17-2020/21
- General Fund Balances and Earmarked Reserves
- Capital, Treasury Management and Asset Management

3.8 Wherever a financial estimate can be made of likely events this has been included. Given the level of assumptions for any projection of this type, only significant items have been included. The aim of this Strategy is not to give provisional budget figures, but to provide the Council with a framework with which to support planning considerations for the medium term. The tables within the Medium Term Financial Strategy are dependent on the completion of the setting of the budget for 2016-17.

3.9 The MTFS and agreement of proposed savings in March 2016 will balance the Councils budget for 2016/17 only. The Local Government Finance Settlement has confirmed that the Council will face a funding gap until the end of the MTFS period. While a number of financial details of the operation

across this period remain uncertain the direction of travel is clear. To enable the Council to use its limited financial resources in ways that ensure the delivery of the Wirral Plan and assess opportunities for savings, there is a need to start work immediately on our future financial plans.

- 3.10 The work should build on and revisit the work that has been done over the last six months. It needs to utilise the insight and intelligence that has developed in the forming of strategies that support achievement of the Wirral Plan. This is due to conclude at the end of June. It also needs to integrate with action plans that support the strategies and translate how the pledges will be achieved. The recent results of the Residents survey also must play into the development of plans over the next 5 years.
- 3.11 The aim of this work is to create a “one Council”, aligned approach to action planning and budgeting. Members have agreed a number of pledges for the Council.
- 3.12 Initially -service areas will be asked to develop proposals for the period 2017/18 – 2020/21. These proposals will include the following:
 - How service objectives, through prioritised actions, will support the delivery of the 20 Pledges.
 - How the prioritised actions will be costed and delivered.
 - Opportunities for savings including maximising income and efficiencies.
 - Unavoidable financial pressures.
- 3.13 The main focus of the approach will be savings. These will be themed into the following:
 - Income and Resource Management
 - Managing Demand
 - Delivering Differently
 - Service Changes

3.14 Action Plan

February	Agreement of 2016/17 Budget and MFTS 2016/21
March	
April	Update financial outlook in the light of Government announcements. Service Action Planning to support the Delivery of the Pledges. Revisit and explore the potential scope for savings in the four theme areas: <ul style="list-style-type: none"> • Income and Resource Management • Managing Demand • Delivering Differently • Service Change
May	
June	Updated 5 year financial position presented. Cabinet assessment of the exploration work undertaken in the four theme areas. Cabinet agrees priority areas for the development of savings and business cases.
July	Development of savings and business cases including implementation resources.
August	
September	Cabinet decides priority areas for savings.
October	Challenge, consultation, progression and completion of savings. Consultation
November	
December	Cabinet agreement of saving.

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

3.16 CIPFA has defined treasury management as: “the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with

those activities; and the pursuit of optimum performance consistent with those risks.”

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

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

- Treasury Management Strategy for 2016/19.
- Annual Investment Strategy for 2016/17
- Minimum Revenue Provision (MRP) Statement
- Treasury Management Policy Statement
- Prudential Indicators for 2016/17, 2017/18 and 2018/19
- Authorised Signatories for Treasury Management Activity

4.0 FINANCIAL IMPLICATIONS

4.1 The budget setting and planning process is integrated with the Wirral Plan. A process has been set out in this report that will determine how resources will continue to be directed to support the delivery of the 20 Pledges. Also detailed is an approach to the planning required to meet the continuing financial challenges the Council faces in the period 2017/18-2020/21. Further resource implications are detailed within the Medium Term Financial Strategy and these implications are reviewed by the reports revising the financial position submitted to Cabinet throughout the year.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising out of this report.

6.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS

6.1 A process is currently underway to determine the resources which are required to deliver on the 20 pledges through the development of supporting strategies.

7.0 RELEVANT RISKS

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

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

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

8.0 ENGAGEMENT/CONSULTATION

8.1 The Wirral Plan and underpinning Pledge Strategies have been developed through engagement with a wide range of partners and subject to wide consultation with residents, partners and other stakeholders.

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising out of the Medium Term Financial Strategy 2016/17-2020/21.

REPORT AUTHOR: Jenny Spick

Senior Finance Manager - Financial Planning and Policy

Telephone: (0151) 666 3582

Email: jennyspick@wirral.gov.uk

APPENDICES

Appendix 1: Medium Term Financial Strategy 2016/17-2020/21

REFERENCE MATERIAL

CLG Local Authority Investment Guidance, 2004

CLG Changes to the Capital Financing System Consultation, 2009

Code of Practice for Treasury Management in Public Services (2011 Edition), CIPFA 2011.

Prudential Code for Capital Finance in Local Authorities (2011 Edition), CIPFA 2011.

Spending Review and Autumn Statement 2015 HM Treasury

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
<u>Medium Term Financial Strategy</u>	
Cabinet - Medium Term Financial Strategy	18 February 2013
Cabinet - Future Financial Position	10 December 2013
Cabinet - Medium Term Financial Strategy	12 February 2014
Cabinet - Future Financial Position	9 December 2014
Cabinet - Medium Term Financial Strategy	10 February 2015
Cabinet- Council Budget 2016/17 and Medium Term Financial Strategy	17 December 2015
<u>Treasury Management & Investment Strategy</u>	
Cabinet - Treasury Management and Investment Strategy 2012 to 2015	20 February 2012
Cabinet - Treasury Management Annual Report 2011/12	21 June 2012
Cabinet - Treasury Management and Investment Strategy 2013 to 2016	18 February 2013
Cabinet - Treasury Management Annual Report 2012/13	10 October 2013
Cabinet - Treasury Management Annual Report 2013/14	7 July 2014
Cabinet - Treasury Management Annual Report 2014/15	13 July 2015