2016-21 Medium Term Financial Strategy

Plan of Strategy

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 5 years 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 2016-21. The strategy also links with the Wirral Plan. It shows how our finances will be structured and managed to ensure that they meet future financial challenges, as well as supporting the pledges 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 Pledge requirements and 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;
- Planning- 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:-

- The Wirral Plan: 2020 Vision;
- 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 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 Wirral Plan

The MTFS is aligned to the Wirral Plan as a means of ensuring that Wirral Council's finances are aligned with its 2020 vision, priorities and pledges. The Council approved a five-year plan, the Wirral Plan, at Full Council on 13 July 2015. The plan provides a clear ambition for the borough and defines the outcomes towards which the Council will work for the next five years: the 20 pledges. The approach to the MTFS is to ensure that the Council makes the best use of its financial resources in the delivery of key Wirral Plan pledges, 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.

The Wirral Plan has been adopted by all the Councils strategic partners from the public, private and third sectors. It is the means by which all partners will formally work towards a shared set of outcomes, goals and objectives, moving toward integrating as far as possible services and finances. It is clear that the Council and its partners need a focused approach to commissioning services, to integrating services across the public sector and to ensuring that services are decommissioned where they do not align with priorities or cannot be afforded. This can be considered as an outcome based approach. Work continues on the development of a range of approaches, the development of strategies and supporting actions. The council is changing how it operates to ensure it is best positioned to achieve its priorities, will use the best delivery models and improve efficiency. The financial resources available will strongly shape the strategy; the strategy contents significantly affect the financial strategy and prioritisation.

1.3 National and External Influences

National Influences

The MTFS for the five years 2016/17 to 2020/21 has been developed against a continuing challenging financial picture. The Autumn Statement and Spending Review 2015 have confirmed that financial restrictions will continue. 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 over £150m between 2011/12 and 2015/16. 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 will to need to make new savings in the next 5 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 other sources.

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 challenges for local government.

The Government's aim is and continues to be to eliminate the budget deficit. The announcements in December 2015 confirm the Governments plans to achieve a budget surplus in 2019/20, and that the funding prospects for Local Government will continue to be challenging in the coming years. Wirral has been and will continue to prepare for this and Cabinet is being requested to approve savings to be implemented in 2016/17. Further work is required to balance the budget beyond 2016/17.

In July 2015 the Government announced plans to make savings of £37bn over this parliament. Of this £12bn would come from welfare reductions and £5bn from taxation sources. The remaining £12bn of savings where to be identified in the Spending Review announced in late 2015.

Since July the Office of Budget Responsibility (OBR) predictions for public finances have improved. This is due to improved revenue such as tax receipts and lower interest on government debt. These improvements have meant that the reductions in public spending required were revised downwards to £18bn. The Spending Review 2015 announced £3bn per annum of income from the new apprenticeship levy and £3bn from tax avoidance measures. This left the majority of reductions announced, £12bn, as savings in government departmental spending.

This overall £12 bn reduction to total departmental spending by 2019/20 is made up of £21.5 bn of savings in unprotected departments such as local government off set a £9.5 bn reinvestment in the Governments key priorities. These are as follows:

- The NHS in England £10 bn per year more in real terms by 2020/21.
- Defence spending.
- Overseas aid.
- Increasing the basic State Pension.
- Protecting Police Spending.

The nature of these protections to specific departments means that unprotected areas such as local government will pick up a higher proportion of reductions in funding. In forecasting across the MTFS period there is a need to be aware of the variation in Government predictions. During the last parliament downward revisions to forecasts for the economy lead to the increase in cuts to local government from those announced in 2010 Spending Review. This helped the Government meet its objective and targets of reducing the public sector deficit.

The Government has in three Spending Rounds (2010, 2013 and 2015) set out plans to reduce public expenditure as part of its strategy to eliminate the deficit and eventually reduce debt. The Government's Spending Round 2015 set out public expenditure plans (including local government expenditure) up to and including 2019/20. For a number of departments 2020/21 departmental budgets were set. For the rest, 2020/21 budgets for example for Local Government will be set in the next Spending Review.

<u>The National Economy</u>

The UK economy performed better during 2015 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 2015 year has been confirmed at 2.4% and it is estimated to be 2.4% in 2016, 2.5% in 2017, 2.5% in 2018 and 2.3% in 2019 and 2020.

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

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 not to direct cuts to services wherever possible, but to implement financial change in other ways. However 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

In approving the budget savings options for 2016/17 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 are consistent with the pledges. Where the link between the need to provide a statutory service and Wirral 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 through the theming of savings.

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 needed to match limited resources to the highest priorities.

Financial Overview of 2016-21

Forecast Income

2.1 Local Government Grant Funding

Wirral is very reliant on government grant to support all services. Since 2010 Government grant funding has reduced each year. This reduction in funding coupled with a number of increasing financial pressures such as those due to demographic changes have meant that the Council has had to save over £150m over the five year period to 2015/16.

It is clear with the announcement of the November Spending Review that Wirral will continue to face considerable financial challenges, uncertainty and funding reductions over the medium term period.

The Autumn Statement and Spending Review 2015 announced departmental spending totals for local government to 2019/20. These announcements coupled with the provisional Local Government Finance Settlement (LGFS) for 2016/17 announced on 17 December 2015 provide details of indicative funding to local government over the next 4 years. The LGFS introduced the Core Spending Power, a new composite measure of local government funding.

Beyond 2019/20 the Government has made no detailed announcements on the general grant funding of local government. However there remains a great deal of uncertainty in projecting Wirral's' future funding. The provisional Local Government Settlement and the Spending review announced a number of policy changes that will have consequences for the Council. There are as yet few details of the specific impact of the new policies on the Council's MTFS position.

The announcements that potentially impact on the Council are as follows:

<u>Council Tax</u>
The Spending Review announced that local authorities responsible for social care will be allowed to collect social care precept, giving the power to raise new funding to be spent only on adult social care. The precept will work by giving local authorities the flexibility to raise council tax by up to 2% above the existing threshold without the need for a referendum. The referendum threshold has been announced at 3.99% and freeze grant is not being offered by the Government in 2016/17.

<u>Business Rates, Core Grants and Funding changes</u>
The government has previously announced that by the end of the parliament "core grant" (RSG) would be phased out and councils would retain all business rates generated locally. The government has been clear that this policy would be fiscally-neutral. This is thought to mean the local government will not be able to retain additional business rates without a corresponding increase in its responsibilities and/or substitution for existing sources of income. This means that it is likely that any increase in the amount of retained rates would be matched by a decrease in other grants.

The stated position is that under the proposed reforms councils will have the power to cut but not raise rates, except in limited cases for elected mayors who following consultation with the business community, will have the power to increase rates to pay for infrastructure. The system of top-ups and tariffs that distribute rates across the country will remain. Wirral is a recipient of a top-up. The proposed changes to business rates will be included in a forth coming consultation on local government finance in 2016.

The Spending Review also announced other changes to local government grant funding:

- New Homes Bonus – consultation on reducing the length of payments from 6 to 4 years. This would represent a further cut.

- Capital Receipts – local authorities will have flexibility to spend capital receipts on the costs of service reform. This may be of limited use to Wirral as the Capital programme has factored in the use of capital receipts.

- Better Care Fund – an increase in the Better Care Fund by £1.5bn to support the integration between health and social care. Integration plans will have to be produced in 2017 that will have to set out how integration will take place by 2020.

- Public Health Grant – an announced plan for cuts of 3.9% per annum over the next 5 years in real terms. The ring fence on public health spending will be maintained in 2016/17 and 2017/18. The future after this is unclear, and will be considered as part of the changes in responsibilities for 100% Business Rate Retention.

- Four year funding settlements – Agreement of four year fixed funding linked to the production of efficiency plans.

- A national formula for schools funding – the intention to introduce a national fairer funding formula from April 2017.

Local Government Finance Settlement

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

	2014/15 Funding **£m**	**2015/16 Funding** **£m**	**2016/17 Funding** **£m**
Upper Tier Funding	118.155	97.742	92.485
Lower Tier Funding	20.825	17.402	13.100
Formula Funding	**138.980**	**115.144**	**105.585**
Grants Held Back	0.213	0	0
Council Tax Freeze Compensation Part 1	3.271	3.259	0
Council Tax Freeze Compensation Part 2	n/a	1.354	0
Early Intervention Funding	10.251	9.336	8.588
Homelessness Prevention Funding	0.065	0.065	0.065
Lead Local Authority Funding	0.121	0.120	0.153
Learning Disability and Health Reform Funding	7.141	7.114	7.264
Local Welfare Provision 2015/16 only.	n/a	1.210	1.209
Care Act Funding	n/a	n/a	2.399
Total Grants Rolled in	**21.062**	**22.458**	**19.678**
Total Settlement Funding	**160.042**	**137.602**	**125.263**

*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 Assistance 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**	**£m**
Net Forecast rate yield	65.377	66.629	67.153
Less: Amount to be paid to Central Government (50%)	32.689	33.314	33.576
Business Rates Baseline	**32.688**	**33.315**	**33.577**
Less: Amount to be paid to Merseyside Fire and Civil Defence Authority (1%)	0.654	0.666	0.658
Retained Business (RBR) element:	**32.034**	**32.649**	**32.919**

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**	**2016/17 £m**
Retained Business Rates (RBR)	Variable amount	32.034	32.649	32.919
RBR Top up from Government	Fixed amount	40.513	41.287	41.632
Revenue Support Grant	Fixed amount	87.493	63.667	50.712
Total Funding		**160.040**	**137.603**	**125.263**

Actual retained business rates income for 2016/17 will be dependent on the assessed rateable values, effect of appeals and collection rates. The NNDR1 return estimates this amount 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 Government has implemented a referendum regime from 2012 onwards, for Council Tax increases that it regards as excessive. For 2015/16, 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 4% in 2016/17. This reflects the introduction of funding for adult social care through increased council tax levels at the discretion of the Council. The additional funding must be passed to the service.

Forecast Expenditure

2.3 Cost Pressures

The financial pressures in the period 2016-21 facing Wirral Council are considerable. There will be a number of items of additional expenditure that are likely to be incurred in future years. 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 present. The following have not been added into the 5 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 2016/17 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 proposed that in future years Directorates will be required to manage their pressures within their resources as far as possible.

2.4 Overall Financial Projections for 2016/17

Bringing together forecast income and forecast expenditure; there is a forecast funding gap of £28 m in 2016/17 rising to £129m by 2020/21. 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 2015-18 reflected the financial projections for the Council based on the Autumn Statement 2014, the Local Finance Settlement for 2015/16, a forecast of reductions in funding for 2016/17 and 2017/18 and a number of budget assumptions. This forecast that the Council would have an overall deficit of £49 million for the period 2015-18. It was recognised at the time that this would be subject to change as the Government had yet to finalise the Spending Review for the final two years of the period.

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**

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.

<u>Budget Gap Five Year Position</u>

Original Budget Gap

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

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 MTFS 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:

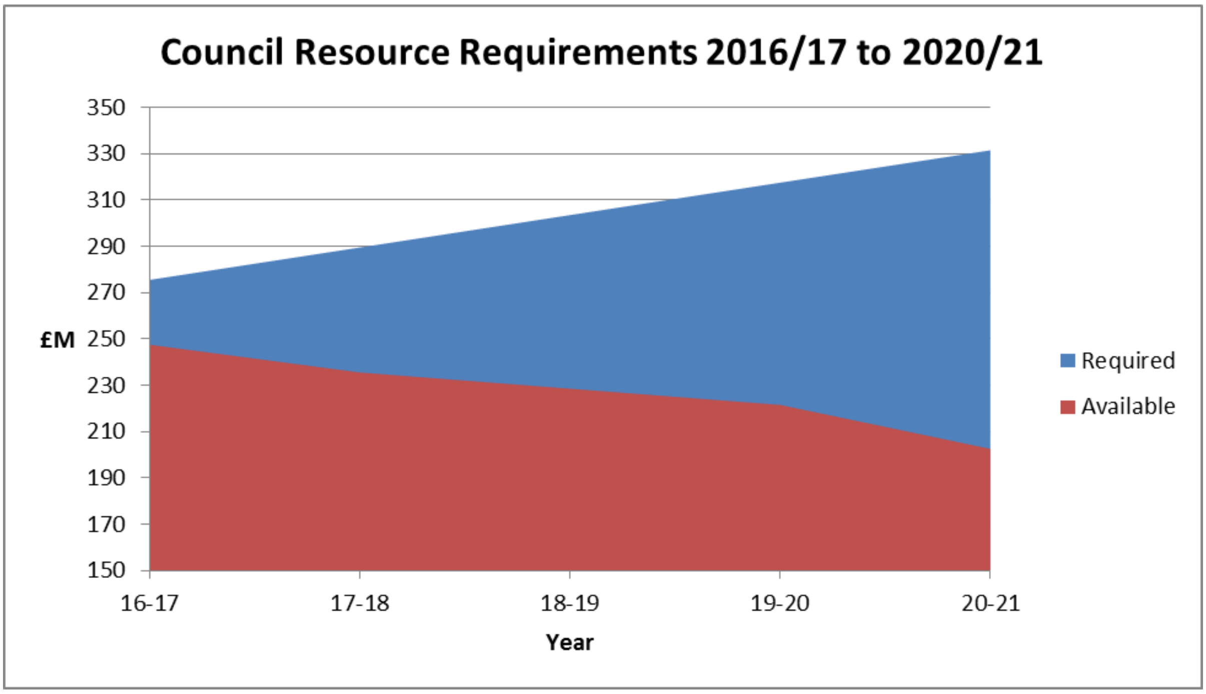
- The phasing out of Revenue Support Grant and the retention of all business rates generated nationally.
- The related transfer of new responsibilities including the funding of public health to local government.
- The retention of any mechanism to fund needs in areas where the potential to self-fund 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.

Using the details announced in February to revise the projections for the Council means that the total budget gap for the MTFS 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**

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.



The 5-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 periods to 2015/16 have seen the greatest ever post war reduction in Local Government funding. It is clear from recent announcements that similar reductions will occur over the next four years. To respond to this the Council must reshape to meet this new financial reality. Wirral has made savings in the period 2011-2016 and will do so again in 2016/17. Significant savings are expected throughout the spending review period and beyond. The Council is working in an increasingly difficult and unpredictable financial environment.

2.5 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 aligning to the Wirral Pledges and priority areas.

The Wirral Plan was approved by Council on 13 July 2015 and was then adopted by all strategic partners from the public, private and third sectors to create the first Wirral Plan.

The Plan provides a clear ambition for the borough based on three overarching priority areas:-

PEOPLE
Wirral is a place where the vulnerable are safe and protected, every child gets a good start in life and older residents are respected and valued.

BUSINESS
Wirral is a place where employers want to invest and businesses thrive.

ENVIRONMENT
Wirral has an attractive and sustainable environment, where good health and an excellent quality of life is enjoyed by everyone who lives here.

The ambition for Wirral is underpinned by 20 specific pledges which define the outcomes to be achieved over the next five years. This shared set of outcomes, goals and objectives will see work towards integrating services and budgets and making best use of the available public sector resources for the benefit of Wirral people. Partners have committed to playing a lead role in achieving 8 of the 20 pledges.

To ensure the Wirral Plan becomes a reality there is to be an under-pinning Delivery Plan. Phase One of this Plan was agreed by Cabinet on 8 October 2015 and this has since been subject to consultation and review in order to inform the series of strategies and plans which provide the detail as to how the pledges will be delivered by 2020. The strategies are being developed and will be finalised in June 2016.

The Council recognises the pressures on its budget and, while seeking to protect and enhance pledge supporting services as far as possible and will aim to contain financial 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 will be informed by valuing what is most important for residents. To enable this, savings are themed to identify those that directly affect residents, such as service changes, and savings that have no direct impact on residents, such as delivering services differently. The prioritised approach reflects the Wirral Plan and the way we need to deliver services in the future.

3 Financial Strategy 2016-2021

3.1 Achieving a Balanced Budget 2016/17-2020/21

Next Steps in the Financial Strategy

The agreed savings and the MTFS strategy will enable Wirral to balance the budget in 2016/17. As set out in the above sections, there will be a budget gap in the years after 2016/17 across the remaining 4 years of the strategy. There is a need to plan for these years. To be able to assess the potential for savings and allocate out our resources where they maximize the achievement of the Wirral Plan outcomes, consideration has already been given to the shape of the Councils future financial strategy.

To develop a plan for the coming years we will utilise the work that was required to produce the 2016/17 budget and the insight gained from the development of the Wirral Plan and its supporting Strategies.

Financial Strategy Principles

The principles set out below provide a framework within which the Council will develop its detailed financial plans over the period to 2020/21.

- Ensure the delivery of the 20 Pledges in the Wirral Plan.
- Maximise the impact of our spending through prioritisation of resources.
- The budget will be balanced over the five years, thus securing a financially sustainable Council.
- Front-load budget savings to gain maximum impact.
- Financial plans will be deliverable and politically acceptable.
- Exploit commercial opportunities. This may be through the challenge and renegotiation of contracts plus the maximisation of income opportunities to offset cuts to services.
- Collaborate and integrate with our partners and the public to transform what we do.
- Utilisation of the opportunities presented by devolution in the Liverpool City Region.

Financial Strategy Approach

The Financial Strategy that will develop over the four years will plan for the long term. The focus of the approach will be on four themes set out below. The Council is clear on the scale of the challenge. The changing circumstances in which the council is operating means that there is a need to take a longer-term and high-level view of what local government will look like in the future, and the opportunities to innovate that may be available. These can be identified as follows:

Income and resource management The Council must do all it can to build its way to a sound financial position. Maximising income to help offset cuts; more investment, more jobs and more housing coming into the borough transforms our finances. It translates into more business rates, more Council Tax and more people in work. Every pound we bring into the Council is a pound we can invest in the kind of modern service people need.

Managing Demand Reducing the demand (and subsequently the cost) of specialist, substantial services mean we are able to invest more resources into early intervention and prevention services. In line with the Wirral Plan and the views of residents it is important to protect the vulnerable. The approach planned would be to make no overall reductions in the levels of spending on care services for adults and children. Working with Health partners to improve the health and well-being of Wirral people will see the integration of resources to realise efficiencies to help meet the increasing demand from within the currently available budget.

Delivering Differently The Wirral Plan sets out how public services will work better together to deliver better job opportunities, a quality local environment, better health and a good life for local children and older people in particular.
In recent years the range of opportunities to either improve service delivery directly, or to reduce costs/increase income have increased. These forms of public service reform include a range of potential areas including ensuring the council can derive the maximum benefit from any devolution of powers; and exploring areas of commercialisation, integration and collaboration with partners to share best practice and increase efficiency. We will explore which of these opportunities could work for us – to enable us to transform and re-evaluate some of our services with a more long-term focus whilst making savings and remaining focused on our key outcomes. The Council continues to find new and innovative ways of working in partnership to achieve the outcomes Wirral residents need and will build upon the initiatives around Community Asset Transfer and the recently launched Schools Company (Edsential) and Day Services company (Wirral Evolutions).

Service Changes: The scale of the financial reductions which are imposed on us makes it impossible to avoid changing or reducing some services. We will do all we can to work with partners to manage the impact of those reductions, particularly on the most vulnerable, and we will challenge ourselves to be more efficient, to integrate more and come up with new solutions to make our money go further.

Whilst the savings will be developed along these themes in line with the Wirral Plan objectives the Council continues to assess the more “traditional” approaches to closing its funding gap and balancing its budget. These will include the following:

- 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.

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

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

Implementing the Financial Strategy – Key Dates to December 2016

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.

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.

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. 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 plus unavoidable financial pressures.

<u>Action Plan</u>

<table>
<tr><td>February</td><td rowspan="2">Agreement of 2016/17 Budget and MFTS 2016-21</td></tr>
<tr><td>March</td></tr>
<tr><td>April</td><td rowspan="2">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:
• Income and Resource Management
• Managing Demand
• Delivering Differently
• Service Change</td></tr>
<tr><td>May</td></tr>
<tr><td>June</td><td>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.</td></tr>
<tr><td>July</td><td rowspan="2">Development of savings and business cases including implementation resources.</td></tr>
<tr><td>August</td></tr>
<tr><td>September</td><td>Cabinet decides priority areas for savings.</td></tr>
<tr><td>October</td><td rowspan="2">Challenge, consultation, progression and completion of savings.
Consultation</td></tr>
<tr><td>November</td></tr>
<tr><td>December</td><td>Cabinet agreement of saving.</td></tr>
</table>

2017/18-2020/21 Financial Strategy

To tackle the magnitude of the future financial challenge 2017/18 to 2020/21 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 Wirral Plan and its pledges. It is clear that in the period 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 pledges as set out in the Wirral 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 2016/17-2020/21 will see further reductions in grant funding. There will be continued 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 this 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 to take a themed approach the aim remains of reducing the impact on front line services. Instead of annual, arbitrary, reductions to budgets across the board, the Council will take a planned, longer-term approach to achieving the required budget reductions by focussing on the things that contribute most to Pledge outcomes as set out in the Wirral Plan. 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.

Further work will be undertaken in the coming year, linked to the Wirral 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 to 2020/21. Reports detailing the development of plans will be presented to Members as part of the budget and strategic financial planning process. 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.

3.2 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.

3.3 Review of the 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 2016/17 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 2016/17 to assess the Council progress towards this key objective.

4. General Fund Balances and Earmarked Reserves

4.1 Introduction

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 £11.5m for 2016/17.

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 areas of risk considered in the general contingency are set out in the report on the Revenue Budget 2016-17, 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
£17.3m	£17.4m	£11.5m

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.
TRANSFORMATION 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 2016/17 based on:-

- Working Balance of £11.5m, 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 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 and revenue budget contingency.

Capital and Treasury 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 has embedded processes to review its fixed assets through the asset management strategies for treasury management and borrowing. Over the course of 2016/17 it will undertake a self-assessment of the 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 2016/17 to 2019/20. The strategy is designed to maximise outcomes through a prioritisation of limited resource allocations. The Council will continue to identify future capital resources including on-going reviews of its own asset holdings, 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 is concerned with, and sets the framework for, all aspects of the Council's capital expenditure over the 3 year period 2016/17 to 2019/20 – 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 MTFS. It is also essential that the strategy reflects the wider public and private sector investment into the overall improvement 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 Wirra 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 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 Wirral 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 Section 3 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 BBB+ 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 Council has adopted the codes and the Treasury Management Strategy Statement 2016-19 reflects the updated codes.

<u>Capital Strategy 2016-19</u> **APPENDIX 1**

<u>Overview and Purpose of the Capital Strategy</u>

The capital strategy sets out the strategic direction for the Council's capital management and investment plans. It is aligned to Council plans and strategies, including the Wirral Council Plan "A 2020 Vision" 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 we fund, therefore 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 pressure on the Council's 2016-19 revenue budgets does limit the scope for unsupported capital expenditure (that generate revenue costs) compared to schemes that generate revenue savings. This is evidenced by the fact that there is a £2.05 million reduction in the financing costs budget for 2016/17.

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

a) Invest to Save schemes (cost reduction or income generation)
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.

<u>Influences on the Capital Strategy</u>

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.

Local Government Funding
Since 2005 the Council has suffered a reduction of £151m in its budget. In the period 2015-2020 the prediction is for additional cuts of £126m. The removal of the entire Revenue Support Grant over the next 5 years together with the changes to Business Rates and the introduction of mechanisms such as the Social Care precept will have a devastating impact on our ability to deliver services in the future.

Furthermore the Council is facing rising demand for its services especially in the area of Adult Social Care. 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 Wirral Council 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 the 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 also give 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 does however have 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

Including the estimated programme for 2015/16, over the last three years Wirral will have spent on average £35m per year on capital projects. The latest plans call for an investment of £68.3 million over the next three years. Out of this £21.4 million or 31% of the programme will be funded from unsupported borrowing. The estimated borrowing cost associated with this is £1.9 million by March 2019. This can be accommodated within the existing Treasury Management budget. This is partly due to Internal borrowing, the temporary use of cash flow monies arising from the Council's holding of earmarked reserves and balances to delay external borrowing which has been used to reduce interest costs.

Capital resources are not unlimited or "free money" – our capital funding decisions can have major revenue implications. Two funding 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. For budgetary purposes the cost of borrowing has been assumed to be 4% in 2016/17.

These are in addition to any ongoing maintenance and running costs associated with the investment.

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

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 2016 it is estimated that Wirral's long term borrowing will be in the region of £197 million. Based on the proposed capital programme the proportion of net debt costs will increase from 9.7% in 2016/17 to 11.7% in 2018/19. This is calculated as a percentage of the forecast 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 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 25 years then revenue costs would be £0.2 million each year for 20 years plus the interest cost of the borrowing.

Grants
Government grants are reducing, or changing in nature. Most are effectively ring-fenced and expected to finance those schemes for which the grant was allocated. 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.

	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000
Capital Receipts Reserve	8,300	2,079	3,740	11,826
In – Receipts Assumption	2,400	15,000	10,500	500
Out - Funding assumption	-8,621	-13,339	-2,414	-
Closing Balance	2,079	3,740	11,826	12,326

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.

Officers are currently in the process of producing a set of principles that should be applied in assessing the best outcome when sites become available for disposal. Such options could for example include community transfer, RSL transfer, development for extra care housing or site disposal.

Flexible use of capital receipts
As part of the Provisional Local Government Finance Settlement the Government published draft guidance on the flexible use of capital receipts. The key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's, or several authorities', and/or to another public sector body's net service expenditure.

This could well have an impact on the way Members determine that capital receipts will be used. Before any decision to switch this resource from capital to revenue is taken the following should be considered;

The impact on the capital programme. Are schemes that were originally planned to be funded from receipts abandoned, amended or are they funded from additional borrowing. In case of the latter the additional revenue borrowing costs must be compared to any efficiency savings and the impact on the various Prudential Indicators must be considered.

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 Assets and Capital Group to independently assess individual bids before recommending them or not for inclusion in the draft Capital Programme presented to Cabinet for approval.

ANNEX 1

Scoring mechanism for assessing capital bids 2016/21 Capital Programme			
Scheme Title/Department	**Score 1-10**	**Multiplier**	**Weighted Score**
Direct links to the Council Plan 20:20 Vision Does the scheme directly link to any of the 20 pledges and/or enabling projects?	**10**	**15**	
Statutory or Regulatory Duty Is there a clearly identifiable requirement to meet statutory or regulatory obligations?	**10**	**20**	
Objectives and outputs Are the stated objectives specific, measurable, achievable and realistic? Have any outputs been quantified? Have any project constraints been assessed and full consideration given to addressing these? Will not doing the scheme result in a significant drop in the level of service the Council provides?	**10** **10** **10** **10**	**5** **5** **5** **5**	
Identification of Alternative Options Have alternative options been fully considered with detailed reasons for rejection evidenced?	**10**	**5**	
Finance Business case demonstrates achievable/realistic revenue savings OR generates additional income If yes score by the % saving compared to the capital outlay The scheme requires additional revenue resources over and above capital financing costs Does the scheme receive specific funding from external sources?	**10** **10** **10** **10**	**10** **15** **10** **10**	
Risk Have risks been properly identified and scored?	**10**	**10**	
Overall Weighted Score			**xxxx**

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 Assets and Capital Group are included in Annex 2.

Capital Programme and Financing 2016/19
Cabinet on 22 February 2016 agreed a capital programme and financing 2016/19.

TO BE INCLUDED AFTER PROGRAMME AGREED

Assets and Capital Group – Terms of Reference ANNEX 2

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.

APPENDIX 2

Treasury Management Strategy Statement 2016-19

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 Annex 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 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

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 Annex 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-16 Estimate £m	31-Mar-17 Estimate £m	31-Mar-18 Estimate £m	31-Mar-19 Estimate £m
Capital Financing Requirement (CFR)	338	336	320	305
Less: Existing Profile of Borrowing and Other Long Term Liabilities	247	237	226	217
Cumulative Maximum External Borrowing Requirement	**91**	**99**	**94**	**88**
Usable Reserves	82	77	72	67
Cumulative Net Borrowing Requirement	**9**	**22**	**22**	**21**

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. Useable reserves are subject to review as part of the Financial Strategy.

3. BORROWING STRATEGY

3.1 The Authority as at 31st December 2015 held £197 million of longer term loans, a decrease of £7 million from March 2015, 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 £99m in 2016/17. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £345 million, as per Annex 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 2016/17 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

3.5 Alternatively, the Authority may arrange forward starting loans during 2016/17, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

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

3.7 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
- UK Municipal Bonds Agency Plc and other special purpose companies created to enable joint local authority bond issues
- Leasing
- Private Finance Initiative

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

3.9 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.

3.10 The Local Government Association (LGA) Bond Agency: UK Municipal Bonds Agency 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 two 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 and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. 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 can be called within 2016/17. 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 low interest rate climate, which has now been in existence for a number of years.

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 Annex 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 2015, the Authority held £61 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 £55 million and £103 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 Annex 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'. 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. As an investor, the council could be subject to such a loss on an investment, should a bank fail in the future.

4.7 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016. 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 are, 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 2016/17. This is especially the case for funds that are available for longer-term investment. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds.

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. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility 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 Annex 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 Annex C. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

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. 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 and forward starting transactions, 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 the Treasury Management Advisors 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 utilise an independent treasury advisor to provide the following services:

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

During 2015/16 these services were provided by Arlingclose. A competitive tendering exercise will be completed to appoint an advisor for 2016/17.

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 2016/17 the total amount borrowed will not exceed the authorised borrowing limit of £345 million as per Annex 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 Annex 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 Principal Accountant for Transformation and Resources 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 Annex G.

7.5 Decisions on long term investments or long term borrowings (i.e. for periods greater than one year) may be made on behalf of the Director of Resources by the Principal Accountant 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 The Council will produce an Outturn Report on its treasury activity no later than 30 September after the financial year end.

ANNEX 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.

ANNEX B

EXISTING INVESTMENT & DEBT PORTFOLIO POSITION

	Current Portfolio as at 31 Dec 15 £m
External Borrowing:	
Fixed Rate – PWLB	39
Fixed Rate – Market (LOBO and Other Loans)	158
Variable Rate – PWLB	0
Variable Rate – Market	0
Total External Borrowing	197
Other liabilities:	
PFI	50
Finance Leases	0
Total Other Long-Term Liabilities	50
Total External Debt	247
Investments:	
Managed in-house	
Deposits with Banks and Building Societies	33
Deposits with Money Market Funds	23
Deposits with other Public Sector Bodies	3
Deposits in Supranational Bonds and Gilts	0
Managed externally	
Royal London	1
Payden Sterling Reserve	1
Total Investments	61
Net Borrowing Position	186

ANNEX 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+	5% 100 days	10% 6 months	7.5% 2 years	2.5% 6 months	2.5% 2 years
BBB or BBB-	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 (except pooled funds) 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	35% 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

ANNEX D

PRUDENTIAL INDICATORS AND MRP STATEMENT 2016/ 2017

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 2013 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:

	2015/16 Approved £000	2015/16 Revised £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Capital Expenditure	**50,054**	**46,917**	**48,907**	**17,655**	**1,770**

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

Capital Financing	2015/16 Approved £000	2015/16 Revised £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Unsupported Borrowing	19,090	14,964	17,652	2,040	1,720
Capital Receipts	12,693	8,621	13,339	2,414	0
Capital Grants	17,734	22,760	16,912	13,135	0
Revenue Contribution	537	572	1,004	66	50
Total Financing and Funding	**50,054**	**46,917**	**48,907**	**17,655**	**1,770**

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 represents the year on year increase in Band D Council Tax. It is calculated by comparing the additional financing costs, incurred to fund the Capital programme.

Table B:

Incremental Impact of Capital Investment Decisions	2015/16 Approved £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
Increase in Band D Council Tax	3.37	13.05	9.88	1.55

4. Ratio of Financing Costs to Net Revenue Stream

The estimate for interest payment in 2015/16 is £9.6 million and for interest receipts is £0.3 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	2015/16 Estimate %	2016/17 Estimate %	2017/18 Esimate %	2018/19 Estimate %
Ratio	8.79	9.7	10.7	11.6

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	2015/16 Approved £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Esimate £m	2018/19 Estimate £m
CFR	346	337	338	322	306

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 debt must 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 2015/16. In the short term this should still be the case but the margin significantly reduces if levels of internal borrowing are reduced. 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) is forecast to be

£247m at 31st March 2016. 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 2015	2015/16
	£m
Borrowing	197
Other Liabilities	50
Total	**247**

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	2015/16 Approved £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing	356	359	347	332	317
Other Long-term Liabilities	63	65	63	61	59
Total	**419**	**424**	**410**	**393**	**376**

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	2015/16 Approved £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing	346	349	337	322	307
Other Long-term Liability	58	60	58	56	54
Total	**404**	**409**	**395**	**378**	**361**

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:

	2015/16 Approved %	2015/16 Revised %	2016/17 Estimate %	2017/18 Estimate %	2018/19 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 2016/17 %	Upper Limit 2016/17 %
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:

	2015/16 Approved £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 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.

ANNEX E

2016/17 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 (DCLG) Guidance on Minimum Revenue Provision most recently issued in 2012.

1.2 The broad aim of the DCLG 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 DCLG 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).

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 2016/17 will not be subject to a MRP charge until 2017/18.

1.8 The MRP Statement will be submitted to Council before the start of the 2016/17 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 2016, the budget for MRP has been set as follows:

	31.03.2016 Estimated CFR £m	**2016/17 Estimated MRP £m**
Capital expenditure before 01.04.2008	171.7	6.4
Supported capital expenditure after 31.03.2008	10.1	0.4
Unsupported capital expenditure after 31.03.2008	55.7	2.5
Finance leases and Private Finance Initiative	50.5	2.4
Transferred debt	49.6	4.9
Loans to other bodies	0	Nil
Total General Fund	**337.6**	**16.6**

ANNEX F

Arlingclose's Economic and Interest Rate Outlook

Underlying assumptions:

- UK economic growth softened in Quarter 3 2015 but remained reasonably robust; the first estimate for the quarter was 0.5% and year-on-year growth fell slightly to 2.3%. Negative construction output growth offset fairly strong services output, however survey estimates suggest upwards revisions to construction may be in the pipeline.
- Household spending has been the main driver of Gross Domestic Product (GDP) growth through 2014 and 2015 and remains key to growth. Consumption will continue to be supported by real wage and disposable income growth.
- Annual average earnings growth was 3.0% (including bonuses) in the three months to August. Given low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term. The development of wage growth is one of the factors being closely monitored by the Monetary Policy Committee (MPC).
- Business investment indicators continue to signal strong growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.
- Inflation is currently very low and, with a further fall in commodity prices, will likely remain so over the next 12 months. The Consumer Price Index (CPI) rate is likely to rise towards the end of 2016.
- China's growth has slowed and its economy is performing below expectations, which in turn will dampen activity in countries with which it has close economic ties; its slowdown and emerging market weakness will reduce demand for commodities. Other possible currency interventions following China's recent devaluation will keep sterling strong against many global currencies and depress imported inflation.
- Strong US labour market data and other economic indicators suggest recent global turbulence has not knocked the American recovery off course. Although the timing of the first rise in official interest rates remains uncertain, The Federal Reserve raised interest rates in December 2015 for the first time in nine years to take the new Federal funds range to 0.25%-0.50%.
- Longer term rates will be tempered by international uncertainties and weaker global inflation pressure.

Forecast:

- Arlingclose forecasts the first rise in UK Bank Rate in Quarter 3 of 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year.

Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.

- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.

- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	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	-1.25	-1.25
3-month LIBID rate													
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.55	0.60	0.70	0.80	0.95	1.05	1.15	1.30	1.40	1.55	1.65	1.80	1.85
Downside risk		-0.20	-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20
1-yr LIBID rate													
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45
Arlingclose Central Case	1.10	1.20	1.35	1.45	1.55	1.70	1.80	1.95	2.00	2.10	2.15	2.15	2.15
Downside risk	-0.15	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25
5-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	1.50	1.55	1.60	1.70	1.80	1.90	2.00	2.10	2.20	2.25	2.30	2.35	2.35
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
10-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.00	2.05	2.10	2.20	2.30	2.40	2.50	2.60	2.65	2.70	2.75	2.80	2.80
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
20-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.45	2.50	2.55	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	2.95
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20
50-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.45	2.50	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	3.00	3.00
Downside risk	-0.25	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15

ANNEX 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 Financial Services – Tom Sault

Head of Branch (Planning & Resources) – Andrew Roberts

Senior Finance Manager – Peter J. Molyneux

Senior Finance Manager – Jenny Spick