Pecyn Dogfen Gyhoeddus

Swyddog Cyswllt:
Maureen Potter on 01352 702322
maureen.potter@flintshire.gov.uk

At: Bob Aelod o'r Cyngor

Dydd Mercher, 12 Chwefror 2020

Annwyl Gynghorydd

Fe'ch gwahoddir i fynychu cyfarfod Cyngor Sir y Fflint a fydd yn cael ei gynnal am 2.00 pm Dydd Mawrth, 18fed Chwefror, 2020 yn Siambr y Cyngor, Neuadd y Sir, Yr Wyddgrug CH7 6NA i ystyried yr eitemau canlynol

R H A G L E N

1 **YMDDIHEURIADAU AM ABSENOLDEB**

Pwrpas: I dderbyn unrhyw ymddiheuriadau.

2 **DATGAN CYSYLLTIAD**

Pwrpas: I dderbyn unrhyw ddatganiad o gysylltiad a chynghori'r aelodau yn unol a hynny.

3 **CYHOEDDIADAU'R CADEIRYDD**

Pwrpas: Derbyn unrhyw gyhoeddiad fel y'I dosbarthwyd.

4 **DEISEBAU**

Pwrpas: Mae hwn gyfle I Aelodau'r Cyngor gyflwyno deisebau ar ran pobl yn eu ward. Unwaith y byddant wedi dod I law, caiff deisebau eu pasio I'r Prif Swyddog priodol ar gyfer gweithredu ac ymateb iddynt.

5 **TEYRNGEDAU I'R DIWEDDAR GYNGHORYDD KEN IBALL**

Pwrpas: I alluogi Aelodau i dalu teyrnged i'r diweddar Gynghorydd Ken Iball.

6 **TEYRNGEDAU I'R DIWEDDAR TERRY HANDS CBE**

Pwrpas: Talu teyrnged i'r diweddar Terry Hands CBE, y cyn-Gyfarwyddwr Theatr yn Theatr Clwyd.

PRIF EITEMAU BUSNES

7 **CYLLIDEB REFENIW CRONFA'R CYNGOR 2020/21 CAM TRI - GOSOD CYLLIDEB GYFREITHIOL A CHYTBWYS** (Tudalennau 5 - 32)

Adroddiad Rheolwr Cyllid Corfforaethol

Pwrpas: I gosod cyllideb gyfreithiol a chytbwys ar gyfer 2020/21 ar argymhelliad y Cabinet.

8 **TRETH Y CYNGOR AR GYFER 2020/21**

Gwybodaeth i'w chyflwyno yn dilyn penderfyniad y Cabinet.

Pwrpas: I basio penderfyniad ffurfiol i osod Treth y Cyngor ar gyfer 2020/21, os yw'r Cyngor yn gallu cymeradwyo cyllideb gyfreithiol a chytbwys yn y cyfarfod hwn, gan gynnwys lefel y dreth i'w godi (Eitem 7).

9 **STRATEGAETH RHEOLI'R TRYSORLYS 2020/21** (Tudalennau 33 - 74)

Adroddiad Rheolwr Cyllid Corfforaethol

Pwrpas: I cymeradwyo Strategaeth Rheoli'r Trysorlys 2020/21

10 **TEITL: ISAFSWM DARPARIAETH REFENIW - POLISI 2020/21** (Tudalennau 75 - 88)

Adroddiad Rheolwr Cyllid Corfforaethol

Pwrpas: I cymeradwyo'r polisi ar Isafswm Darpariaeth Refeniw

ER GWYBODAETH YN UNIG

11 **CWESTIYNAU GAN Y CYHOEDD**

Pwrpas: Derbyn Cwestiynau Cyhoeddus ar gyfer yr eitem hon: doedd dim wedi dod I law erbyn y dyddiad cau.

12 **CWESTIYNAU**

Pwrpas: Nodi'r atebion I unrhyw gwestiwn a gyflwynwyd yn unol a Rheol Sefydlog 9.4(A) y Cyngor Sir: doedd dim wedi dod I law erbyn y dyddiad cau.

13 CWESTIYNAU GAN AELODAU AM GOFNODION PWYLLGORAU

Pwrpas: Mae’r Llyfr Cofnodion, Argraffiad 3 2019/20, wedi ei ddosbarthu i'r Aelodau. Mae hawl gan yr Aelodau ofyn cwestiynau am y cofnodion hyn, yn amodol ar gyfyngiadau penodol, a bydd yr atebion yn cael eu darparu yn y cyfarfod. Gofynnir i Aelodau ddod â’u copi o'r Llyfr Cofnodion i’r cyfarfod. Mae’n rhaid cyflwyno unrhyw gwestiwn i’r Rheolwr Democratiaeth a Llywodraethu cyn diwedd y diwrnod gwaith ar Dydd Mercher, 12 Chwfror, 2020.

14 RHYBUDD O GYNNIG

Pwrpas: Derbyn unrhyw Rybuddion o Gynnig: doedd dim wedi dod i law erbyn y dyddiad cau.

Yn ddiffuant,

Robert Robins
Rheolwr Gwasanaethau Democrataidd

HYSBYSIAD GWEDDARLLEDU

Bydd y cyfarfod hwn yn cael ei ffilmio a’I ddarlledu’n fyw ar wefan y Cyngor. Bydd y cyfarfod cyfan yn cael ei ffilmio oni bai fod eitemau cyfrinachol neu wedi’u heithrio dan drafodaeth.

Yn gyffredinol ni fydd y mannau eistedd cyhoeddus yn cael eu ffilmio. Fodd bynnag wrth i chi ddod i mewn i'r Siambr, byddwch yn cydsynio i gael eich ffilmio ac i’r defnydd posibl o’r delweddau a’r recordiadau sain hynny ar gyfer gweddarlledu a/neu ddibenion hyfforddi.

Os oes gennych chi unrhyw gwestiynau ynglŷn â hyn, ffoniwch aelod o’r Tîm Gwasanaethau Democrataidd ar 01352 702345.

Mae'r dudalen hon yn wag yn bwrpasol

FLINTSHIRE COUNTY COUNCIL

Date of Meeting	Tuesday, 18th February 2020
Report Subject	Council Fund Revenue Budget 2020/21 Stage Three Post-Settlement
Report Author	Chief Executive and Corporate Finance Manager

EXECUTIVE SUMMARY

The Council has received full reports on stages one and two of the budget setting process at its December and January meetings.

In December, Council noted the updated budget forecast for 2020/21 and the completed first stage of solutions to meet the budget requirement for the year prior to the receipt of the Provisional Local Government Settlement.

Council considered the Stage 2 report at its meeting on 28 January where it received an update on the latest local forecast for 2020/21, an assessment of the Provisional Local Government Settlement and an update of the completed work on the limited options to balance the budget alongside the open risks that the Council will need to consider for 2021/22 and beyond.

Cabinet received a report on the Council Fund Budget 2020/21 at its meeting on 18th February 2020 which sets out how the Council can achieve a legal and balanced budget for stage three of the budget setting process. The calculations are based on a maximum annual Council Tax rise of 5%. This report is attached as Appendix A.

Cabinet's resolution for balancing the budget will be provided to Members following the meeting in advance of the Council meeting.

RECOMMENDATIONS	
1	That the Council approves the recommendations of Cabinet for balancing the budget for 2020/21.
2	That Council approves the level of Council Tax for 2020/21 as recommended by Cabinet.

REPORT DETAILS

1.00	**EXPLAINING THE CURRENT POSITION – BALANCING THE BUDGET FOR 2020/21**
1.01	The Council has received full reports on stages one and two of the budget setting process at its December and January meetings.
1.02	Members will be aware that this budget process has been an inclusive one, which has built on the work carried out by the Cross-party Working Group on Local Government Finance which met between April and June 2019.
1.03	From the initial All Member workshop in the summer, Council has been updated on the financial forecast for 2020/21 throughout the year. An update on the latest forecast together with the outcome of the Provisional Settlement was submitted on 28th January 2020.
1.04	The work in hand to balance the budget is complete and Cabinet considered the position needed to reach a balanced budget at its meeting on 18th February 2020. The report is attached as Appendix A,
1.05	Cabinet's resolution for balancing the budget will be provided to Members following the meeting in advance of the Council meeting and a presentation on the budget will be made to Council.

2.00	**RESOURCE IMPLICATIONS**
2.01	As contained within the report to Cabinet of 18 February 2020 which is attached.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	As contained within the report to Cabinet of 18 February 2020 which is attached.

4.00	**RISK MANAGEMENT**
4.01	As contained within the report to Cabinet of 18 February 2020 which is attached.

5.00	**APPENDICES**
5.01	Appendix A – Cabinet Report 18 February 2020

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	As included in the Cabinet Report 18 February 2020

7.00	CONTACT OFFICER DETAILS
7.01	**Contact Officer:** Colin Everett, Chief Executive Gary Ferguson, Corporate Finance Manager **Telephone:** 01352 702271 **E-mail:** gary.ferguson@flintshire.gov.uk

8.00	GLOSSARY OF TERMS
8.01	As set out in the attached report.

Mae'r dudalen hon yn wag yn bwrpasol

CYNGOR Sir y Fflint Flintshire COUNTY COUNCIL

CABINET

Date of Meeting	Tuesday, 18th February 2020
Report Subject	Council Fund Revenue Budget 2020/21 – Third and Closing Stage
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Chief Executive and Corporate Finance Manager
Type of Report	Strategic

EXECUTIVE SUMMARY

Council has received full reports on stages one and two of the budget setting process for 2020/21 at its December and January meetings.

In December, at stage one, Council noted: the updated budget forecast for 2020/21; the completed first stage of solutions to meet the budget requirement for the financial year; and the limited range of local options which were available to reach a balanced budget alongside the outcome of the Provisional Local Government Budget Settlement. At that time, we were awaiting the announcement of the Provisional Settlement by Welsh Government. This announcement followed on 16th December.

In January, at stage two, Council received an update on the latest local forecast for 2020/21 together with an assessment of the Provisional Settlement. At that time officers advised that there was a high degree of confidence that a legal and balanced budget could be achieved for 2020/21 given (1) the improved Settlement position and (2) the expected financial contributions from the work in hand on the remaining local corporate finance solutions. This report also set out the 'open risks' which could have a financial impact in 2020/21 and would need to be managed.

This report sets out how the Council can achieve a legal and balanced budget for 2020/21 for stage three of the budget setting process. The calculations are based on a maximum annual Council Tax rise of 5%. It should be noted that Welsh Government has set a guideline of an average Council Tax increase of 7.1% across Wales as part of its budget calculations for a sufficiency of funding for local government.

The forecast for 2020/21 has been revised to take into account those 'open risks' for which financial provision needs to be made for the budget to be prudent. The work in hand on the remaining corporate financing options has since been

completed and the outcomes are set out within this report. The report also re-explains the remaining ‘open risks’ for 2020/21.
Cabinet is invited to make final recommendations to Council to set a legal and balanced budget based on the detail of this report.

A full presentation will be made by the report authors at both Cabinet and Council.

The report includes the following tables:

- Table 1: Updated Financial Forecast 2020/21
- Table 2: Analysis of the Remaining Budget Gap for 2020/21
- Table 3: Proposed Budget 2020/21
- Table 4: Medium Term Forecast

RECOMMENDATIONS	
1	That Cabinet notes and accepts the revised budget forecast for 2020/21 (The forecast sets out the budget requirement for the financial year and the remaining budget gap to be closed at stage three).
2	That Cabinet notes (1) that the revised forecast is based on a risk management strategy and (2) the ‘open risks’ which remain to be managed in the course of 2020/21.
3	That Cabinet notes the analysis of the Provisional Local Government Budget Settlement, and the contribution the additional national funding will make to closing the remaining budget gap.
4	That Cabinet approves the proposals from the completed work on corporate financing options to contribute to closing the remaining budget gap.
5	That Cabinet recommends to Council a legal and balanced budget based on the calculations within this report and taking into full account (1) the contribution the additional national funding can make and (2) the proposals from the completed work on corporate financing options.
6	That Cabinet recommends the level of Council Tax for 2020/21 at 5% or below.
7	That Cabinet notes the medium-term forecast as a basis for the next revision of the Medium Term Financial Strategy (MTFS).
8	That the Council calls upon both Governments to commit to three-year medium-term budget planning with local government settlements in Wales to be at a minimum level of 4% in each of those years, and for national pay awards and reforms and pension reforms and revaluations to be funded in full at a national level at source.

REPORT DETAILS

1.00	EXPLAINING THE FINANCIAL FORECAST
1.01	**The Financial Forecast** The forecast has been continuously revised to take into account both changes to the pressures included in the original April forecast, and new pressures which were either unknown at the time or had been identified and were still being evaluated. The impact of the changes reported in December left a remaining gap of £15.629M. The January report advised of adjustments to the forecast together with the ongoing work on the limited solutions to balance the budget.
1.02	The forecast for 2020/21 at the time of the last report and before the conclusion of the work on the remaining solutions is shown in Table 1 below:
1.03	**Table 1: Updated Financial Forecast 2020/21 (February 2020)**

			£M
Gap reported at December			15.629
Add in additional pressures for:			
North Wales Fire & Rescue Authority (1)			0.022
North Wales Sustainable Waste Grant Reduction (2)			0.099
Less: Cost Pressure for SEN/ALN (3)			(0.400)
Total Revised Forecast			**15.350**

Notes

1. Increase now confirmed brings total to £0.178M
2. Estimated Reduction in Grant based on the Provisional Settlement
3. Pressure removed pending confirmation of a Welsh Government specific grant (remains an open risk)

1.04	**Adjustments to Cost Pressures Included in the Forecast** **Teacher Pay** It has been confirmed by Welsh Government that pending pay awards are expected to be paid from the overall uplift in funding announced in the Provisional Settlement. Therefore, provision for a 2% uplift has now been included in the budget at an additional cost of £0.726M.
1.05	**Out of County Placements** This remains a major cost risk. The draft budget for 2020/21 already includes an uplift of £2.5M in funding for Out of County Placements.

	However, the current level of demand shows that even this increased budget is unlikely to be sufficient and a continuing overspend is likely to be a major consideration in managing the budget in 2020/21. Therefore, a further budget pressure of £0.200M has been included to contribute to the costs based on current demand levels.
1.06	**Coroner Service** An additional £0.039M has been included to reflect inflationary uplifts and increased demand levels. Councils contribute to this regional statutory service by law.
1.07	The impact of these adjustment to pressures is to increase the forecast from £15.350M to £16.315M to be met from the budget solutions set out below.
	EXPLAINING THE BUDGET SOLUTIONS
1.08	**STAGE ONE - DECEMBER** At the conclusion of stage one, Council was advised that a combination of corporate finance portfolio efficiencies and income, the income derived from an indicative 5% level of Council Tax increase, and the 'dividend' from the actuarial review of the Clwyd Pensions Fund summarised above would generate a significant contribution to the budget of £8.164M.
1.09	**STAGES TWO AND THREE - JANUARY** The Local Government Provisional Settlement was received on 16 December and details were included in the January Council report. The positive contribution made by the Settlement to the 2020/21 budget gap, having taken account of additional pressures for Teacher Pay and Pensions, is £6.559M.
1.10	**Specific Grants** The Provisional Settlement included significant uplifts to specific grants within Education and Social Care. At that stage the precise allocations for Flintshire were not known, or whether the terms and conditions of grant would be sufficiently flexible for the Council to be able to allocate the funds against planned budget expenditure to assist in the closure of the remaining budget gap. See 1.11 and 1.12 below.
1.11	**Use of Social Care Grant** As referred to in 1.10 above a further £10M of grant funding for Social Services will be available across Wales for 2020/21. This is in addition to the £30M of recurring funding. As part of the 2019/20 budget we were able to use this funding to contribute to the Social Care pressures already included in our financial forecast. Latest intelligence supports the use of the additional funding, however we are awaiting confirmation of this.

1.12	**Use of Education Grant** As referred to in 1.10 above a new specific grant of £7.2M for Additional Learning Needs has been announced for Wales. However, the terms and conditions are still not known. It is recommended that this funding source be reviewed as a potential contribution to the risks detailed in paras 1.21 – 1.25.
1.13	**Additional Funding to Provide a 'Floor'** There was no additional funding confirmed at the Provisional Settlement stage to support a funding 'floor'. A funding floor is a guaranteed level of funding for councils who come under the all-Wales average change in the annual Settlement. A floor has been a feature of the Settlement for many years. Given the variations in the annual uplift from council to council as set out in the Settlement - from 3% (Monmouthshire) to 5.4% (Newport) – a floor has been called for by a number of councils. If granted, it would be funded by Welsh Government over and above the quantum it has committed to invest in the Settlement for 2020/21 thus far. The group of North Wales Leaders have made the case for a floor to be set at 4%. If granted, this would improve Flintshire's position by 0.3%. The Welsh Local Government Association has supported the call for a floor. A decision is awaited and there can be no assumption at this stage, prior to the finalisation and approval of the Welsh Government budget.
1.14	**<u>STAGE THREE - OUTCOME OF LIMITED REMAINING OPTIONS</u>** As reported to Council in January, work was ongoing on a limited range of local solutions to contribute to closing the remaining budget gap alongside the contribution to be made by an improved Local Government Settlement. This work has since been concluded and the outcomes are noted in 1.15 - 1.18.
1.15	**Employer Pension Contributions** The triennial actuarial valuation of the Clwyd Pension Fund has now been completed and employer contribution rates agreed for the period 2020/21 – 2022/23. Due to the overall improved position on the Clwyd Pension Fund, the reduction in the employer contributions for Flintshire were estimated to be a minimum of £2M when reported in December. This figure was included in the Stage One budget solutions. The final outcome of the valuation has resulted in a net reduction of 4% in employer contributions. This is equal to a reduction of £2.646M of contributions. Therefore an additional £0.646M can be taken at Stage Three. In addition, a recalculation of the in-year position on employer annual pension contributions will allow a further £0.300M contribution to the budget over and above the £0.500M already included at Stage One.

1.16 **Social Care Commissioning**

The costs for commissioned social care in residential, nursing and specialist care, and domiciliary care, are set annually following consultation with providers. Following the conclusion of negotiations there is a surplus of £0.100M in the amount set aside in the draft budget. This can safely be taken as a contribution to balancing the budget.

1.17 **Single Person Discount – Review of Entitlement**

The ongoing review of Council Tax payers in Flintshire who claim single occupancy discount has generated Tax income surpluses over a period of time. The current stage of the review is has generated additional Tax income of £0.300M in the current financial year. This additional income can now be included to support the 2020/21 budget on a one-off basis. For future years this updated calculation will be included in the Council Tax Base.

1.18 These Stage Three solutions have a positive impact of £1.346M on the Budget 2020/21. Having concluded Stages One to Three the remaining budget gap is as set out in Table 2 below. A balance of £0.246M remains to be found.

1.19 **Table 2: Analysis of Remaining Budget Gap for 2020/21**

		£M
Revised Budget Gap		16.315
Less: Stage One Solutions		(8.164)
Less: Net impact of Provisional Settlement		(6.559)
Less: Stage Three Solutions		(1.346)
Revised Forecast Gap		**0.246**

1.20	**Table 3: Proposed Budget for 2020/21**

Funding	£m
Aggregate External Funding (AEF)/RSG NNDR	199.386
Council Tax	86.807
Budget Requirement	**286.193**
Specific Grants (Estimated)	31.955
Total Funding	**318.238**
Expenditure	
Base Budget Rolled Forward	304.613
Transfers in/out of settlement (Appendix 1)	3.847
Previous Years Growth/Items Dropping Out (Appendix 2)	(0.660)
Inflation (Appendix 3)	5.925
Pressures & Investments Recurring (Appendix 4)	8.536
Efficiencies	
Stage 1 Efficiencies (Appendix 5)	(1.534)
Stage 2 Efficiencies (Appendix 6)	(3.246)
Less Specific Grants 2019/20	(31.042)
Plus Specific Grants 2020/21 (Estimated Appendix 7)	31.955
Total Expenditure	**318.484**
Balance	**0.246**

Open Risks

1.21 **Charging for Post-16 School Transport**

The introduction of new PSVAR regulations for school transport and disability access to vehicles might prevent councils for charging for certain school transport services from 2021/22. This is under review and we, like other councils, have applied for an exemption from these regulations. Whilst we plan to introduce charges for post-16 transport from September 2020, as per Council policy, we cannot be guaranteed that we will be able to continue with these charges in future years. This would be a major loss of income of £0.770M in a full financial year (and £0.449M for the part year 2020/21) - an increase in income which is built into our base budget.

1.22 **NJC and Teachers Pay Awards 2020/21**

The pressures included in the budget for pay are based on an assumed pay increase of 2%. These awards are still subject to negotiation. Any increase over and above this would need to be met in-year from reserves. The Council has always maintained that annual pay awards should be fully funded by Welsh Government. We will continue to press this case. We

	have the fall-back position to cost-share with schools any unfunded national pay award for the 7/12ths of this financial year.
1.23	**Out of County Placements** This remains a major risk. The draft budget for 2020/21 already includes an uplift of £2.7M in funding for Out of County Placements. However, the current level of demand shows that this increased budget is unlikely to be sufficient and a continuing overspend is likely to be a major consideration in managing the budget in 2020/21. A further budget pressure in the region of £0.3M is forecast at this stage of service planning and the position remains fluid.
1.24	**Additional Learning Needs / Special Educational Needs** The budget position assumes that the additional specific grant included in the Provisional Settlement can be used towards the pressures that schools will face in meeting the increasing needs. The levels and complexities of demand for support within school settings is increasing. This is a challenging area of operational budget management within schools. A review of funding needs may require a later injection of additional funding to assist schools. We await confirmation of the details of a new specific grant in this service area from Welsh Government and will monitor as a risk going into the new financial year
1.25	**School Deficits** The position on licensed school deficits in the secondary schools sector is deteriorating. The level of balances in the primary school sector are also reducing. This trend reflects the cost pressures in schools, and re-exposes the inadequacy of the current level of funding within the schools funding formula for the medium-term. In the review of the Medium Term Financial Strategy we will need to address these risks and consider a supplementary budget provision for the secondary sector. Whilst this is not likely to be a risk to be addressed in-year, it cannot be ruled out that one or more early financial interventions in specific schools in need might be required.
1.26	**RESERVES AND BALANCES** Compared to other councils, Flintshire has modest and limited reserves to call upon. We have an established protocol for openly reporting on the reserves held, and the purpose for retaining each of them, every quarter. This is seen as good practice in our sector. Over the years the Council has drawn on its reserves to (1) cross-fund one-off cost pressures (2) balance the budget as needed and (3) meet the costs of voluntary redundancies to reduce the Council workforce in recent years. Over the past three years the Council has drawn upon £6.971M from its reserves and, in setting the 2019/20 budget the Council, used £2.221M to help balance the budget. Reserves can only be used once, and an over-reliance upon their use to balance annual budgets is not a sustainable way of funding services.

1.27	**Earmarked Reserves** The Council also holds earmarked reserves which are set aside for specific purposes. Some are restricted in their use by, for example, the terms and conditions of grant where their source is Government funding. An update on current projected levels of earmarked reserves shows that the amount is likely to reduce from £9.7M in 2020/21 to £8M by the end of the financial year as these reserves are 'drawn down' (See Appendix 8). The Council reviews its remaining earmarked reserves on an ongoing basis, and only those for which there is a strong business case will be retained with the remainder being released for use as part of the Medium-Term Financial Strategy.
1.28	**Un-earmarked Reserves** The Council holds a base level of reserve of £5.769M. Levels of unearmarked reserves over and above that level are referred to as the Contingency Reserve. This reserve is projected to be at £3.203M at year end. This is the Council's main 'defence' against in-year cost pressures. It is used to meet the impact of an overall overspend in any given financial year and to mitigate against potential financial risks. Some of the 'open risks' that the Council faces in 2020/21 are detailed in paras 1.21 – 1.25.
1.29	**Formal Advice of the Corporate Finance Manager** Section 25 of the Local Government Act 2003 includes a specific duty on the Chief Finance Officer (for Flintshire this is the Corporate Finance Manager) to report to the Council when it is considering its budget and Council Tax setting on the robustness of the estimates and the adequacy of reserves. The Act requires the Council to have regard to this report in making its decisions on its budget.
1.30	The 2020/21 budget has again been set within the context of the Medium Term Financial Strategy. It has presented a significant financial challenge. The Council's budget strategy for dealing with this has been clearly set out in detail in previous budget reports, supported by a series of member workshop sessions.
1.31	For the estimates contained within the budget, all figures are supported by a clear and robust methodology with the efficiency proposals considered achievable, but not without risk. The cost pressures are supported by evidenced method statements.
1.32	The Council's Reserves and Balances Protocol sets out how the Council will determine, manage and review the level of its Council Fund Balance and Earmarked Reserves taking into account legislation and professional guidance. An outcome of this protocol was to report to both Cabinet and Corporate Resources Overview and Scrutiny Committee the level of Earmarked Reserves held on a quarterly basis. This has been continued throughout 2019/20 through the monthly budget monitoring report. This process ensures that members can have a good understanding of all the reserves held by the Council.

1.33	I can confirm the reasonableness of the estimates contained in the proposed budget having regard to the Council's spending needs in 2020/21 and the financial context within which the budget is being set. It is clear that there are still some significant and open risks within the 2020/21 budget proposals - particularly around pay provision, social care demands, and the achievement in full of the planned efficiencies. Therefore, it is important that the Council protects its current level of reserves as far as possible to safeguard against these risks. A robust programme for the delivery of the efficiencies within the budget and to the timescales set together with effective and disciplined in-year financial management is essential to ensure that budgets are managed effectively - with prompt action taken to mitigate any impacts should variances occur.
1.34	Within the context described above, I recommend that the Council should maintain sufficient general balances of £5.769M and retain its Contingency Reserve in full as a safeguard to manage any in-year cost pressures and variances as detailed in paragraph 1.21 – 1.25.
1.35	The budget proposals should not require the use of temporary reserves which means that for the first time in many years the proposed budget is funded on a predominantly recurrent and sustainable basis.
1.36	**Formal Advice of the Chief Executive** My professional advice complements that of the Corporate Finance Manager, as set out above.
1.37	The draft budget as presented follows the Medium-Term Financial Strategy adopted by the Council. It has been developed according to the budget setting model which has been adopted by the Council.
1.38	We have taken a prudent and balanced approach to our annual budget, as required by law and the principles of good governance, whilst protecting the improvement objectives and public service duties and obligations of the Council. Our budget-setting process is an intricate one with all decisions being carefully risk-assessed.
1.39	We have advised Council on a number of occasions that there are no new cost reductions or cost efficiencies of scale beyond those reported in stages one and two of the budget-setting process. Council, as advised by Cabinet and the six Overview and Scrutiny Committees, has concurred with this advice and has not asked for any further reviews of corporate or service portfolio budgets to be undertaken to reduce cost provisions. Our strategy for achieving a legal and balanced budget has been to rely on a reversal of Government fiscal policy and improved annual settlements for the funding of local government in Wales.
1.40	A number of 'open risks' remain to be managed and we will again be challenged to manage our budget in-year throughout 2020/21. Our advice on risk management and how it affects setting a prudent budget needs to be carefully heard.

1.41	It is important that we plan for the medium-term and work with Governments on a sustainable funding model for local government, avoiding an over-reliance on Council Tax as a form of local income. We set out our expectations clearly in our response to the consultation on the Provisional Settlement (Appendix 9).
1.42	**Concluding Advice to Close the Budget** Council is able to set a legal and balanced budget for 2020/21 based on the calculations and advice set out in this report, and fulfil its collective responsibility. As shown in Table 2 (1.19) a balance of £0.246M remains to be found. The Social Services grant referred to in 1.11 could be brought 'into play' to assist in closing this gap with a degree of confidence. All calculations are based on a Council Tax rise of 5% (4.75% for Council purposes and 0.25% for the North Wales Fire and Rescue Service). Any downward change in this level of Tax would need to be funded from an identified service.
1.43	**Medium Term Financial Forecast** The financial forecast for the medium-term – 2021/22 – 2022/2023 - has been reviewed to update the Medium-Term Financial Strategy (MTFS). A high-level estimate on the major cost pressures predicted over the next two years following this budget is included in Table 4. The forecast is based on (1) annual pay increases trending at 2% and (2) similar level of commissioning cost pressures within Social Services. Any decision on the level of reserves used to balance the budget would also impact on the following year. For 2020/21 the positive performance of the Clwyd Pension fund and the timing of the actuarial valuation has meant that we are not recommending any use of reserves to balance the 2020/21 budget. **Table 4: Medium Term Forecast**

Cost Pressure Group	2021/22 (£M)	2022/23 (£M)
Pay Inflation	4.092	3.779
Non Pay Inflation	0.759	0.759
Social Care Pressures	3.082	2.433
Other Pressures	1.896	0.462
Repayment of Reserve	0	0
Total	**9.829**	**7.433**

1.44	From Table 4 it can be seen that the Council will need to rely on improved financial settlements from Welsh Government in future years. The MTFS is being fully reviewed for reporting in May. The Council will need forward planning of budgets by Governments, and certainty over future local government settlements, to be able to plan ahead with a sufficient degree of confidence. Three year forward budgeting should be an expectation of Governments. Given our forecast budget pressures for future years, and the need to have some financial capacity to invest in service innovation and growth, minimum annual increases in future settlements from Welsh

	Government of 4% will be required in addition to national pay awards and reforms, and pension reforms and revaluations being funded in full at a national level at source.

2.00	**STEPS TO CLOSE THE BUDGET AND ONGOING WORK FOR THE MEDIUM-TERM**
2.01	The timetable for the closing stages of the annual budget setting process is as follows: - 18th February Council Meeting: Final budget-setting decisions including final agreement on the level of Council Tax if possible. 25th February: Announcement of the Final Welsh Local Government Settlement. 27th February Council Meeting: Passing of the formal Council Tax resolution if not possible on 18th February. 4th March: National Assembly for Wales passing of the final budget for Wales and the public services

3.00	**IMPACT ASSESSMENT AND RISK MANAGEMENT**
3.01	The risks to the Council being able to set a legal and balanced budget for 2020/21 have been managed. A full risk assessment on the budget position is set out within this report.
3.02	**Ways of Working (Sustainable Development) Principles Impact**

Long-term	Negative – the absence of longer-term funding settlements from Welsh Government means that sustainable support for service delivery is challenging for the longer term. Sustainable funding from Welsh Government that provides additional funding for Indexation, Service demands and new legislation will provide a positive and sustainable position for the Council in the longer term.
Prevention	As above.
Integration	Neutral impact.
Collaboration	Services continue to explore opportunities for collaboration with other services and external partners to support positive impacts.

Involvement	Communication with Members, residents and other stakeholders throughout the budget process.

Well-Being Goals Impact

Prosperous Wales	Longer term funding settlements from Welsh Government that provide additional funding for indexation, service demands and new legislation will aid sustainability and support a strong economy that encourage business investment in the region. The opposite will be true if settlements are inadequate.
Resilient Wales	Continuation of services to support communities and social cohesion will have a positive impact. The opposite will be true if settlements are inadequate.
Healthier Wales	An appropriate level of funding will ensure that communities are supported and will have a positive impact. The opposite will be true if settlements are inadequate.
More equal Wales	A positive impact with greater parity of funding from Welsh Government for all Welsh Local Authorities. The opposite will be true if settlements are inadequate.
Cohesive Wales	Appropriate level of funding will support services working alongside partners. The opposite will be true if settlements are inadequate.
Vibrant Wales	As Healthier and Cohesive Wales above
Globally responsible Wales	Neutral impact.

4.00	**RESOURCE IMPLICATIONS**
4.01	**Revenue:** The revenue implications for the 2020/21 budget are set out fully in this report. **Capital:** there are no direct implications for the approved capital programme for either the current financial year or for future financial years. The capital programme for 2020/21 onwards was reported in January. **Human Resources:** none specific.

5.00	**CONSULTATIONS REQUIRED/CARRIED OUT**
5.01	Consultation with Group Leaders, Overview and Scrutiny Committees, external partners, external advisors and representative bodies, local schools, the workforce and trade unions have been completed. An interactive feature has been mounted on the Council's website – this shows how our budget works, the efficiencies we have made over the years and our budget situation, and how our resources are used. Consultation has also been carried out with the principle NNDR payers. The Council has responded to the Welsh Government consultation on the Provisional Settlement and Group Leaders were consulted in the process of making our response.

6.00	**APPENDICES**
6.01	Appendix 1 – Transfers in Appendix 2 – Previous Years Items "Dropping Out" Appendix 3 – Inflation Appendix 4 – Pressures and Investments Appendix 5 – Efficiencies Stage 1 Appendix 6 – Efficiencies Stage 2 Appendix 7 – Estimate of Specific Grants Appendix 8 – Earmarked Reserves Appendix 9 – Council Response to the Provisional Settlement 2020/21

7.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
7.01	January 2020 Council Report http://committeemeetings.flintshire.gov.uk/documents/g4472/Public%20reports%20pack%2028th-Jan-2020%2014.00%20Flintshire%20County%20Council.pdf?T=10&LLL=0 December 2019 Council report http://committeemeetings.flintshire.gov.uk/ieListDocuments.aspx?CId=143&MId=4476&Ver=4&LLL=0

8.00	**CONTACT OFFICER DETAILS**
8.01	**Contact Officer:** Gary Ferguson, Corporate Finance Manager **Telephone:** 01352 702271 **E-mail:** gary.ferguson@flintshire.gov.uk

9.00	GLOSSARY OF TERMS
9.01	**Medium Term Financial Strategy (MTFS):** a written strategy which gives a forecast of the financial resources which will be available to a Council for a given period, and sets out plans for how best to deploy those resources to meet its priorities, duties and obligations. **Revenue:** a term used to describe the day to day costs of running Council services and income deriving from those services. It also includes charges for the repayment of debt, including interest, and may include direct financing of capital expenditure. **Budget:** a statement expressing the Council's policies and service levels in financial terms for a particular financial year. In its broadest sense it includes both the revenue budget and capital programme and any authorised amendments to them. **Revenue Support Grant:** the annual amount of money the Council receives from Welsh Government to fund what it does alongside the Council Tax and other income the Council raises locally. Councils can decide how to use this grant across services although their freedom to allocate according to local choice can be limited by guidelines set by Government. **Specific Grants**: An award of funding from a grant provider (e.g. Welsh Government) which must be used for a pre-defined purpose. **Welsh Local Government Association:** the representative body for unitary councils, fire and rescue authorities and national parks authorities in Wales. **Financial Year:** the period of 12 months commencing on 1 April. **Local Government Funding Formula:** The system through which the annual funding needs of each council is assessed at a national level and under which each council's Aggregate External Finance (AEF) is set. The revenue support grant is distributed according to that formula. **Aggregate External Finance (AEF):** The support for local revenue spending from the Welsh Government and is made up of formula grant including the revenue support grant and the distributable part of non-domestic rates. **Provisional Local Government Settlement:** The Provisional Settlement is the draft budget for local government published by the Welsh Government for consultation. The Final Local Government Settlement is set following the consultation. **Funding Floor:** a guaranteed level of funding for councils who come under the all-Wales average change in the annual Settlement. A floor has been a feature of the Settlement for many years.

Appendix 1

Budget 2020/21
Council Fund Revenue

Transfers into settlement

Transfers in:		**£m**
	Teachers Pay Grant	0.375
	Teachers Pension	3.391
	Funded Nursing Care	0.081
Net effect (Pressure)		**3.847**

Appendix 2

Budget 2020/21
Council Fund Revenue

Previous Years Growth/ Items Dropping Out	**2020/21 £m**
Social Services	
Work Opportunities Pressure Reduction	(0.063)
Planning & Environment	
Local Development Plan	(0.172)
Streetscene & Transportation	
North Wales Regional Waste Partnership	(0.425)
Total 2020/21 Budget	**(0.660)**

Appendix 3

Budget 2020/21
Council Fund Revenue

Inflation

	Total £m
NJC Pay (Non Schools)	2.162
NJC Pay (Schools)	0.750
Teachers Pay	2.413
Pay Indexation for Aura/Newydd	0.091
Price	0.071
Other Schools Inflation (Energy, NDR)	0.156
Energy/Water/Fuel	0.281
Total Inflation	**5.925**

Appendix 4

Budget 2020/21
Council Fund Revenue

Pressures & Investments	**2020/21 £m**
Social Services	
Social Care Commissioning	1.543
Transition to Adulthood	0.656
One off efficiencies dropping out	0.030
Specific Grants adjustments	0.283
Marleyfield & Holywell Extra Care Revenue Costs	0.492
Total Social Services	**3.004**
Streetscene &Transportation	
School Transport	0.700
Reduction in Sustainable Waste Grant	0.099
Parking & Enforcement	0.178
Total Streetscene & Transportation	**0.977**
Planning & Environment	
Empty Properties	0.070
Growth Deal Contribution	0.050
Total Planning & Environment	**0.120**
Education & Youth	
Additional Learning Needs - Exclusions	0.072
Additional Learning Needs Reforms	0.015
Demography	0.230
Youth Justice	0.071
Total Education & Youth	**0.388**
Governance	
Foster Carers	0.092
Enforcement Officer	0.041
Council Tax Reduction Scheme	0.057
Pension Officer Post	0.040
Members Allowances	0.025
Coroners Pressure	0.039
Citrix Licensing	0.126
Total Governance	**0.420**
Housing & Assets	
Financial Assessments	0.030
Rent Shortfall	0.140
Temporary Accommodation	0.040
Total Housing & Assets	**0.210**
Central & Corporate	
Further Borrowing costs for Capital	0.039
Minimum Revenue Provision	0.300
Fire Levy	0.178
Unachieved Efficiency - Workforce Costs	0.100
Unachieved Efficiency - Income Target	0.100
Total Central & Corporate	**0.717**
Out of County Placements	**2.700**
Total Pressures and Investments	**8.536**

Appendix 5

Budget 2020/21
Council Fund Revenue

Stage 1 Efficiencies	**2020/21 £m**
Stage 1 Corporate Efficiency	
Employer Pension Contributions	(0.500)
Total Stage 1 Corporate Efficiency	**(0.500)**

Stage 1 Portfolio Efficiencies	**2020/21 £m**
Social Services	
Reviewing Function - Reduction of Post	(0.025)
Supported Living - Reduction in Voids	(0.025)
Communications - Reduction in Mobile Hardware	(0.030)
Vacancy Management Savings - Appropriate deferral of recruitment	(0.030)
Strategic Use of Grant Funding - Core Funding replacement solution	(0.100)
Regional Collaboration Wrexham CBC - Reduced Posts	(0.030)
Total Social Services	**(0.240)**
Education & Youth	
Discretionary Transport Review - Post 16 Transport	(0.449)
Integrated Youth Provision - Reduction in Spend	(0.014)
Total Education & Youth	**(0.463)**
Streetscene & Transportation	
Income from External Works	(0.010)
Garden Waste Charges	(0.030)
NWRWRP Gate Fee Benefit	(0.200)
Total Streetscene & Transportation	**(0.240)**
Planning & Environment	
Countryside - Charges and Additional Tree Income	(0.010)
Countryside - Review of Spending	(0.017)
Review of Pest Control , Trading Standard Investigations and Community Safety	(0.035)
Development Management - Increased Planning Fee Income	(0.015)
Minerals and Waste - Adoption of new Service Level Agreement with Partners	(0.005)
Portfolio Admin Supplies & Services Review	(0.005)
Regeneration - Business Development, Housing Regeneration and Strategy and Market	(0.004)
Total Planning & Environment	**(0.091)**
Total Stage 1 Portfolio Efficiencies	**(1.034)**
Total Stage 1 Efficiencies	**(1.534)**

Appendix 6

Budget 2020/21
Council Fund Revenue

Stage 2 Efficiencies	**2020/21 £m**
Stage 2 Efficiencies	
Triennial Actuarial Review	(2.646)
Annual Employer Pension Contributions (In Year)	(0.300)
Single Person Discount Review	(0.300)
Total Stage 2 Efficiencies	**(3.246)**

Appendix 7

Budget 2020/21

Council Fund Revenue

Specific Grants

	Budget 2019-20 £	Budget 2020-21* £	Variance £	Confirmed (C) or Estimated (E)
Education & Youth (Non Delegated)				
Promoting Positive Engagement (Youth Crime Prevention Fund)	196,143	196,143	0	E
YOT / Youth Justice Board (inc. JAC)	221,956	221,956	0	E
Welsh Network of Healthy School Schemes	101,380	101,380	0	E
Youth Support Grant (Youth Service Revenue Grant)	126,820	126,820	0	E
Free School Milk	245,891	245,891	0	E
Families First	1,505,090	1,505,090	0	E
Pupil Development Grant	3,587,850	3,910,757	322,907	E
Reducing Infant Class Sizes	0	355,000	355,000	E
Rural Schools Grant	0	139,625	139,625	C
Additional Learning Needs (ALN)	0	360,000	360,000	E
ALN Transformation	0	45,000	45,000	E
Adult Community Learning	0	52,405	52,405	C
Feminine Hygiene	0	10,243	10,243	E
Education Improvement Grant for Schools	5,814,343	5,988,773	174,430	E
	11,799,473	**13,259,083**	**1,459,610**	
Delegated				
6th Form Funding (Formally DCELLs)	4,729,890	4,439,673	(290,217)	E
	4,729,890	**4,439,673**	**(290,217)**	
Social Services				
Social Care Workforce Development Programme	312,069	312,069	0	C
Flying Start	2,904,700	2,901,515	(3,185)	E
St. David's Day	0	40,758	40,758	E
Childcare & Play	97,877	97,877	0	E
	3,314,646	**3,352,219**	**37,573**	
Streetscene & Transporation				
Concessionary Travel	2,180,000	2,180,000	0	E
Sustainable Waste - now Environment & Sustainable Development	852,852	754,000	(98,852)	E
Bus Service Support Grant	557,000	557,000	0	E
Welsh Young Person Travel Discount Scheme	60,000	60,000	0	E
	3,649,852	**3,551,000**	**(98,852)**	
Planning & Environment				
Safer Communities Fund	221,881	0	(221,881)	C
Substance Misuse	522,744	522,744	0	E
Crime Reduction and Anti Social Behaviour	31,566	0	(31,566)	C
Domestic Abuse Co-ordinator Funding (VAWDASV)	92,400	92,400	0	E
Legacy Fund	0	127,680	127,680	E
Communities for Work Plus	0	431,300	431,300	E
Environment & Sustainable Development Grant (non-Waste)	178,068	0	(178,068)	C
	1,046,659	**1,174,124**	**127,465**	
Housing & Assets				
Housing Support Grant (formerly Supporting People)	5,950,819	5,950,819	0	E
	5,950,819	**5,950,819**	**0**	
Strategic Programmes				
Free Swimming	121,500	60,750	(60,750)	E
National Exercise Referral	123,750	123,750	0	E
Active Young People	305,303	43,860	(261,443)	E
	550,553	**228,360**	**(322,193)**	
	31,041,892	**31,955,278**	**913,386**	
Total				

***2020/21 Budget including estimated amounts not final**

Social Care Workforce & Sustainability Workforce Grant	0	1,737,000	1,737,000	E

Appendix 8

Budget 2020/21
Council Fund

Summary of Council Fund Earmarked Reserves

	Estimated Balance 01/04/20 £m	Estimated Balance 31/03/21 £m
Service Balances		
Social Services	0.052	0.023
Planning & Environment	0.178	0.095
Housing & Assets	0.011	0.000
Theatre Clwyd	0.104	0.104
Corporate Services	0.232	0.168
Total Service Balances	**0.577**	**0.390**
Corporate Balances		
Single Status/Equal Pay	0.638	0.254
General Reserve - Investment in Organisational Change	1.748	1.048
Total Corporate Balances	**2.386**	**1.302**
Specific Reserves		
Benefits Eqalisation	0.318	0.318
County Elections	0.205	0.000
Local Development Plan	0.180	0.000
Waste Disposal	0.068	0.045
Winter Maintenance	0.250	0.250
Insurance Funds	2.414	2.714
Cash Receipting Review	0.001	0.001
Flintshire Trainees	0.265	0.265
Customer Services Strategy	0.022	0.000
Capita One	0.019	0.000
Supervision Fees	0.049	0.000
LMS Curriculum	0.256	0.050
Org Change/ADM	0.062	0.000
Grants & Contributions	2.690	2.690
Total Specific Reserves	**6.799**	**6.333**
Total Earmarked Reserves	**9.762**	**8.025**

Mae'r dudalen hon yn wag yn bwrpasol

FLINTSHIRE COUNTY COUNCIL

Date of Meeting	Tuesday, 18th February 2020
Report Subject	Treasury Management Strategy 2020/21
Report Author	Corporate Finance Manager

EXECUTIVE SUMMARY

The report presents the Treasury Management Strategy 2020/21 for approval and is included at Appendix A.

Audit Committee considered and reviewed the Strategy at their meeting on 29th January 2020 with feedback being reported to Cabinet at their meeting earlier today.

Following consideration by Cabinet a verbal update will be provided at the meeting on any specific comments or changes.

RECOMMENDATIONS	
1	Members approve the Treasury Management Strategy 2020/21

REPORT DETAILS

1.00	EXPLAINING THE REPORT
1.01	The Local Government Act 2003 requires all local authorities to have due regard to both the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice (The CIPFA Code of Practice) and Welsh Government guidance on Local Authority Investments.
1.02	The Council has adopted The CIPFA Code of Practice which requires:- • The Council to create and maintain a Treasury Management Policy Statement which states the Council's policies, objectives and approach to risk management of its treasury management activities. • The Council to create and maintain suitable Treasury Management Practices (TMPs) and accompanying schedules, stating how those policies and objectives will be achieved and prescribing how those activities will be managed and controlled. • The Council to 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. • Responsibility for Treasury Management to be clearly defined. The Council delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to the Cabinet, and for the execution and administration of Treasury Management decisions to the Corporate Finance Manager, who will act in accordance with the organisation's policy statement and TMPs and, CIPFA's Standard of Professional Practice on Treasury Management. • A body to be responsible for the scrutiny of Treasury Management Policy, Strategy and Practices. The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management function. The Audit Committee has previously agreed to include Treasury Management as a standing item on each quarterly agenda to receive an update.
1.03	The Welsh Government issue guidance on Local Authority investments that requires the Council to prepare an investment strategy before the start of each financial year. The guidance was updated in November 2019 which comes into force from 1st April 2020.

1.04	In preparation for approving the 2020/21 Treasury Management Strategy training for all Members was held on 11th December 2019. The workshop presented by Arlingclose, the Council's Treasury Management advisors covered a detailed introduction to Treasury Management in Local Authorities, including the regulatory framework and the role of the elected Member in scrutinising the Treasury Management function. The training included an in depth presentation on investments and borrowing and changes made to the Investment Guidance issued by Welsh Government.
1.05	As required by the Council's Financial Procedure Rules, the Strategy was reviewed by Audit Committee on 29th January 2020 and will be by Cabinet on 18th February 2020. Feedback raised by Audit Committee has been reported to Cabinet. Cabinet's recommendations will be reported at this meeting.

2.00	**RESOURCE IMPLICATIONS**
2.01	Financial implications are addressed in the attached report to Cabinet and its appendices; no other resource implications directly as a result of this report.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	Arlingclose Ltd, being the Council's treasury management advisors.

4.00	**RISK MANAGEMENT**
4.01	Risk Management directly addressed within appendices including identification of risks and measures to mitigate likelihood and impact of risks identified.

5.00	**APPENDICES**
5.01	Appendix A - Cabinet report: Treasury Management Strategy 2020/21

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	None

7.00	**CONTACT OFFICER DETAILS**
7.01	**Contact Officer:** Liz Thomas – Strategic Finance Manager **Telephone:** 01352 702289 **E-mail:** liz.thomas@flintshire.gov.uk

8.00	**GLOSSARY OF TERMS**
8.01	Please see the attached Cabinet report at Appendix A

APPENDIX A

CABINET

Date of Meeting	Tuesday, 18th February 2020
Report Subject	Treasury Management Strategy 2020/21
Cabinet Member	Cabinet Member for Finance
Report Author	Corporate Finance Manager
Type of Report	Strategic

EXECUTIVE SUMMARY

The report presents the draft Treasury Management Strategy 2020/21 for approval and recommendation to Council. The report was considered in detail by Audit Committee on 29th January 2020.

The Treasury Management Strategy for 2020/21 is attached as Appendix 1 for review and a summary of the key points are included in the report.

This report is supplemented by training provided to all Members of the Council on Treasury Management on 11th December 2019.

RECOMMENDATIONS	
1	Cabinet approves for recommendation to Council the Treasury Management Strategy 2020/21.

REPORT DETAILS

1.00	**EXPLAINING THE STRATEGY**
	Background
1.01	The Local Government Act 2003 requires all local authorities to have due regard to both the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice (The CIPFA Code of Practice) and Welsh Government guidance on Local Authority Investments.
1.02	In April 2019 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. The CIPFA Code of Practice (2017 edition) requires:- • The Council to create and maintain a Treasury Management Policy Statement which states the Council's policies, objectives and approach to risk management of its Treasury Management activities. • The Council to create and maintain suitable Treasury Management Practices (TMPs) and accompanying schedules, stating how those policies and objectives will be achieved and prescribing how those activities will be managed and controlled. • The Council to 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. • Responsibility for Treasury Management to be clearly defined. The Council delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the Corporate Finance Manager, who will act in accordance with the organisation's policy statement and TMPs and, CIPFA's Standard of Professional Practice on Treasury Management. • A body to be responsible for the scrutiny of Treasury Management Policy, Strategy and Practices. The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management function. The Audit Committee has previously agreed to include Treasury Management as a standing item on each quarterly agenda to receive an update.
1.03	The Welsh Government issue guidance on Local Authority investments that requires the Council to prepare an investment strategy before the start of

	each financial year. The guidance was updated in November 2019 which comes into force from 1st April 2020.
1.04	In preparation for approving the 2020/21 Treasury Management Strategy training for all Members was held on 11th December 2019. The workshop presented by Arlingclose, the Council's Treasury Management advisors covered a detailed introduction to Treasury Management in local authorities, including the regulatory framework and the role of the elected Member in scrutinising the Treasury Management function. The training included an in depth presentation on investments, borrowing and changes made to the Investment Guidance issued by Welsh Government.
	Considerations
1.05	The Treasury Management Policy Statement was approved by Council in February 2019 and covers the 3 year period from 2019/20 to 2021/22. This document defines the Council's Treasury Management activities, sets out the Council's criteria to measure the effectiveness of Treasury Management activities and includes the Council's high level policies for borrowing and investments. Once approved, it was agreed that the document only be reported to Members during its lifetime in the event of any significant changes. There is no change to this document.
1.06	Similarly the Treasury Management Practices (TMPs) and accompanying schedules to cover the 3 year period from 2019/20 to 2021/22 were approved by Council in February 2019 and it was agreed that these operational documents will only be reported to Members during their lifetime in the event of any significant changes. The TMPs and schedules state how Treasury Management policies and objectives will be achieved and give specific details of the systems and routines employed and the records to be maintained including:- • TMP 1 Treasury risk management • TMP 2 Performance measurement • TMP 3 Decision-making and analysis • TMP 4 Approved instruments, methods and techniques • TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements • TMP 6 Reporting requirements and management information arrangements • TMP 7 Budgeting, accounting and audit arrangements • TMP 8 Cash and cash flow management • TMP 9 Money laundering • TMP 10 Staff training and qualifications • TMP 11 Use of external service providers • TMP 12 Corporate governance Some minor changes have been made to bring the practices and schedules in line with the draft 2020/21 strategy.

	Treasury Management Strategy 2020/21
1.07	The 2020/21 Treasury Management Strategy is attached at Appendix 1 for review and discussion. The Strategy is updated and reported annually to Members in accordance with the CIPFA Code of Practice (2017 edition) and the revised Welsh Government guidance. The Treasury Management Strategy details the approach that the Council will take for investing and borrowing over the next year, including the budgetary implications of the planned investment and borrowing strategy, and a number of Treasury Management indicators that the CIPFA Code requires.
1.08	The main body of the 2020/21 Strategy has not changed significantly from that of the 2019/20 Strategy. Matters that merit the attention of Members are summarised below:- • Section 2 – Economic context, provided by Arlingclose, the Council's Treasury Management advisor, highlights that the major external influence on the strategy continues to be negotiating the UK's exit from the European Union and agreeing future trading arrangements, as it was in 2019/20. The Bank of England have made no recent changes to monetary policy with interest rates held at 0.75%. At its November 2019 meeting the Monetary Policy Committee indicated that it would be prepared to cut rates should Brexit uncertainty drag on or global growth fail to recover. The downward revisions to some of the growth projections in their report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal. Arlingclose forecasts that interest rates will be held at 0.75% throughout 2020/21 and into 2022. A very modest rise in gilt yields is forecast from their current low levels based on Arlingclose's interest rate projections (the Council's borrowing costs are linked to gilt yields). • Section 4 – Local context. This section summarises the anticipated treasury position in 2020/21. Activity in 2020/21, as it has in previous years, will focus more on borrowing and less on investing; as the Council's requirement to borrow is forecast to grow due to a planned increase in capital expenditure, and there is less surplus cash to invest as services plan to spend reserves. • Section 5 – Investment Strategy for Treasury Management investments. This section is largely a continuation of the Council's 2019/20 strategy, the aim being to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. • Section 6 - Borrowing Strategy. This section is largely a continuation of the 2019/20 strategy. The Council continues to forecast a significant long term borrowing requirement. The required amounts need to be

	confirmed before a commitment to long term borrowing is made and the use of short term borrowing will be used to assist during this period.
	<u>Changes to Welsh Government Investment Guidance</u>
1.09	The previous guidance issued by Welsh Government was last updated in 2010 and its focus was on investments in financial institutions. It required local authorities to set out clearly their policies for the prudent management of investments, giving priority, firstly to the security of those investments (protecting the capital sum from loss), and secondly liquidity (keeping money readily available for expenditure). The generation of investment income was distinct from these prudential objectives, however, provided that proper levels of security and liquidity were achieved, it may (but only then) be reasonable to seek the highest yield consistent with those priorities. The guidance stipulated that the following details should be included in the investment strategy: • Specified Investments • Non-specified Investments • Credit Risk Assessment • Investment Consultants • Investment Training • Investment of money borrowed in advance of need
1.10	In the revised guidance Welsh Government includes the details in 1.09 above and has widened the definition of an investment to bring non-financial yield bearing investments into scope. Reflecting that changes in the economic and regulatory landscape have led local authorities to consider different and more innovative types of investment activity. Welsh Government's aims are to ensure local authorities demonstrate good governance, accountability, transparency and openness of all types of investment decisions, whilst considering stewardship of public funds and levels of debt and aggregate risk is proportionate.
1.11	There are now four categories of investments: • Specified investments • Non-specified investments • Loans to third parties, joint ventures, or wholly-owned companies or associates • Non-financial investments – investing in non-financial assets primarily or partially for the purpose of generating a surplus including investment property. The revised guidance stipulates that the following details should be included for Loans and Non-financial investments : • Description of types included within each investment category • Contribution made towards service delivery objectives and / or promote wellbeing • Arrangements for ensuring the security of the investment

	• Arrangements for ensuring the liquidity of the investment Other requirements include: • Information on proportionality – if the local authority is dependent on the profit generating investment activity to achieve a balanced budget. • Information on borrowing in advance of need – if the local authority is undertaking the activity purely to profit from the investment. • Information on Capacity, Skills and Culture – relates to Members, and Officers. • Disclosure of the extent investment decisions consider long-term and climate risk to support a low carbon economy.
1.12	In the main, the additional requirements introduced, all relate to non-Treasury Management investments. (Treasury Management investments are temporary surplus cash arising as a result of timing differences in receiving and spending cash.) For simplicity and following advice from Arlingclose, the approach has been to include the Council's response to the additional requirements in an Appendix to the main Treasury Management Strategy – Appendix B – Non-Treasury Management Investments.
1.13	All assets have been reviewed and the material types of non-treasury investment that the Council has are 'Loans to wholly owned subsidiaries' and 'Investment Properties'. Information has been included in Appendix B to the Treasury Management Strategy at Appendix 1 of this report. Loans to wholly owned subsidiaries are the loans to North East Wales Homes (NEW Homes) Limited for the development and purchase of homes for affordable rent. The Council when approving the loans to NEW Homes had already considered all of the requirements that have been included by Welsh Government in its revised guidance. The Council has made a critical judgement in its accounts to classify its agricultural estate and its industrial units as investment properties. Proper accounting practice defines an investment property as those that are used solely to earn rent and / or for capital appreciation. These assets are legacy assets, and the Council has made an informed decision to reduce its agricultural estate and review the use of its industrial units. The spirit of the revised guidance is to focus on a more active portfolio of investment assets with a higher risk profile than the investment properties the Council owns. Due to the length of time that has passed since these assets have been acquired, which pre date Flintshire Council, it has not been possible to include all of the required information, such as including current fair value comparison with purchase price.
1.14	The majority of the additional requirements set out by Welsh Government have been complied with. Further work will be undertaken in year to review other investments that the Council is considering that possibly need to be

	included in the non-treasury investments section of the strategy, and compliance with disclosures around skills, culture and climate change.
1.15	The Audit Committee reviewed and approved the draft Treasury Management Strategy at its meeting on 29th January 2020. Members of the Audit Committee raised a number of detailed queries including; 1. how and when the Council was likely to comply with the residual requirements of the revised Welsh Government investment guidance to include disclosures around skills, culture and climate change, and, 2. what consideration was being given to borrowing options given the Council's long term borrowing requirement forecast. Officers responded as follows to the positive satisfaction of the Committee; 1. Towards the end of 2020 to report back to the Committee on training / awareness raising sessions for relevant Senior Officers on the requirements of the CIPFA Treasury Management Code and Welsh Government Guidance for non-financial investments, and how the Council can practically balance the security, liquidity and yield of its investments whilst supporting a low carbon economy. 2. With support and guidance from Arlingclose, the Council's Treasury Management advisors, a detailed review of alternative borrowing sources from HM Treasury's Public Works Loan Board is planned by the end of the financial year. This will include consideration of the appropriate mix of short, long and variable rate loans in the next financial year.

2.00	**RESOURCE IMPLICATIONS**
2.01	Financial implications are addressed in the report; no other resource implications directly as a result of this report.

3.00	**IMPACT ASSESSMENT AND RISK MANAGEMENT**
3.01	Risk Management directly addressed within the report and appendices including identification of risks and measures to mitigate likelihood and impact of risks identified.
3.02	Ways of Working (Sustainable Development) Principles Impact

Long-term	Positive. The Treasury Management Strategy considers the long-term impact of investing and borrowing decisions.
Prevention	No change
Integration	No change
Collaboration	No change
Involvement	No change

3.03	Well-being Goals Impact Prosperous Wales — No impact Resilient Wales — No impact Healthier Wales — No impact More equal Wales — No impact Cohesive Wales — No impact Vibrant Wales — No impact Globally responsible Wales — No impact

Well-being Goal	Impact
Prosperous Wales	No impact
Resilient Wales	No impact
Healthier Wales	No impact
More equal Wales	No impact
Cohesive Wales	No impact
Vibrant Wales	No impact
Globally responsible Wales	No impact

4.00	**CONSULTATIONS REQUIRED AND UNDERTAKEN**
4.01	Arlingclose Ltd, being the Council's Treasury Management advisors.

5.00	**APPENDICES**
5.01	1. Draft Treasury Management Strategy 2020/21

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	**Contact Officer:** Liz Thomas – Strategic Technical Finance Manager **Telephone:** 01352 702289 **E-mail:** liz.thomas@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	**Authorised Limit:** A statutory limit that sets the maximum level of external debt for the Council. **Balances and Reserves:** Accumulated sums that are held, either for specific future costs or commitments (known as earmarked) or generally held to meet unforeseen or emergency expenditure. **Bank Rate:** The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". **Basis Point:** A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in interest rates and bond yields. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. **Bond:** A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.

Capital Expenditure: Expenditure on the acquisition, creation or enhancement of capital assets.

Capital Financing Requirement (CFR): The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.

Certificates of Deposits (CD's): A savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination. CDs are generally issued by commercial banks. The term of a CD generally ranges from one month to five years.

Cost of Carry: The "cost of carry" is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.

Consumer Price Index (CPI): The UK's main measure of inflation (along with Retail Price Index or 'RPI') The Monetary Policy Committee of the Bank of England set the Bank Rate in order to try and keep CPI at or close to the target set by the Government. The calculation of CPI includes many items of normal household expenditure but excludes some items such as mortgage interest payments and Council Tax.

Credit Rating: Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.

Corporate Bonds: Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.

Counterparty List: List of approved financial institutions with which the Council can place investments.

Debt Management Office (DMO): The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the Debt Management Account Deposit Facility (DMADF). All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign credit rating.

Federal Reserve: The US central bank, the equivalent of the Bank of England. (Often referred to as "the Fed").

Financial Instruments: Financial instruments are tradable assets of any kind. They can be cash, evidence of an ownership interest in an entity, or a contractual right to receive or deliver cash or another financial instrument

Gilts: Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged'. They are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.

LIBID: The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks).

LIBOR: The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.

LOBO: Stands for Lender Option Borrower Option. The underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility.

IFRS: International Financial Reporting Standards.

Maturity: The date when an investment or borrowing is repaid.

Maturity Structure / Profile: A table or graph showing the amount (or percentage) of debt or investments maturing over a time period.

Monetary Policy Committee (MPC): Government Body that sets the Bank Rate. Its primary target is to keep inflation within 1% of a central target of 2%. Its secondary target is to support the Government in maintaining high and stable levels of growth and employment.

Money Market Funds (MMF): Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.

Minimum Revenue Provision (MRP): An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

Non Specified Investment: Investments which fall outside the WG Guidance for Specified investments (below).

Operational Boundary: This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow 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 within the Authorised Limit.

Premiums and Discounts: In the context of local authority borrowing,
(a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and

	(b) the discount is the gain arising when a loan is redeemed prior to its maturity date. **Prudential Code:** Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice. **Prudential Indicators:** Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators **Public Works Loans Board (PWLB):** The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments. **Quantitative Easing (QE):** In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller’s bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy. **Revenue Expenditure:** Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges. **Retail Price Index (RPI):** A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. **Term Deposits:** Deposits of cash with terms attached relating to maturity and rate of return (Interest). **Specified Investments:** Term used in the Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating. **Supported Borrowing:** Borrowing for which the costs are supported by the government or third party. **Supranational Bonds:** Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.

	Treasury Bills (T-Bills): Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. They are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have an AAA-rating. **Treasury Management Code**: CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011. **Treasury Management Practices (TMP):** Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities. **Temporary Borrowing:** Borrowing to cover peaks and troughs of cash flow, not to fund capital spending. **Unsupported Borrowing**: Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing. **Yield:** The measure of the return on an investment instrument.

APPENDIX 1

FLINTSHIRE COUNTY COUNCIL

TREASURY MANAGEMENT STRATEGY

2020/21

CONTENTS

Treasury Management Strategy Report 2020/21

The Council is recommended to:
- **approve the Treasury Management Strategy for 2020/21**
- **approve the Treasury Management Indicators for 2020/21**

1.0 Introduction

In April 2019 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

In addition, the Welsh Government (WG) issues guidance on local authority investments that requires the Council to approve an investment strategy before the start of each financial year. Welsh Government updated this guidance in November 2019 and it will come into force on 1st April 2020.

This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the WG Guidance.

The successful identification, monitoring and control of risk are central to the Council's treasury management strategy as the Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates.

In accordance with the WG Guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the Council's capital programme or in the level of its investment balance.

2.0 Economic Context (including Interest Rate Forecast – as provided by Arlingclose Ltd, (December 2019)).

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2020/21.

UK Consumer Price Inflation (CPI) for September registered 1.7% year on year, unchanged from the previous month. Core inflation, which excludes the more volatile components, rose to 1.7% from 1.5% in August. The most recent labour market data for the three months to August 2019 showed the unemployment rate ticked back up to 3.9% while the employment rate was 75.9%, just below recent record-breaking highs. The headline 3-month average annual growth rate for pay was 3.8% in August as wages continue to rise steadily. In real terms, after adjusting for inflation, pay growth increased 1.9%.

GDP growth rose by 0.3% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.0% from 1.2%. Services and construction added positively to growth, by 0.6% and 0.4% respectively, while production was flat and agriculture recorded a fall of 0.2%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

Growth in Europe remains soft, driven by a weakening German economy which saw GDP fall -0.1% in Q2 and is expected to slip into a technical recession in Q3. Euro zone inflation was 0.8% year on year in September, well below the European Central Bank's target of 'below, but close to 2%' and leading to the central bank holding its main interest rate at 0% while cutting the deposit facility rate to -0.5%. In addition to maintaining interest rates at ultra-low levels, the ECB announced it would recommence its quantitative easing programme from November.

In the US, the Federal Reserve began easing monetary policy again in 2019 as a pre-emptive strike against slowing global and US economic growth on the back on of the ongoing trade war with China. At its last meeting the Fed cut rates to the range of 1.50-1.75% and financial markets expect further loosening of monetary policy in 2020. US GDP growth slowed to 1.9% annualised in Q3 from 2.0% in Q2.

Credit outlook: Credit conditions for larger UK banks have remained relatively benign over the past year. The UK's departure from the European Union was delayed three times in 2019 and while there remains some concern over a global economic slowdown, this has yet to manifest in any credit issues for banks. Meanwhile, the post financial crisis banking reform is now largely complete, with the new ring-fenced banks embedded in the market.

Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering adverse publicity and falling customer numbers.

Looking forward, the potential for a "no-deal" Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the upcoming general election, the need for greater clarity on Brexit and the continuing global economic slowdown. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.

Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

Table 1: Interest rate forecast

	Bank Rate	3 month Money Market Rate	12 month Money Market Rate	20 year Gilt rate	50 year Gilt rate
Q1 2020	0.75	0.75	0.85	1.20	1.20
Q2 2020	0.75	0.75	0.85	1.20	1.20
Q3 2020	0.75	0.75	0.85	1.25	1.25
Q4 2020	0.75	0.75	0.85	1.25	1.25
Q1 2021	0.75	0.75	0.85	1.25	1.25
Q2 2021	0.75	0.75	0.85	1.30	1.30
Q3 2021	0.75	0.75	0.85	1.30	1.30
Q4 2021	0.75	0.75	0.85	1.30	1.30
Q1 2022	0.75	0.75	0.85	1.35	1.35
Q2 2022	0.75	0.75	0.85	1.35	1.35
Q3 2022	0.75	0.75	0.85	1.35	1.35
Q4 2022	0.75	0.75	0.85	1.40	1.40

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.75%, and that new long-term loans will be borrowed at an average rate of 3.43%.

3.0 Current Treasury Portfolio

The Council's treasury portfolio as at 31st December 2019 was as follows:

Table 2: Current Treasury Portfolio

	Principal £m	Interest rate %
Investments:		
Call accounts	0.0	
Money market funds	17.5	0.71%
Short-term deposits	0.0	
Long-term deposits	0.0	
Total Investments	**17.5**	**0.71%**
Borrowing:		
Short-term loans	32.0	0.77%
Long-term PWLB loans (fixed)	255.4	4.82%
Long-term PWLB loans (variable)	10.0	0.89%
Long-term market loans (LOBOs)	18.95	4.53%
Other Government loans	5.17	0.00%
Total Borrowing	**321.52**	**4.2%**
Net Borrowing	**304.02**	

<u>4.0 Local Context</u>

Forecast changes in the sums in section 3 are shown in the balance sheet analysis in the table below.

Table 3: Balance Sheet Summary and Forecast

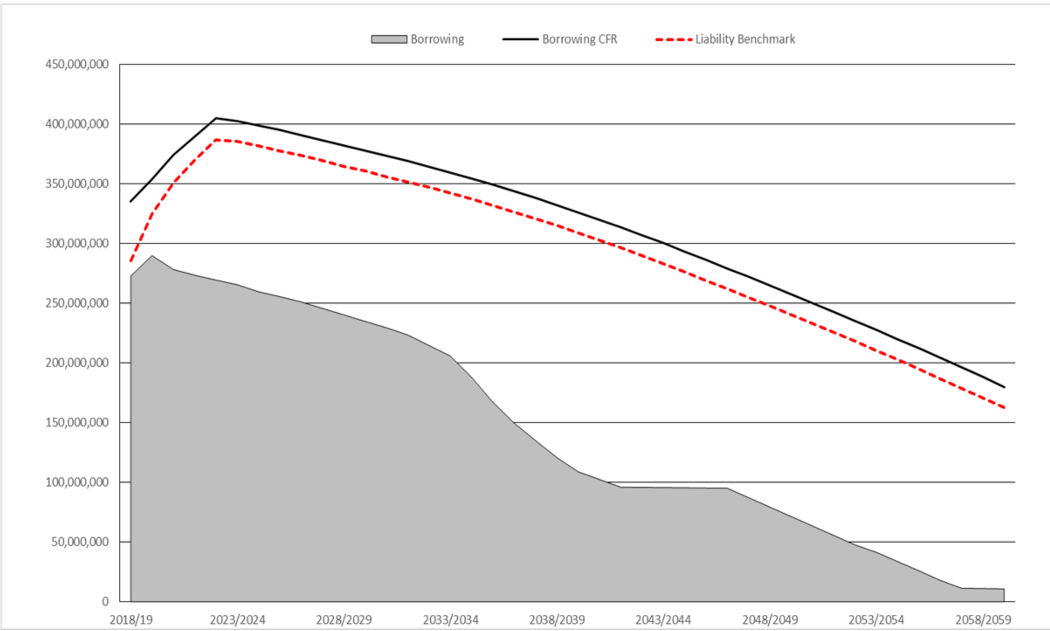
	31.3.19 Actual £m	**31.3.20 Estimate £m**	**31.3.21 Estimate £m**	**31.3.22 Estimate £m**	**31.3.23 Estimate £m**
Council Fund Capital Financing Requirement (Borrowing only)	206	218	229	239	246
Housing Revenue Account Capital Financing Requirement (Borrowing only)	129	135	145	150	159
Capital Financing Requirement (Borrowing only)	**335**	**353**	**374**	**389**	**405**
Less: Current ST borrowing Less: Current LT borrowing	-44 -273	-290	-278	-273	-269
Funding Required	**18**	**63**	**96**	**116**	**136**
Less: Usable reserves	-52	-32	-26	-23	-21
Adj: Working capital	3	3	3	3	3
Investments / New borrowing	**31**	**-34**	**-73**	**-96**	**-118**

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 Council's current strategy is to maintain borrowing below the CFR, sometimes known as internal borrowing. Internal borrowing is currently cheaper and incurs lower credit risk than external long term borrowing.

Table 3 shows the Council's CFR increases during 2020/21, this is linked with the capital programme (examples of schemes funded by borrowing include the 21st century schools building programme and the HRA capital programme which includes building new social housing and improving the existing stock to Welsh Housing Quality Standard (WHQS)). The level of reserves the Council has is expected to fall in 2020/21 as funding earmarked for specific purposes falls due for payment. The combination of the increase in capital expenditure and a reduction in reserves, results in a sustained requirement for new borrowing over the medium term.

The graph in table 4 shows the Council's anticipated liability benchmark over the next 50 years, being the net requirement for borrowing after considering resources available from reserves and working capital. The rise in the liability benchmark corresponds with the need to borrow to fund the increase in capital expenditure described above. The strategy in 2020/21, the same as in previous years is to ensure that any new borrowing undertaken does not exceed the liability benchmark and cause the council to borrow more than it needs.

Table 4: Liability Benchmark - Flintshire County Council (January 2020)



<u>Budget implications</u>

The budget for investment income in 2020/21 is £75k, based on an average investment portfolio of £10m at an average interest rate of 0.75%. The total budget for loan interest paid in 2020/21 is £14.9m, based on a debt portfolio of £352m at an average interest rate of 4.43%. This will be apportioned between the Council Fund and the HRA. If levels of investments, borrowing and interest rates differ from those forecast, performance against budget will be correspondingly different.

5.0 Treasury Investment Strategy

The Council holds surplus funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £10.3m and £54.7m, with similar levels expected to be maintained in the forthcoming year. The Council's investments contribute to its service delivery objectives and/or to promote wellbeing as treasury management investments support effective treasury management activities

Non-treasury investments including loans to subsidiaries and purchases of investment property are not normally considered to be treasury investments, and these are therefore covered separately in Appendix B.

Both the CIPFA Code and the WG Guidance require the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Strategy

Given the increasing risk and very low returns from short-term unsecured bank investments, the Council continues its aim to diversify into more secure and/or higher yielding asset classes during 2020/21 so far as cash liquidity requirements allow. This is especially the case if any medium to longer-term investments are made. This represents a continuation of the strategy adopted in recent years.

Investment criteria and limits

The Council may invest its surplus funds with any of the counterparties in the following table, subject to the monetary and time limits shown.

Table 5: Investment criteria and limits

(This table should be read in conjunction with the notes that follow it)

<table>
<tr><th>Minimum Credit Rating</th><th>Banks Unsecured</th><th>Banks Secured</th><th>Government</th><th>Corporates</th><th>Registered Providers</th></tr>
<tr><td>UK Government</td><td colspan="2"></td><td>£ Unlimited
50 years</td><td colspan="2"></td></tr>
<tr><td>AAA</td><td rowspan="2">£2m
5 years</td><td rowspan="2">£3m
5 years</td><td rowspan="2">£3m
25 years</td><td rowspan="2">£2m
5 years</td><td rowspan="4">£2m
10 years</td></tr>
<tr><td>AA+</td></tr>
<tr><td>AA</td><td>£2m
4 years</td><td>£3m
4 years</td><td>£3m
15 years</td><td>£2m
4 years</td></tr>
<tr><td>AA-</td><td>£2m
3 years</td><td>£3m
3 years</td><td>£3m
10 years</td><td>£2m
3 years</td></tr>
<tr><td>A+</td><td>£2m
2 years</td><td>£3m
2 years</td><td rowspan="3">£3m
5 years</td><td>£2m
2 years</td><td rowspan="3">£2m
5 years</td></tr>
<tr><td>A</td><td>£2m
1 year</td><td>£3m
1 year</td><td>£2m
1 year</td></tr>
<tr><td>A-</td><td>£2m
6 months</td><td>£3m
6 months</td><td>£2m
6 months</td></tr>
<tr><td>Pooled Funds</td><td colspan="5">£3m per fund</td></tr>
<tr><td>BBB-</td><td colspan="5">The Council is restricted to overnight deposits in its’ own current account bank where the banks lowest credit rating is BBB+, BBB or BBB- (or equivalent)</td></tr>
<tr><td>Unrated Local Authorities</td><td colspan="2"></td><td>£3m
2 years</td><td colspan="2"></td></tr>
<tr><td>Unrated Other</td><td colspan="5">The Council may invest in any other unrated organisation, subject to:
• an external credit assessment and specific advice from the Council’s treasury management adviser (£1m each / 1 year limit)
• a further policy framework for investing with any other organisations being developed(£100k each / 5 year limit)</td></tr>
</table>

Credit Rating

Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody’s or Standard & Poor’s. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account

Banks Unsecured

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 are restricted to overnight deposits at the Council's current account bank.

Banks Secured

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 generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates

Loans, bonds and commercial papers 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 and registered social landlords formerly known as housing associations. These bodies are tightly regulated by the Welsh Government. As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled Funds

Shares or units in diversified investment vehicles consisting of 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 Council 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 Council's investment objectives will be monitored regularly.

Real estate investment trusts:

Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

Operational bank accounts

The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and therefore, the Council will aim to keep balances as low as practically possible. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Other Organisations

The Council 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 Council's treasury management adviser.

Risk assessment and credit ratings

The Council uses long-term credit ratings from Fitch, Moody's or Standard & Poor's to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality.

Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade. The Council's credit rating criteria are set to ensure that it is unlikely that the Council will hold speculative grade investments, despite the possibility of repeated downgrades.

Credit ratings are obtained and monitored by the Council'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,
- any 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 is likely to fall below the above criteria, then no further investments will be made in 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.

Other information on the security of investments

The Council 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, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council 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 Council'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.

Specified investments

The WG Guidance defines specified investments as those:

- denominated in pound sterling,

- due to be repaid within 12 months of arrangement unless the counterparty is a local authority,
- 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 Council defines ‘high credit quality’ organisations as those having a credit rating of A- or higher that are, domiciled in the UK, or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

Non-Specified Investments

Any financial investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments in foreign currencies. 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; those that are defined as capital expenditure, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in the table below.

Table 6: Non-Specified Investment Limits

	Cash Limit
Total long-term investments	£5m
Total invested in pooled funds without credit rating or rated below A-	£1m
Total investments without credit ratings or below A- (except UK Government and UK local authorities and pooled funds)	£2m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£1m
Shares in real estate investment trusts	£1m
Total non-specified investments	£10m

Foreign countries

Investments in foreign countries will be limited to a maximum of £5 million per foreign country. Investments in countries whose lowest sovereign rating is not AAA will be limited to one year’s duration. No country limit will apply to investments in the UK, irrespective of the sovereign credit rating.

Liquidity management

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

Negative Interest Rates

If the UK enters into a recession in 2020/21, there is a very small chance that the Bank of England could set its Bank Rate at or below zero, which could feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. Although cash levels are decreasing, the Council could not avoid the need to occasionally invest funds in the short term for cash flow (liquidity) purposes, and therefore would be exposed to negative rates. This means that when an investment is returned at maturity, it will be less than originally invested as interest will be charged by the Counterparty rather than being paid. In this event, the aim will be to minimise investments and invest at the lowest negative rate.

Business models

Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

6.0 Borrowing Strategy

The Council currently holds £289.5m of long-term loans, as part of its strategy for funding previous years' capital programmes, which includes £17.5m of new long-term borrowing undertaken to date during 2019/20. The balance sheet forecast in section 4 shows that the Council expects to undertake new borrowing during the remainder of 2019/20 and 2020/21.

The Council'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 the funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

The Council's capital expenditure plans will continue to be monitored throughout 2020/21 to inform and confirm the Council's long term borrowing need (figures in section 4 are an estimate). This is to ensure that the Council does not commit to long term borrowing too early and borrow unnecessarily which will be costly. The use of short-term borrowing will assist with such. This will be balanced against securing low long term interest rates currently being forecast.

Given the significant cuts to public expenditure and in particular to local government funding, the Council'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 lower than long-term rates, it is likely to be more cost effective in the short-term to use internal resources, and to borrow short-term instead.

By doing so, the Council is able to reduce net borrowing costs (despite forgone investment income) and reduce overall treasury risk, credit risk as a result of bail-in legislation in particular. The benefit of internal and short term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when the long term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2020/21 with a view to keeping future interest costs low, even if this causes additional costs in the short-term.

The Council has previously raised the majority of its long-term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 now making it a more expensive option. The Council will in future consider borrowing long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

Alternatively, the Council may arrange forward starting loans during 2019/20, 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.

In addition, the Council may borrow for short periods of time to cover unexpected cash flow shortages.

Sources of borrowing

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see above)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Clwyd Pension Fund)
- Insurance companies
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase

- Private Finance Initiative
- sale and leaseback
- WG Mutual Investment Model

Municipal Bonds Agency: UK Municipal Bonds Agency plc 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 will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; 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.

LOBOs

The Council holds £18.95m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2020/21, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

Short-term and Variable Rate loans

As at 31st December 2019, the Council held £32m of short term (temporary) loans with an average rate of 0.77% and £10m variable rate loans at 0.89%.

These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators in section 10.

Debt Rescheduling

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. Other lenders may also be prepared to negotiate premature redemption terms. The Council 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 cost saving or a reduction in risk.

Planned borrowing strategy for 2020/21
The Corporate Finance Manager will:

- Manage the Council's debt maturity profile, i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing with the limits stated in this Strategy Statement. Appendix A analyses the debt portfolio of the Council, as at 31st December, 2019.

- Effect any borrowing that may be required in 2020/21 at the cheapest cost commensurate with future risk based on interest rate forecasts.

- Monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movements, within the limits stated in this Strategy.

- Continue to monitor options for debt-restructuring and debt re-payment.

The Corporate Finance Manager will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances, reporting any decisions and actions taken under delegated powers to Cabinet via the Audit Committee.

7.0 Policy on Use of Financial Derivatives

In the absence of any explicit legal power to do so, the Council will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

8.0 Policy on Apportioning Interest to HRA

The Council has adopted a single pool of loans which in part funds the capital expenditure of both Council Fund and HRA activities. The interest payable and other costs/income arising from long term loans (e.g. premiums and discounts on early redemption) is apportioned between the revenue accounts using the average Capital Financing Requirement (which measures the underlying need to borrow to fund capital expenditure) during the year.

Given that the HRA has minimal level of reserves compared to the total level of reserves held by the Council, any interest received on investments will be credited to the Council Fund revenue account.

9.0 Markets in Financial Instruments Directive

The Council has opted up to professional client with its providers of financial services, including advisers, banks, and brokers, allowing it access to a range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Corporate Finance Manager believes this to be the most appropriate status.

10.0 Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators. The Council is asked to approve the following indicators:

Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed will be:

	2020/21	2021/22	2022/23
Upper limit on fixed interest rate exposures	£395m	£410m	£425m
Upper limit on variable interest rate exposures	£100m	£100m	£100m

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower	Upper
Under 12 months	0%	20%
12 months and within 24 months	0%	20%
24 months and within five years	0%	30%
Five years and within 10 years	0%	50%
10 years and above	0%	100%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long term principal sum invested to final maturities beyond the period end will be:

	2020/21	2021/22	2022/23
Limit on total principal invested beyond year end	£5m	£5m	£5m

Any long term investments carried forward from previous years will be included in each years limit.

Borrowing limits

The Council is being asked to approve these Prudential Indicators as part of the Capital Strategy report. However they are repeated here for completeness.

	2020/21	2021/22	2022/23
Operational boundary – borrowing	£375m	£390m	£405m
Operational boundary – other long-term liabilities	£20m	£20m	£20m
Operational boundary – TOTAL	£395m	£410m	£425m
Authorised limit – borrowing	£395m	£410m	£425m
Authorised limit – other long-term liabilities	£35m	£35m	£35m
Authorised limit – TOTAL	£430m	£445m	£460m

11.0 Other Matters

The WG Investment Guidance requires the Council to note the following matters each year as part of the investment strategy:

Treasury Management Advisers

The Council's treasury management adviser, Arlingclose continues to provide advice and information on the Council's investment and borrowing activities, although responsibility for final decision making remains with the Council and its officers. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

The quality of this service is controlled by Financial Procedure Rules and Contract Procedure Rules.

Capacity and skills training

The needs of the Council's treasury management team for training in treasury management are assessed as part of the employee appraisal process, and additionally when the responsibilities of individual members of the treasury team change.

Employees regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant employees are also encouraged to study professional qualifications from CIPFA and other appropriate organisations.

Training for elected Members is provided by Arlingclose on an annual basis and by the treasury management team on an ongoing basis.

Training ensures that those elected members and statutory officers involved in the investments decision making process have appropriate capacity, skills and information to enable them to: 1. take informed decisions as to whether to enter into a specific investment; 2. to assess individual assessments in the context of the strategic objectives and risk profile of the Council; and 3. understand how the quantum of these decisions have changed the overall risk exposure of the Council.

The Council is reviewing steps taken to ensure that those negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.

Investment of Money Borrowed in Advance of Need

Welsh Government guidance states that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

The Council will not borrow more than or in advance of their needs to profit from the investment but may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money for example in a climate of rising interest rates. Since amounts borrowed will be invested until spent, the Council 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 Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £430 million. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

Climate change

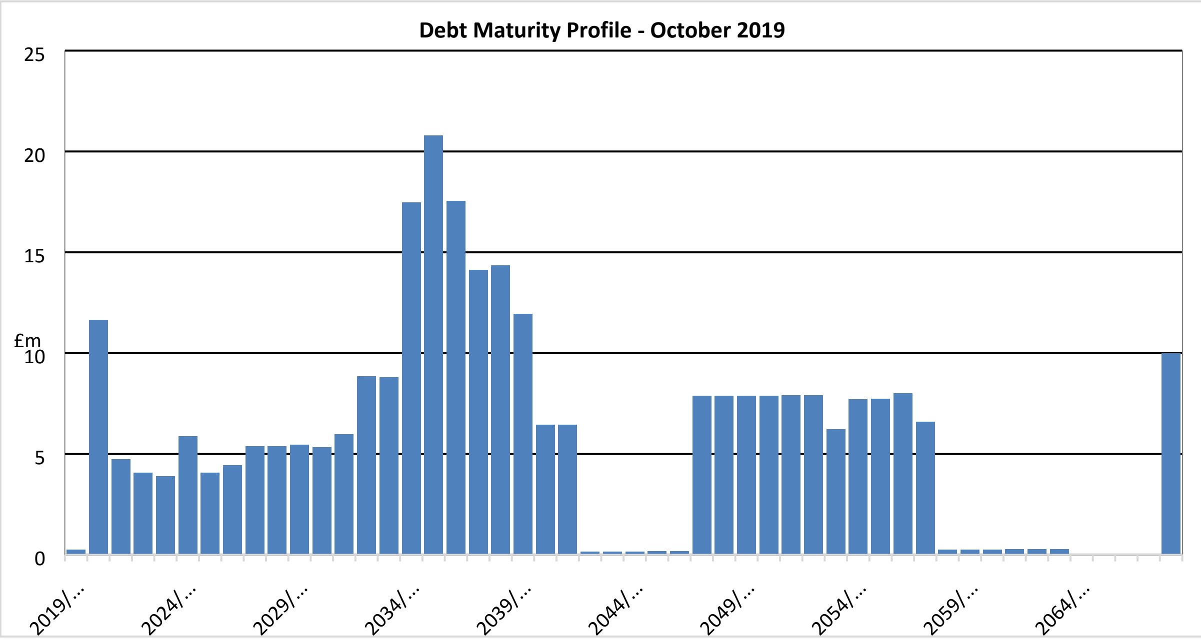
The Council is reviewing its approach to investment decisions to consider long-term climate risks to support a low carbon economy.

Other Options Considered

The WG Investment Guidance and the CIPFA Code of Practice do not prescribe any particular treasury management strategy for local authorities to adopt. The Corporate Finance Manager believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in the following table.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter periods.	Interest income will be lower	Reduced risk of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer periods.	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

APPENDIX A – DEBT MATURITY PROFILE



APPENDIX B – Additional requirements of Welsh Government Investment Guidance – Non Treasury Investments

The Welsh Government (WG) published revised Investment Guidance in November 2019 which places additional reporting requirements upon local authorities and covers investments that are not part of treasury management. In this appendix the Council sets out the information required to comply with the WG guidance for Non Treasury Investments.

The Council has given loans to wholly owned companies for service purposes and has historical non-financial investments in property defined as Investment Properties within the Council's Statement of Accounts. The Council considers both to be Non Treasury Investments.

Loans to Wholly Owned Subsidiaries

The WG Guidance defines a loan as a written or oral agreement where the council temporarily transfers cash to a third party, joint venture, subsidiary or associate who agrees a return according to the terms and conditions of receiving the loan, except where the third party is another local authority.

Contribution:

The Council's investments, in the form of loans to wholly owned companies, contribute to its service delivery objectives and/or to promote wellbeing as follows:

> The Council has embarked on an ambitious house building programme as part of its Strategic Housing and Regeneration Programme (SHARP). Over a 5 year period 500 new homes will be built at a range of sites across the county, a mixture of new council houses and affordable homes, alongside commissioning a range of linked regeneration initiatives and community benefits.
>
> Affordable homes are being developed through the Council's wholly owned subsidiary North East Wales Homes (NEW Homes) in partnership with the Council. Affordable homes for rent are built or purchased by NEW Homes funded by loans from the Council. New affordable homes for rent have been built in Flint and are planned for Penyffordd (Holywell), Dobshill, Gronant, and Mold.

Controls and Limits:

The Council considers that its financial exposure to loans to wholly owned companies is proportionate and has set the limits in table B1. The Council's loan book is currently within these self-assessed limits.

NEW Homes was established on 3rd April 2014 to own, lease and manage properties with the aim of increasing the quantity and quality of affordable housing across the county.

NEW Homes is a company limited by shares, wholly owned by the Council (1 at £1 par value), established under section 95 of the Local Government Act 2003. The

Council has a high level of control over NEW Homes as the single shareholder approving:

- the issue of share capital
- the distribution of trading surplus
- annual business plan
- any asset disposals
- any borrowing against assets
- appointment of directors to the board

Table B1: Loan limits

Borrower	**Cash Limit**
Wholly owned companies	£40m
Treasury management investments meeting the definition of a loan	Unlimited

The Council, as required, has considered allowing for an 'expected credit loss' model for loans and receivables as set out in International Financial Reporting Standard 9 Financial Instruments as adopted by proper practices to measure the credit risk of its loan portfolio. When calculated the expected credit loss was very small. Given the high level of control the Council has over NEW Homes and the security arrangements, the Council decided against setting up a provision for expected credit loss from the loans to NEW Homes.

Appropriate consideration is given to state aid rules and competition law. The Council sought specific legal and finance advice to ensure existing and future loans are compliant with State Aid regulations. The rates applied are below what NEW Homes would receive on the open market, and therefore are granted to NEW Homes under the Services of General Economic Interest Decision (a State Aid exemption). Arrangements are in place to monitor and ensure that the amount of aid granted through the loan does not exceed the net cost of providing the Service of General Economic Interest. A deed of entrustment is in place to clearly set out the requirements of both parties.

<u>Liquidity</u>

The Council has borrowed from the PWLB to on-lend at a small margin to NEW Homes on the same terms and conditions therefore the impact on the Council's treasury management activities is limited.

The length of the loans has been determined by assessing the cash flow of each housing development scheme to ensure over the long term affordable rents are sufficient to repay borrowing, interest, management costs, cyclical maintenance costs and reasonable allowances for voids and bad debts. Most schemes require an annuity loan commitment of 45 years, the maximum the Council would commit to is 50 years.

Agreements are in place ensuring that the Council has security on all NEW Homes properties which includes properties built using the loan funding and also other properties that NEW Homes owns outright (acquired from developers as part of Section 106 Planning Act agreements to provide affordable housing). In the event of a default the Council could either sell the properties to repay its borrowing, or include within the Housing Revenue Accounts and continue to rent at social housing rent levels.

Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. The Council accepts that the invested funds have been invested in NEW Homes for the length of the loans approx. 45 years and cannot readily be accessed for other purposes.

Yield (net profit)

The loans generate a small income for the Council as there is a margin of approx. 0.25% charged to NEW Homes on the Council's borrowing rate from the PWLB. The income makes a very small contribution to achieving a balanced revenue budget. The yield as a proportion of net revenue budget is less than 0.01%.

Investment Properties

The Welsh Government guidance includes an investment category covering non-financial assets held primarily or partially to generate a profit, primarily investment property. Proper accounting practice defines an investment property as those that are used solely to earn rent and / or for capital appreciation.

The Council has a portfolio of investment properties, in the form of agricultural property and industrial units. Although these are classified as investment properties, they are legacy assets and the council is managing down its agricultural portfolio and is reviewing its position in regard to industrial units.

Contribution:

The Council's investments, in the form of investment properties, contribute to its service delivery objectives and/or to promote wellbeing by providing a net financial surplus that is reinvested into local public services.

Security:

The Welsh Government guidance requires that security is determined by comparing each asset's purchase price to its fair value using the model in International Accounting Standard 40: Investment Property as adapted by proper practices.

As the Council's Investment Portfolio is of a historic nature built up over many years, property purchase prices are not readily available to compare with current fair values. The table below shows the fair values of the current portfolio over the last 5 years demonstrating that the historic capital invested has remained stable over the past 5 years.

Table B2: Fair Value of Investment Properties

	31.3.2019 £m	31.3.2018 £m	31.3.2017 £m	31.3.2016 £m	31.3.2015 £m
Fair Value Inv. Properties	25.2	25.2	24.8	24.9	23.9

Liquidity

The Council's Investment Properties are historical investment decisions and therefore will have limited impact on the Council's liquidity. No recent investment has taken place in investment properties, and therefore there is no recent borrowing associated.

Yield (net profit)

The profit generated by investment activity makes a small contribution to achieving a balanced revenue budget. Table B3 below details the extent to which funding expenditure to meet the service delivery objectives and or promote wellbeing in the Council is dependent on achieving the expected yield over the life cycle of the Medium Term Financial Plan.

Table B3: Proportionality of Investment Properties

	2018/19 Actual £m	2019/20 Budget £m	2020/21 Budget £m
Net Revenue Budget	264.328	271.350	271.350
Net Investment income	1.710	1.870	1.73
Proportion	0.65%	0.69%	0.64%

FLINTSHIRE COUNTY COUNCIL

Date of Meeting	Tuesday, 18th February 2020
Report Subject	Minimum Revenue Provision - 2020/21 Policy
Report Author	Corporate Finance Manager

EXECUTIVE SUMMARY

This report seeks Council approval in setting the annual policy for the Minimum Revenue Provision for the prudent repayment of debt.

Cabinet will consider the report, included at Appendix 1, at their meeting this morning and their recommendations will be reported at the meeting.

RECOMMENDATIONS	
1	Members approve for Council Fund (CF):- • Option 3 (Asset Life Method) be used for the calculation of the MRP in financial year 2020/21 for the balance of outstanding capital expenditure funded from supported borrowing fixed as at 31st March 2017. The calculation will be the 'annuity' method over 49 years. • Option 3 (Asset Life Method) be used for the calculation of the MRP in 2020/21 for all capital expenditure funded from supported borrowing from 1st April 2016 onwards. The calculation will be the 'annuity' method over an appropriate number of years, dependent on the period of time that the capital expenditure is likely to generate benefits. • Option 3 (Asset Life Method) be used for the calculation of the MRP in 2020/21 for all capital expenditure funded from unsupported (prudential) borrowing or credit arrangements.
2	Members approve for Housing Revenue Account (HRA):- • Option 2 (Capital Financing Requirement Method) be used for the calculation of the HRA's MRP in 2020/21 for all capital expenditure funded by debt.

3	Members approve that MRP on loans from the Council to NEW Homes to build affordable homes through the Strategic Housing and Regeneration Programme (SHARP) (which qualify as capital expenditure in accounting terms) be as follows:- • No MRP is made during the construction period (of short duration) as the asset has not been brought into use and no benefit is being derived from its use. • Once the assets are brought into use, capital repayments will be made by NEW Homes. The Council's MRP will be equal to the repayments made by NEW Homes. The repayments made by NEW Homes will be classed, in accounting terms, as capital receipts, which can only be used to fund capital expenditure or repay debt. The capital repayment / capital receipt will be set aside to repay debt, and is the Council's MRP policy for repaying the loan.

REPORT DETAILS

1.00	EXPLAINING THE MINIMUM REVENUE PROVISION
1.01	Local Authorities are required each year, under the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 ('the 2008 Regulations'), to set aside some of their revenue resources as provision for the repayment of debt. Regulation 22 of the 2008 Regulations requires an authority to each year make an amount of Minimum Revenue Provision (MRP) which it considers to be 'prudent', though the regulation itself does not define 'prudent provision'. Welsh Government (WG) has provided guidance which makes recommendations to authorities on the interpretation of the term, this guidance was last updated in 2018. Authorities are required to prepare an annual statement of their policy on making MRP. Further detail is provided in the attached report to Cabinet (Appendix 1).

2.00	RESOURCE IMPLICATIONS
2.01	As per the attached report (Appendix 1).

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	As per the attached report (Appendix 1).

4.00	**RISK MANAGEMENT**
4.01	As per the attached report (Appendix 1).

5.00	**APPENDICES**
5.01	Appendix 1 - Report to Cabinet 18th February, 2020 - Minimum Revenue Provision - 2020/21 Policy.

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	None.

7.00	**CONTACT OFFICER DETAILS**
7.01	**Contact Officer:** Liz Thomas, Strategic Finance Manager, Technical Accountancy **Telephone:** (01352) 702289 **E-mail:** liz.thomas@flintshire.gov.uk

8.00	**GLOSSARY OF TERMS**
8.01	As per the attached report (Appendix 1).

Mae'r dudalen hon yn wag yn bwrpasol

CABINET

Date of Meeting	Tuesday 18th February 2020
Report Subject	Minimum Revenue Provision – 2020/21 Policy
Cabinet Member	Cabinet Member for Finance
Report Author	Corporate Finance Manager
Type of Report	Strategic

EXECUTIVE SUMMARY

Local authorities are required each year to set aside some of their revenue resources as provision for the repayment of debt.

Regulations require an authority to each year make an amount of Minimum Revenue Provision (MRP) which it considers to be 'prudent'. The Regulations themselves do not define 'prudent' provision. Welsh Government (WG) has provided guidance which makes recommendations to local authorities on the interpretation of the term and authorities are required to prepare an annual statement of their policy on making minimum provision.

The Council, as part of the budget strategy, conducted detailed reviews of its MRP policy in 2017/18 and 2016/17 and amended the policy as a result.

Local authorities are required to set a policy for each financial year and this report recommends that the 2020/21 MRP policy remains the same as that of 2019/20, following two back to back reviews and is presented to Members as part of the 2020/21 budget setting reports being considered by Cabinet and Council during February 2020.

RECOMMENDATIONS	
1	Members approve and recommend to County Council for Council Fund (CF) outstanding debt that:- • Option 3 (Asset Life Method) be used for the calculation of the MRP in financial year 2020/21 for the balance of outstanding capital

	expenditure funded from supported borrowing fixed as at 31st March 2017. The calculation will be the 'annuity' method over 49 years. • Option 3 (Asset Life Method) be used for the calculation of the MRP in 2020/21 for all capital expenditure funded from supported borrowing from 1st April 2016 onwards. The calculation will be the 'annuity' method over an appropriate number of years, dependent on the period of time that the capital expenditure is likely to generate benefits. • Option 3 (Asset Life Method) be used for the calculation of the MRP in 2020/21 for all capital expenditure funded from unsupported (prudential) borrowing or credit arrangements. The calculation will be the 'annuity' method over an appropriate number of years, dependent on the period of time that the capital expenditure is likely to generate benefits.
2	That members approve and recommend to the County Council for Housing Revenue Account (HRA) outstanding debt:- • Option 2 (Capital Financing Requirement Method) be used for the calculation of the HRA's MRP in 2020/21 for all capital expenditure funded by debt.
3	Members approve and recommend to County Council that MRP on loans from the Council to NEW Homes to build affordable homes through the Strategic Housing and Regeneration Programme (SHARP) (which qualify as capital expenditure in accounting terms) be as follows:- • No MRP is made during the construction period (of short duration) as the asset has not been brought into use and no benefit is being derived from its use. • Once the assets are brought into use, capital repayments will be made by NEW Homes. The Council's MRP will be equal to the repayments made by NEW Homes. The repayments made by NEW Homes will be classed, in accounting terms, as capital receipts, which can only be used to fund capital expenditure or repay debt. The capital repayment / capital receipt will be set aside to repay debt, and is the Council's MRP policy for repaying the loan.

REPORT DETAILS

1.00	**EXPLAINING THE MINIMUM REVENUE PROVISION**
	Background to Capital Expenditure and Financing
1.01	Capital expenditure is defined as expenditure to acquire, enhance or prolong the useful life of non-current assets, those which have a useful life of more than one year e.g. buildings or infrastructure improvements. Capital expenditure is funded from a combination of capital receipts, revenue contributions, specific or general grants and debt in the form of borrowing or other long term financing arrangements such as leasing. Borrowing can be either: • Supported borrowing - funding is provided by Welsh Government through the Revenue Support Grant to cover the revenue debt financing costs of interest and repayment costs; or • Unsupported borrowing (commonly referred to as prudential borrowing) – Councils have the freedom to determine the level of borrowing considered affordable in revenue debt financing costs with no support from Welsh Government.
1.02	The annual charge to the revenue account for repaying debt is known as the Minimum Revenue Provision (MRP). Local Authorities are required each year, under the Capital Finance and Accounting Wales Amendment Regulations 2008, to set aside some of their revenue resources as provision for the repayment of debt. Regulation 22 of the 2008 Regulations requires an authority to, make an amount of MRP each year which it considers to be 'prudent', though the Regulations themselves do not define 'prudent' provision. Regulation 21(B) of the 2008 Regulations requires local authorities to have regard to guidance issued by Government.
1.03	The Welsh Government has issued guidance for the setting of MRP policy. It states that the broad aim of prudent provision is to ensure that the debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The WG guidance provides 4 options for making 'prudent provision' outlined below but states that;- *'This does not rule out or otherwise preclude a local authority from using alternative approaches differing from those exemplified should it decide that it is more appropriate.'*
1.04	In a letter to all Local Authorities the Auditor General for Wales concurred that it is for each authority to determine what a 'prudent' policy is.

	Options for Prudent Provision within WG Guidance
1.05	Option 1 - Regulatory Method For capital expenditure funded from supported borrowing which is supported through funding in the Revenue Support Grant (RSG), authorities may continue to use the formula specified in the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (the regulations which preceded the 2008 Regulations). Under this method the outstanding capital expenditure (known as the Capital Financing Requirement CFR) funded from supported borrowing less Adjustment A is written down annually by 4% on a reducing balance basis. Adjustment A is a commutation adjustment, a fixed value determined by changes to statutory regulations referred to above (which all Welsh Council's will have). The method implies that borrowing will be repaid over a 25 year period (in that 100% / 4% = 25), however as the calculation applies the 4% to the reducing balance it takes much more than 25 years to fully repay the borrowing. The method is commensurate with the methodology used in the Revenue Support Grant to allocate revenue funding from WG to finance debt, as it also uses the 4% reducing balance method on notional outstanding debt.
1.06	Option 2 - Capital Financing Requirement Method The same as Option 1 without adjusting for Adjustment A, which results in a higher charge.
1.07	Option 3 - Asset Life Method Provision is made over the estimated life of the asset for which debt is undertaken. This can be calculated using the 'straight line' method or the 'annuity' method. To illustrate the difference, as an example an asset which is purchased at a cost of £4m which has an estimated useful life of 50 years;- • Straight line method - equal annual MRP charge £4m / 50 years = £0.080m • Annuity or inflation method – annual MRP charge that takes the time value of money in the form of inflation into consideration Year 1 = £0.047m Year 2 = £0.048m Year 3 = £0.049m Year 4 = £0.050m Year 5 = £0.051m …

	… ... Year 50 = £0.125m
1.08	Option 4 - Depreciation Method Alternatively, provision is made in accordance with the standard rules for depreciation accounting. The method is similar to option 3 above
1.09	Welsh Government guidance requires that either option 3 or 4 be used for all capital expenditure which is to be financed by unsupported borrowing or other long term liabilities. Options 1 and 2 are not permitted for this use.
	Housing Revenue Account (HRA)
1.10	Following the introduction of self-financing for the HRA and the voluntary exit from the negative subsidy system on 31st March, 2015, from 1st April 2015 the options to calculate the HRA MRP is now similar to the Council Fund as set out above, with the following modifications: • Options 1 and 2 - the percentage is 4% for the Council Fund and 2% for the HRA; and • Options 1 and 2 can be used in relation to capital expenditure incurred before 1st April 2021. After that date only Options 3 and 4 may be used.
1.11	The Council approved loans to its wholly owned subsidiary NEW Homes for the purpose of building affordable homes. The loans qualify as capital expenditure and therefore need to be part of the MRP policy. At its meeting on 14th June 2016 the Council approved the MRP calculation for loans to NEW Homes as outlined in recommendation 3 above.
	Practical Considerations
1.12	The useful life of an asset will vary depending on the class of asset concerned; a vehicle or ICT equipment may be financed over 5 years whereas a new school over 50 years. Judgements about the useful life will need to be made on an individual basis as expenditure is incurred.
1.13	Large capital projects may take a number of years to complete, for example the 21st Century Schools building programme. In this instance the MRP is incurred in the year after the asset has become operational, rather than during the construction phase.
1.14	It is important to note that the capital financing position on outstanding capital expenditure (the Capital Financing Requirement) and the Council's level of external borrowing are not the same. Regulations stipulate that the Council can only borrow for capital purposes. However in day to day cash management, no distinction can be made between revenue cash and capital cash. External debt arises as a consequence of all the financial transactions of the Council and not simply

	those arising from capital spending. (Though checks are in place to ensure the Council does not borrow in the medium to long term for revenue purposes, as referred to in the Capital Strategy report approved by Council in January 2020). In practice the Council is under borrowed, this arises when the level of external borrowing is below the capital financing position on outstanding capital expenditure. The Council through its treasury management processes makes use of available cash arising from reserves etc. to fund capital expenditure and has 'internally' borrowed to an extent. This cash would otherwise have been invested at very low rates of return. External borrowing would also be that much more, at higher borrowing interest rates than any returns on cash invested. Such activities are considered best practice and are done so in accordance with the Council's Treasury Management Policy Statement, Strategy, Schedules and Practices.
1.15	The MRP annual charge to the revenue account is based on the Capital Financing Requirement (the outstanding capital expenditure). It is not the same as the cash repayment of external borrowing. The simplified example below illustrates the difference: Assume a 10 year maturity loan of £15m is taken out to fund capital expenditure of £15m on an asset with a life of 20 years. The annual MRP charge to the revenue account on straight line asset life basis is £15m / 20 years = £0.750m. At year 10, the loan is repaid from cash on the balance sheet at £15m, but only £0.750m x 10 = £7.5m has been charged through the Council's revenue account. A decision would need to be made, either to take out another 10 year loan, or fund from internal cash resources for that 10 year period, dependent on the Council's position at that time. MRP would continue to be made at £0.750m per annum regardless of the treasury decision made.

2.00	**RESOURCE IMPLICATIONS**
2.01	The 2020/21 Council Fund and HRA budgets provide for the MRP charges in accordance with the calculations set out in the report.
2.02	There are no other resource implications as a direct result of this report.

3.00	**IMPACT ASSESSMENTS AND RISK MANAGEMENT**
3.01	The impacts of an MRP policy has long term effects that cannot be readily undone and therefore has risks associated for future generations in terms of Council Tax and Housing Rents levels. The Well-being of Future Generations (Wales) Act 2015, puts in place a requirement to;

	"act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs". It also requires that authorities take account of, amongst other things; *"the importance of balancing short term needs with the need to safeguard the ability to meet long term needs".* The MRP policy ensures that costs are spread equally in real terms amongst the tax and rent payers benefiting from the capital expenditure. This is not considered as compromising the ability of future generations to meet their own needs merely that future generations pay for assets from which they benefit from using equally to current tax payers.
3.02	**Ways of Working (Sustainable Development) Principles Impact**

Long-term	Positive - balancing short term and long term needs. The MRP policy ensures that costs are spread equally in real terms amongst the tax and rent payers benefiting from the capital expenditure.
Prevention	No impact
Integration	No impact
Collaboration	No impact
Involvement	No impact

Well-being Goals Impact

Prosperous Wales	No impact
Resilient Wales	No impact
Healthier Wales	No impact
More equal Wales	No impact
Cohesive Wales	No impact
Vibrant Wales	No impact
Globally responsible Wales	Financial decisions that enable future generations to thrive. Positive - The MRP policy ensures that costs are spread equally in real terms amongst the tax and rent payers benefiting from the capital expenditure.

4.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
4.01	In changing the Council's MRP policy during 2017/18 and 2016/17 detailed discussions took place with the Council's Treasury Management advisors, senior internal officers and key Cabinet members. Wales Audit Office were also consulted as external auditors.
4.02	The revised MRP policy was considered by Council as part of setting the 2018/19 budget in March 2018.

5.00	**APPENDICES**
5.01	None

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Council Fund Budget 2018/19 report to Council 1st March 2018 **Contact Officer:** Liz Thomas – Strategic Finance Manager **Telephone:** (01352) 702289 **E-mail:** liz.thomas@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	**Capital Expenditure:** Expenditure on the acquisition of non-current assets or expenditure that extends the life or value of an existing asset **Capital Financing Requirement (CFR):** A measure of the capital expenditure incurred historically by an authority that has yet to be financed from capital receipts, capital grants or revenue financing. **Council Fund (CF):** The fund to which all the Council's revenue and capital expenditure is charged. **Housing Revenue Account (HRA):** The fund to which all the Council's revenue and capital expenditure relating to its housing stock is charged. **Minimum Revenue Provision (MRP):** A charge made to the Council Fund to repay borrowing taken out for capital expenditure. Authorities must determine their own prudent MRP charge each year, taking into consideration statutory guidance issued by the Government. **Prudential Code:** The code of practice drawn up by the Chartered Institute of Public Finance and Accountancy (CIPFA) to underpin the requirements of the Local Government Act 2003 in respect of an authority's duty to determine the affordability, prudence and sustainability of its capital investment needs.

	Revenue Expenditure: All expenditure incurred by an authority that cannot be classified as capital expenditure **Revenue Support Grant (RSG):** Is paid to each authority to cover the cost of providing standard services less the Council Tax income at the standard level. **Unhypothecated Supported Borrowing (USB), commonly referred to as Supported Borrowing:** Each year Welsh Government provide Council's with a Supported Borrowing allocation. Council's borrow to fund capital expenditure equivalent to that annual allocation, Welsh Government then include funding to cover the revenue costs associated with the borrowing for future years within the Revenue Support Grant. The Council decides how this funding is spent. **Unsupported Prudential Borrowing**: Borrowing administered under the **Prudential Code**, whereby authorities can set their own policies on acceptable levels and types of borrowing. The Prudential Framework allows authorities to take out loans in response to overall cash flow forecasts and other factors provided they can show that the borrowing is to meet planned capital expenditure in the current year or the next three years.

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