CABINET

Date of Meeting	Tuesday 18 July 2017
Report Subject	Prudential Indicators - Actuals 2016/17
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Corporate Finance Manager
Type of Report	Operational

EXECUTIVE SUMMARY

Under the Prudential Code for Capital Finance in Local Authorities (the Prudential Code), authorities are required to set a range of Prudential Indicators. This report provides details of the Council's actual Prudential Indicators for 2016/17 compared with the estimates set:-

- Prudential Indicators for Capital Expenditure
- Prudential Indicators for Affordability
- Prudential Indicators for Prudence
- Prudential Indicators for External Debt and Treasury Management

RECOMMENDATIONS	
1	That members note and approve the report.

REPORT DETAILS

1.00	EXPLAINING THE PRUDENTIAL INDICATORS
	Background
1.01	The background to this item is provided in the reports to; Cabinet 19 July 2016 - Prudential Indicators Actuals 2015/16, Cabinet 14 February 2017 - Prudential Indicators 2017/18 - 2019/20 and in the report to Council 14 June 2016 - Minimum Revenue Provision and Prudential Indicators - Policy Amendments.
1.02	The framework established by the Prudential Code is intended to support local strategic planning, local asset management planning and robust option appraisal. The objectives of the Code are to ensure, within a clear framework, that the capital investment plans of local authorities are **affordable, prudent and sustainable**, and that treasury management decisions are taken in accordance with good professional practice; the 2016/17 capital programme was prepared on this basis – affordable in terms of the implications for Council Tax and housing rents, prudent and sustainable in terms of implications for external borrowing.
1.03	The Prudential Code sets out the indicators that must be used, and the factors that must be taken into account in preparing such.
	CONSIDERATIONS
	General
1.04	Actual (2016/17) Prudential Indicators have now been calculated in respect of the following:- • Capital expenditure • Ratio of financing costs to net revenue stream • Incremental impact of capital investment • Capital financing requirement • Authorised limit for external debt The Code does not specify how the Council should have regard to these factors, but instead concentrates on the means by which it demonstrates that the proposals are affordable, prudent and sustainable.

	Capital Expenditure
1.05	The Prudential Indicators for capital expenditure are based on the Council's capital programme (that takes into account the Council's asset management and capital investment strategies), and are supplemented (for capital accounting purposes) by the value of finance leases held. The capital expenditure totals are the starting point for the calculation of the Prudential Indictors and essentially provide the base financial data from which all other indicators follow.
1.06	Prior year (2015/16) actuals and 2016/17 estimate totals are included for information purposes, together with forward totals for 2017/18.
1.07	Actual 2016/17 capital expenditure for the Council Fund (CF) and the Housing Revenue Account (HRA) is £63.493m as shown in Table 1 below.

Table 1

CAPITAL EXPENDITURE				
	2015/16	**2016/17**	**2016/17**	**2017/18**
	Actual	**Estimate**	**Actual**	**Estimate**
	£m	**£m**	**£m**	**£m**
Council Fund	40.661	25.243	33.582	19.435
Housing Revenue Account	99.626	25.933	29.911	27.744
Total	**140.287**	**51.176**	**63.493**	**47.179**

1.08	Detailed analysis and commentary regarding 2016/17 actual expenditure is provided in the capital outturn report which is also on this agenda.
	Ratio of financing costs to net revenue stream
1.09	The actual ratio of financing costs to net revenue stream for 2016/17 are as indicated in Table 2 below.

Table 2

RATIO OF FINANCING COSTS TO NET REVENUE STREAM				
	2015/16	**2016/17**	**2016/17**	**2017/18**
	Actual	**Estimate**	**Actual**	**Estimate**
	%	**%**	**%**	**%**
Council Fund	5.9%	6.1%	4.8%	5.1%
Housing Revenue Account	18.4%	24.6%	22.7%	25.2%

1.10	The HRA ratio (2016/17 estimate and actual), reflects the increase in

	financing costs attributable to the settlement payment required to exit the HRA negative subsidy system. The ratio does not include the revenue savings as a result of no longer paying negative subsidy which outweigh the increase in finance costs.

Incremental impact of capital investment

1.11 The incremental impact of capital investment on the Council Tax reflects planned unsupported (prudential) borrowing charges. During 2016/17 £0.039m of charges were incurred. Table 3 below indicates that the impact of this would be a £0.61p increase in Council Tax levels, however these charges are funded from resources elsewhere within the Council Fund and so the actual effect on Council Tax levels was nil in 2016/17.

Table 3

ESTIMATED INCREMENTAL IMPACT OF CAPITAL INVESTMENT				
	2015/16	**2016/17**	**2016/17**	**2017/18**
	Actual	**Estimate**	**Actual**	**Estimate**
	£	**£**	**£**	**£**
Council Fund	11.19	0.00	0.61	0.00
Housing Revenue Account	n/a	n/a	0.00	0.00

Capital Financing Requirement

1.12 The actual (average) capital financing requirement for 2016/17 is £292.811m, being the measure of the Council's underlying need to finance capital expenditure by borrowing or other long term liabilities during the year. The HRA debt outstanding total has increased partly as a result of the subsidy buyout and also as a result of increased borrowing to fund investment in the housing stock, as evidenced in Table 4 below:

Table 4

CAPITAL FINANCING REQUIREMENT				
	2015/16	**2016/17**	**2016/17**	**2017/18**
	Actual	**Estimate**	**Actual**	**Estimate**
	£m	**£m**	**£m**	**£m**
Council Fund	171.172	187.564	183.338	208.091
Housing Revenue Account	64.184	112.202	109.473	120.711
Total	**235.356**	**299.766**	**292.811**	**328.803**

Prudential Indicators for External Debt and Treasury Management

1.13	Actual external debt for 2016/17 was £264.300m, with separately identified limits for borrowing and other long term liabilities such as finance leases, as shown in Table 5 below.

Table 5

AUTHORISED LIMIT FOR EXTERNAL DEBT				
	2015/16	**2016/17**	**2016/17**	**2017/18**
	Actual	**Estimate**	**Actual**	**Estimate**
	£m	**£m**	**£m**	**£m**
All Borrowing (Cap/Rev)	251.400	303.400	258.500	340.000
Other Long Term Liabilities	6.500	24.100	5.800	35.000
Total	**257.900**	**327.500**	**264.300**	**375.000**

2.00	**RESOURCE IMPLICATIONS**
2.01	There are no resource implications as a result of this report.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	No consultation is required or carried out.

4.00	**RISK MANAGEMENT**
4.01	Decisions made which involve the Council's assets and its Capital Programme often have very large and long term financial implications which carry a variety of risks. This report assesses the affordability, prudence and sustainability of the capital plans to manage those associated risks.

5.00	**APPENDICES**
5.01	None.

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Various Welsh Government papers. **Contact Officer:** Liz Thomas - Finance Manager, Technical Accountancy **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 **Council Fund** - The fund to which all the Council's revenue and capital expenditure is charged **Financing** - The process of allocating resources to meet the cost of capital expenditure, which can be done on a project, asset or whole programme basis. This contrasts with making the invoice payments relating to capital expenditure, which should be managed within the authority's overall treasury management policy **Housing Revenue Account -** The fund to which all the Council's revenue and capital expenditure relating to its housing stock is charged. **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 **Prudential Indicators** - Required by the **Prudential Code**, these take the form of limits, estimates or actual figures used to support the local decision making process for capital investment **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.