

## CABINET

<b>Date of Meeting</b>	Tuesday, 20 <sup>th</sup> February 2018
<b>Report Subject</b>	Prudential Indicators 2018/19 to 2020/21
<b>Cabinet Member</b>	Leader of the Council and Cabinet Member for Finance
<b>Report Author</b>	Corporate Finance Manager
<b>Type of Report</b>	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 (PI's). This report provides details of the Council's Prudential Indicators for 2018/19 – 2020/21:

- Prudential Indicators for Prudence
- Prudential Indicators for Affordability

### RECOMMENDATIONS

1	<p>That members approve and recommend to the County Council on 20th February 2018:-</p> <ul style="list-style-type: none"> <li>• The Prudential Indicators for 2018/19 - 2020/21 as detailed in Section 1 of the report.</li> <li>• Delegated authority for the Corporate Finance Manager to effect movements between the separately agreed limits within the authorised limit for external debt and the operational boundary for external debt (1.14 - 1.15).</li> </ul>
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## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE PRUDENTIAL INDICATORS</b>
<b>1.01</b>	<b>BACKGROUND</b>  The Prudential Code has been developed by the Chartered Institute of Public Finance & Accountancy (CIPFA) as a professional code of practice to support local authorities in determining their programmes for capital investment in fixed assets. Local authorities are required by Regulation to have regard to the Prudential Code when carrying out duties under Part 1 of the Local Government Act 2003.
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 <b>affordable, prudent and sustainable</b> , and that treasury management decisions are taken in accordance with good professional practice.
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.
1.04	<b>Changes to CIPFA's Codes of Practice 2017</b>  CIPFA published new editions of the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance in late December 2017 which complement each other.
1.05	<p>The 2017 edition of the Prudential Code for Capital Finance has expanded objectives and includes a requirement for authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources, and ensure that decisions are being made with sufficient regard to the long term financing implications and potential risks to the authority.</p> <p>The Code introduces the requirement for a Capital Strategy which sets out the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Its intention is to give a high level overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability, linking the Capital Strategy with the Treasury Management Strategy.</p>
1.06	The Council already has a Capital Strategy and Asset Management Plan in place and considers that it prudently assesses the long-term context of capital expenditure and any non-treasury investment decisions, and their associated risks and rewards on future financial sustainability. Nevertheless, the requirements of the changes of both Codes will need to be worked through with careful consideration to ensure compliance with the

	<p>requirements of the Codes. Appropriate risk management frameworks and reporting mechanisms will also need to be further developed in consultation with Chief Officers and Members and will take some time.</p> <p>CIPFA have yet to publish the updated guidance notes to both Codes which will include examples and more detailed practical guidance. These guidance notes are needed to assist the Council in interpreting the practical implications of the updated Codes.</p> <p>Due to the timing of the publications, and the need to set the Capital Programme and the resulting Prudential Indicators for 2018/19 before the start of the financial year, it is appropriate to set them under the existing arrangements of the 2011 Codes. However, changes to the revised Codes which impact on the Prudential Indicators are minimal. The main difference being that there is no longer a need to include an indicator for the Estimated Impact of Capital Decisions on Council Tax and Rent levels. All changes within the 2017 Code which impact on Prudential Indicators below have therefore been made.</p>																												
1.07	<p><b><u>Prudential Indicators for Prudence</u></b></p> <p><b>Estimates of Capital Expenditure</b></p> <p>Based on those resources currently allocated (including specific grants, but excluding any rephasing of expenditure from 2017/18 to future years), the estimates of capital expenditure to be incurred in 2018/19 and the following 2 years are as indicated in Table 1 below.</p> <p><b>Table 1</b></p> <table border="1" data-bbox="365 1229 1342 1648"> <thead> <tr> <th colspan="4"><b>ESTIMATES OF CAPITAL EXPENDITURE</b></th> </tr> <tr> <th></th> <th><b>2018/19</b></th> <th><b>2019/20</b></th> <th><b>2020/21</b></th> </tr> <tr> <th></th> <th><b>Estimate</b></th> <th><b>Estimate</b></th> <th><b>Estimate</b></th> </tr> <tr> <th></th> <th><b>£m</b></th> <th><b>£m</b></th> <th><b>£m</b></th> </tr> </thead> <tbody> <tr> <td>Council Fund</td> <td>20.408</td> <td>15.644</td> <td>8.415</td> </tr> <tr> <td>Housing Revenue Account</td> <td>36.496</td> <td>23.990</td> <td>22.968</td> </tr> <tr> <td><b>Total</b></td> <td><b>56.904</b></td> <td><b>39.634</b></td> <td><b>31.383</b></td> </tr> </tbody> </table>	<b>ESTIMATES OF CAPITAL EXPENDITURE</b>					<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>		<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>		<b>£m</b>	<b>£m</b>	<b>£m</b>	Council Fund	20.408	15.644	8.415	Housing Revenue Account	36.496	23.990	22.968	<b>Total</b>	<b>56.904</b>	<b>39.634</b>	<b>31.383</b>
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1.08	<p>This is in line with the capital programme proposals in the Council Fund Capital Programme – 2018/19 - 2020/21 report and the HRA budget report which are included elsewhere on this agenda.</p>																												
1.09	<p>The capital expenditure totals essentially provide the base financial data from which all other indicators follow.</p>																												
	<p><b>Estimates of Capital Financing Requirement</b></p>																												
1.10	<p>Estimates of the capital financing requirement for 2018/19 and the following 2 years are shown in Table 2 below:</p>																												

**Table 2**

<b>ESTIMATES OF CAPITAL FINANCING REQUIREMENT</b>			
	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Council Fund	207.034	216.186	216.218
Housing Revenue Account	134.600	142.509	142.559
<b>Total</b>	<b>341.634</b>	<b>358.695</b>	<b>358.777</b>

1.11 The capital financing requirement measures the Council's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements.

In accordance with best professional practice, the Council does not associate debt with particular items or type of expenditure. The authority has an integrated treasury management strategy and has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Council has, at any point in time, a number of cash flows both positive and negative, and manages its treasury position in terms of its debt and investments in accordance with its approved Treasury Management Policy and Strategy.

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. In contrast, the capital financing requirement reflects the Council's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements.

1.12 CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following; gross debt and the capital financing requirement, as a key indicator of prudence.

*'In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional financing requirement for the current and next two financial years'.*

The purpose of the indicator is to ensure authorities are only borrowing in the medium to long term for capital purposes.

1.13 The Corporate Finance Manager reports no difficulty in meeting this requirement for the future period to which the prudential indicators apply. This view takes into account current commitments, existing plans, and all budget proposals.

	<b>Authorised Limit</b>																												
1.14	<p>In respect of its external debt, it is recommended that the Council approves the authorised limits shown in Table 3 below for its total external debt gross of any investment for the next three financial years. These limits separately identify borrowing from other long term liabilities such as finance leases. The Council is asked to approve these limits and to delegate authority to the Corporate Finance Manager, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the Council at its meeting following the change.</p> <p><b>Table 3</b></p> <table border="1" data-bbox="395 663 1318 1077"> <thead> <tr> <th colspan="4" data-bbox="395 663 1318 734"><b>AUTHORISED LIMIT</b></th> </tr> <tr> <th data-bbox="395 734 839 779"></th> <th data-bbox="839 734 999 779"><b>2018/19</b></th> <th data-bbox="999 734 1158 779"><b>2019/20</b></th> <th data-bbox="1158 734 1318 779"><b>2020/21</b></th> </tr> <tr> <th data-bbox="395 779 839 824"></th> <th data-bbox="839 779 999 824"><b>Estimate</b></th> <th data-bbox="999 779 1158 824"><b>Estimate</b></th> <th data-bbox="1158 779 1318 824"><b>Estimate</b></th> </tr> <tr> <th data-bbox="395 824 839 869"></th> <th data-bbox="839 824 999 869"><b>£m</b></th> <th data-bbox="999 824 1158 869"><b>£m</b></th> <th data-bbox="1158 824 1318 869"><b>£m</b></th> </tr> </thead> <tbody> <tr> <td data-bbox="395 869 839 936">All Borrowing</td> <td data-bbox="839 869 999 936">373.000</td> <td data-bbox="999 869 1158 936">376.000</td> <td data-bbox="1158 869 1318 936">374.000</td> </tr> <tr> <td data-bbox="395 936 839 1003">Other Long Term Liabilities</td> <td data-bbox="839 936 999 1003">35.000</td> <td data-bbox="999 936 1158 1003">35.000</td> <td data-bbox="1158 936 1318 1003">35.000</td> </tr> <tr> <td data-bbox="395 1003 839 1077"><b>Total</b></td> <td data-bbox="839 1003 999 1077"><b>408.000</b></td> <td data-bbox="999 1003 1158 1077"><b>411.000</b></td> <td data-bbox="1158 1003 1318 1077"><b>409.000</b></td> </tr> </tbody> </table> <p>The authorised limits are consistent with the Council’s current commitments, existing plans and the proposals in the capital programme report, and with its approved Treasury Management Strategy 2018/19. They are based on the estimate of most likely, prudent position with, sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes.</p>	<b>AUTHORISED LIMIT</b>					<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>		<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>		<b>£m</b>	<b>£m</b>	<b>£m</b>	All Borrowing	373.000	376.000	374.000	Other Long Term Liabilities	35.000	35.000	35.000	<b>Total</b>	<b>408.000</b>	<b>411.000</b>	<b>409.000</b>
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<b>Total</b>	<b>408.000</b>	<b>411.000</b>	<b>409.000</b>																										
	<b>Operational Boundary</b>																												
1.15	<p>Council is also asked to approve the operational boundary for external debt for the same period, shown in Table 4 overleaf. The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects directly the estimate of the most likely, prudent provision, without the additional headroom included in the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate.</p> <p>The operational boundary represents a key management tool for in year monitoring. Within the operational boundary, figures borrowing and other long term liabilities are separately identified. Council is also asked to delegate authority to the Corporate Finance Manager, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the authorised limit. Any such changes will be</p>																												

reported to Council at its next meeting following the change.

**Table 4**

<b>OPERATIONAL BOUNDARY</b>			
	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
All Borrowing (Cap/Rev)	353.000	356.000	354.000
Other Long Term Liabilities	20.000	20.000	20.000
<b>Total</b>	<b>373.000</b>	<b>376.000</b>	<b>374.000</b>

1.16

It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since actual external debt reflects the position at a point in time.

Council is asked to note that the authorised limit determined in 2018/19 (see section 1.14 above) will be the statutory limit determined under section 3 (1) of the Local Government Act 2003.

1.17

**Prudential Indicators for Affordability**

**Estimates of Financing Costs to Net Revenue Stream**

Estimates of the ratio of financing costs to net revenue stream for 2018/19 based on those expenditure assumptions outlined in the Council Fund and Housing Revenue Account (HRA) budget report (both included elsewhere on this agenda), are as included in Table 5 below; these indicators of affordability address the revenue implications of the Council's financial strategy.

**Table 5**

<b>ESTIMATES OF FINANCING COSTS TO NET REVENUE STREAM</b>			
	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Council Fund	5.2%	5.4%	5.5%
Housing Revenue Account	25.0%	24.8%	24.5%

1.18

The Council Fund net revenue stream is the amount to be met from Welsh Government (WG) grants and local taxpayers, and the HRA equivalent is the amount to be met from WG grants and rent payers. The estimate of financing costs includes the current commitments and the proposals included in the capital programme report.

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	There are no resource implications as a direct result of this report.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	No consultation is required or carried out.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
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 assess the affordability, prudence and sustainability of the capital plans to manage those associated risks.

<b>5.00</b>	<b>APPENDICES</b>
5.01	None.

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>Various Welsh Government papers.</p> <p><b>Contact Officer:</b> Liz Thomas - Finance Manager, Technical Accountancy  <b>Telephone:</b> (01352) 702289  <b>E-mail:</b> <a href="mailto:liz.thomas@flintshire.gov.uk">liz.thomas@flintshire.gov.uk</a></p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p><b>Asset Management Plan</b> - A plan maintained by an authority of the condition and suitability of its assets, updated regularly and utilised to assess future capital needs.</p> <p><b>Capital Expenditure</b> - Expenditure on the acquisition of <b>Non-current Assets</b> or expenditure that extends the life or value of an existing asset.</p> <p><b>Capital Programme</b> - The Council's financial plan covering capital schemes and expenditure proposals for the current year and a number of future years. It also includes estimates of the capital resources available to finance the programme.</p> <p><b>Capital Receipt</b> - Receipts (in excess of £10,000) from the disposal of an asset.</p> <p><b>Capital Scheme</b> - An individual capital project which is monitored and</p>

managed in isolation. The aggregate of all schemes comprises the **Capital Programme**.

**Capital Strategy** - A corporate document providing clear strategic guidance about an authority's objectives, priorities and spending plans, demonstrating the link to key corporate and service objectives. May be combined with the **Asset Management Plan (AMP)** to form a single document.

**Council Fund** - The fund to which all the Council's revenue and capital expenditure is charged.

**Disposal** - The decommissioning or transfer of an asset to another party.

**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.

**General Capital Grant** - Annual capital grant from Welsh Government which the Council decides how to use the funding.

**Housing Revenue Account** - The fund to which all the Council's revenue and capital expenditure relating to its housing stock is charged.

**Local Government Borrowing Initiative (LGBI)** - Similar to **supported borrowing**. In recent years as Welsh Government funding has been under pressure, schemes that would have been funded by capital grant have been funded by LGBI. Welsh Government provides the revenue support for borrowing costs incurred by the Council in borrowing to fund capital schemes (the difference with supported borrowing being that it's for a specific purpose aligned to Welsh Government priorities). LGBI has recently been used for highways maintenance and is now being used to part fund the Welsh Government element of the 21<sup>st</sup> century schools programme.

**Non-current Asset** - A resource controlled (but not necessarily owned) by an authority, from which economic benefits or service potential are expected to flow to the authority for more than 12 months.

**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.

**Revenue Expenditure** - All expenditure incurred by an authority that cannot be classified as capital expenditure.

**Revenue Financing** - Charges made to the revenue account to finance



capital expenditure. May also be referred to as Capital Expenditure charged to Revenue Account (CERA).

**Non-current Asset** - A resource controlled (but not necessarily owned) by an authority, from which economic benefits or service potential are expected to flow to the authority for more than 12 months.

**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.