

CABINET

Date of Meeting	Tuesday, 16 th July 2019
Report Subject	Prudential Indicators - Actuals 2018/19
Cabinet Member	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), as updated in 2017, Councils are required to set a range of Prudential Indicators. This report provides details of the Council's actual Prudential Indicators for 2018/19 compared with the estimates set:-

- Prudential Indicators for Prudence
- Prudential Indicators for Affordability

RECOMMENDATIONS

1	That members note and approve the report.
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REPORT DETAILS

1.00	EXPLAINING THE PRUDENTIAL INDICATORS
1.01	Background The background to this item is provided in the reports to Cabinet on 17th July 2018, Prudential Indicators Actuals 2017/18, to Council on 20 th February 2018 Prudential Indicators 2018/19 to 2020/21 and to Council on 19th February 2019 Capital Strategy including Prudential Indicators 2019/20 to 2021/22.
1.02	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.
1.03	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.
1.04	The Prudential Code sets out the indicators that must be used, and the factors that must be taken into account in preparing them.
1.05	Changes to CIPFA's Codes of Practice 2017 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.
1.06	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.
1.07	Actual Prudential Indicators for 2018/19 have now been calculated in respect of the following:- <ul style="list-style-type: none">• Estimates of Capital expenditure• Estimates of Capital Financing Requirement• Authorised Limit• Estimates of Financing Costs to Net Revenue Stream

	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.																																			
1.08	<p><u>Prudential Indicators for Prudence</u></p> <p>Estimates of Capital Expenditure</p> <p>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 Indicators and essentially provide the base financial data from which all other indicators follow.</p>																																			
1.09	<p>Actual 2018/19 capital expenditure for the Council Fund and the Housing Revenue Account (HRA) is £66.423m as shown in Table 1 below. Actual expenditure for 2017/18, and the 2018/19 and 2019/20 estimates are included for information.</p> <p>Table 1</p> <table border="1" data-bbox="331 954 1362 1375"> <thead> <tr> <th colspan="5">ESTIMATES OF CAPITAL EXPENDITURE</th> </tr> <tr> <th></th> <th>2017/18</th> <th>2018/19</th> <th>2018/19</th> <th>2019/20</th> </tr> <tr> <th></th> <th>Actual</th> <th>Estimate</th> <th>Actual</th> <th>Estimate</th> </tr> <tr> <th></th> <th>£m</th> <th>£m</th> <th>£m</th> <th>£m</th> </tr> </thead> <tbody> <tr> <td>Council Fund</td> <td>27.609</td> <td>23.773</td> <td>39.390</td> <td>27.751</td> </tr> <tr> <td>Housing Revenue Account</td> <td>29.772</td> <td>36.496</td> <td>27.033</td> <td>34.208</td> </tr> <tr> <td>Total</td> <td>57.381</td> <td>60.269</td> <td>66.423</td> <td>61.959</td> </tr> </tbody> </table>	ESTIMATES OF CAPITAL EXPENDITURE						2017/18	2018/19	2018/19	2019/20		Actual	Estimate	Actual	Estimate		£m	£m	£m	£m	Council Fund	27.609	23.773	39.390	27.751	Housing Revenue Account	29.772	36.496	27.033	34.208	Total	57.381	60.269	66.423	61.959
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1.10	Detailed analysis and commentary regarding 2018/19 outturn is provided in the Capital Programme Monitoring 2018/19 (Outturn) report elsewhere on this agenda.																																			
1.11	<p>Estimates of Capital Financing Requirement</p> <p>The actual (average) capital financing requirement for 2018/19 is £333.825m as shown in Table 2 below. This is the measure of the Council's underlying need to finance capital expenditure by borrowing or other long term liabilities. The Council Fund CFR is slightly higher than estimated as in March 2018 the Council amended its MRP policy.</p>																																			

Table 2

ESTIMATES OF CAPITAL FINANCING REQUIREMENT				
	2017/18	2018/19	2018/19	2019/20
	Actual	Estimate	Actual	Estimate
	£m	£m	£m	£m
Council Fund	197.056	207.034	207.285	219.666
Housing Revenue Account	119.368	134.600	126.540	134.276
Total	316.424	341.634	333.825	353.943

1.12

Authorised Limit

Actual external debt for 2018/19 was £329.787m, with separately identified limits for borrowing and other long term liabilities such as finance leases, as shown in Table 3 below. It is compared with the Authorised Limit for borrowing, which allows headroom to absorb unforeseen unfunded expenditure. As can be seen, the actual position was well within the limit.

Table 3

AUTHORISED LIMIT FOR EXTERNAL DEBT				
	2017/18	2018/19	2018/19	2019/20
	Actual	Estimate	Actual	Estimate
	£m	£m	£m	£m
All Borrowing	297.772	373.000	322.833	380.000
Other Long Term Liabilities	5.431	20.000	6.954	35.000
Total	303.203	393.000	329.787	415.000

1.13

Prudential Indicators for Affordability**Ratio of Financing Costs to Net Revenue Stream**

The actual ratio of financing costs to net revenue stream for 2018/19 are as indicated in Table 4 below.

Table 4

RATIO OF FINANCING COSTS TO NET REVENUE STREAM				
	2017/18	2018/19	2018/19	2019/20
	Actual	Estimate	Actual	Estimate
	%	%	%	%
Council Fund	4.5%	5.2%	5.1%	4.6%
Housing Revenue Account	21.6%	25.0%	22.0%	22.3%

1.14 The lower than estimated ratios are as a result of the reduction in the Minimum Revenue Provision in 2018/19. This is after the change of policy agreed by Council at its meeting on 1st March 2018.

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.

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7.00	GLOSSARY OF TERMS
7.01	<p>Capital Expenditure - Expenditure on the acquisition of Non-current Assets or expenditure that extends the life or value of an existing asset.</p> <p>Council Fund - The fund to which all the Council's revenue and capital expenditure is charged.</p> <p>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.</p> <p>Housing Revenue Account - The fund to which all the Council's revenue and capital expenditure relating to its housing stock is charged.</p> <p>Minimum Revenue Provision (MRP) – A charge made to the Council Fund to repay borrowing taken out for capital expenditure. Councils must determine their own prudent MRP charge each year, taking into consideration statutory guidance issued by the Welsh Government.</p> <p>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.</p> <p>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.</p> <p>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.</p>