# Public Document Pack

Contact Officer:
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To: All Members of the Council

10 February 2016

Dear Councillor

You are invited to attend a meeting of the Flintshire County Council which will be held at 2.00 pm on Tuesday, 16th February, 2016 in the Council Chamber, County Hall, Mold CH7 6NA to consider the following items

**A G E N D A**

1 **APOLOGIES FOR ABSENCE**

**Purpose:** To receive any apologies.

2 **COUNCIL MINUTES** (Pages 5 - 14)

**Purpose:** To confirm as a correct record the minutes of the meeting held on 26 January 2016 (copy enclosed).

3 **DECLARATIONS OF INTEREST**

**Purpose:** To receive any Declarations and advise Members accordingly.

4 **CHAIRMAN'S COMMUNICATIONS**

**Purpose:** To receive the communications as circulated.

5 **PETITIONS**

**Purpose:** To receive any Petitions.

6 **PUBLIC QUESTION TIME**

**Purpose:** To receive any Public Questions.

7 **QUESTIONS**

**Purpose:** To note the answers to any questions submitted in accordance with County Council Standing Order No. 9.4(A).

8 **NOTICE OF MOTION**

**Purpose:** To consider any Notices of Motion.

9 **COUNCIL FUND REVENUE BUDGET 2016/17** (Pages 15 - 52)

Report of Chief Executive and Corporate Finance Manager enclosed.

10 **CAPITAL PROGRAMME 2016/17 AND INDICATIVE PROGRAMME TO 2019/20** (Pages 53 - 88)

Report of Chief Executive, Chief Officer (Organisational Change) and Corporate Finance Manager enclosed.

11 **HOUSING REVENUE ACCOUNT BUDGET 2016/17 AND CAPITAL PROGRAMME 2016/17** (Pages 89 - 100)

Report of Chief Officer (Community and Enterprise) enclosed.

12 **TREASURY MANAGEMENT STRATEGY 2016/17, TREASURY MANAGEMENT POLICY STATEMENT 2016-19, TREASURY MANAGEMENT PRACTICES 2016-19, TREASURY MANAGEMENT MID-YEAR REVIEW 2015/16** (Pages 101 - 186)

Report of Corporate Finance Manager enclosed.

13 **PRUDENTIAL INDICATORS 2016/17 TO 2018/19** (Pages 187 - 200)

Report of Corporate Finance Manager enclosed.

14 **MINIMUM REVENUE PROVISION - 2016/17 POLICY** (Pages 201 - 210)

Report of Corporate Finance Manager enclosed.

**<u>WEBCASTING NOTICE</u>**

This meeting will be filmed for live broadcast on the Council's website. The whole of the meeting will be filmed, except where there are confidential or exempt items, and the footage will be on the website for 6 months.

Generally the public seating areas are not filmed. However, by entering the Chamber you are consenting to being filmed and to the possible use of those images and sound recordings for webcasting and / or training purposes.

If you have any queries regarding this, please contact a member of the Democratic Services Team on 01352 702345

Yours faithfully

Peter Evans
Democracy & Governance Manager

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**FLINTSHIRE COUNTY COUNCIL**
**26 JANUARY 2016**

Minutes of the Meeting of Flintshire County Council held in the Council Chamber, County Hall, Mold on Tuesday, 26 January 2016

**PRESENT: Councillor Ray Hughes (Chairman)**
Councillors: Bernie Attridge, Glyn Banks, Haydn Bateman, Marion Bateman, Chris Bithell, Derek Butler, Clive Carver, David Cox, Paul Cunningham, Peter Curtis, Ron Davies, Adele Davies-Cooke, Rosetta Dolphin, Ian Dunbar, Andy Dunbobbin, Brian Dunn, Carol Ellis, David Evans, Jim Falshaw, Veronica Gay, Robin Guest, Alison Halford, Ron Hampson, George Hardcastle, David Healey, Cindy Hinds, Dennis Hutchinson, Hilary Isherwood, Joe Johnson, Rita Johnson, Christine Jones, Kevin Jones, Richard Jones, Colin Legg, Brian Lloyd, Mike Lowe, Dave Mackie, Nancy Matthews, Hilary McGuill, Ann Minshull, Tim Newhouse, Mike Peers, Neville Phillips, Mike Reece, Gareth Roberts, Ian Roberts, David Roney, Tony Sharps, Aaron Shotton, Paul Shotton, Ian Smith, Nigel Steele-Mortimer, Carolyn Thomas, Owen Thomas, David Williams, Sharon Williams, David Wisinger, Arnold Woolley and Matt Wright

**APOLOGIES:**
Councillors: Alex Aldridge, Alan Diskin, Glenys Diskin Chris Dolphin, Phil Lightfoot, Richard Lloyd, Billy Mullin and Vicky Perfect

**IN ATTENDANCE:**
Chief Executive, Chief Officer (Governance), Corporate Finance Manager, Member Engagement Manager, Licensing Team Leader and Committee Officers

## 69. PRESENTATION

The Chief Executive welcomed employees from the Council's Learning and Development Section (Heather Johnson, Rob Roose, Paul Johnson, Ciran Allman and Nicole Askey) and congratulated them on reaching the UK finals of the Learning & Performance Institute's Apprentice Programme of the Year 2016. He explained that normally only winners of awards were invited to attend Council meetings but he felt that it was important to recognise the achievement of the team for being shortlisted in this category. The award was open to the public and private sector and the team was the only one from the public sector. He spoke of the partnership with Coleg Cambria and the development of the Council's apprenticeship scheme.

The Chief Executive advised Members that he would circulate a link to a video clip which gave details of the background to the scheme. The awards were due to take place the following week and he wished the team well.

Councillor Chris Bithell welcomed the team and said how pleased he was at the nomination. It was a prestigious award and he felt that it was a tribute to the Council in promoting its apprenticeship scheme which he said had been a major project for the Authority. He welcomed the opportunity to be able to attend the awards ceremony and commented on the fact that Flintshire had low numbers of young people not in education, employment or training.

Councillor Derek Butler said that the apprenticeship scheme was an opportunity to raise awareness of the many career opportunities outside of further or higher education.

**70. MINUTES**

The minutes of the meeting held on 20 October 2015 had been circulated with the agenda.

**RESOLVED:**

That the minutes be approved as a correct record and signed by the Chairman.

**71. DECLARATIONS OF INTEREST**

Councillor Ray Hughes declared a personal interest in minute number 81 (Change of Community Council Name) as he was a member of Leeswood Community Council.

**72. CHAIR'S COMMUNICATIONS**

A copy of the Chair's communication had been circulated to all Members before the meeting.

**73. PETITIONS**

Councillor Glyn Banks submitted a signed and online petition about keeping Ysgol Mornant open.

**74. PUBLIC QUESTION TIME**

The Chief Officer (Governance) confirmed that a question had been received but this would be considered at a future meeting.

**75. QUESTIONS**

The Chief Officer (Governance) confirmed that a question had been submitted but it was after the deadline and would therefore be considered at a future meeting.

**76. QUESTIONS FROM MEMBERS ON COMMITTEE MINUTES**

The Chief Officer (Governance) confirmed that no questions had been received.

**77.** **NOTICES OF MOTION**

The Chief Officer (Governance) confirmed that no notices of motion had been received before the deadline.

**78.** **LOCAL GOVERNMENT (WALES) BILL**

The Chief Executive introduced a report on the Local Government (Wales) Bill and invited Council to make a formal response on the Bill to Welsh Government (WG).

He provided a detailed presentation and commented on the following areas:-

- Background
- Passage of the Bill
- Bill Contents
- Bill documents
- Critique of the Bill
- White Paper: Reminder of what we said in response
- Part 1: Local Government Areas, Number of Members and Specific Issues
- Part 2: Power of Competence
- Part 3: Promoting Access
- Part 4: Functions and Members
- Part 5: Improvement
- Part 6: Community Councils
- Part 7: Workforce

The Leader of the Councillor, Councillor Aaron Shotton, thanked the Chief Executive for the detailed presentation on the complex but equally important document. He spoke of the rare opportunity to shape the future of Local Government but felt that the Bill did not provide enough details in a number of areas. However, the foreword in the document from the Minister suggested that he wanted to hear the views of Councillors in creating activist Councils. He suggested that this meeting was not the appropriate forum to discuss possible authority mergers or changes to boundaries but added the views from previous meetings had indicated that Flintshire County Council was open to the prospect of merging. Councillor Shotton felt that further devolution in powers should be called for and that the opportunity to pursue this had been missed from the Bill. He spoke of the comments from Richard Leese from Manchester City Council who insisted that devolution in Wales should go beyond WG if North Wales was to benefit from the Northern Powerhouse. He felt that the response should state that there should be no Council mergers or further reorganisation without local devolution. Previous discussions had been held on the issue of business rates and the importance of ensuring that each Council received its fair share and that business rates fairly reflected how North East Wales contributed to the economy of the area.

Councillor Shotton welcomed the inclusion of the Power of Competence in the Bill which he felt was overdue but he said that many areas were over-centralised and inconsistent of the issue of devolution. He referred to Part 7 of the Bill and the inclusion of new powers over the workforce and sought clarification on how far the powers could be used to be prescriptive over the size, composition and remuneration of Council employees. Some areas of the bill could require increases in investment at a time when the Council was working to protect front line services. Councillor Shotton proposed that the provision of a final response be delegated to himself and the Chief Executive in full consultation with all Group Leaders as the consultation period did not end until 15 February 2016. The proposal was duly seconded by Councillor Bernie Attridge.

Councillor Hilary Isherwood agreed with the suggestion for an increase in local powers but raised concern about the proposal in the Bill to reduce the number of Members to save costs. She felt that this would result in larger wards which would be reflected in the Independent Remuneration Panel suggesting a larger allowance to Councillors and therefore costing more money to taxpayers. She commented on the issue of remoteness of Welsh Government and queried why some of the proposals were necessary to include in the Bill.

Councillor Mike Peers accepted the Leader's offer to meet to discuss a final response to the consultation. He felt that the Bill was prescriptive and said it raised the issue of delivering high quality accessible public services but did not include any information about adequate funding. On the issue of the proposals for two or three Councils covering North Wales, the Bill looked closely at Denbighshire County Council and suggested that joining with Flintshire and Wrexham could result in the loss of European Union funding for the County. He expressed surprise at another reason given was that Flintshire and Wrexham were border counties which could affect the Welsh Language in communities in Denbighshire. He added that the Bill did not appear to include information on working with North West Councils as part of the Northern Powerhouse. Councillor Peers sought clarification on whether Council Tax for any merged Councils would be fairly apportioned and suggested that there would not be a reduction in Council Tax bills. The Welsh Local Government Association (WLGA) had given support to the proposal in the white paper on Community Councils with Competence but Councillor Peers referred to the proposal in the document that they had to report to the principal authorities; this proposal had not been included in the Bill. Councillor Peers raised concern about Community Area Committees and where they would sit in relation to democratically elected Councils that Members served on. He noted the proposal to remove the provision to hold meetings on licensed premises. The White Paper had proposed that Members of a Principal authority could not also sit on a Town or Community Council but this had been removed from the Bill which Councillor Peers welcomed.

Councillor Chris Bithell thanked the Chief Executive for his presentation on the Bill. He referred to the issue of financing any reorganisation, which did not appear in the Bill, and queried how savings would be made as the Council was already in the process of undergoing a restructure. He suggested that there was a lack of trust by WG to allow Councils the freedom to progress matters for local people in their communities. Councillor Bithell commented on the issue of financing Town & Community Councils and said that they were being asked to take over services and facilities, that the Council could no longer afford to provide, by way of a Community Asset Transfer (CAT). This had presented significant challenges for the setting of precepts for the forthcoming year and Councillor Bithell suggested that consideration needed to be given to how Town & Community Councils were funded in the future if assets or the delivery of services were to be transferred. He felt that WG should lead by example and review themselves before issuing standards to local Government that they themselves did not comply with. He welcomed the proposal in the Bill to not include a restriction on the maximum number of Councillors but suggested that there were other areas that required consideration.

On the issue of Local Government finance, Councillor Gareth Roberts commented on a suggestion to introduce local income tax which he felt would be effective, easy to administer and fairer than the current proposals in place. He spoke about the size of wards and the number of Councillors and expressed concern about the possibility of larger wards which would be a significant challenge and would result in increases in responsibilities for Members. Councillor Roberts referred to Betsi Cadwaladr University Health Board (BCUHB) which he felt had been proven to be too large and commented that Powys Council had subdivided itself into three parts for the planning service. He suggested that service provision had reduced following a previous reorganisation of Councils and indicated that he would welcome the return to Unitary Authorities.

Councillor Derek Butler expressed concern that the Bill would be approved in its current form as he felt that issues about Flintshire and the alliances that could be formed cross-border were not reflected in the document. He talked about economics and collaborations that could exist as part of the Northern Powerhouse and suggested that Flintshire would be left behind if this issue was not included in the Bill. Councillor Butler commented on Town & Community Councils and said that it was vital that funding was in place to ensure that they could continue.

Councillor Tony Sharps welcomed the opportunity to meet with the Leader of the Council to discuss a response in more detail. He expressed significant concern at the content of the Bill particularly on the issue of amalgamation with Wrexham County Borough Council which he disagreed with. He commented on the proposal for area boards which he felt was not the way to progress issues and suggested that local residents did not agree with a reorganisation. Councillor Sharps spoke about unitary authorities and commented about the large number of staff that worked for Flintshire County Council which the previous reorganisation had intended to reduce.

Councillor Colin Legg spoke of his honour at representing Flintshire in 2010 in the Houses of Parliament to talk about Flintshire's history and geography. He felt that this was an important issue along with the strong industrial base of the area and expressed his pride at being able to represent Flintshire. He commented on the motto and shield of Flintshire, which was displayed in the Council Chamber, and expressed his concern that both could be lost if the Council was to merge with another authority.

In referring to Town & Community Councils, Councillor Peter Curtis commented on a meeting of North and Mid Wales Town & Community Councils that he had attended the previous week where the issues highlighted in the Bill had been raised. A request had been submitted to the Minister for a meeting to discuss the issues but the request had been declined. Significant concern had been expressed by Councillors from North and Mid Wales due to lack of funding on issues such as CAT but they had been unable to raise their concerns with the Minister.

Councillor Neville Phillips indicated that he had sought clarification at a previous meeting of the cost of carrying out an election, which was approximately £200,000. He commented on the timetable referred to in the document and expressed significant concern at the set up costs that could be incurred by Councils in Wales up to the point of the first election for the new County Councils in May 2019 and asked that this be borne in mind when responding to the consultation. Councillor Phillips also referred to a possible proposal to retain the current Council administration to 2019 rather than holding County Council elections in 2017 which would save money for local authorities.

Councillor Carol Ellis said that several comments had reflected on the costs involved and she reminded Members of the cost incurred in the establishment of BCUHB, which had not been a success. She referred to the lack of provision of staff at hospitals in North Wales despite the recent comments by the First Minister that more doctors and nurses were employed in Wales than ten years ago. She had highlighted the issue by way of comparison to indicate that to join with other Councils may not result in better service provision for residents.

The Chief Executive explained that the Bill suggested that the current number of councillors in Wales would reduce from 1200+ to 700+ with councillors having more responsibility for bigger wards in fewer Councils. He clarified that Welsh Government was seeking to protect eligibility for European Funding in the reorganisation of councils and that through Council Tax harmonisation it was not intended that the gross level of Council Tax income available across the new councils would be increased. He explained that there was an assumption in the Bill that area committees would have some functions delegated to them. Councillor Bithell had referred to cost but there was an assumption that there would not be any new monies available and that Councils would fund the mergers through efficiencies. This could be a concern that all projected efficiencies would be achieved and as it was expected that there would be a requirement to pay redundancy costs and incur costs to rebrand a new Council, both of which would be costs at the start of the process; there was no indication of how this would be funded. The

Chief Executive commented on the staffing assumptions referred to by Councillor Roberts but welcomed the recognition in the bill that some service areas were staffed on a proportionate basis. The estimated cost of Shadow Authority elections across Wales in 2019 would be over £10m with the first full election in 2021 anticipated to cost about £1.5m.

In summing up, Councillor Shotton said that he recognised the strong feelings across the Chamber but he felt that careful consideration needed to be given to the response to the Bill. He understood the concerns raised on the issue of a merger but reiterated his earlier comments that the Council was open to the prospect of a merger if there were benefits for the people represented. In referring to the economy of the area and that across the border in England and the support expressed from Leaders of North West Councils, he reiterated his comment that no reorganisations should take place without further devolution.

**RESOLVED:**

(a) That the presentation be received; and

(b) That delegated powers be given to the Leader of the Council and the Chief Executive in consultation with all Group Leaders to discuss and sign off a final response to the consultation on the Local Government (Wales) Bill.

## 79. COUNCIL TAX REDUCTION SCHEME 2016-17

The Chief Executive introduced a report on the Council Tax Reduction Scheme 2016-17 and explained that it had been recommended to Council by Cabinet.

The Council had a statutory duty to adopt a scheme each year and the Chief Executive explained that the proposals were for the same scheme as for 2015-16. He advised that details of the discretions exercised in the current scheme were reported in paragraph 1.10.

Councillor Bernie Attridge proposed the recommendation in the report and this was duly seconded.

**RESOLVED:**

That the Council Tax Reduction Scheme be adopted and the current discretionary elements for 2016-17 be maintained.

## 80. LICENSING ACT 2003 STATEMENT OF LICENSING POLICY

The Chairman of the Licensing Committee, Councillor Tony Sharps, introduced the report to request that Members consider and approve the next Flintshire County Council Statement of Licensing Policy.

He explained that the Licensing Team Leader was in attendance to answer any questions from Members. The report had been considered by the Licensing Committee and Councillor Sharps reminded Members that the Licensing Act required the Licensing Policy to be reviewed every five years. He proposed the recommendation in the report which was duly seconded.

**RESOLVED:**

(a) That Council adopt the Licensing Act 2003 Statement of Licensing Policy effective from January 2016 for a five year period; and

(b) That any decision to make changes to this policy during the five year period is delegated to the Licensing Committee.

## 81. CHANGE OF COMMUNITY COUNCIL NAME

The Chief Officer (Governance) introduced the report for Council to consider a request from Leeswood Community Council to change its name to Leeswood and Pontblyddyn Community Council.

The request had been made to reflect the area it served and the Chief Officer (Governance) advised that this was a similar request to that from Gwernaffield Community Council that had been approved by Council. The cost of advertising for this change would be incurred by the County Council on this occasion as it was felt that it was unfair to apply a retrospective charge to the request from Leeswood Community Council. Any future Town or Community Council name changes would be paid by that Council.

Councillor Bernie Attridge proposed the recommendation in the report and this was duly seconded.

The Chairman commented that the meetings of Leeswood Community Council were well supported by those from Pontblyddyn and it was felt that the name change would reflect that the Council served both villages.

**RESOLVED:**

(a) That the Council approves the change in the name of Leeswood Community Council to Leeswood and Pontblyddyn Community Council; and

(b) That the costs of advertising future Town or Community Council name changes be paid by that Council.

## 82. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

There was two member of the press and one member of the public present.

(The meeting started at 2pm and ended at 3.37pm)

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**Chairman**

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| FLINTSHIRE COUNTY COUNCIL |
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| **Date of Meeting** | Tuesday, 16 February 2016 |
| **Report Subject** | Council Fund Revenue Budget 2016/17 |
| **Report Author** | Chief Executive and Corporate Finance Manager |

## EXECUTIVE SUMMARY

The report provides Members with the recommendations of the Cabinet for the Council Fund Revenue Budget 2016/17 which now shows a balanced position.

The budget process has been undertaken in two stages and a first phase of Stage one budget proposals was adopted by Cabinet in January.

A second phase of options was also adopted and referred to the respective Overview and Scrutiny Committees.

The Cabinet report attached includes the remaining options for the closing stage two of the annual budget process and recommends to Council a balanced budget when combined with the previously adopted Stage one proposals.

| COUNCIL FUND REVENUE BUDGET 2016/17 | |
|---|---|
| 1 | That the Council approves the recommendations of the Cabinet as set out in the attached report for a final balanced budget for 2016/17. |

## REPORT DETAILS

| 1.00 | CONSIDERATIONS |
|---|---|
| 1.01 | A report was considered by Cabinet on 19 January 2016 which outlined the first stage of proposals towards a balanced budget for 2016/17. At this meeting Cabinet adopted a first phase of budget proposals and also referred second phase proposals to Corporate Resources Overview and Scrutiny Committee. |
| 1.02 | The budget proposals at this stage identified a budget gap of £3.447M and Cabinet endorsed a strategy for ongoing work to close the remaining gap. |
| 1.03 | The final budget options for 2016/17, which show a balanced position, will be considered by Cabinet in the morning and verbal feedback will be provided at Council. A copy of the report is attached at Appendix A. |

| 2.00 | RESOURCE IMPLICATIONS |
|---|---|
| 2.01 | As contained within the report to Cabinet of 16 February 2016 which is attached. |

| 3.00 | CONSULTATIONS REQUIRED / CARRIED OUT |
|---|---|
| 3.01 | As contained within the report to Cabinet of 16 February 2016 and the report of 19 January 2016 which is attached as part of Appendix A. |

| 4.00 | RISK MANAGEMENT |
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| 4.01 | As contained within the report to Cabinet of 16 February 2016 which is attached. |

| 5.00 | APPENDICES |
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| 5.01 | Appendix A – Council Fund Revenue Budget 2016/17 |

| 6.00 | LIST OF ACCESSIBLE BACKGROUND DOCUMENTS |
|---|---|
| 6.01 | **Contact Officer:** Gary Ferguson<br>**Telephone:** 01352 702271<br>**E-mail:** gary.ferguson@flintshire.gov.uk |

| 7.00 | GLOSSARY OF TERMS |
|---|---|
| 7.01 | As set out in the previous reports as attached. |

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| CABINET |
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| **Date of Meeting** | Tuesday, 16 February 2016 |
| **Report Subject** | Council Fund Revenue Budget 2016/17 |
| **Cabinet Member** | Leader of the Council and Cabinet Member for Finance |
| **Report Author** | Corporate Finance Manager and Chief Executive |
| **Type of Report** | Strategic |

## EXECUTIVE SUMMARY

This report presents budget options for the closing Stage Two of the annual budget process. By deciding on these, and then adding them to the budget proposals adopted at Stage One in January, Cabinet will be in a position to recommend a balanced budget to full Council for 2016/17. The earlier and substantive Stage One budget report is appended to this report for reference.

The budget has been built up in two main stages. Stage One was concluded in January. At the end of Stage One the remaining budget 'gap' to be closed stood at £3.447M. Cabinet has directed officers to develop options for the closing Stage Two from four work-streams: review of the new and emergent pressures; workforce; Council Tax; use of reserves and balances.  The Stage Two options presented within this report are drawn from those four work-streams and from these alone.

The report includes a summary risk assessment of the budget and the formal opinions of the Corporate Finance Manager in their statutory role as Section 151 Officer, and of the Chief Executive.

The final and complete budget will be drawn together by Cabinet on the morning of Tuesday 16 February and will then be recommended to full Council on the afternoon of the same day. Council will be recommended to adopt a balanced budget, without any deferral, on that day, to meet its statutory duty in good time. Council will then meet again on 1 March. The purpose of this second Council meeting will be to pass the Council Tax resolution, including the Town and Community Council precepts, based on the budget resolution to be passed on 16 February.

A list of tables within the report is set out below as a guide:-



| RECOMMENDATIONS | |
|---|---|
| 1 | To consider the remaining options for the closing Stage Two of the annual budget process; and |
| 2 | To recommend to Council a final balanced budget based on a combination of the previously adopted Stage One budget proposals and the closing Stage Two options from within this report |

**REPORT DETAILS**

| 1.00 | PRESENTING THE SECOND STAGE OF THE COUNCIL FUND REVENUE BUDGET |
|---|---|
| | **Conclusion of Stage One of the Budget Process** |
| 1.01 | Cabinet have already agreed the majority of its proposals to achieve a balanced budget during Stage One of the budget process. The Stage One proposals adopted by Cabinet on 19 January were presented to the Corporate Resources Overview and Scrutiny Committee on 29 January (Appendix C). The Committee did not recommend the withdrawal or amendment of any of the proposals presented, or recommend any additional or alternative proposals for further work by officers. Further explanation was requested on the variations made to the Service Business Planning figures since the round of Overview and Scrutiny Committee meetings held in December (attached at Appendix A). At the conclusion of Stage One of the budget process the remaining budget 'gap' stood at £3.447M. |
| 1.02 | Cabinet has directed officers to develop proposals for the closing Stage Two from four work-streams: review of the new and emergent pressures; workforce; Council Tax; use of reserves and balances. As per the direction given by Cabinet, and as supported by all six overview and scrutiny committees, no new options have been sought from within service portfolios themselves. The Stage Two options presented within this report are drawn from those four work-streams and, in the opinion of the Chief Executive and Chief Officer Team, there are no other corporate sources from where efficiencies and savings could be identified and relied upon at this late stage of the budget process. |

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| | **Additional Service Issues for Consideration** |
| 1.03 | A service issue which was raised late in the budget was the provision of a weekly allowance to the clients of the Learning Disability Workplace Schemes. Cabinet, since the publication of the January budget report, has directed that this allowance be continued for 2016/17 and the budget reinstated. This will require a budget provision of £0.070M which has the impact of increasing the remaining gap to £3.517M. |
| 1.04 | Discussions and negotiations are ongoing between the independent care providers and the councils which commission their services in residential, nursing, specialist care, domiciliary care, and direct payments social services over the rate of annual uplift to be made by commissioning councils to contribute to inflationary costs in the sector. Whilst some provision has been set aside by the Council in the corporate provision made for inflation, it is recognised that the inflationary pressures are higher in 2016/17 than in previous years specifically due to the impact of changes to the Minimum Wage and the incremental introduction of the Living Wage. Subject to the outcome of these negotiations the corporate provision may not be sufficient and there is a risk of a further financial pressure to be met in 2016/17 and later to be built into base costs for funding from 2017/18. Whilst the Council could draw further on reserves to meet this additional inflationary impact in 2016/17 this would not be sustainable from 2017/18. The North Wales councils are in discussion with the Betsi Cadwaladr University Health Board over the allocation of a proportion of the additional Intermediate Care Fund monies granted to the region by Welsh Government to subsidise commissioning costs to support the care sector. Any such allocation made would reduce or even mitigate this cost impact. For 2017/18 onwards Welsh Government will need to recognise in its annual budgets these high annualised inflationary pressures in the care sector for the sector to have a sustainable funding base. The risks are acute in Flintshire where the provider market is finely balanced with client demand rates, and a large proportion of residential and nursing homes are of relatively smaller size and therefore less resilient in accommodating inflationary pressures without financial support. |
| 1.05 | The Provisional Settlement advised of an estimated reduction of £0.201M in the Single Environment Grant. Final notification of the allocation (received on 9 February) gave an amount of £2.998M which is £0.055M more than previously notified. This has the effect of reducing the new and emergent pressures total by the same amount. |
| | **Stage Two Budget Proposals** |
| 1.06 | The remaining Stage Two budget options are shown in Table 1 below and reflect how the amount of £3.517M will be met. |

**Table 1: Stage Two Budget Proposal**

| Work-Stream | Proposal with Risk Mitigation | £M |
|---|---|---|
| *Review of New and Emergent Pressures* | Reduction of provision for the following new and emergent pressures listed in the attached report following reassessment of the likelihood of them impacting and of alternative | 0.209 |

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|---|---|---|---|---|
| | | ways of absorbing the costs (1) Leisure income (£0.070M) (2) Housing Benefit Subsidy (£0.043M) (3) Remittance Advice to Landlords ((£0.041M) and (4) Sustainable Recycling Grant (£0.055M)<br><br>*Acceptability Risk: none*<br>*Workability Risk: low* | | |
| | *Workforce* | A managed further round of voluntary redundancies and reductions in other workforce costs notably overtime costs and agency worker costs. (The option of deferring automatic salary increments has been discounted in consultation with the Trade Unions): £0.500M<br><br>A significant reduction in the number of posts eligible for essential car user allowances as a first phase of a review of travel allowances with fleet vehicles to be provided as an alternative mode of transport where required. The Trade Unions have been notified of this intention and are not in complete agreement at this stage: £0.500M<br><br>*Acceptability Risk: medium*<br>*Workability Risk: medium* | 1.000 | |
| | *Council Tax* | Setting Council Tax at 4.5% with the objectives of (1) maximising this local taxation income source to balance the budget (2) protecting the committed net increase of £0.869M in the contribution to schools through the schools funding formula, and the continuity of the community assets which are proceeding through the community asset transfer process and (3) closing the gap between Council planned expenditure and the Standard Spending Assessment. The recommended contribution of £0.862m to the budget gap is net of the increase in relation to the Council Tax Reduction Scheme (CTRS) of £0.103M.<br><br>*Acceptability Risk: medium to high*<br>*Workability Risk: none* | 0.862 | |
| | *Use of Reserves and Balances* | Deployment of reserves and balances, as a balancing figure, to meet both non-recurring and recurring budget pressures specifically for (1) the local costs pressures arising from the nationally imposed charging cap on domiciliary care charging (£0.500M), and for the Council Tax Reduction Scheme (CTRS) (£0.474M) and (2) a proportion of the costs of the new and emergent pressures (£0.455M). | 1.429 | |

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|---|---|---|
| | *Acceptability Risk: low*<br>*Workability Risk: none for 2016/17 noting that any impacts for future years of meeting recurring costs through one-off use of reserves would have to be mitigated in the 2017/18 budget* | |
| *Other Adjustments* | Adjustment to the levy payable to North Wales Fire and Rescue Authority due to variations in the regional population base on which the per capital contribution per local authority is based: £0.010M<br><br>Reduction in the annual contribution to GWE (Regional School Improvement Consortium) due to an agreed reduction of 1.6% to its contributory budget: £0.007M<br><br>*Acceptability Risk: none*<br>*Workability Risk: none* | 0.017 |
| **Total** | | **3.517** |

**Council Tax and the Use of Reserves and Balances**

1.07 Having taking into account the reduction in pressures and the additional efficiency options including workforce, the finalisation of the budget comes down to striking a balance between the level of Council Tax to be set and drawing upon reserves and balances.

Several factors require careful consideration. These are the extent of the remaining 'gap' to be funded, the comparison of planned Council spend with the Standard Spending Assessment (SSA) as our national spending guideline, and the impact of using too high a level of reserves now on the 2017/18 budgetlater.

The final recommended position has to be a balanced judgement and is a material factor in the formal advice of the Section 151 Officer.

Although higher than in previous years the proposed increase in Council Tax of 4.5% is still 0.5% lower than the maximum allowable level of 5%, and the utilisation of £1.429M of reserves and balances is consistent with examples of recent local practice (e.g. utilisation of £1.450M in 2014/15) and is not at a level where sustainability of budget planning is unachievable against the latest Medium Term Financial Planning forecast.

| | |
|---|---|
| | **Achieving a Complete and Balanced Budget** |
| 1.08 | Through combining the Stage One budget proposals and the Stage Two budget options a balanced budget can be achieved as shown in Table 2 below |

**Table 2: A Complete and Balanced Budget**

| **Proposed Budget 2016/17** | £M |
|---|---|
| | |
| **Funding** | |
| | |
| Aggregate External Funding (AEF)/RSG NNDR | 184.743 |
| Council Tax | 67.240 |
| **Budget Requirement** | **251.983** |
| | |
| Specific Grants (Estimated) | 34.159 |
| | |
| Use of Reserves | 1.429 |
| | |
| **Total Funding** | **287.571** |
| | |
| **Expenditure** | |
| | |
| Base Budget Rolled Forward | 287.605 |
| | |
| Prior Year Budget Decisions Recurring (Appendix 6) | 8.845 |
| | |
| Prior Year Budget Decisions One off dropping out (Appendix 6) | (0.730) |
| | |
| Inflation (Appendix 7) | 2.193 |
| | |
| Pressures & Investments Recurring (Appendix 8) | 1.928 |
| | |
| Efficiencies - Business Planning (Appendix 9) | (7.755) |
| Efficiencies - Corporate Finance (Appendix 10) | (3.527) |
| | |
| Less Specific Grants 2015/16 | (35.147) |
| Plus Specific Grants 2016/17 (Estimated Appendix 11) | 34.159 |
| | |
| **Total Expenditure** | **287.571** |
| | |

| | |
|---|---|
| | **Funding** |
| 1.09 | The budget proposals in this report set a budget requirement of £251.983M which is an amount of £1.748M below the calculated Standard Spending Assessment (SSA) of £253.731M. At this level of spend, the increase on the Band D Council Tax Rate (excluding Police and Town/Community Council precepts) is 4.5%. This equates to an increase of £46.14 on 2015/16 and a Band D rate of £1,071.41. The Council Tax |

| | |
|---|---|
| | system in Wales contains nine property bands ranging from Band A to Band I. In order to ensure consistency between councils when reporting Council Tax information it is agreed practice that all related information is expressed in terms of Band D equivalents. |
| | **Schools Budget** |
| 1.10 | A further Education and Youth Overview and Scrutiny Committee meeting was held on 19 January 2016 and no specific amendments were raised. There was a request to maintain the 1% uplift of the Schools Budget of £0.869M and for this investment to remain unchanged as part of the final balancing proposals. This request has been met in that there are no changes to the School Budget proposals within this report. |
| 1.11 | Since the January report confirmation of the Education Improvement Grant has been received which is in line with previous assumptions. It has also been confirmed that this grant will not transfer into the settlement in 2016/17. |
| | **Unearmarked Balance and Earmarked Reserves** |
| 1.12 | **Base Level of Unearmarked Reserves**<br><br>The budget proposals do not change the current base level of reserves of £5.769M as set out in the January report which provide an additional safeguard in the current uncertain financial climate. |
| | **Contingency Reserve** |
| 1.13 | The monthly budget monitoring report has provided updates on the movements on the reserve and the Month 8 monitoring report shows an estimated balance of £4.379M in the Contingency Reserve as at 31 March 2016. It is recommended that this reserve is retained and its use considered within the context of the overall financial plan for 2016/17 and future years. Whilst the base level of reserves is a known sum which is set aside, the level of Contingency Reserve is based on the current estimate and is subject to change at the end of the financial year. |
| | **Council Fund Earmarked Reserves** |
| 1.14 | As outlined in the Reserves and Balances Protocol the level of Earmarked Reserves is now reported quarterly through the monthly budget monitoring report. Appendix B details the estimated closing balances for 2015/16 and 2016/17 for all reserves and balances. The Section 151 Officer is satisfied that the level of these reserves is appropriate (see also Section 1.19 – 1.25 below). |
| | **Final Settlement Announcement** |
| 1.15 | The Final Settlement is not due to be announced until the 9 March 2016 which presents challenges for all councils in setting a balanced budget within the statutory timescale, ensuring that there is sufficient time to deal with the practicalities of Council Tax billing in advance of the new financial |

| | |
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| | year.<br><br>Advice provided by Welsh Government is that there is unlikely to be any significant change from the allocation provided at the Provisional Settlement stage. Setting a budget based now, based on the Provisional Settlement, is considered to be low risk.<br><br>If there were to be any change in funding at the Final Settlement stage it is recommended that the level of utilisation of reserves is adjusted accordingly on the advice of the Corporate Finance Manager. |
| | **Medium Term Outlook** |
| 1.16 | A full refresh of the Medium Term Financial forecast reflecting latest intelligence and demand expectations is underway. A high level indication of the initial amended forecast budget gap of £9.8M was shared with members at the Corporate Resources Overview and Scrutiny meeting. This will be increased to approximately £11M after taking into account the adjustment for the utilisation of reserves of £1.429M and other factors. |
| | **Budget Risk Assessment** |
| 1.17 | A summary risks assessment is set out in Table 3 below.<br><br>**Table 3: Summary Risk Assessment** |

| Risk | Mitigation | Status |
|---|---|---|
| Impact of reductions in Specific Grant funds | The reductions in specific grants already notified by Welsh Government have been built into the budget through a combination of budget reductions and provision for new and emergent pressures. Few grants remain unconfirmed at this late stage of the budget process. | **Amber** |
| Inflationary impacts | A detailed risk assessment has been completed of the likely trends in and impacts of inflation with a medium level of financial provision included within the budget proposals. The Contingency Reserve provides an in-year safeguard for any un-met efficiency targets. | **Amber** |
| Failure to achieve income targets in full | Income targets have been set service by service based on careful calculations and trends in service use. The Contingency Reserve provides an in-year safeguard for | **Amber** |

| | | | |
|---|---|---|---|
| | | any un-met efficiency targets. | |
| | Failure to achieve efficiency targets in full | Provided that there is no delay in decision-making around the specific budget proposals which still require further work/consultation then there is a high probability of efficiencies being achieved in full. The Contingency Reserves provides an in-year safeguard for any un-met efficiency targets. The Council has a track record of making other adjustments in-year to compensate for any unachieved efficiencies from other sources. | **Amber** |
| | Insufficient capacity to implement change programmes and projects to time and to financial target | Organisational capacity has been aligned to implement efficiency plans both within services and corporately. The option always remains to bring in additional external capacity and capability, or to adjust the allocation of internal capacity, as required. | **Amber** |
| | Impact of new and emergent pressures | Significant provision has been made in the draft budget to meet the new and emergent pressures which are evident at this late stage of the budget process. | **Amber** |
| | Over use of reserves and balances | Only partial use of set aside reserves and balances is made in the draft budget. | **Green** |
| | Sufficiency of remaining reserves and balances to meet unforeseen pressures | Neither the Contingency Reserve nor earmarked reserves have been drawn upon as part of the budget. The Contingency Reserve at £4M+ has the specific purpose of acting as a safeguard to meet unforeseen cost pressures and variations in-year. | **Green** |

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| | **Opinions of the Statutory Officers** |
| 1.18 | The formal opinions of the Corporate Finance Manager in their statutory role as Section 151 Officer, and of the Chief Executive, are set out below. |

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|---|---|
| | **Opinion of the Corporate Finance Manager** |
| 1.19 | 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 in relation to the budget. |
| 1.20 | The 2016/17 budget has been set within the context of the Medium Term Financial Strategy and continues to recognise a significant reduction in the funding available to the Council from Welsh Government, being a 1.5% cash reduction in 2016/17 which follows a 3.4% reduction in 2015/16. The Council's budget strategy for dealing with this significant financial challenge has been clearly set out in detail for all stakeholders in previous budget reports and complemented by a range of member workshops and scrutiny sessions together with seven Community Engagement events. |
| 1.21 | For the estimates contained within the budget, all figures are supported by a clear and robust methodology with the efficiency proposals considered achievable and the pressures supported by evidenced method statements. |
| 1.22 | In September 2015 County Council approved a new Reserves and Balances Protocol which sets out how the Council will determine, manage and review the level of its Council Fund Balance and Earmarked Reserves taking into account relevant legislation and professional guidance. An outcome of this protocol was to report quarterly the level of Earmarked Reserves held to both Cabinet and Corporate Resources Overview and Scrutiny Committee which improves both the transparency and understanding of all reserves held by the Council. |
| 1.23 | The Council's overall level of reserves and balances is reviewed annually as part of the budget process and the adequacy and purpose of reserves held challenged, with any reserves no longer required at the same level made available for corporate use. |
| 1.24 | Supported by the above, I can confirm the reasonableness of the estimates contained in the proposed budget, having regard to the Council's spending needs in 2016/17 and the financial context within which the budget is being set. Inevitably in managing a budget of this scale across a large and diverse organisation variances will occur, but I believe that the budget assumptions represent a measured and acceptable level of risk. A robust programme for the delivery of the £11.282M of efficiencies within the budget and to the timescales set together with effective and disciplined in-year financial management will ensure that budgets are managed effectively with prompt action taken to mitigate any impacts should variances occur. |
| 1.25 | Within the context described above, I recommend that the Council should maintain the level of general balances of £5.769M which will safeguard its position and also enable it to plan ahead to meet future financial challenges as set out in the Medium Term Financial Strategy. The |

| | |
|---|---|
| | Contingency Reserve (currently estimated to be £4.379M) also provides further assurance around the Council's ability to manage any in-year variances should they not be able to mitigate from other areas which the Council has successfully been able to do in recent years. |
| | **Opinion of the Chief Executive** |
| 1.26 | My professional advice complements that of the Corporate Finance Manager as set out above. |
| 1.27 | The draft budget follows the Medium Term Financial Strategy adopted by the Council and is a balanced approach to achieving an 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. |
| 1.28 | As each year passes during a period of central government fiscal policy, a policy which necessitates annualised reductions in net public expenditure, then the challenge of setting an annual budget in this way becomes ever harder. As shown in the summary risk assessment in Table 3 the Council has to have a greater 'appetite' for risk. This is indeed the case for all public bodies. Provided that the risks are understood, the likelihood of their occurring and the impact they will make if they do so occur is assessed, and there are sufficient plans to mitigate those impacts in that eventuality, then the approach to risk can be supported. An underlying organisational risk is that there is less financial flexibility to adjust to new cost pressures in year as (1) budgets are more precisely based on forecast need with smaller margins for flexibility and error and (2) the total quantum of funding available to the Council as a corporate body is smaller than in past years. |

| **2.00** | **RESOURCE IMPLICATIONS** |
|---|---|
| 2.01 | As within the substantive Stage One budget report which is attached. |

| **3.00** | **CONSULTATIONS REQUIRED / CARRIED OUT** |
|---|---|
| 3.01 | As within the substantive Stage One budget report which is attached. |

| **4.00** | **RISK MANAGEMENT** |
|---|---|
| 4.01 | As within the substantive Stage One budget report which is attached. |

| **5.00** | **APPENDICES AND ATTACHMENTS** |
|---|---|
| | Appendix A: List of variations to the Service Business Planning figures from the version reported in December |

| | |
|---|---|
| | Appendix B: Reserves and Balances<br><br>Appendix C: Cabinet report of the Chief Executive and Corporate Finance Manager from January 2016 - Council Fund Revenue Budget for 2016/17 |

| **6.00** | **LIST OF ACCESSIBLE BACKGROUND DOCUMENTS** |
|---|---|
| 6.01 | As listed within the substantive Stage One budget report which is attached at Appendix C.<br><br>The Budget Factsheets which are available on request and available in the Members' Services area for inspection.<br><br>**Contact Officer:** Gary Ferguson<br>**Telephone:** 01352 702101<br>**E-mail:** gary.ferguson@flintshire.gov.uk |

| **7.00** | **GLOSSARY OF TERMS** |
|---|---|
| 7.01 | As set out within the substantive Stage One report which is attached. |

**Corporate Resources Overview & Scrutiny Committee 29th January 2016**

**Business Planning Efficiency Proposals – Changes since December O&S Committees**

**Streetscene & Transportation**

| Proposal | Members Papers December 2015 | Members Papers January 2016 | Movement in Figures | Reasons |
|---|---|---|---|---|
| Rationalise HRC Sites | £425k | £250k | -£175k | Efficiency overstated by £175k in December papers. It had been increased incorrectly by the projected under achieved efficiency in 2015/16. |
| Removing the waste containers delivery service | £50k | Nil | -£50k | 2015/16 proposal only.<br>Included in 2016/17 in error. |
| Second Garden Waste bin charge | £25k | Nil | -£25k | 2015/16 proposal only.<br>Included in 2016/17 in error. |
| Review Subsidised Bus Routes | £100k | £75k | -£25k | Efficiency overstated by £25k in December papers. It had been increased incorrectly by the projected under achieved efficiency in 2015/16. |
| Externalise grass cutting service | £75k | £25k | -£50k | Efficiency overstated by £50k in December papers. It had been increased incorrectly by the projected under achieved efficiency in 2015/16. |
| Reduce Cleansing Standard in towns | £50k | Nil | -£50k | 2015/16 proposal only.<br>Included in 2016/17 in error. |
| Remove second grass cut for highways verges | Nil | £20k | +£20k | Omitted from December papers in error. |
| Reduced Street Lighting resource | Nil | £13k | +£13k | Omitted from December papers in error. |
| **Total** | **£725k** | **£383k** | **-£342k** | |
| **Total – All S&T Proposals** | **£2,500k** | **£2,158k** | **-£342k** | |

All of the above proposals were incorrectly presented in the December papers given to Member Workshops and Environment O&S Committee. Therefore, the figures presented to the January meeting were always the intended efficiency proposals and no change has been made to the intended implementation of each proposal.

**Corporate Resources Overview & Scrutiny Committee 29th January 2016**

**Business Planning Efficiency Proposals – Changes since December O&S Committees**

**Social Services**

| Proposal | Members Papers December 2015 | Members Papers January 2016 | Movement in Figures | Reasons |
|---|---|---|---|---|
| Consult on the potential to commission provision currently provided by in-house Supported Living houses | £125k | £65k | -£60k | The full year efficiency level was expected to be £0.125m based on the comparative costs of current externally provided supported living. However, the likely implementation date is now expected to be in second half of 2016/17, therefore the level of efficiency has been reduced accordingly. |
| Develop alternative approaches to in-house day services and work opportunity schemes | £238k | £200k | -£38k | The latest ADM proposal is to undertake a commissioning process for day opportunities services. The commissioning process will seek to secure a partnership with an external service provider, or several providers, to design and deliver a modern, progressive and sustainable service delivery model. The budgets for the work opportunities service have been critically reviewed and savings have been identified primarily from staffing reductions within the work opportunities team and the removal of bonus incentive payments. The commissioning process implementation timetable has resulted in the £38k reduction in the efficiency. |
| **Total** | **£363k** | **£265k** | **-£98k** | |
| **Total – All Social Services Proposals** | **£936k** | **£838k** | **-£98k** | |

## Summary of Council Fund Earmarked Reserves

| | Estimated Balance 01/04/16 £m | Estimated Balance 31/03/17 £m |
|---|---|---|
| **Service Balances** | | |
| Environment | 0.688 | 0.191 |
| Education & Youth | 0.432 | 0.216 |
| Community & Enterprise | 0.261 | 0.261 |
| Organisational Change | 0.298 | 0.298 |
| Corporate Services | 0.018 | 0.000 |
| **Total** | **1.697** | **0.966** |
| **Corporate Balances** | | |
| Equal Pay / Single Status | 7.326 | 5.574 |
| General Reserve - Review of Reserves | 3.871 | 2.371 |
| General Reserve - Investment in Organisational Change | 0.722 | 0.000 |
| **Total** | **11.919** | **7.945** |
| **Specific Reserves** | | |
| Insurance | 0.778 | 0.761 |
| Benefits Equalisation | 0.105 | 0.105 |
| Supporting People | 0.832 | 0.353 |
| Building Control | 0.058 | 0.058 |
| Waste Disposal | 0.217 | 0.017 |
| Flintshire Business Services | 0.097 | 0.097 |
| Winter Maintenance | 0.250 | 0.250 |
| Design Fees | 0.120 | 0.120 |
| County Elections | 0.154 | 0.154 |
| Minor Reserves under £0.050m | 0.061 | 0.061 |
| **Total** | **2.672** | **1.976** |
| **Total Earmarked Reserves** | **16.288** | **10.887** |

**APPENDIX C**

| CABINET |
|---|

| | |
|---|---|
| **Date of Meeting** | Tuesday, 19 January 2016 |
| **Report Subject** | Council Fund Revenue Budget 2016/17 |
| **Cabinet Member** | Leader and Cabinet Member for Finance |
| **Report Authors** | Chief Executive and Corporate Finance Manager |
| **Type of Report** | Strategic |

## EXECUTIVE SUMMARY

This report presents the Council Fund Revenue Budget for the 2016/17 financial year for adoption by Cabinet and recommendation to Council.

Work on the budget is not yet complete. This is due to a combination of (1) the scale of the savings and efficiencies to be found given the challenge this unprecedented savings target poses and (2) the uncertainty over the national budget position and its impacts on the Council. Therefore, the budget is being presented to Cabinet in two stages over January and February prior to presentation, in a full and final form, to Council on 16 February 2016.

This first stage report presents the majority of the budget. The first phase the proposals contained within the first stage report (see Part B) have been examined and reviewed by the Overview and Scrutiny Committees throughout December 2015. The proposals are listed in the appendices, and individual fact sheets on each proposal will also be made available within January for reference. The second phase of proposals in this report are newly presented (see Part B).

The Provisional Local Government Settlement was announced by the Welsh Government on 9 December 2015. Whilst there is some uncertainty over a number of specific grants which fund individual services the announcement has sufficient detail for the scale of the funding 'gap' to be recalculated and for our budget proposals to be sized accordingly.

The on-going work to move to closing the budget, to be presented in final form in February, is summarised within this report. These further proposals will be examined by the respective Overview and Scrutiny Committees later in January 2016 prior to being formally presented to Cabinet for adoption.

The report at the end of part C presents a remaining budget gap of £1.598M having taken into account all budget proposals, both those pre-reported in December 2015, and those newly presented within this report. This gap rises to around £3.447M when taking into account new and emergent pressures which are listed and are under ongoing review. Should Cabinet approve the recommendations set out below then the ongoing work on the budget will be restricted to the activity described in Parts C and D of the report.

The report is set out in the following parts for the reader to navigate through the chronology of the budget and a complex set of budget proposals and considerations:-

Part A: Initial Forecasting of the Budget 'Gap' for 2015/16-2017/18 (1.01-1.03)
Part B: The Local Government Settlement, A Revised Forecast and the Budget Strategy for 2016/17 (1.04-1.20)
Part C: Plans for Closing the Budget (1.21-1.25)
Part D: Further Work to be Completed to Close the Budget (1.26-1.31)
Part E: Calculation of the Total Revenue Budget And Budget Requirement (1.32-1.36)

A list of tables within the report is set out below as a guide:-

Table 1: Service Business Plan Efficiency Proposal Targets 2016/17
Table 2: Corporate Financial Stewardship Proposal Targets 2016/17
Table 3: Impacts of the Settlement (as announced on 9 December)
Table 4: First Stage – Second Phase Proposals to Balance the Budget
Table 5: Summary of Proposals to Close the Budget Gap
Table 6: New and Emergent Pressures

| RECOMMENDATIONS |
|---|
| 1. To adopt the first stage – first phase of budget proposals for the Council Fund Revenue Budget 2016/17 for recommendation to Council. |
| 2. To adopt the first stage – second phase proposals for the Council Fund Revenue budget 2016/17 for referral to the respective Overview and Scrutiny Committees, and secondly to Cabinet and then final consideration by Cabinet in February |
| 3. To endorse the strategy for the ongoing work to seek to close the remaining budget 'gap' and recommend a balanced annual budget to Cabinet in February. |

**REPORT DETAILS**

| 1.00 | **Presenting the First Stage of the Council Fund Revenue Budget** |
|---|---|
| | **Part A: Initial Forecasting of the Budget 'gap' for 2015/16-2017/18** |
| 1.01 | In mid to late 2015 the Council published the new version of its Medium Term Financial Strategy (MTFS) in two parts: Part 1: *Forecasting the Challenge* and Part 2: *Meeting the Financial Challenge*. (attached as Appendices 1 and 2) |
| 1.02 | As set out in *Forecasting the Challenge*, a cumulative real reduction in resources available to the Council of £52.8M was forecast for the three year period 2015/16 to 2017/18. As explained within the MTFS this gap is a consequence of the combined impacts of:-<br><br>• reductions in the Revenue Support Grant from Welsh Government;<br>• reductions in specific grants from Welsh Government;<br>• no provision within the Local Government Settlement for pay and price inflation;<br>• limited or no provision within the Local Government Settlement for nationally recognised demand-led or policy-led cost pressures in services; and<br>• local service and corporate financing cost pressures. |
| 1.03 | At the time of publishing the MTFS the predicted funding gap for Flintshire for 2016/17 was £20.8M. The biggest determinant of the actual size of this gap is the level of reduction in the Revenue Support Grant to be allocated to Flintshire by Welsh Government as part of the Local Government Settlement. |
| | **Part B: The Local Government Settlement, a Revised Forecast and the Budget Strategy for 2016/17** |
| 1.04 | The Provisional Local Government Settlement for 2016/17 was announced by Welsh Government on 9 December 2015. As reported to both Cabinet and the Corporate Resources Overview and Scrutiny Committee in December the impacts of the Settlement, which was an improved Settlement on the forecast position, would reduce the predicted gap for 2016/17 by £3.770M to £17.030M. |
| 1.05 | The initial proposals for the first stage of the draft budget reported to Cabinet in December 2015, and examined by the Overview and Scrutiny Committees throughout the month, presented corporate efficiencies of £5.0M, and service portfolio efficiencies of £7.755M, (Revised figure) together totalling £12.755M. Prior to the announcement of the Provisional Settlement the remaining gap stood at £8.045M. The remaining gap had been reduced by £3.770M, to £4.275M, as a result of the Settlement. |
| 1.06 | A separate report is included within the agenda for this Cabinet meeting which proposes a response to the Settlement. A presentational summary of the Settlement and its impacts on Flintshire is included at Appendix 3. |

**Budget Strategy: Stage One – First Phase**

1.07 The Council's Budget Strategy, as set out in *Meeting the Financial Challenge*, builds on the work done within 2015/16 to achieve sizeable organisational change to reduce costs with the aim of protecting local public services. Following the implementation of a new corporate operating model in 2014, and the introduction of new style business plans for the services within each of the new Chief Officer portfolios, the organisation has been reformed at some pace with all service portfolios working to a target of 30% reductions in net costs over three years (with the exception of schools and social services).

1.08 This three year strategy has been underpinned by the principles of:-

- planning for the long-term as a whole organisation;
- making decisions for local public services which are sustainable;
- being ambitious and positive about change to better the organisation;
- having a clear philosophy underpinned by social value; and
- managing the transition from the current to the future with care.

1.09 The twin objectives of this major and sustained programme of change and cost reduction continue to be (1) maximising the financial efficiency of the organisation and better aligning our resources to priorities and (2) modernising the organisation to be lean, productive, efficient, resilient and high performing.

1.10 For the 2016/17 budget the strategy set out in *Meeting the Financial Challenge* proposed a three part set of solutions under the headings of:-

1. Service Reform
2. Corporate Finance Stewardship
3. Working with Welsh Government

1.11 A set of service reform net cost budget reductions drawn from the portfolio business plans with a set of corporate financing cost reductions were drawn together in mid-2015 and then developed throughout the second half of the calendar year as the first contribution to the annual budget for 2016/17. These combined proposals were shared with service management teams, Group Leaders and Chairs and Vice-Chairs then all members of the Council informally, prior to formal presentation to the Overview and Scrutiny Committees, for examination and review, throughout December 2015.

1.12 These proposals are summarised in Tables 1 and 2 below.

**Table 1: Service Business Plan Efficiency Proposal Targets 2016/17**

| **Portfolio** | **£M** |
|---|---|
| *Planning and Environment* | 0.413 |
| *Streetscene and Transportation* | 2.158 |
| *Social Care* | 0.838 |
| *Education and Youth* | 0.710 |
| *Community and Enterprise* | 1.509 |
| *People and Resources* | 0.250 |

| | |
|---|---|
| *Governance* | 0.535 |
| *Organisational Change* | 1.272 |
| *Chief Executive's* | 0.070 |
| ***Total*** | **7.755** |

*Footnote 1: the detail of individual proposals is set out in Appendix 9*
*Footnote 2: the above figures are based on the finalised costed proposals. The total figure of £7.755M is a reduction of £0.471M on the figures reported previously.*

**Table 2: Corporate Financial Stewardship Proposal Targets 2016/17**

| Subject and Proposal | £M |
|---|---|
| *Inflation Management*: part absorption of inflation risk | 1.0 |
| *Corporate Overheads*: selective reduction in provisions | 1.0 |
| *Schools Funding Formula*: controlled schools investment | 2.5 |
| *Local Income*: new and increased charging | 0.5 |

*Footnote: the above figures are based on the finalised costed proposals*

1.13 The outcomes of the Overview and Scrutiny examination round of meetings are summarised in the presentation slides given to the Corporate Resources Overview and Scrutiny Committee at the close of this series of meetings (see Appendix 4). All members were invited to this final meeting. Few of the budget proposals were highlighted by the Committees for either clarification or further consideration. Those proposals which were highlighted were re-explained to the satisfaction of the Corporate Resources Overview and Scrutiny Committee at this closing meeting. Therefore, all proposals remain for recommendation and adoption noting that some carry risks of either complexity or time delay in their deliverability.

**National Campaigning**

1.14 For the third part of the strategy Flintshire has engaged in intensive activity in making the case for local government prior to the announcement of the Provisional Local Government Settlement by Welsh Government. This was done through collective campaigning through the Welsh Local Government Association (WLGA), and separately as an individual council exposed to the risks of major reductions in its national funding. The campaigning was based on the coherent arguments made in *Meeting the Financial Challenge*. This campaigning work has proven to be effective with the Welsh Government announcing a better than expected financial settlement for local government. However, several principal issues on which local government and Flintshire campaigned remain unresolved (see the accompanying report on the Provisional Local Government Settlement).

**Community Engagement**

1.15 For the 2015/16 budget the Council ran a public engagement exercise called *The Big Budget Conversation*. This exercise was largely internet and media based. For 2016/17 the Council built on the learning from this exercise and ran a new community engagement exercise under the heading of *This is Your Moment*. Whilst drawing on internet resources, and making use of the media, the exercise was broadened with seven public meetings being held across the County as the main method of explanation and engagement. A

| | |
|---|---|
| | summary report of the community engagement exercise is attached at Appendix 5. |
| 1.16 | The Council also drew in local stakeholders in its national campaigning work. A number of local stakeholders from the public, business and voluntary sectors, and from the schools community and Trade Union community, took an active part in making the case for local government and for Flintshire. |
| | **Budget Strategy: Stage Two – Second Phase** |
| 1.17 | As summarised in 1.03 the initial forecast budget 'gap' was £20.8M. If the first phase combined corporate budget proposals and service business plans budget proposals were approved, this gap, prior to taking into account the impacts of the Provisional Local Government Settlement, would be reduced to £8.045M based on the figures reported previously. |
| 1.18 | To achieve a balanced budget for recommendation to Council two actions remain. Firstly, to take into full account the impacts of the Provisional Settlement on the assumption that although in draft form and open to consultation, the Final Settlement, to be announced in March 2016, will not worsen the position for Flintshire. Secondly, to identify and examine further options to close the remaining gap. |
| 1.19 | As Table 3 illustrates the Provisional Settlement has had a positive effect in restoring income of £3.770M. |

**Table 3: Impacts of the Settlement (as announced on 9 December 2015)**

| Subject | Calculation and Risk Mitigation | £M |
|---|---|---|
| *Revenue Support Grant* | Reinstate Revenue Support Grant as the difference between a forecast 3.5% loss and the actual 1.5% loss in the Provisional Local Government Settlement.<br><br>*Acceptability Risk*: none<br>*Workability Risk*: none | 3.370 |
| *Council Tax Base* | Increase base provision due to the 2015 forecast of qualifying property numbers in the County and due to the outcome of the on-going Single Person Discount Review.<br><br>*Acceptability Risk*: none<br>*Workability Risk:* low as based on accurate projections. | 0.400 |
| | | **Sub-Total: £3.770M** |

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| 1.20 | The remaining gap (£8.045M) has been reduced by £3.770M, to £4.275M, as a result of the Settlement, before taking into account new and emergent pressures and any revisions to the detailed calculations for the budget proposals reported in December. The original forecast for pressures dates back to mid-2015. The reassessment of pressures, detailed at 1.24 below, will need to be taken into account in resizing the budget gap and in reaching |

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| | a balanced budget. Additional pressures of a value of £1.849M have been identified and are listed in table 6. Their cost, and the likelihood of the pressures materialising in year, are under review. |
| | **Part C: Plans for Closing the Budget** |
| 1.21 | A commitment has been made by Cabinet, the Chief Executive and the Chief Officers to aim to close the remaining gap through corporate financing solutions, as far as possible, and to avoid introducing new and late service cost reduction options which would be of concern to elected members and the public. |
| 1.22 | Table 4 sets out the second phase of proposals to close the remaining gap. |

**Table 4: First Stage – Second Phase Proposals to Balance the Budget**

| **A: Further Impacts of the Provisional Local Government Settlement** | | |
|---|---|---|
| **Subject** | **Calculation and Risk Mitigation** | **£M** |
| *Welsh Independent Living Grant (formerly Independent Living Fund)* | Late confirmation that the Grant has not been included in the core Settlement and will continue to be funded for a further year as a specific grant. The value of the potential loss of grant to Flintshire is £0.450Mand was identified as a national pressure in the MTFS. The net value of this positive confirmation, following deduction of administration costs, is £0.412M.<br><br>*Acceptability Risk*: none<br>*Workability Risk*: none for 2016/17 noting that the grant is not guaranteed for future years | 0.412 |
| | | **Sub-Total: £0.412M** |
| **B: Adjustment of Local Pressures** | | |
| **Subject** | **Calculation and Risk Mitigation** | **£M** |
| *Recalculation of Schools Based Cost Pressures (Education and Youth)* | Recalculation of schools based cost pressures following a detailed reassessment of pressures including pay and pensions based on current employment figures.<br><br>*Acceptability Risk*: none<br>*Workability Risk*: low as based on latest figures and funding is pass-ported to schools through a modernised and transparent schools funding formula. | 0.350 |
| *Reassessment of cost pressure for care support for transition from childhood to adulthood (Social Care)* | The cost pressure for meeting the costs of complex care packages for individuals in the care of the Authority and transitioning from childhood to adulthood, has been reassessed based on (1) the latest information on the individual assessments of need and (2) success in negotiations with Betsi Cadwaladar University Health Board | 0.451 |

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| | over their funding contributions as a care partner (a £0.300M gain). The calculated case cost pressures are identified as a local pressure in the MTFS. The total value of the pressure was forecast to be £0.923M for 2016/17. The pressure can now be reduced to £0.472M.<br>*Acceptability Risk*: none<br>*Workability Risk*: low as based on latest case by case projections and funding agreements between the Council and Betsi Cadwaladar University Health Board. | |
| *Employer Pension Contributions* | The obligations upon the Council as an employer to fund the Clwyd Pension Fund are under continuous review. No more so than in a period of organisational change where (1) the workforce is being reduced in number through a combination of organisational re-design and employees choosing to leave through voluntary redundancy or retirement and (2) the impacts of change such as the Single Status Agreement are being worked through. Employer pension contributions are identified as a workforce pressure in the MTFS. The total value of the combined pensions pressures was forecast to be £5.655M for 2016/17. The pressure can now be reduced by £0.460M based on the latest review.<br>*Acceptability Risk*: none<br>*Workability Risk*: low as based on latest workforce number projections. | 0.460 |
| | | **Sub-Total: £1.261M** |
| **C: Corporate Financing Risk Management** | | |
| **Subject** | **Calculation and Risk Mitigation** | **£M** |
| *Inflation Provision for 2015/16* | The centrally held provision for meeting inflation costs has not being called upon in full, within 2015/16, as the Council has been able to either mitigate or absorb the costs within its base budgets allocated to services. There is also an underspend remaining for Non Standard Inflation (NSI) provided as part of a carry-forward from 2014/15. This is no longer required in the base. The provision can therefore be revised by £0.350 for a recalculation for 2016/17.<br><br>*Acceptability Risk*: none<br>*Workability Risk*: low as based on actual trends in inflation in costs as opposed to forecasts. | 0.350 |
| *Price and Non Standard* | The Council holds a central provision for Non Standard Inflation (NSI) to cover | 0.654 |

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| *Inflation (NSI) Provision for 2016/17* | fluctuations in energy, fuel and food (mainly schools catering) market prices. Full provision was made in the inflation forecasted figure within the MTFS to meet NSI cost pressures. Market intelligence suggests zero inflation or deflation in the fuel market, and reasonable levels of predictability for energy and food prices which may have peaked. Based on current inflation trends, and the organisational 'appetite' for absorbing inflation pressures in part, the provision can be removed.<br><br>The Council has in the past met the forecast costs of specific service inflationary pressures in full. These costed pressures are also included in the forecast for Inflation Pressures included in the MTFS. Based on a similar assessment to that summarised above for NSI, the provision can be reduced by 50%.<br><br>The combined value of these reductions in provision for inflation is £0.654M.<br><br>*Acceptability Risk*: low as based on a calculated risk assessment between the Chief Officer Team and the Finance Team<br>*Workability Risk*: medium as full provision for predicted inflation is no longer provided. | |
| | | **Sub-Total: £1.004M** |
| | | **Total: £2.677M** |

1.23 The combined total of the initial proposals to close the remaining budget gap, as set out in Table 4 above, is £2.677M. Therefore, the remaining gap, before taking into account new and emergent pressures, is £1.598M, as shown in Table 5.

**Table 5: Summary of Proposals to Close the Budget Gap**

| **Source** | **Calculation** | **£M** |
|---|---|---|
| MTFS | Original Forecast Gap | - 20.800 |
| Table 1 | Service Business Plans Proposals | +7.755 |
| Table 2 | Corporate Financial Stewardship Proposals | +5.000 |
| Table 3 | Impacts of the Settlement | +3.770 |
| Table 4A | Further Impacts of the Provisional Local Government Settlement | +0.412 |
| Table 4B | Adjustment of Local Pressures | +1.261 |
| Table 4C | Corporate Financing Risk Management | +1.004 |
| | **Remaining Gap Based on the Original Forecast:** | **-£1.598M** |
| | | |

| | New and Emergent Pressures |
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| 1.24 | The new and emergent pressures which have been identified over the winter months since the MTFS forecast, and which are currently under examination, are set out below. The cost calculation for each pressure, and the likelihood of each pressure materialising in-year and if so their impacts, are being assessed in detail. A full report will be made to Cabinet in February 2016 on the outcome of this work and the need for budget provision to be set aside to protect the Council from in-year pressures. |

**Table 6: New and Emergent Pressures**

| **Income Pressures** | **Detail** | **£M** |
|---|---|---|
| *Recycling Income* | Fall in income from the sale of recyclates (plastic, metals etc) due to an oversupply in the global recycling market. | 0.419 |
| *Sustainable Recycling Grant* | Reduction in the level of grant funding allocated to local authorities by Welsh Government for 2016/17 within the new Single Environment Grant in 2016/17. | 0.276 |
| *Animal Health & DEFRA Grant* | Shortfall due to ending of a partnership with Wrexham County Borough Council. | 0.044 |
| *Leisure Income* | Lower than projected income levels achieved for the customer use of Deeside Ice Rink, Deeside Leisure Centre. | 0.070 |
| *Housing Benefit Subsidy* | Loss of subsidy claimable from Government for Housing Benefit paid out to claimants (this claim is still under review and the position may improve). | 0.193 |
| **Unachieved Efficiencies Carried Forward from 2015/16** | | |
| *Workforce Efficiency Proposal* | Unable to achieve proposed annual leave 'buy back' and extended use of pool car schemes due to the workability of the schemes (the reduction of car use costs may be re-included in the 2016/17 draft budget). | 0.200 |
| *Review Model/Costs contract for Catering* | Efficiency deferred due to ongoing work to move to an Alternative Delivery Model (ADM) for the catering | 0.050 |

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| | | service (final business case to be presented in February 2016). | |
| | *Regional Approach to Advocacy* | The regional tendering exercise did not deliver the level of projected financial savings in full. | 0.048 |
| | *Funding to Voluntary Sector (Social Care)* | Adjustment to the forecast efficiency following review of the portfolio of funded provider organisations. | 0.138 |
| | *Remittance Advice to Landlords* | Adjustment to original efficiency based on the workability of the scheme, | 0.041 |
| | **New Pressures** | | |
| | *Procurement* | Increased cost of the Joint Procurement Service with Denbighshire County Council based on service needs to achieve procurement income targets and apportionment of costs with the partner council. | 0.028 |
| | *Matrix (Sub-regional contract for procuring agency workers)* | Reduction in costs savings per agency worker employed achieved through a more competitive procurement framework due to the lower levels of agency workers being taken on by the Council as an employer. | 0.050 |
| | *Animal Feed Control* | Pressure due to the funding transferring out of the Provisional Settlement for 2015/16. | 0.022 |
| | **Sub total** | | **1.579** |
| | **Transitional Funding Adjustment 2015/16 Budget** | | |
| | Funding from Reserves | As part of the 2015/16 budget strategy a temporary amount of £0.270m was utilised to balance the budget. This technical adjustment reverses the impact on the base budget for 2016/17. | 0.270 |
| | **Total** | | **1.849** |
| 1.25 | Taking into account the new and emergent pressures the remaining budget gap therefore increases to £3.447M. However, the pressures included at this stage will be subject to review and challenge as part of the finalisation of the budget and any changes included in the final report in February 2016. | | |

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| | **D: Further Work to be Completed to Close the Budget** |
| 1.26 | Work is ongoing to identify further budget reduction options in the areas of workforce costs, and the use of reserves and balances. The new and emergent pressures are also being reviewed in detail. The outcomes of this work will similarly be reported to Cabinet in February 2016. |
| | **Council Tax Income** |
| 1.27 | The MTFS forecast was based on a working assumption that Council Tax would be increased in 2016/17 by 3%. As set out in the MTFS, explained in presentations in meetings within the Council, and tested with the public in the community engagement meetings, the Council can set an annual taxation rise up to a 5% maximum. The final taxation figure will need to be considered by Cabinet and then Council in February 2016. |
| 1.28 | Given the remaining budget gap, as set out in Table 5, and the outstanding work on the examination of new and emergent pressures, the level at which Council Tax will need to be set will require serious consideration. For planning purposes a rise of 5% will need to be built in to assumptions. The difference in value between a 3% Council Tax rise, and a 5% Council Tax rise, having deducted a provision to meet the additional benefits contributions to those eligible under the Council Tax Reduction Scheme (CTRS), would be £1.131M. A number of Welsh Councils are under a similar budget pressure and are considering a maximum annual Council Tax rise at 5%. |
| 1.29 | In setting its budget on 16 February the Council will need to decide the level of Council Tax increase it is going to make for 2016/17. The Council will meet again on 1 March to pass the formal resolution for levying the Council Tax once it has received the notification of the precepts from the town and community councils. Intelligence on the Final Local Government Settlement should become available in between the two meetings. Keeping the option open to set an annual rise of 5% will be important should the Council's financial position be worsened by any change to the Final Settlement which would have the effect of creating an additional financial pressure to be reconciled in setting the budget. |
| 1.30 | A full risk assessment of the final budget proposals will be presented to Cabinet and Council in February 2016. Risks that will require detailed consideration include:-<br><br>• the impacts of specific grant reductions;<br>• mitigating inflationary impacts;<br>• achieving income targets;<br>• achievement of efficiencies on time and to financial target;<br>• the capacity of the organisation to manage large scale and complex change programmes;<br>• new and emergent pressures;<br>• use and reliance on reserves and balances; and<br>• the availability of limited remaining reserves to meet unforeseen pressures in-year. |

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| 1.31 | The Chief Finance Officer and Chief Executive will advise Cabinet and Council in February 2016 with their risk assessments in their formal statutory advisory roles. |
| | **Part E: Calculation of the Total Revenue Budget And Budget Requirement** |
| | **Proposed Budget** |
| 1.32 | At this point in the budget planning there is a remaining budget gap on the recurring base budget of 3.447MM as detailed in the table below:<br><br>Sections 1.33- 1.46 below set out further details and assumptions made:- |

| **<u>Funding</u>** | **£M** |
|---|---|
| Aggregate External Funding (AEF)/RSG NNDR | 184.743 |
| Council Tax | 66.275 |
| **SSA/Budget Requirement** | **251.018** |
| Specific Grants (Estimated) | 34.159 |
| **Total Funding** | **285.177** |
| **<u>Expenditure</u>** | |
| Base Budget Rolled Forward | 287.605 |
| Prior Yr Budget Decisions Recurring (Appendix 6) | 8.845 |
| Prior Yr Budget Decisions One off dropping out (Appendix 6) | (0.730) |
| Inflation (Appendix 7) | 2.193 |
| Pressures & Investments Recurring (Appendix 8) | 1.964 |
| Efficiencies - Business Planning (Appendix 9) | (7.755) |
| Efficiencies - Corporate Finance (Appendix 10) | (2.510) |
| Less Specific Grants 2015/16 | (35.147) |
| Plus Specific Grants 2016/17 (Estimated Appendix 11) | 34.159 |
| **Total Expenditure** | **288.624** |
| **Shortfall** | **3.447** |

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| | **Resources** |
| 1.33 | Total resources of £285.177M include funding from Revenue Support Grant (RSG), National Non Domestic Rates (NNDR), Council Tax and Specific Grants. The provisional settlement confirmed that the former unhypothecated Outcome Agreement Grant would cease in 2016/17, although there is no financial impact on the overall budget as it has transferred into the Settlement at the same value (£1.479m). |
| 1.34 | Currently, the amount to be raised from Council Tax is assumed as an increase in the Band D Council Rate of 3.0% (excluding Police and Town/Community Council precepts) and a 99% collection rate. This equates to an increase of £30.76 on 2015/16 and a Band D rate of £1,056.03. At 3%, this assumption is at the lower end based on the Council's local taxation policy set out in the Medium Term Financial Strategy and, as such, will need to be one of the factors to be reviewed in closing the remaining budget gap (see part D) |
| 1.35 | A 3.0% increase in the Band D Rate results in a Budget Requirement of £251.018m. |
| 1.36 | As the Council's proposed increase in the Band D rate differs from that assumed by Welsh Government when calculating Flintshire's Standard Spending Assessment (SSA), the budget requirement is £2.713M below its calculated SSA of £253.731m as notified in the Provisional Settlement. The specific grants figure of £34.159M is provisional, with the Welsh Government yet to advise of the 2016/17 level for a number of grants. However, in line with the Council's MTFS, expenditure levels need to be managed within the final figures announced by the Welsh Government. Appendix 11 details the information received from Welsh Government to date. |
| | **Expenditure** |
| 1.37 | *Previous Year Growth / Items Dropping Out*<br>Each year indicative amounts for previous year's pressures and investments and efficiencies are included in the budget for the following two years. In the current budget the net effects of the changes agreed in 2014/15 and 2015/16 equate to a net increase of £8.845m for recurring items and a reduction of £0.730m in relation to one-off items of expenditure as detailed in Appendix 6. These amounts have been reviewed as part of the 2016/17 budget and where appropriate an adjustment made to reflect the current position. |
| 1.38 | *Pay and Price Inflation*<br>Inflation of £2.193m is shown in detail in Appendix 7 |
| 1.39 | The proposals at this stage assume a 1% increase on pay from April 2016, although the outcome of national negotiations has yet to be agreed. |
| 1.40 | Price inflation of £0.573m has been included in the draft proposals for some targeted service areas following a detailed assessment. |

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| 1.41 | Based on market intelligence and recent spend history there is no above standard inflation allocation required for 2016/17. |
| 1.42 | Income inflation amounting to £0.185M has been assumed on the yield from existing fees and charges. |
| 1.43 | The inflation figures referred to above exclude inflation on specific grant income and related expenditure as the specific grant figures are indicative only at this stage. Adjustments will be applied when the figures are confirmed by the Welsh Government but this will be cost neutral to the Council. |
| 1.44 | There were no transfers in to the Settlement in relation to former Specific Grants. |
| 1.45 | Appendix 8 sets out the recurring pressures and investment of £1.964M included in the 2016/17 budget over and above the impact of previous year decisions and includes the new and emergent pressures that will be subject to further review. |
| 1.46 | Information on the efficiency proposals are detailed in Appendix 9 with an amount of £7.755M arising from the portfolio Business Plans and £2.510M arising from the Corporate Financing options. |
| | **Schools Budget** |
| 1.47 | Under the School Funding (Wales) Regulations 2010, local authorities are required to notify Welsh Government of the proposed budget for schools for the forthcoming year by 14th February each year. The First Minister has indicated his commitment to protect schools funding in 2015/16 by 1% above the change in the overall Welsh Government budget. For 2016/17 this equates to 1.85%. It should be noted that the protection expectation is relative to Welsh Government's funding from the UK Treasury and not the level of Individual Council settlements from Welsh Government. |
| 1.48 | The current budget proposals meet the First Minister's expectation of protecting schools, although the Council will continue to review investment in schools, particularly for inflationary pressures. The Council is also committed to increasing the amount of the school budget delegated to schools progressively. This is within the strategic framework which embraces the school modernisation programme, numbers of children in school (demographic change) and investment through the 21st Century Schools Programme. |
| 1.49 | The Welsh Government has indicated that in line with ongoing plans to streamline the education grants regime the Education Improvement Grant (EIG) will transfer into RSG in 2016/17, the formula basis of distribution of this grant through RSG has yet to be announced. Welsh Government have indicated that it is likely that the funding for EIG will be reduced but the amount of this reduction is not known at this time. |
| 1.50 | Based on recent intelligence on Post 16 funding levels we are anticipating a flat line budget in 2016/17. However, it should be noted that as post 16 provision in certain schools will cease in September 2016 when the new |

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| | post 16 hub opens at Coleg Cambria the total funding Flintshire receives will be reduced. |
| 1.51 | Welsh Government have announced an increase of £100 per pupil eligible for Pupil Deprivation Grant (PDG). Based on the number of pupils eligible for Free School Meals this equates to an increase in funding of £0.275M in 2016/17. The total increase in funding for schools in Flintshire for PDG in 2016/17 arising from the per pupil increase and due to the overall increase in pupils eligible for Free School Meals is £0.477M (18%). |
| | **Equality Impact Assessment** |
| 1.52 | The Council has an obligation to assess the potential equalities impact of its budget proposals to ensure that there is no discrimination or disadvantage to either service users or employees. The Council has included consideration of any equalities impacts within its risk assessment process for the budget proposals. Reference to the risk assessments is made in the factsheets which provide detail behind each budget proposal. |
| | **EARMARKED AND UNEARMARKED RESERVES** |
| | **Base Level of Unearmarked Reserves** |
| 1.53 | The Council's Medium Term Financial Strategy confirms the Council's commitment to maintaining a base level of reserves of 2% of turnover. The current base level of reserves is £5.769m as reported in the monthly budget monitoring reports. Despite the fact that funding has reduced in 2016/17 over 2015/16 it is proposed that un-earmarked reserves are maintained at the same level for 2016/17 which will provide an additional safeguard in the current uncertain financial climate. |
| | **Contingency Reserve** |
| 1.54 | When the 2015/16 budget was set the Contingency Reserve was estimated to be £3.955M at 31 March 2015. As a result of the net underspend reported in the final outturn for 2014/15 the actual amount in the Contingency Reserve at the year-end was £4.746mm. |
| 1.55 | The 2015/16 Month 7 Budget Monitoring report which is also on this agenda, shows an estimated balance of £4.923mm in the contingency reserve as at 31 March 2016, although there are two specific recommendations in the report which if approved will reduce the amount to £4.023M. |
| 1.56 | Whilst the base level of reserves is a known sum which is set aside, the level of contingency reserve is based on the current estimate and is subject to change at the end of the financial year. |

| **2.00** | **RESOURCE IMPLICATIONS** |
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| 2.01 | The resource implications of the budget position are significant. These are explained within this report, previous reports, and the MTFS. |

| 3.00 | **CONSULTATIONS REQUIRED / CARRIED OUT** |
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| 3.01 | Consultations have been undertaken internally with elected members, senior officers and their service teams, and Trade Unions. Consultations have been undertaken externally via the publication and distribution of the MTFS, and with the public as set out in the report and in the appendices. |

| 4.00 | **RISK MANAGEMENT** |
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| 4.01 | The national reductions in funding for local government pose the greatest risk to the governance, performance and sustainability of the Council since the previous reorganisation in the mid-1990s. This risk is being mitigated through a twofold approach. Firstly, the Council continuing to streamline and innovate. Secondly, by working with Welsh Government to seek some support and relief from budget reductions based on a reasoned case. This twofold approach is set out in the Part 2 of the MTFS *Meeting the Challenge*. |
| 4.02 | The risks posed to the plans to change and innovate within specific services are managed through assessing the risks and impacts of change as part of framing options and making decisions. Effective programme management arrangements are in place to oversee the implementation of the Chief Officer portfolio business plans and to manage these risks in close detail, with reports being made to Cabinet and Overview and Scrutiny at key stages of decision-taking and, later, performance reporting and evaluation. |

| 5.00 | **APPENDICES** |
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| 5.01 | **Set One: General Background**<br>Appendix 1: Draft Medium Term Financial Strategy 2015-2018 Part 2: *Meeting the Challenge*<br>Appendix 2: Published Medium Term Financial Strategy 2015-2018 Part 1: *Forecasting the Challenge*<br>Appendix 3: Summary of the Provisional Local Government Settlement 2016/17 as presented to Cabinet in December 2015<br>Appendix 4: The presentation materials for the Corporate Resources Overview and Scrutiny Committee which met at the close of the examination round of the first stage budget proposals in late December<br>Appendix 5: Report of the Community Engagement Activity November-December 2015 |
| 5.02 | **Set Two: Detailed Budget Financial Appendices**<br>Appendix 6: Prior Year Budget Decisions<br>Appendix 7: Inflation<br>Appendix 8: Pressures and Investments<br>Appendix 9: Business Plan Efficiency Proposal Spreadsheets (in support of Table 1 of the report)<br>Appendix 10: Efficiencies Corporate Financing<br>Appendix 11: Specific Grants |

| 6.00 | LIST OF ACCESSIBLE BACKGROUND DOCUMENTS |
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| 6.01 | 1. The agendas, minutes and presentation materials from previous Cabinet and Overview and Scrutiny Committee meetings from mid-2015 onwards (all available on www.flintshire.gov.uk)<br>2. The separate report on the Provisional Local Government Settlement also on the Cabinet agenda for 19.01.16 (available on www.flintshire.gov.uk)<br>3. The Provisional Local Government Settlement 2016/17 http://gov.wales/about/cabinet/cabinetstatements/2015/lgsettlement1617/?lang=en |

| 7.00 | GLOSSARY OF TERMS |
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| | **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.<br><br>**Council Fund:** the majority of the Council's revenue expenditure covering all services except Council Housing for which there is a stand-alone and ring-fenced account called the Housing Revenue Account (HRA).<br><br>**Annual Settlement:** the amount of its funds the Welsh Government will allocate annually to local government as a whole, as part of its total budget, and to individual councils one by one. The amount of Revenue Support Grant (see below) each council will receive is based on a complex distribution formula for awarding Aggregate External Finance (AEF). The formula is underpinned by assessments of local need based, for example, of population size and demographics and levels of social deprivation.<br><br>**Aggregate External Finance (AEF):** the total amount of support the Welsh Government provides to councils each year. The total is made up of Revenue Support Grant (see below), a share of the national 'pool' of National Non-Domestic Rates (see below) and a number specific grant where funds are provided for councils to spend on specified services to achieve pre-set outcomes for example in education or waste collection.<br><br>**Local Government Funding Formula:** the system through which the annual funding needs of each council is assessed at a national level, and from which each council's annual AEF (see above) is derived. The formula is very complex. In summary, using information such as statistics on local population change and deprivation, the formula sets a guide for each council's funding needs called the Standard Spending Assessment (SSA).<br><br>**Revenue Support Grant:** the annual amount of money the Council receives from Welsh Government to fund what it does alongside the Council Tax and |

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| | 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.<br><br>**National Non-Domestic Rates:** the business equivalent of the Council Tax where companies pay a property based tax for local services. Each council as the local collection authority collects the tax from companies, pays it into a national 'pool', and then receives a share back as part of its Annual Settlement (see above). |

| FLINTSHIRE COUNTY COUNCIL |
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| **Date of Meeting** | Tuesday, 16 February 2016 |
| **Report Subject** | Council Fund Capital Programme 2016/17 and indicative programme to 2019/20 |
| **Report Author** | Chief Executive, Chief Officer, Organisational Change, Corporate Finance Manager |

**EXECUTIVE SUMMARY**

This report proposes the 2016/17 Council Fund Capital Programme and indicative programme for 2017/18 - 2019/20.

Initial proposals were considered by the Corporate Resources Overview and Scrutiny Committee on 18th December 2015 (a meeting which was open to all Members), where Members has the opportunity to offer comments and ask questions to clarify issues.

Earlier today Cabinet considered the final proposals, which were unchanged from the initial proposals. A copy of the report is attached at Appendix A which provides full explanation to the recommendations below.

The proposals in the report are linked to the 'Capital Strategy and Asset Management Plan 2016 – 2020', which Cabinet were recommended to approve earlier today. A copy of the report is attached at Appendix B for information.

| RECOMMENDATIONS | |
|---|---|
| 1 | Approve the allocations in Table 2 (paragraph 1.07) of the Cabinet report for Statutory/Regulatory and Retained Assets sections of the Council Fund Capital Programme 2016/17 - 2019/20 |
| 2 | Approve the schemes included in Table 3 (paragraph 1.11) of the Cabinet report for the Investment section of the Council Fund Capital Programme 2016/17 - 2019/20 |

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| 3 | Continue to support the existing process of allocating capital receipts to fund capital schemes generally only when the receipts have been actually received (paragraphs 1.03 and 1.04) of the Cabinet report |

**REPORT DETAILS**

| **1.00** | **CAPITAL PROGRAMME 2016/17 - 2019/20** |
|---|---|
| 1.01 | Please see attached Cabinet report at Appendix A |

| **2.00** | **RESOURCE IMPLICATIONS** |
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| 2.01 | Please see attached Cabinet report at Appendix A |

| **3.00** | **CONSULTATIONS REQUIRED / CARRIED OUT** |
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| 3.01 | Please see attached Cabinet report at Appendix A |

| **4.00** | **RISK MANAGEMENT** |
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| 4.01 | Please see attached Cabinet report at Appendix A |

| **5.00** | **APPENDICES** |
|---|---|
| 5.01 | Appendix A – Report to Cabinet 16th February 2016: Council Fund Capital Programme 2016/17 and indicative programme to 2019/20.<br><br>Appendix B – Capital Strategy and Asset Management Plan 2016 – 2020. |

| **6.00** | **LIST OF ACCESSIBLE BACKGROUND DOCUMENTS** |
|---|---|
| 6.01 | Various working papers<br><br>**Contact Officer:** Liz Thomas – Technical Finance Manager<br>**Telephone:** 01352 702289<br>**E-mail:** liz.thomas@flintshire.gov.uk |

| **7.00** | **GLOSSARY OF TERMS** |
|---|---|
| 7.01 | Please see attached Cabinet report at Appendix A |

APPENDIX A

| CABINET |
|---|

| | |
|---|---|
| **Date of Meeting** | Tuesday 16th February 2016 |
| **Report Subject** | Council Fund Capital Programme 2016/17 and indicative programme to 2019/20 |
| **Portfolio Holder** | Leader of the Council and Cabinet Member for Finance |
| **Report Author** | Chief Executive, Chief Officer, Organisational Change, Corporate Finance Manager |
| **Strategic / Operational** | Strategic |

## EXECUTIVE SUMMARY


This report proposes the 2016/17 Council Fund Capital Programme and indicative programme for 2017/18 - 2019/20.

The report is linked with the 'draft Capital Strategy and Asset Management Plan 2016 – 2020' agenda item, where it is proposed to split the Council Fund Capital Programme into 3 sections; Statutory / Regulatory, Retained Assets and Investment sections.


| RECOMMENDATIONS | |
|---|---|
| 1 | Cabinet is invited to recommend to Council on 16th February 2016:<br><br>• Approval of the allocations in Table 2 (paragraph 1.07) for Statutory/Regulatory and Retained Assets sections of the Council Fund Capital Programme 2016/17 - 2019/20<br><br>• Approval of the schemes included in Table 3 (paragraph 1.11) for the Investment section of the Council Fund Capital Programme 2016/17 - 2019/20<br><br>• Continued support for the existing process of allocating capital receipts to fund capital schemes generally only when the receipts have been actually received (paragraphs 1.03 and 1.04) |

## REPORT DETAILS

| 1.00 | CAPITAL PROGRAMME 2016/17 - 2019/20 |
|---|---|

**Projected Funding Available 2016/17 - 2019/20**

1.01 Table 1 below shows the general capital funding currently projected to be available to fund the capital programme over the next 4 years.

**Table 1**

**ESTIMATED AVAILABLE FUNDING 2016/17 - 2019/20**

| | 2016/17 £m | 2017/18 £m | 2018/19 £m | 2019/20 £m | Total £m |
|---|---|---|---|---|---|
| **Funding (Excluding Specific Funding)** | | | | | |
| Unhypothecated Supported Borrowing (USB) [1] | 4.181 | 4.181 | 4.181 | 4.181 | 16.724 |
| General Capital Grant (GCG) [1] | 2.544 | 2.544 | 2.544 | 2.544 | 10.176 |
| Capital Receipts Available (As at M6 2015/16) | 2.629 | 0.000 | 0.000 | 0.000 | 2.629 |
| **Total** | **9.354** | **6.725** | **6.725** | **6.725** | **29.529** |

1 As per 16/17 Provisional Settlement.

1.02 Table 1 above assumes that the Unhypothecated Supported Borrowing allocation and the General Capital Grant received from Welsh Government (WG) in the years 2016/17 to 2019/20 remains the same as the information provided in the 2016/17 provisional financial settlement for Welsh local government. Welsh Government will not publish the final settlement until March 2016.

Compared with 2015/16 final financial settlement the Unhypothecated Supported Borrowing allocation has reduced by £0.089m and General Capital Grant by £0.054m, a total reduction of £0.143m.

1.03 The only capital receipts included in the total funding available in Table 1 are those that have been received to date (£2.629m). That is 2014/15 receipts - unspent in 2015/16, and 2015/16 receipts (to date, as at the month 6 capital monitoring report 2015/16) - unspent in 2015/16.

This strategy continues and builds upon the prudent policy of allocating capital receipts to fund capital projects; (which are predominately investment schemes, larger and more complex to deliver), when these receipts are actually received rather than when we anticipate the receipt.

Further receipts received in 2015/16 will be retained for allocation to investment schemes or urgent capital requirements in year or in future years. The current estimate is for a further £2.1m to be received by the end of 2015/16.

| | |
|---|---|
| 1.04 | Future capital receipts over the period 2016/17 – 2019/20 are estimated to be in the region of £10.067m, which will be retained and allocated to investment schemes or urgent capital requirements when received. |
| 1.05 | The figures in Table 1 relate to the Council Fund only with the HRA Capital Programme being reported separately on this agenda. |
| | **Capital Programme 2016/17 – 2019/20** |
| 1.06 | The draft Capital Strategy and Asset Management Plan has been developed during the latter part of 2015 and proposes to split the Capital Programme into 3 sections; Statutory / Regulatory, Retained Assets and Investment Programmes (as detailed below). As the document is still in draft when setting the Capital Programme it is important to note that 2016/17 is a transitional year to enable services to prepare business cases to draw from the investment fund.<br><br>1. Statutory / Regulatory section – annual allocation to cover regulatory and statutory works. Examples include; providing support to improve and adapt private sector homes (Disabled Facilities Grants), adaptations to schools for children with disabilities, any works required to keep buildings open by Health and Safety requirements etc. Funded generally by General Capital Grant and Unhypothecated Supported Borrowing allocation.<br><br>2. Retained Assets section – annual allocation to fund schemes that maintain, enhance and improve retained assets to deliver services. Significant needs identified by service plans / condition surveys etc. Service areas are Schools, Highways, and Corporate Offices. Funded generally by General Capital Grant and Unhypothecated Supported Borrowing allocation.<br><br>3. Investment section – new schemes arising from Portfolio business plans, the Improvement Plan, other relevant and emerging plans, and other strategies or emerging Council priorities approved through a selection process based on the provision of a sound business case. Funded generally by Capital Receipts and Debt / Alternative source of funding.<br><br>Items 1.06.01 and 1.06.2 above are similar to the current core capital programme but are much reduced compared with current expenditure levels to create appropriate capacity to fund the Investment section of future larger and/or more complex capital projects. |
| | **Statutory / Regulatory and Retained Asset Allocations – 2016/17 – 2019/20** |
| 1.07 | Table 2 shows the proposed allocations for the period 2016/17 - 2019/20 for the Statutory / Regulatory and Retained Asset sections of the Capital Programme. |

**Table 2**

## PROPOSED ALLOCATIONS 2016/17 - 2019/20

| | 2016/17 £m | 2017/18 £m | 2018/19 £m | 2019/20 £m | Total £m |
|---|---|---|---|---|---|
| **Statutory / Regulatory Section** | | | | | |
| DD Act - Individual Pupils | 0.250 | 0.250 | 0.250 | 0.250 | 1.000 |
| Private Sector Renewals & Improvements | 1.465 | 1.000 | 1.000 | 1.000 | 4.465 |
| Housing Renewal Area Support | 0.190 | 0.000 | 0.000 | 0.000 | 0.190 |
| School Building Works | 0.100 | 0.100 | 0.100 | 0.100 | 0.400 |
| Corporate Property Works | 0.300 | 0.300 | 0.300 | 0.300 | 1.200 |
| **Total Statutory / Regulatory** | **2.305** | **1.650** | **1.650** | **1.650** | **7.255** |
| **Retained Assets Section** | | | | | |
| School Building Works | 0.900 | 0.900 | 0.900 | 0.900 | 3.600 |
| Corporate Property Works | 0.300 | 0.300 | 0.300 | 0.300 | 1.200 |
| Highways Asset Management Plan | 0.600 | 0.600 | 0.600 | 0.600 | 2.400 |
| Headroom | 0.250 | 0.250 | 0.250 | 0.250 | 1.000 |
| **Total Retained Assets Section** | **2.050** | **2.050** | **2.050** | **2.050** | **8.200** |

1.08 Chief Officers are developing detailed programmes of work and reports will be provided to Cabinet as part of regular capital monitoring.

1.09 Headroom has been built in to enable the programme to be more flexible; either to allocate funding to small schemes as they present in year as a result of opportunities, or to fund urgent unforeseen activity.

1.10 The draft Capital Strategy and Asset Management Plan provides for Capital Programmes that will be set on a four year rolling programmes reflecting schemes of a larger and more complex nature which span more than one financial year, and which may not match with financial year boundaries. Schemes starting in year one will be approved along with costs and funding in the subsequent three years. Schemes starting in year two onwards will be given indicative approval to enable the service to commence planning, but will ultimately be approved in the subsequent years' Capital Programme.

Allocations in Table 2 above are therefore approved for 2016/17, and given indicative approval for 2017/18 through to 2019/20 to enable services to plan more efficiently. Final approval for 2017/18 through to 2019/20 will be given in future Capital Programmes.

| | **Investment Section of the Capital Programme 2016/17 – 2019/20** |
|---|---|
| 1.11 | Table 3 shows the proposed schemes for the period 2016/17 - 2019/20 for the Investment section of the Capital Programme. This programme will grow through 2016/17 as business plans are developed. |

**Table 3**

**PROPOSED INVESTMENT SCHEMES 2016/17 - 2019/20**

| | 2016/17 £m | 2017/18 £m | 2018/19 £m | 2019/20 £m | Total £m |
|---|---|---|---|---|---|
| **Investment Section** | | | | | |
| Community Asset Transfers | 0.500 | | | | 0.500 |
| Solar PV Farms* | 1.450 | | | | 1.450 |
| Town Centre Regeneration | 0.100 | | | | 0.100 |
| Townscape Heritage Initiative | 0.075 | | | | 0.075 |
| **Total Investment Section** | **2.125** | **0.000** | **0.000** | **0.000** | **2.125** |

* Subject to approval of business case & confirmation of amount

1.12 Portfolios through their business plans and the Improvement Plan have identified significant capital investment needed to improve services and achieve revenue efficiencies. Detailed business cases are being prepared with the intention that additional capital schemes are brought to Cabinet for approval in the current and/or future financial years.

The schemes included in the Investment section will therefore increase from what is included in Table 3 above as business cases are completed.

Decisions made that commit the Council to capital schemes have long term financial implications, especially for revenue budgets, that cannot be easily undone. It is therefore important that enough time is taken to develop robust business cases that; consider all available options, are fully costed and tested for longer term sensitivities. These business cases then need to be assessed corporately to ensure they fit absolutely with the Council's strategic priorities.

1.13 The schemes identified in Table 3 above are explained below in more detail.

- The granting of capital funding to community groups to 'pump prime' Community Asset Transfers (CATs) was approved by Cabinet at its meeting of 15 June 2015, funding of £0.500m in 2015/16 and £0.500m in 2016/17 was allocated.

- A report requesting support for the installation of photovoltaic (PV) arrays at ex landfill sites in Buckley was approved by Cabinet at its meeting of 15 June 2015. The provisional costs are included in table 3 above and a further report will come to Cabinet for final approval once all the details are finalised.

| | |
|---|---|
| | • Ongoing programme of Town Centre Regeneration one of the sub priorities in the Council's current Improvement Plan.<br><br>• The Council's match funding required to secure capital grant received for the Townscape Heritage Initiative. |
| 1.14 | Other Portfolios are in the process of considering options for future capital investment schemes before submitting business cases for approval. Examples of such schemes are listed below. |
| 1.15 | The WG has indicated that they intend to roll out Band B of the 21st Century Schools building programme from 2019 onwards. It is expected that WG will provide further information in the next twelve months on securing the next phase of the investment. The Council will develop its strategies to ensure that we are maximising the potential investment opportunities that may be available via Welsh Government funding. |
| 1.16 | The WG funding criteria for 21st Century schools will only potentially fund modernisation projects; refurbishment projects are not eligible for grant via this programme. The Education and Youth Portfolio are developing a rolling programme of implementation plans, that the Council will need to fund, which will; ensure continuation of the rise in educational standards, create conditions for school leaders to succeed, ensure that school buildings are suitable and in good condition to provide attractive learning and working environments, reduce the number of surplus places and the inequity of variation in cost per pupil, and provide resilience against falling revenue funding. |
| 1.17 | Glanrafon Day Centre Deeside. The current building is not suitable to deliver a service of quality efficiently and effectively. To retain the existing building would require significant capital and revenue investment. Options are currently being developed for consideration. |
| 1.17 | New approaches for delivering community and social sector schemes through Alternative Delivery Models (ADMs) and to sustain important services to meet future needs need to be considered within the Councils future capital programmes. In addition Community Asset Transfers also have potential for capital funding to be made available to support their transition to Community organisations. |
| 1.18 | The Governance Portfolio are at present critically reviewing the ICT strategy with the refreshed plan being finalised over the summer 2016. The new ICT strategy will form the backdrop to business cases that will be put forward requiring investment in our ICT infrastructure to generate savings and efficiencies. |
| 1.19 | As well as the above there are a number of projects which are being considered by officers linked to Coastal Protection and flood protection, highway and road safety initiatives. |
| 1.20 | Table 4 below summarises the proposals for the 2016/17 - 2019/20 Council |

| | |
|---|---|
| | Fund Capital Programme financed from general funding. |

**Table 4**

**SUMMARY (GENERALLY FUNDED) CAPITAL PROGRAMME 2016/17 - 2019/20**

| | 2016/17 £m | 2017/18 £m | 2018/19 £m | 2019/20 £m | Total £m |
|---|---|---|---|---|---|
| Statutory / Regulatory Section | 2.305 | 1.650 | 1.650 | 1.650 | 7.255 |
| Retained Assets Section | 2.050 | 2.050 | 2.050 | 2.050 | 8.200 |
| Investment Section | 2.125 | 0.000 | 0.000 | 0.000 | 2.125 |
| **Total Programme (All Sections)** | **6.480** | **3.700** | **3.700** | **3.700** | **17.580** |

* **As per 16/17 Provisional Settlement.**

**Specific Grants and Borrowing**

1.21 In addition to those schemes funded from general resources, as summarised in Table 4 above, there are also schemes funded from specific grants and unsupported (prudential) borrowing. A summary of known funding and borrowing commitments is shown in Table 5.

**Table 5**

**ESTIMATED AVAILABLE SPECIFIC FUNDING 2016/17 - 2019/20**

| | 2016/17 £m | 2017/18 £m | 2018/19 £m | 2019/20 £m | Total £m |
|---|---|---|---|---|---|
| **Specific Funding** | | | | | |
| Specific Capital Grants | 5.361 | 3.907 | 4.606 | 0.148 | 14.022 |
| Unsupported (Prudential) Borrowing | 7.686 | 4.694 | 4.606 | 0.148 | 17.134 |
| Local Govt Borrowing Initiative - 21st C Schools | 1.616 | | | | 1.616 |
| **Total** | **14.663** | **8.601** | **9.212** | **0.296** | **32.772** |

1.22 At the time of setting the budget the details of many capital grants have not been released by WG and so are not included in the Table above. As details become available they will be reported to Members via the quarterly 2016/17 Capital Programme monitoring reports.

1.23 Details of the schemes funded by the above are shown in Table 6 below.

**Table 6**

**SPECIFICALLY FUNDED SCHEMES 2016/17 - 2019/20**

| | 2016/17 £m | 2017/18 £m | 2018/19 £m | 2019/20 £m | Total £m |
|---|---|---|---|---|---|
| **Specifically Funded Schemes** | | | | | |
| Arbed Programme Grant | 0.048 | | | | 0.048 |
| Housing Renewal Area Support | 0.278 | | | | 0.278 |
| Vibrant & Viable Places | 1.600 | | | | 1.600 |
| 21C Schools | 12.637 | 8.601 | 9.212 | 0.296 | 30.746 |
| Domestic Energy Grants | 0.100 | | | | 0.100 |
| **Total** | **14.663** | **8.601** | **9.212** | **0.296** | **32.772** |

**Summary Total Council Fund Capital Programme 2016/17 - 2019/20**

1.24 Table 7 summarises the total proposals for the 2016/17 - 2019/20 Capital Programme.

**Table 7**

**SUMMARY CAPITAL PROGRAMME 2016/17 - 2019/20**

| | 2016/17 £m | 2017/18 £m | 2018/19 £m | 2019/20 £m | Total £m |
|---|---|---|---|---|---|
| **Expenditure** | | | | | |
| Statutory / Regulatory Section | 2.305 | 1.650 | 1.650 | 1.650 | 7.255 |
| Retained Assets Section | 2.050 | 2.050 | 2.050 | 2.050 | 8.200 |
| Investment Section | 2.125 | 0.000 | 0.000 | 0.000 | 2.125 |
| Specific Grants & Borrowing | 14.663 | 8.601 | 9.212 | 0.296 | 32.772 |
| **Total Programme (All Sections)** | **21.143** | **12.301** | **12.912** | **3.996** | **50.352** |
| **Funding** | | | | | |
| General Funding* | 6.480 | 3.700 | 3.700 | 3.700 | 17.580 |
| Specific Funding | 14.663 | 8.601 | 9.212 | 0.296 | 32.772 |
| **Total Projected Funding** | **21.143** | **12.301** | **12.912** | **3.996** | **50.352** |

* **As per 16/17 Provisional Settlement.**

| 2.00 | **RESOURCE IMPLICATIONS** |
|---|---|
| 2.01 | Implications for assets and financial implications as set out within the report. Other resource implications include Officer time in delivering the capital programme which is not considered to be a significant change from previous years. |

| 3.00 | **CONSULTATIONS REQUIRED / CARRIED OUT** |
|---|---|
| 3.01 | Consultation is required with all Members via Overview and Scrutiny. The initial proposals were taken to Corporate Resources Overview and Scrutiny Committee on 18th December, 2015 with no specific comments or issues being highlighted. |

| 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. A separate report assessing the affordability, prudence and sustainability of the capital plans called the Prudential Indicator report is included elsewhere on the agenda. |

| 5.00 | **APPENDICES** |
|---|---|
| 5.01 | None |

| 6.00 | **LIST OF ACCESSIBLE BACKGROUND DOCUMENTS** |
|---|---|
| 6.01 | Various working papers<br><br>**Contact Officer:** Liz Thomas – Technical Finance Manager<br>**Telephone:** 01352 702289<br>**E-mail:** liz.thomas@flintshire.gov.uk |

| 7.00 | **GLOSSARY OF TERMS** |
|---|---|
| 7.01 | **Asset Management Plan** - A plan maintained by an authority of the condition and suitability of its assets, updated regularly and utilised to assess future capital needs<br><br>**Capital Expenditure** - Expenditure on the acquisition of **Non-current Assets** or expenditure that extends the life or value of an existing asset<br><br>**Capital Programme** - 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.<br><br>**Capital Receipt** - Receipts (in excess of £10,000) from the disposal of an asset<br><br>**Capital Scheme** - An individual capital project which is monitored and managed in isolation. The aggregate of all schemes comprises the **Capital Programme**<br><br>**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<br><br>**Council Fund** - The fund to which all the Council's revenue and capital expenditure is charged<br><br>**Disposal** - The decommissioning or transfer of an asset to another party<br><br>**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<br><br>**General Capital Grant -** Annual capital grant from Welsh Government; the Council decides how to use the funding.<br><br>**Housing Revenue Account -** The fund to which all the Council's revenue and capital expenditure relating to its housing stock is charged.<br><br>**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 21st century schools programme.<br><br>**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<br><br>**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<br><br>**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<br><br>**Revenue Expenditure -** All expenditure incurred by an authority that cannot be classified as capital expenditure<br><br>**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).<br><br>**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.<br><br>**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.<br><br>**Whole Life Costs** - The costs of acquiring or creating an asset, operating it, maintaining it over its useful life and finally any costs of disposal (i.e. the total cost of ownership). |

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APPENDIX B

# CAPITAL STRATEGY AND ASSET MANAGEMENT PLAN

# 2016 TO 2020

## INTRODUCTION

The Council's capital strategy and assets are fundamental to the effective delivery of our priorities. The provision of the right asset in the right place at the right time will ensure the effective and efficient delivery of a comprehensive range of quality services.

The unprecedented financial constraints, which all Local Authorities and other public sector partners are experiencing means that we have to be ever more efficient in the use of our resources. This involves developing a culture of innovation and co-operation. We have made significant progress already and the benefits of sharing assets and working in partnership are clear to see. We have demonstrated that a reduction in the running costs of our assets and the provision of enhanced customer service is achievable and we will continue to develop this approach. Ultimately our aim is to use fewer buildings but use these far more efficiently.

This document sets out an integrated plan for the future management of the Council's assets and its capital programme. It facilitates a seamless interface between business planning within the Council and the management of our assets and capital resources. This will ensure that the provision of resources and future investment are prioritised. It is a key document running alongside the Council's Improvement Plan and Medium Term Financial Strategy (MTFS) and will provide the framework for ensuring the effective and affordable management of our assets.

### Key Aims

- Provide a clear context within which proposals for capital expenditure are evaluated to ensure all capital investment is targeted to deliver the Council's priorities as set out in the Improvement Plan.
- Sets out how the Council identifies and prioritises capital requirements and proposals arising from various strategies including Improvement Plan, Portfolio Business Plans, and other corporate strategies and how they will be managed within the limited capital resources available.
- Critically challenge our current estate, continue with the programme of asset rationalisation, ensuring that assets retained are effective, efficient and sustainable to deliver services.
- Identify and consider options available to fund capital expenditure that minimises the ongoing revenue implications of historic capital expenditure and of any new investments.
- Use partnerships, both public and private, more effectively to support our overall strategy.
- Establish effective arrangements for managing capital projects including assessment of outcomes and achievement of value for money.

### Principles

- Set a capital programme for the medium term split into 3 sections; a reduced core programme of schemes that are regulatory / statutory in nature, a retained asset programme to improve or enhance the life of existing assets, and a larger investment programme in schemes linked to the Council's strategic priorities.
- Schemes included in our investment programme will be subject to completion of a business case to include a thorough appraisal of options and sensitivity analysis, with the schemes that generate efficiencies for the MTFS being favoured.
- Whole life analysis and using Net Present Value (NPV) calculations will be applied to schemes in the investment programme linked through to the MTFS.
- With Capital and Revenue resources under pressure innovative and creative solutions to procuring capital assets will be sought.
- Assets surplus to requirements will be disposed of when appropriate in order to generate the maximum capital receipt for the Council.

# Contents

# The Here and Now

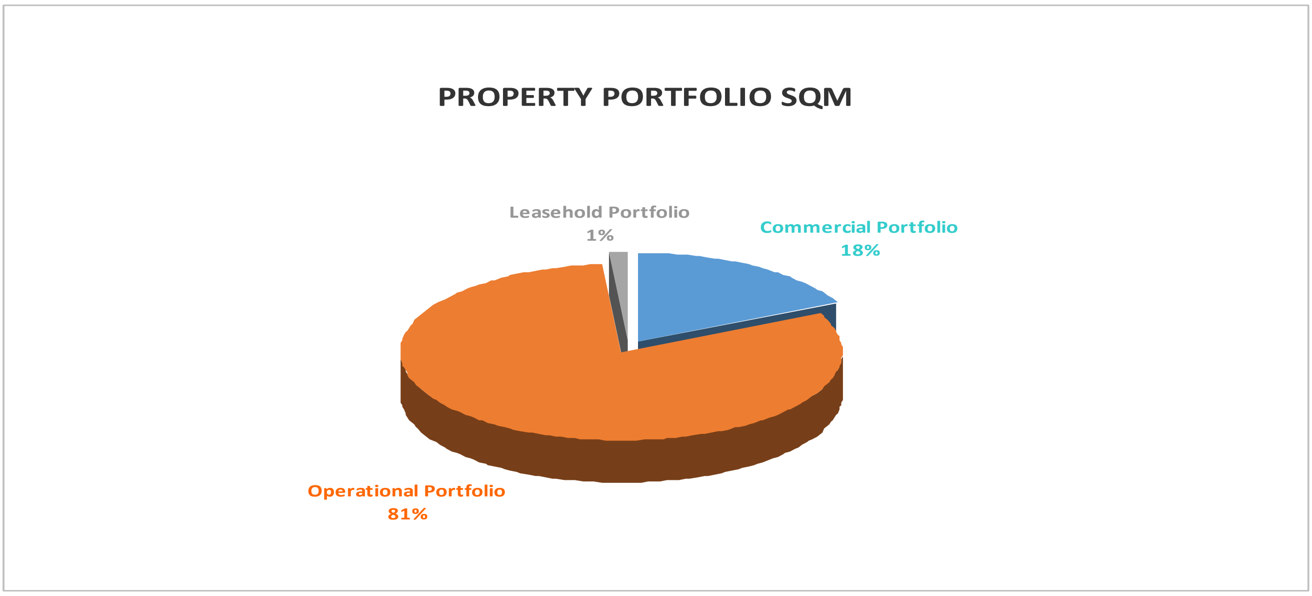
Local Authority property and land assets are a significant resource for Flintshire County Council the current book value is circa £750m.  Our current estate comprises over 1,500 property assets and parcels of land throughout the County, we are therefore a significant landowner on this basis alone. The majority of our freehold assets are used directly in the delivery of Council services, these operational assets form 81% our estate.  In addition to this the Council currently owns 169 commercial industrial units and shops, also 29 farms and smallholdings which are leased.

Many of our significant assets are broadly in the same locations delivering different but often complimentary services. This is not logical nor is it cost effective, we have to change this model of delivery.

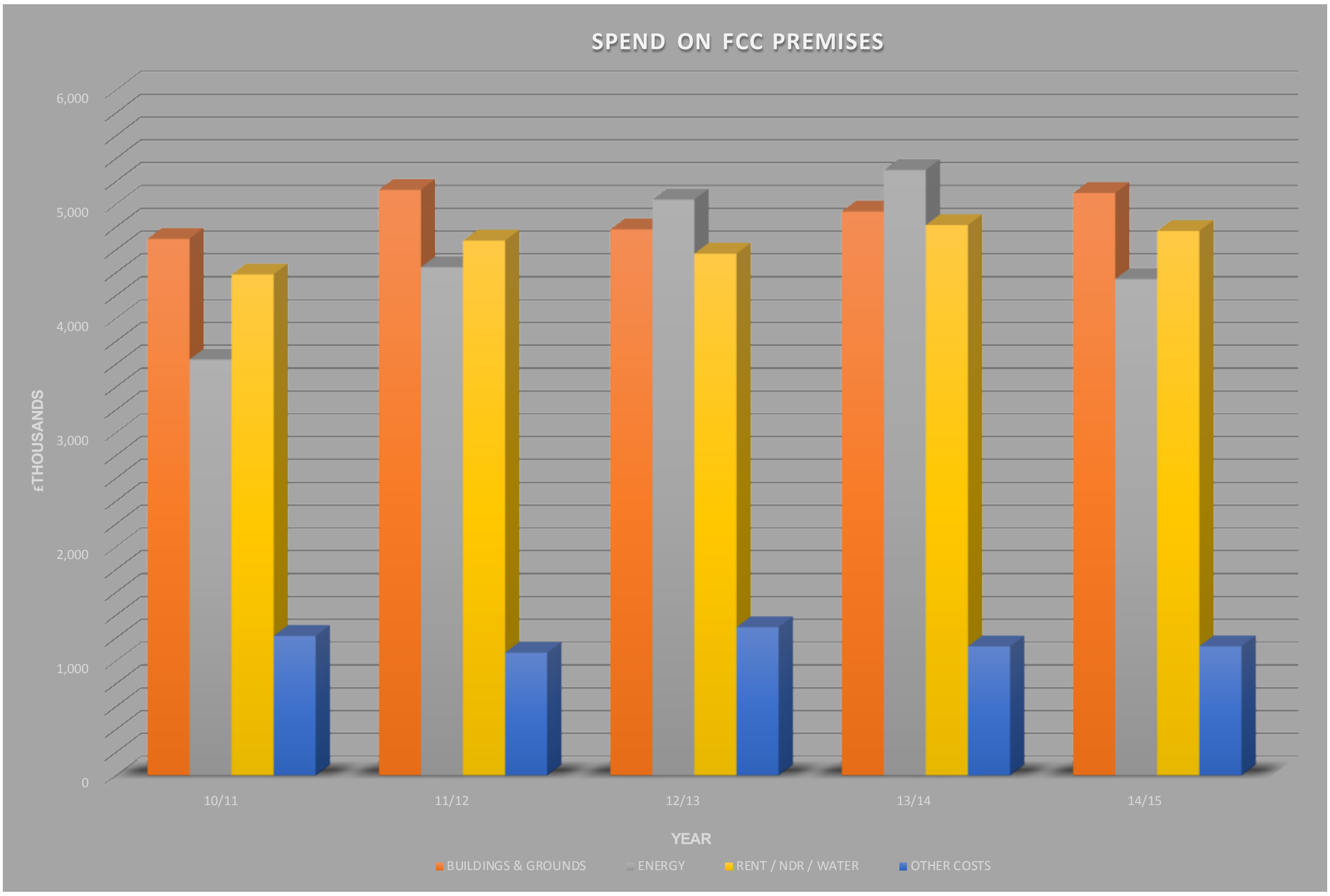
The Council's assets can be broadly classified as Operational or Non-Operational. Operational assets are those which are used either indirectly or directly to provide Council services such as schools, offices, libraries, leisure centres etc.

Non-Operational properties are those which the Council own and don't occupy but lease out in order to derive an income such as County Farms, Industrial Unit and shops.

The Council owns the freehold of the majority of its assets but, in very limited cases, has had to lease in some properties to maintain service delivery. The number of these leasehold properties has been significantly reduced in recent years.




Many of our assets are tired with ever increasing maintenance liabilities and are energy hungry. They are putting significant strain on our resources. The graph below shows the running costs of our assets over the past 5 years. The ongoing nature of these costs is unsustainable, the diversion of revenue and capital resources into these, often poorly performing assets creates an additional burden and limits opportunities to invest this resource in front line service delivery.

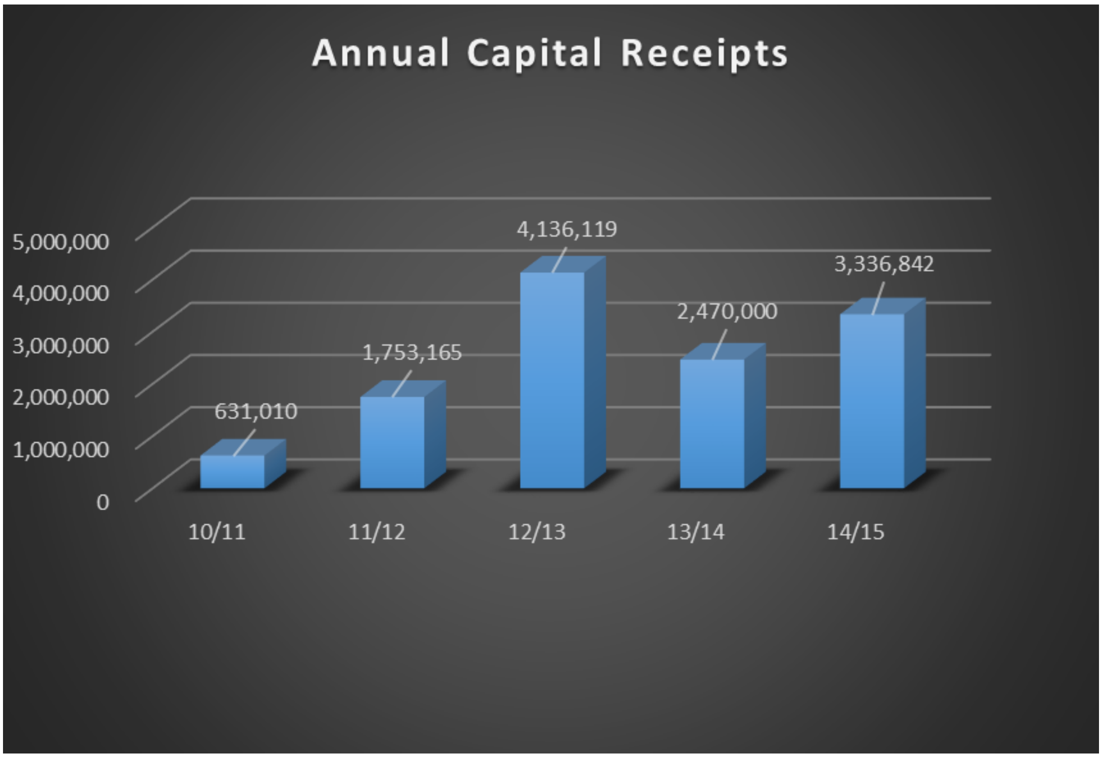



**Estate Rationalisation – what we have done so far:**

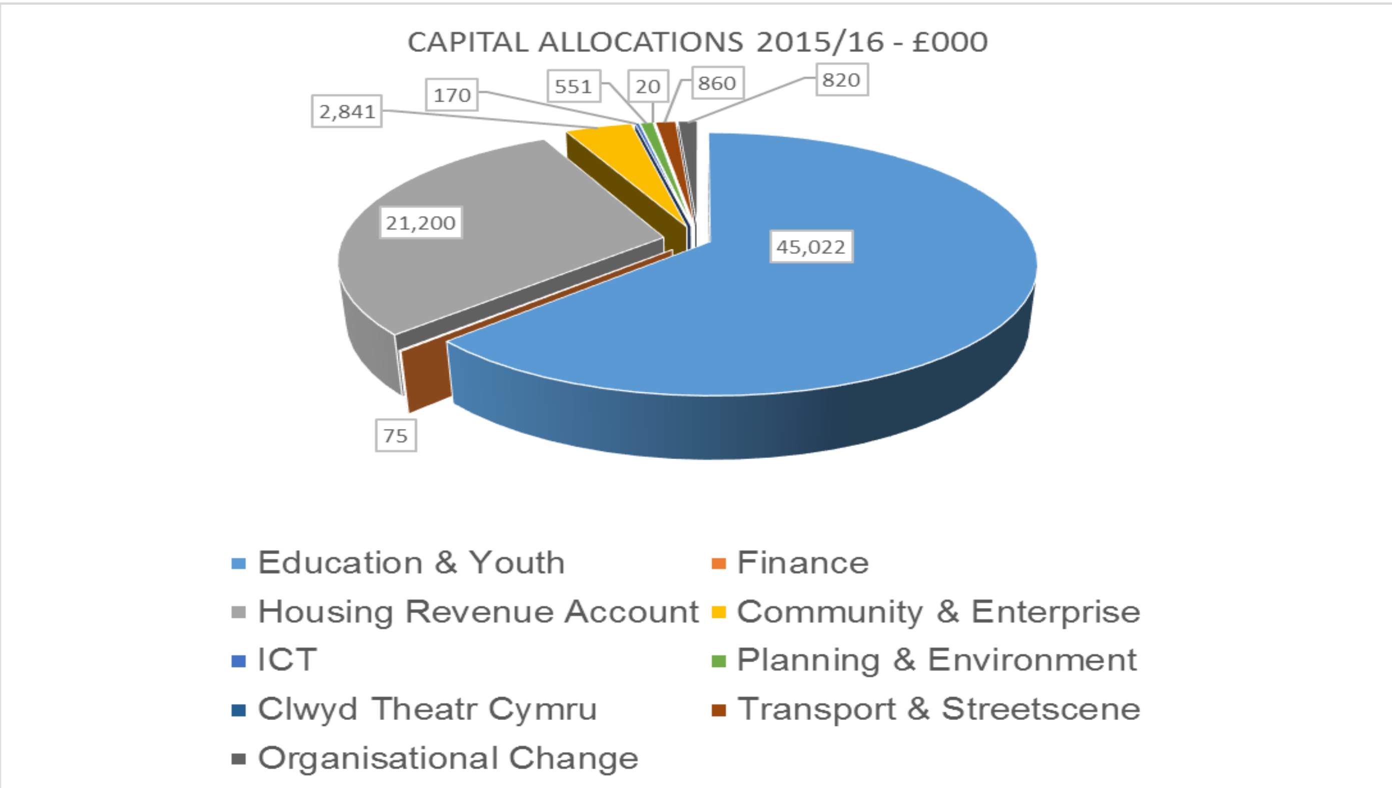
- Agricultural estate review, disposing of farms and land in line with the Councils agricultural disposal policy.
- Reduction in the number of properties let by 80% saving the council over £200,000 per year.
- Reduction in occupation of other operational assets (excluding schools) by 5% (based on floor area).
- In our Flint office we have developed a Connects facility where we have shared 16% of our office space with partner organisations. This has resulted in efficiencies for all. Despite this reduction in office space the Council has increased the number of staff based there by 80%. This has been achieved by increasing the number of workstations together with the adoption of agile working. This has resulted in a reduction in the running cost per member of staff by 58% (from £1122 to £469 per head)
- Energy use from non-domestic buildings such as schools, leisure centres and offices has fallen by 3,824,876 kWh / 1,134 tonnes of carbon from 2011 to 2015, achieved through a variety of energy efficiency measures including the installation of new and more efficient lighting, upgrading heating and hot water controls, loft and cavity wall insulation, pipework and valve insulation and pool covers.

These reductions have been achieved through careful planning and have had no detrimental impact on the delivery of our services.

**Capital Receipts:**
Our assets provide a valuable source of income to our capital programme via the sale of surplus land and property which has resulted in capital receipts of £12.32m over the last five years. Our disposal programme will continue to contribute toward this income in the future.



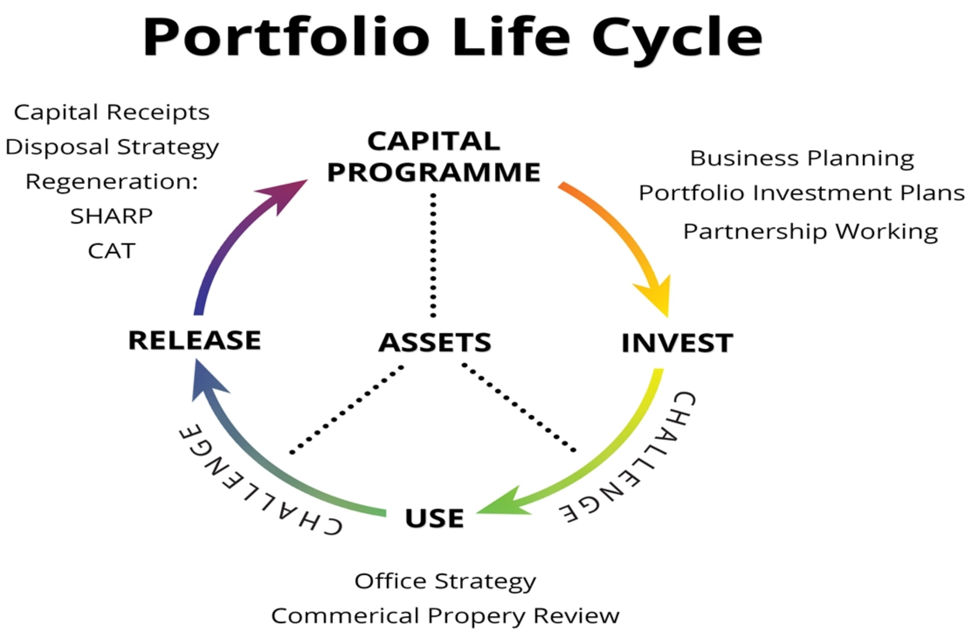

**Current capital programme:**
The Council's 2015/16 capital programme in total is £50,359m Council Fund and £21,200m HRA. The graph below shows the projects funded.



## The Future – A Vision for our Assets

**'To ensure that the property and land assets we retain are efficient, sustainable and in the right locations to support the delivery of our services and the achievement of key priorities.'**

To facilitate this we will adopt a joined up, responsive and consistent approach in terms of the planning and delivery of sound property management throughout the life cycle of the portfolio.




**Business Planning: a dynamic approach**

In relation to budget challenges and the achievement of our asset vision we will ensure that the Council's land and property assets play a pivotal role in the delivery of change and adopt a more dynamic approach to supporting organisational change.

We know that our buildings can be a catalyst for change. We have demonstrated what we can achieve in our offices at Flint and how major improvements can be delivered by re-inventing how we use our assets and workspace, sharing with partners and implementing different ways of working. Over the next five years there will be further significant changes required within the organisation. These changes will need to happen in a short time frame and we need to be able to respond to these changing needs and must be able to respond to this changing landscape quickly using innovative approaches that we have already developed.

Robust links with Portfolio business planning needs to be further developed. We need to identify as early as possible within the business planning process any capital and/or asset implications so that we can be more responsive.

Chief Officers as part of business planning at Portfolio level will include medium term capital and asset requirements – this will provide a clear link mapping out and supporting strategic thinking and identifying specific areas where there will be capital requirements or asset related issues to consider. The process for consideration of capital allocation is detailed below, including capital and asset implications in Portfolio business plans will involve services giving much earlier consideration to their requirements which can then be considered on a Council wide priority basis, clearly linked to portfolio business plans, the improvement plan and other strategic plans over a medium term time frame.

**Links to the Medium Term Financial Strategy (MTFS)**

The MTFS forecasts funding levels and resource requirements over the medium term, identifies the gap between the two, and enables specific actions to be identified to balance the budget and manage resources.

Any asset investment plan that results in a capital project will have consequences for the revenue budget, both positive and negative. These may be savings to running costs, schemes that generate income or resultant revenue costs of servicing any borrowing associated with the scheme. It is therefore essential that the capital and revenue budget cycles are aligned to ensure that these revenue implications are properly costed and fed into our MTFS.

**Asset Programme Board**

The Asset Programme Board comprises a group of senior officers from each Chief Officer portfolio who have an interest, proactive approach and enthusiasm around the development and management of work streams relating to the councils capital programme and wider asset base. The Board will manage and oversee the following activities:-

- Capital Receipt Planning (manage the delivery of capital receipts to maximise resources for the capital programme);
- Capital programme forward planning (to provide a forward look and anticipate likely work items for future capital programmes and to understand the potential revenue implications)
- Principal capital programme management (to ensure key principal programme items run to plan and deliver the Councils Core Programme and other agreed programmes of work – Portfolio Business Planning and Investment Plans);
- Consider reports to Cabinet, Council, or Scrutiny Committees regarding capital programme delivery;
- Capital and Asset Management Strategies (to develop and maintain the strategy ensuring strategic linkage into the MTFS);
- Public sector shared asset planning (develop partnership solutions to strategic asset delivery through shared resources);
- Estate depreciation planning and management (effective management of assets, retention, disposal strategies and plans)
- Section 106 planning agreement strategy and management and any other contributions to capital schemes

- Regeneration and market stimulation (consider proposals for wider regeneration, linkages to SHARP and the contribution the Councils land and property makes to this activity by acting as a catalyst or lever);
- Creative capital funding solutions (regularly explore opportunities for innovative funding solutions which reduce the burden of interest charges and revenue impact);
- Prepare reports for consideration relating to land disposals, acquisitions and lettings;
- Contribute proactively to the delivery of the Councils Community Asset Transfer strategy and where applicable Alternative Delivery Model strategies

## NEEDS AND PRIORITIES: What we want our capital resources and assets to deliver in the next five years

Underlying our needs and priorities is the recognition that financial resources are constrained in the current economic and political climate. Capital grants from Welsh Government have been reducing, and increasingly capital grants are being replaced with repayable loans or Local Government Borrowing Initiative (LGBI), where the Council borrows the capital funding, and the Welsh Government provides the revenue funding associated with the borrowing.

Furthermore it is recognised that the Council needs to rely more on its internal resources and look to invest in schemes that are self-sustaining or generate positive returns in terms of meeting corporate priorities and producing revenue savings.

We have a significant backlog of maintenance work across the property portfolio, and to bring assets up to current standards would require investment at levels which are simply unaffordable so any investment needs to be strategically targeted reflecting the need to consider future investment plans, property rationalisation outcomes and investment linked to delivering the Councils improvement priorities. Limited capital resources need to be prioritised to maximise outcomes with minimal ongoing future revenue costs.

- **Housing: Appropriate and Affordable Homes that are Modern, Efficient and Adapted (as necessary to maintain independence)**

The local population of Flintshire has diverse housing and accommodation needs. The Welsh Government has set a target for all social housing to meet the Welsh Housing Quality Standard. Our priorities are to provide good quality housing for residents, reduce the number of empty properties, and maximise funding opportunities to improve homes. Demand for extra care schemes which provide self-contained homes for people with varying levels of care and support needs are increasing following the success of existing schemes.

The Council aims to improve the choice and quality of local housing by:-

- Increasing the supply of new Council and affordable homes through the Strategic Housing and Regeneration Programme (SHARP) to build 500 new homes over the next 5 years
- Delivering the six year asset management strategy to meet the Welsh Housing Quality Standard across all Flintshire Council Homes.
- Using Section 106 planning agreements to increase the supply of affordable homes in the County.

- Contribute to the provision of extra care facilities in Flint and Holywell (in association with partners).
- Providing financial support to repair, improve and adapt private sector homes ( in conjunction with grant funding from Welsh Government)
- Bringing empty homes back into use for residential living using the Houses into Homes Scheme – a Welsh Government backed scheme to provide loans to bring back empty houses or commercial buildings back into use as homes for sale or rent.

➢ **Economy and Enterprise: Town and Rural Regeneration**

Our towns and rural areas present great opportunities to develop the local economy, encourage enterprise, and support employment. Flintshire has worked hard in the past to develop a more joined up set of initiatives, ranging from, an improved and more developed understanding of our towns through a number of town centre development plans, to considering the key drivers for growth in our rural communities being tourism employment and community led initiatives.

The provision of sustainable infrastructure supports the local and regional economy driving demand and supporting delivery of key services, initiatives and business growth opportunities. The commercial viability of our town centres and rural areas must be protected, along with the vitality of town centres as centres for economic activity and social contact.

Flintshire has a challenging agenda for regeneration which is being undertaken in a number of towns and areas assisted by the Vibrant and Viable Places initiative and the Regeneration Zone area allocations. The unemployment rate in Flintshire is currently low at 2.6% and the Council remains committed to ensuring that the County remains a preferred location to invest, live and work. Our key house building initiatives to create 500 additional homes over the next five years is both challenging and innovative, requiring us to seek new funding models, challenge how we work and develop relationships with strategic partners to deliver on these initiatives. Linked to this is our commitment to increase employment opportunities in the construction industry and others through sustainable and effective apprentice schemes.

An Enterprise Zone has been established by Welsh Government in Deeside which will be an increasingly important centre of additional commercial focus in the area.

The Council aims to create jobs and grow the local economy by;

- Developing and implementing long-term regeneration plans for town centres through projects including streetscape improvements and the Flint regeneration programme.
- Using our property portfolio creatively to encourage private sector investment that supports the regeneration of Flintshire.
- Making full use of the Council's capital programme to secure community benefits from procurement - developing new local employment, training and work experience opportunities.
- Supporting the development of sustainable community enterprises through the Community Asset Transfer and Alternative Delivery Model programmes.
- Investment in energy efficiency programmes to reduce fuel poverty and grow the local supply chain.
- Implementing the Vibrant and Viable Places programme to deliver an integrated programme of regeneration for Deeside, which will include improvements to the housing stock, redevelopment of vacant sites and properties and the provision of grant assistance to high street businesses.
- Supporting the development of visitor infrastructure in town centres and along the Dee coastline.

- **Skills and Learning: Modernised and High Performing Education**

The Schools Modernisation Strategy was updated and approved by Cabinet January 2015.

The Council has a responsibility to review and modernise all school provision, to make sure that we are providing the best possible opportunities for learners, so that they can achieve their full potential.

Estyn (the education inspectorate in Wales) note that "improvements in the quality of buildings have a very beneficial effect on the quality of teaching and morale of staff which has a positive effect on pupil performance". The Council needs to ensure there are a sufficient number of school places, of the right type, in the right locations. The need to maintain a large number of ageing school buildings and the supporting infrastructure is unsustainable.

The Council will review and modernise the way education is delivered through a rolling programme of area reviews. This will be programmed on an area by area basis. When the Council carry out an area review, we will consult with children, young people, parents and carers connected with schools in that area.

The Council is committed to ensuring that school buildings will meet 21st century expectations, are fit for purpose and are a community resource.

There are serious shortcomings in the current suitability of a number of buildings, including pressing health and safety issues that question the long term viability of some of our existing schools. In terms of the condition of our school stock, the current backlog of repairs and maintenance remains high at £25.6m (2015). School organisational change remains the key tool available to Council to address such deficits.

The percentage of surplus places in Flintshire schools continues to remain above the Welsh Government target of 10%. Since funding for schools is largely driven by pupil numbers, surplus capacity means a disproportionate amount of funding is spent on infrastructure (such as buildings) and the "fixed costs" of running a school (such as leadership and administration). This funding could be better used to ensure that pupil teacher ratios are minimised to make a direct difference to learners. As public service funding reduces over forthcoming years the case for reprioritisation and change becomes even more compelling.

School modernisation options will drive an investment strategy that will address the needs of the schools. This is evident in the Councils Band A modernisation programme with a £64m school investment programme planned between 2014 and 2017. The Welsh Government has indicated that they intend to roll out Band B of the programme from 2019 onwards. It is expected that Welsh Government will provide further information in the next twelve months on securing the next phase of the investment.

The Council will develop its strategies to ensure that we are maximising the potential investment opportunities that may be available via Welsh Government funding. The Welsh Government funding criteria for 21st Century schools will only potentially fund modernisation projects; refurbishment or maintenance projects are not eligible for grant via this programme.

The Council aims to improve learning provision and opportunities to achieve better learner outcomes through its modernisation programme by:

- Delivering the current Band A programme (2014-2017) jointly funded with Welsh Government

- Positioning ourselves to access external funding via WG 21st Century Schools Programme Band B (2019)
- Present a rolling programme of implementation plans to Cabinet to; ensure continuation of the rise in educational standards, create conditions for school leaders to succeed, ensure that school buildings suitable and in good condition to provide attractive learning and working environments, reduce the number of surplus places and the inequity of variation in cost per pupil, and provide resilience against falling revenue funding.

➢ **Environment: Transport Infrastructure and Services**

The Council has a statutory duty to maintain the adopted highway, maintained at public expense in a safe condition for the passage of the user. A strategic approach has been used to develop the Highways Asset Management Plan (HAMP) in identifying and allocating resources for the management, operation, preservation and enhancement of the highway infrastructure to meet the needs of current and future customers. Current gross replacement cost of these assets are £1.6bn.

An Annual Status and Options Report is produced that summarises the status of the main asset groups in terms of condition, compliance with meeting repair standards, level of public complaint/contact etc. The report describes the result of the previous year's investment in terms of meeting the target service standards, enabling the Council to determine if the standards in the HAMP are being met or not. This report also sets out future options available, including long term (20 year) predictions of defect levels, condition and other relevant data in sufficient detail to enable future investment plans and any necessary revisions to service standards contained in the HAMP.

Accessibility to and from employment, homes, leisure, health and social activity must be maintained. Economic growth needs to be facilitated. Congestion and delays on our highway network should be minimised. The Council aim to deliver safe access to employment, local services and facilities by;

- Using available funding to support Council priorities for accessing employment, health, leisure and education, and improve road safety on the county's highway network.
- Prioritising the Council's road infrastructure for repairs and maintenance and implement network improvement programmes.

➢ **Environment: Sustainable Development & Environmental Management**

Our carbon emissions need to continue to reduce to meet Welsh Government targets and play a part in helping to address the consequences of climate change. Reducing the Council's energy costs will assist in addressing the deficit in the MTFS. The Council aims to establish environmental development which maximises social and economic benefits by:

- Identifying and developing large scale renewable energy schemes through the creation of solar farms on Council land and reducing the Council's carbon emissions.

➢ **Modern and Efficient Council: Developing Communities**

New approaches need to be developed in community and social sectors to the design and ways services are delivered, known as Alternative Delivery Models (ADMs), to sustain important services and meet future needs.

Our assets are helping community organisations to develop and become more sustainable by putting them on a firmer footing for the future. We have developed a Community Asset Transfer programme (CATs) where we have actively sought interest from community groups with a social purpose in having assets transferred to them on a long term lease basis for the benefit of local communities.

We have had a number of successes already and will continue to develop this programme and provide help and support to organisations which want to move in this direction.

The Council aims to support local communities to become more resilient by:

- Designing and implementing alternative delivery models to sustain important services to meet future need.
- Empowering communities to run and manage facilities in their locality through Community Asset Transfers.

➢ **Modern and Efficient Council: Improving Resource Management**

Despite the reductions to public sector resources and funding, the Council continues to be ambitious and has prioritised making the best use of our capability and capacity in these challenging times. Smarter purchasing needs to be used to make our money go further, we need to have the right buildings in the right paces for the right use, and we aim to achieve the highest possible standards of customer services.

**Reviewing our estate: rationalisation and reduction of running costs**
We will reduce the number of assets we have. We have already achieved our target of a reduction of 5% of operational assets (excluding schools and offices) by 2016/17. We will seek to reduce this by a further 5%. This will be achieved by constantly challenging the retention of assets. We will target poorly performing assets and those where service delivery can be maintained by sharing and/or using remaining assets more efficiently. We will seek to eliminate any duplication in the function of our assets.

**Corporate Office Accommodation**
Our corporate offices are located in Flint and Mold with our depot and associated offices in Alltami. Our current office strategy sees the retention and increased use of Flint offices, together with our Connects facility this will form a hub for Housing and some Social Care services providing improved accessibility to key services.

The re-development of our depot in Alltami facilitated the co-location of the majority of Streetscene and Transportation teams. This modernisation work has resulted in both enhanced facilities for staff and operational efficiencies in the delivery of these services. We will ensure that by the end of 2015 all remaining Streetscene and Transportation staff will be relocated to Alltami.

We shall retain County Hall in Mold in the short to medium term as our main headquarter building. This property is coming to the end of its economic life with repair works estimated at £26m. With the increasing implementation of agile working together with workforce reduction, it is and will increasingly be far too large for our needs. Initially we will consolidate our occupation into Phases 1 and 2, mothballing the rear section of the building (phases 3 and 4) and therefore making savings on running costs.

We will continue to modernise the way we work and develop agile working throughout our offices. We will build on the success in our Flint office where a modern and flexible approach to working patterns has facilitated an 80% increase in staff located there. We will continue to engage with teams to progress agility and understand the further investment required including ICT systems and hardware to deliver a contemporary and efficient office accommodation model.

Overall we will reduce the floor space we occupy in our offices by a minimum of 30% by 2017.

**Industrial Commercial Estate**
The Council owns a large number of industrial commercial units dispersed along the coastal strip and our larger towns including Mold and Buckley. The units vary in size from large warehouses to much smaller business incubator units. They are of varying quality but some will inevitably, given their age, require significant investment if they are to remain in the Council's ownership.

The origin of our commercial estate stems from the decline of the steel industry, since this time the industrial economics of the area has shifted and Deeside Industrial Park now accommodates a large proportion of demand from both local and national interest. There are also legislative changes in connection with energy efficiency measures which will add further costs and disproportionate financial pressure on this portfolio. Bearing all these factors in mind our rationale for continuing to hold such assets must be reviewed.

Opportunities may present themselves in terms of potential redevelopment of some of the core sites which predominantly border England, however this strategy needs developing in more detail. Some sites may be suitable for meeting housing needs and could possibly feed into our Social Housing and Regeneration Programme (SHARP), alternatively we may seek to transfer liability altogether and receive a much reduced income from a managing organisation.

The imperative is that a root and branch review be undertaken which robustly challenges the reasons for continuing to hold this estate in the future. This review is to be completed in early 2016 and from this a detailed plan will be developed which will determine the outcome for each asset.

Longer term, further options will be explored relating to the future use of offices at Ewloe which will be returned to the Council in July 2016. The proposed reorganisation of local government in Wales will be a further factor to consider in any future strategy.

**Agricultural Estate**
The County Council has a smallholding estate we have been gradually reducing through a variety of disposals. A small number of piecemeal disposals were undertaken previously. However in 2011 following a fundamental review looking at the liabilities for the estate against income it became clear major changes and disposals were essential. Two fundamental issues drove this approach. Nitrate Vulnerable Zones (NVZs) which affect a number of our holdings meaning the Council would have to make major investment and expenditure on a peripheral activity. Secondly the authority had no manageable cluster of farms enabling a coherent farmer tenant enabled asset strategy.

As a result we have sold vacant holdings on the market and other holdings to the sitting tenants. These negotiations can be quite protracted but help receipt planning. We have also sold vacant land quite successfully through careful disposal. The ongoing sale of the holdings continues and in each of the last few years we have generated capital receipts of several million pounds by this route alone. For the longer term we are looking at planning opportunities which will see the value of some of our purposely retained assets substantially increase.

**Clwyd Theatr Cymru**
Theatr Clwyd has a medium term plan for refurbishing and upgrading key areas of the building. Both Welsh Government and the Arts Council for Wales have indicated that funding maybe available nationally. During 2016 the refurbishment plans will be reviewed and developed further. The Council will need to consider these plans along with the capital requirements (if any).

**Working with Partners**
In recent years we have developed a progressive approach to sharing accommodation and integrating services with other public sector organisations. We have contributed to efficiencies within the public estate by sharing accommodation with partners such as North Wales Police, Jobcentre Plus and Communities First at our Flintshire Connects centres in Holywell and Flint.

With our partners, we will continue to identify opportunities to optimise the use of the public sector estate in terms of service benefits, overall costs and financial return. In doing so, there will be an opportunity to explore innovative ways of using our land and property assets and how they can be used to aid service development and integration.

**ICT**
The Information Technology Strategy will be reviewed in June 2016 following the completion of recent IT Service Reviews. Its focus will remain in terms of how we can apply and develop Information Technology (IT) in Flintshire to support the delivery of Corporate and Service objectives and priorities, enable change, drive forward improvement and support services in delivering efficiencies.

The Council has developed a secure, resilient, reliable and high performing IT infrastructure which provides us with the foundations to deliver real benefits for our services and our customers, the citizens of Flintshire. Maintaining these technologies and the associated levels of service will require ongoing investment.

The service has been engaged with the corporate change programme since its inception and as such have been able to target investments and resources to best meet the priorities identified through the various work streams within it. The Assets programme, in particular, has influenced this prioritisation with major investments in technologies to support agile working such as; Business Systems and Desktop Solutions delivered through Citrix, Telephony and Contact Centre technologies, Mobile Device provisioning and management, Electronic Document Management (EDM), Wireless technologies etc.

The direction of travel across the public sector is to increase the delivery of digital services which brings with it significant challenges around how we manage digital information. Electronic storage has traditionally been seen as a relatively inexpensive commodity but the growth has been exponential over recent years and will continue over coming years. A failure to manage this information effectively can lead to unstructured, duplicated and unreliable information which can make compliance with information legislation such as Data Protection and Freedom of Information difficult and costly to achieve and as such will pose a financial risk to the organisation. The significant increase also places a management overhead on the IT service from a storage, retrieval and security perspective. This will be a key area for improvement in the new IT Strategy and has been reflected in the recent IT Service Review.

The extremely rapid pace of change and development in terms of IT means we have to constantly identify opportunities for further improvements which in turn will require further investment based on how they will deliver efficiencies moving forward.

## Social Services

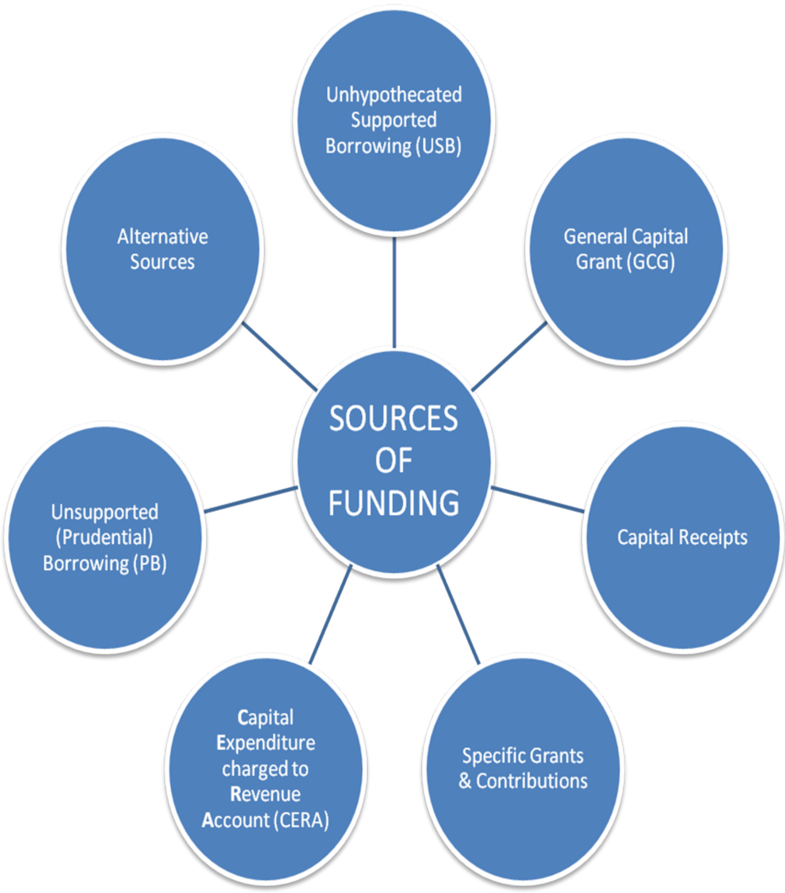
The Council has a number of assets within the social service portfolio, including three Residential Care Homes for older people, six small business premises and a day service for people with learning disabilities. The Council has a duty under the Care Social Service Inspectorate for Wales (CSSIW) legislation to ensure these premises are well maintained and in safe condition.

- The three care homes are currently in a reasonability good condition and do not require significant capital investment at present. However such environments can deteriorate through continued 24 hours usage by individual with high level care and support needs and need to be suitably maintained.

- The six small business premises - all form part of the Council's Alternative Delivery Model programme (ADM), and it is anticipated that the premises will transfer to a Social Enterprise during 2016/17

- Glanrafon Day Centre Deeside. The current building isn't suitable to deliver a service of quality efficiently, and to keep the existing building would require significant capital investment. Options are being developed for consideration.

## RESOURCING: What are our sources of capital funding and what types of capital schemes will the sources be applied to



**Unhypothecated Supported Borrowing (USB), commonly referred to as Supported Borrowing**

Each year Welsh Government provide Council's with a Supported Borrowing capital allocation. Councils can then borrow to fund capital expenditure up to that annual allocation, and Welsh Government will include funding to cover the revenue costs associated with that level of borrowing in future years within the Revenue Support Grant. The Council decides how this funding is spent.

**General Capital Grant**

Annual capital grant from Welsh Government which the Council decides how to use the funding.

Supported borrowing and general capital grant will be used to fund capital schemes which;

- invest in, or maintain the life of, existing assets that will be retained for future service delivery
- are statutory / regulatory in nature

**Specific Grants**

Grant allocations received from a range of sponsoring bodies including Welsh Government, Wales European Funding Office (commonly referred to as WEFO), Lottery, etc for associated specific programmes and projects with limited local discretion how the funding is spent. Often the terms and conditions of such funding will require unused funding to be returned, and can require the Council to match fund. In times where capital resources are declining the Council will seek to maximise such funding streams, subject to the initiative/scheme reflecting both the 3rd party's agenda and the Council's priorities.

**Specific Contributions**

Represent contributions from developers towards the provision of public assets or facilities. Sometimes these are to mitigate the impact of their development on communities and often referred to as section 106 contributions. Contributions are earmarked for specific purposes in planning agreements and often relate to infrastructure projects including; play areas, open spaces, and schools, but also includes affordable housing. Developers also contribute to highways infrastructure developments through section 38 and 278 agreements.

**Specific Capital Loans**

Increasingly as Welsh Government's funding comes under pressure, capital funding that was previously issued as a specific capital grant is converted into a repayable loan, examples include Home Improvement Loans fund, and Vibrant and Viable Places funding. Grant funding will always be preferable to loan funding as it does not require repayment, however loan funding does have benefits. Its use to date has been to provide recyclable loan funding for regeneration purposes; the benefit being rather than grant funding a single project, the funding as it's a loan can be recycled and used to fund a number of projects over the term. As with grants the Council will seek to maximise such developments that are in line with its priorities, however will carefully consider the additional administrative burden in issuing and collecting loans, and the risk it carries from loan defaults.

**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 21st century schools programme.

**Capital Expenditure charged to Revenue Account (CERA)**
Capital expenditure can be funded via a direct contribution from revenue funding (note capital financing regulations mean is it not possible to use capital funding to fund revenue expenditure). This method of funding is extensively used by the HRA and will continue to be in the future. Its use for Council Fund activity is generally quite limited as this would add to forecast budget deficit on the MTFS.

**Capital Receipts**
Funds raised from the sale of council assets, usually, but not restricted to, land and buildings. Other examples include repayments of loans for capital purposes and release of restrictive covenants.

Capital finance regulations dictate that capital receipts can only be used to fund capital expenditure or repay debt. In the past regulations required a proportion of all receipts be set aside to repay debt, this was removed some time ago for the Council Fund and was removed for the HRA with the introduction of self-financing. The Council's policy is to use capital receipts to fund capital expenditure rather than voluntarily set aside to repay debt; the Council sets a Minimum Revenue Provision policy each year which sets out our prudent methods for repayment of debt.

The current policy of pooling all capital receipts to allocate to capital schemes in accordance with the Council's strategic aims and priorities will continue. Receipts will not be ring-fenced to fund schemes in the same service or geographical areas (with the exception of the HRA). Capital receipts represent a finite funding source based on a planned structured manner of asset disposals created to support Council's priorities. Receipts will be used to fund new capital investment schemes.

Generation of capital receipts depends on our ability to identify assets that are surplus to requirements, and to sell them at an appropriate time which will be subject to local economic factors. In recent years this has been challenging. Careful and prudent planning around the timing of capital receipts is needed to ensure schemes funded by capital receipts don't begin until we have received the receipt.

Capital receipts will be generated by continuing with our agricultural disposal policy, our policy to reduce the number of assets that we have and the forthcoming review of the commercial estate.

Our assets are also supporting the Strategic Housing and Regeneration Programme (SHARP) in innovative ways; we have identified surplus Council owned sites which will be used to develop new housing. This input will need to continue throughout the life of the programme. The impact of which, on the generation of capital receipts, will need to be carefully mapped and reflected within the wider Capital Programme.

**Unsupported Prudential Borrowing (commonly referred to as Prudential Borrowing)**
The Prudential Code for Capital Finance in Local Authorities supports local authorities in determining their programmes for capital investment in assets (we are required by regulation to follow its requirements). The Prudential Code gives Council's discretion to undertake borrowing to fund capital projects with the full cost of borrowing funded from future council revenue resources subject to the Council demonstrating, within a clear framework, that the capital investment plans are affordable, prudent and sustainable. A range of prudential indicators must be produced and approved demonstrating the impact of the programme.

The option for funding additional capital developments is one which is funded from within existing revenue budgets or from generating additional and ongoing income streams, there is no support from any external funding and is a major constraint on its use as any scheme funded by prudential borrowing will add to the forecast budget deficit in the MTFS.

To date limited use has been made of the option following cautious and prudent consideration of long term impacts. This approach will continue to be used with schemes that have a clear financial benefit such as 'invest to save', 'spend to earn', and those that generate returns over and above the costs of debt. The focus will be to fund schemes that are the Council's priorities, attract 3rd party funding and that generate revenue benefits in future financial years in the form of revenue savings, income generation or increasing Council Tax yield.

**Alternative Sources**

There are a number of other alternative sources of capital funding which the Council could make use of, depending on circumstances and cost:-

- Finance Leases - Leases that transfers substantially (to the lessee) all the risks and rewards of ownership of an asset, even though ownership may not be transferred. This method was used for the equipment at Deeside Leisure Centre and the Jade Jones Pavilion, Flint.

- Public Private Partnerships (PPPs) - This is a broad term for various arrangements in which the Council has a longer and more intensive relationship with a private sector supplier than it does under a traditional contract. It includes:-

    - PFI contracts;
    - Local Asset Backed Vehicles (LABVs);
    - Strategic partnering;
    - Sale and Lease back;
    - Joint Ventures; and
    - Deferred Purchase

To date the Council has made very limited use of alternative funding options listed above. In future all options along with any new initiatives will be explored and used carefully.

Capital schemes funded from alternative sources are likely to increase the Council's debt liability therefore use will be restricted and considered in the same way as prudential borrowing.

**CAPITAL PROGRAMME: How will capital schemes be prioritised for inclusion in the capital programme**

The purpose of the Capital Programme is to optimise the Council's use of capital resources by allocation to those areas identified as representing the strategic priorities of the Council. The Programme will be split into 3 sections;

- Statutory / Regulatory Programme consisting of an annual allocation to fund schemes of a statutory / regulatory nature. Examples include; providing financial support to repair, improve and adapt private sector homes, and adapting schools for disabled children. Service areas will be required to submit plans for approval before the start of each financial year.

- Retained Asset Programme consisting of an annual allocation to fund schemes that maintain, improve or lengthen the economic life of the assets that we retain to use in delivering services where there is already a significant amount of capital work needed, identified by service plans / condition surveys etc. Service areas identified are; schools, highways, and corporate office accommodation. Service areas will be required to submit plans for approval before the start of each financial year.

The above sections of the capital programme are similar to the current core programme but will be much reduced compared with the current expenditure levels.

- Investment Programme consisting of allocations to fund new schemes arising from Portfolio Business Plans. Such schemes will be necessary to achieve revenue efficiencies included within Portfolio Business Plans and the MTFS and our strategic priorities as included in the Improvement Plan. Approval of such schemes will be through the submission of a full business case identifying the source of capital funding and the assets lifetime costs going forward. See Appendix C – Business Case process.

**Funding of schemes will be allocated as shown below:**

| | | |
|---|---|---|
| Statutory / Regulatory Programme | Retained Asset Programme | Investment Programme |

| | | | |
|---|---|---|---|
| General Capital Grant | Supported Borrowing | Capital Receipts | Debt and Alternative Sources of Funding |

Capital Programmes will be set every year covering a timeframe of the next 4 financial years on a rolling basis, reflecting that capital schemes don't match financial years and span more than 1 financial year. Schemes starting in that first financial year will be approved along with any costs and funding required in the subsequent 3 financial years. Schemes starting later than the first financial year will be given indicative support to enable services to plan, but will ultimately require formal approval through the process of approving the subsequent years' capital programme.

Sufficient headroom will be built into the Capital Programme to facilitate more flexibility thus allowing smaller schemes to be presented, considered and approved by Cabinet in year. Such schemes arise in year due to; opportunities presenting such grants that require an element of match funding or unforeseen events such as regulatory works etc.

**The annual timetable for setting the capital programme is as shown below:**

**APRIL TO JUNE**
Portfolio's complete 'Expressions of Interest' for prospective schemes arising from Portfolio Business Plans

**JULY**
Consideration and shortlisting by Assets Programme Board

**AUGUST – SEPTEMBER**
Portfolio's complete more detailed business cases for shortlisted schemes

**OCTOBER**
Final approval by Assets Programme Board for recommendation to Cabinet & Council for inclusion in Capital Programme

**GOVERNANCE of the Capital Programme**

Planning for the Capital Programme is determined in parallel with service and revenue budget planning process within the framework of the MTFS.
New investment capital schemes will be rigorously appraised through submission of full business case which will include schemes funded by grants or contributions from 3rd parties. Large schemes that are programmes in their own right will be subject to gateway reviews at stages during the programme. For example: 21st century schools, SHARP. Ensuring that the evidence and the case for change when the scheme was initially approved is still valid, and that lessons learned from early stages can be applied to future stages.

Those portfolios with Core allocations will submit annual plans for assessment and challenge by the Assets Programme Board to ensure compliance with Capital Strategy and Asset Management Plan.

The Capital Programme will be set for each coming financial year at the same time as the annual budget, and will include indicative figures spanning the same time frame as the MTFS.

Monitoring of the annual Capital Programme will be undertaken at a Portfolio level with progress updates given to the Assets Programme Board. Reporting to Members will take place quarterly to Cabinet and Corporate Resources Overview and Scrutiny Committee including:

- New schemes or additions to existing schemes
- Removal of or reductions to schemes
- Slippage on schemes, and impact on future years capital programme
- Funding virements between schemes
- Other necessary revisions to the scheme

The Assets Programme Board will develop processes for monitoring the outcomes of capital schemes and measures to monitor the performance of assets.

**APPENDICES**

Appendix A:  Capital allocation process via Business Case

Appendix B – Capital Project Handbook/User guide

Appendix C: Glossary of Capital Terms

## FLINTSHIRE COUNTY COUNCIL

| | |
|---|---|
| **Date of Meeting** | Tuesday, 16th February 2016 |
| **Report Subject** | HRA Budget 2016/17 & Capital Programme 2016/17 |
| **Report Author** | Chief Officer (Community & Enterprise) |

**EXECUTIVE SUMMARY**

The final proposals for the HRA Revenue and Capital budget for the 2016/17 financial year, including proposed rent increases were considered by Cabinet on 16th February 2016. The outcome of the Cabinet will be reported verbally to the Council along with a presentation on the main details of the HRA Budget for 2016/17. A copy of the report is attached as Appendix 1.

| **RECOMMENDATIONS** | |
|---|---|
| 1 | Members are recommended to receive and approve the recommendation from Cabinet on 16th February 2016. |

## REPORT DETAILS

| 1.00 | EXPLAINING THE HRA BUDGET 2016/17 & CAPITAL PROGRAMME 2016/17. |
|---|---|
| 1.01 | As set out in the report to Cabinet on 16th February 2016. |

| 2.00 | RESOURCE IMPLICATIONS |
|---|---|
| 2.01 | As set out in the report to Cabinet on 16th February 2016. |

| 3.00 | CONSULTATIONS REQUIRED / CARRIED OUT |
|---|---|
| 3.01 | As set out in the report to Cabinet on 16th Cabinet 2016. |

| 4.00 | RISK MANAGEMENT |
|---|---|
| 4.01 | As set out in the report to Cabinet on 16th Cabinet 2016. |

| 5.00 | APPENDICES |
|---|---|
| 5.01 | Appendix 1 – Report to Cabinet 16th February 2016. |

| 6.00 | LIST OF ACCESSIBLE BACKGROUND DOCUMENTS |
|---|---|
| 6.01 | **Contact Officer: Clare Budden, Chief Officer (Community & Enterprise)**<br>**Telephone: 01352 703800**<br>**E-mail:** clare.budden@flintshire.gov.uk |

| 7.00 | GLOSSARY OF TERMS |
|---|---|
| 7.01 | As set out in the report to Cabinet 16th February 2016. |

| CABINET |
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| **Date of Meeting** | Tuesday 16th February 2016 |
| **Report Subject** | Draft HRA Budget 2016/17 & Capital Programme 2016/17 |
| **Cabinet Member** | Cabinet Member for Housing |
| **Report Author** | Chief Officer (Community & Enterprise)<br>Corporate Finance Manager |
| **Type of Report** | Strategic |

## EXECUTIVE SUMMARY


| |
| --- |
| The purpose of this report is to present for approval the draft HRA Budget for 2016/17, and HRA Business Plan. |


| RECOMMENDATIONS | |
| --- | --- |
| 1 | That Cabinet approve and recommend to the Council, the HRA budget for 2016/17 as set out in the Business plan. |
| 2 | That Cabinet approve a rent increase of 1.4% (plus up to or minus £2) as set out in the business plan with target rents applied for new tenancies, and with the introduction of service charges for communal area cleaning, digital services and aerial maintenance for existing tenancies. |
| 3 | That Cabinet approve a garage rent increase of 1.4%. |
| 4 | That Cabinet approve the proposed HRA Capital programme for 2016/17 as set out in Appendix C. |

**REPORT DETAILS**

| | |
|---|---|
| **1.00** | **BACKGROUND TO THE DRAFT HRA BUDGET AND HRA BUSINESS PLAN** |
| 1.01 | **Self Financing**<br><br>Self financing was introduced in April 2015 and is contained within the Housing Wales Act 2014. This policy change brings more self determination for local councils longer term. As part of introducing self financing the Act contained a duty for the 11 councils affected to make a one-off settlement payment of £920m, and it set the all wales limit of indebtedness for those individual local authorities. Flintshire's maximum level of borrowing is £144m. |
| 1.02 | In summary, Flintshire's borrowing requirements and/or limits for borrowing are (approximately) as follows:<br><br>• Existing HRA borrowing £25m<br>• Borrowing to achieve settlement £79.2m<br>• Borrowing for WHQS £25m<br>• Borrowing for new build £14.5m |
| 1.03 | The initial borrowing of c£79.2m for buy-out resulted in a basket of loans of varying lengths in accordance with the Councils Treasury Management Strategy. External advice was sought and the recommendation was for the council to continue to operate a single debt pool approach, providing maximum flexibility. |
| 1.04 | The Social Housing rents policy was introduced by Welsh Government in April 2015 for local authorities. This policy is aimed at achieving rent convergence between council and housing association rents over time. |
| 1.05 | Welsh social rent policy is devolved from the U.K government. There is pressure however to follow the UK Government requirement for social landlords in England to reduce social rents by 1% for each of the next four years. Welsh Government sought evidence from social landlords across Wales on the impact this change would make to business plans and has decided to retain the current rent policy for 2015. |
| 1.06 | In the Chancellors Autumn statement an announcement was made that social rents would be capped to LHA rent levels for any new tenancy from April 2016 (but taking effect from April 2018). Should this proposal be implemented rents for many 1 bedroom properties in Flintshire would reach the cap quite quickly. This could have negative impacts on the HRA business plan and the viability of some new housing developments. |
| 1.07 | The WG rent policy requires all service charges to be disaggregated from rents from April 2016. |

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| 1.08 | **Considerations**<br><br>The HRA has to have both short and long term financial planning in place. The short term (more detailed) planning shows how the WHQS standard will be achieved, Choices document promises kept, and 200 new council homes built. The longer term plan shows a viable account with surplus income over expenditure needs. This presents opportunities to do more to improve service delivery; provides reassurance that once achieved, the WHQS standard can be maintained, and could provide further capital funding for new build. |
| 1.09 | The strategic context for this year's HRA budget setting includes the following:<br>• The need to ensure the treasury management strategy continues to meet the councils new and ongoing borrowing requirements;<br>• Delivering a prudent plan for income - ensuring that rents are affordable in a local context, and phasing in service charging for new and existing tenants;<br>• Setting a balanced budget with 3.25% surplus revenue over expenditure;<br>• Continued drive to ensure all service costs are efficient and that value for money can be achieved;<br>• Maximisation of revenue efficiencies to minimise the borrowing required to meet WHQS by 2020;<br>• Review of WHQS investment strategy to meet tenant and elected member expectation and the new achievable deadline of 2020;<br>• Planning for the delivery of new build council housing in 2016. |
| 1.10 | **Rent increase**<br><br>The rent policy framework was implemented in April 2015. There is flexibility for each landlord to set the rent band at either target rent, 5% below or 5% above. Cabinet decided to set Flintshire rents at target to support tenant affordability. |
| 1.11 | Where a landlord's weekly rent is lower than the rent band, rents are set at the September CPI (-0.1%) plus 1.5% a combined increase of 1.4% plus up to £2 per week, to work towards rent convergence. Where rents are above target (this applies to circa 64 Flintshire homes), then the rent will reduce by £2 until the weekly rent falls within the target rent band. This means an average Flintshire rent increase of 1.4% plus or minus up to £2 for 2016/17. Approximately 64% tenants are in receipt of full or partial Housing Benefit. |
| 1.12 | The business plan shows that the draft average transitional rent is £81.38 and the draft average target rent is £87.84. Some tenancies could take 7 years to achieve the target rent. |
| 1.13 | **Capital programme**<br><br>The WHQS and Asset investment programme for 2016/17 has been |

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| | estimated at a total of £21m. This includes provision for internal work streams, external enveloping works, environmental programmes, fire risk works, DDA, Asbestos, off gas and energy efficiency works. Cabinet has approved the Asset investment plan to achieve the WHQS by 2020 and this budget will ensure that the council meets the commitments in that plan to achieve the standard by 2020. |
| 1.14 | In addition £4.763m of prudential borrowing has been budgeted in 2016/17 for the first two council housing building schemes, Custom House School site, Connah's Quay and the Walks, Flint. |
| 1.15 | Attached to this report for Cabinet approval: -<br><br>• The 3 year HRA business efficiency proposals – Appendix A<br>• Draft 30 year HRA business plan summary - Appendix B<br>• WHQS programme for 2016/17 - Appendix C |

| **2.00** | **RESOURCE IMPLICATIONS** |
|---|---|
| 2.01 | The HRA is a ring fenced budget. This HRA budget and business plan demonstrates that the council can achieve the WHQS by 2020, can meet service improvement plans and commitments and with prudential borrowing can commence a council house building programme in 2016. |
| 2.02 | Additional staff will be required to deliver an accelerated WHQS programme. The funding for these posts is provided for in the WHQS programme. |

| **3.00** | **CONSULTATIONS REQUIRED / CARRIED OUT** |
|---|---|
| 3.01 | The draft budget has discussed with the Tenants Federation at their January meeting and they support the proposals contained in this paper. |
| 3.02 | Detailed consultation has been undertaken with tenants and elected members to inform the preparation of the revised WHQS investment programme. |
| 3.03 | A Scrutiny meeting was held on 15th January when the committee fully endorsed the proposals in this paper. |

| **4.00** | **RISK MANAGEMENT** |
|---|---|
| 4.01 | Self-financing in the HRA should continue to provide additional revenue to improve property standards and to meet service improvement objectives. The council has agreed a Rent Policy which will see rents at benchmark levels, rather than taking the opportunity to set at 5% per cent above the benchmark. This decision was taken to safeguard affordability for tenants. |
| 4.02 | Stock investment delivery plans will enhance the appearance of the environment and will contribute toward the council's CO2 reduction |

| | |
|---|---|
| | targets. |
| 4.03 | All households will benefit from the Councils WHQS programme. The impact of the investment planning and efficiencies is being modelled for various customer groups to ensure that there is no disproportionate impact on any groups with protected characteristics. |

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| **5.00** | **APPENDICES** |
| 5.01 | Appendix A - Draft HRA Business Plan<br>Appendix B - Draft 30 year HRA Revenue and Capital Account<br>Appendix C - Draft WHQS programme |

| | |
|---|---|
| **6.00** | **LIST OF ACCESSIBLE BACKGROUND DOCUMENTS** |
| 6.01 | **Contact Officer:** Clare Budden, Chief Officer (Community & Enterprise)<br>**Telephone:** 01352 703800<br>**E-mail:** clare.budden@flintshire.gov.uk |

| | |
|---|---|
| **7.00** | **GLOSSARY OF TERMS** |
| 7.01 | **Financial Year:** the period of 12 months commencing on 1 April 2016.<br><br>**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.<br><br>**Capital expenditure:** money spent by the organisation on acquiring or maintaining fixed assets, such as land, buildings, and equipment.<br><br>**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.<br><br>**Treasury Management:** The Council has adopted the Chartered Institute of Public Finance Accountants (CIPFA) Treasury Management in the Public Services: Code of Practice. Treasury Management is conducted in accordance with the Council's Treasury Management Policy and Strategy Statement and Treasury Management Practices which are both reviewed annually. All borrowing and long term financing is made in accordance with CIPFA's Prudential Code. |

# HRA Business Planning

**Efficiencies**

| No | | Savings Options Model 1 and 2 | Type | 2016/17 PROPOSALS £m | 2016/17 MANDATORY duties | 2016/17 RISK status of ACCEPTABILITY and DELIVERABILITY | Categorisation of financial robustness |
|---|---|---|---|---|---|---|---|
| 1 | Housing Asset Mgmnt | Maximise material efficiencies via product mix and pricing 3% | Service Efficiency | (90,000) | NM | Amber | 2 |
| 2 | Housing Asset Mgmnt | Job Scheduling | Service Efficiency | (84,941) | NM | Amber | 2 |
| 3 | Housing Asset Mgmnt | Reduce Inspection Team | Structural Review | (52,459) | NM | Green | 1 |
| 4 | Support | Undertake corporate buildings review | Service Efficiency | (18,000) | NM | Green | 1 |
| 5 | Various | Reduce postage costs / increase electronic communications | Service Efficiency | (3,500) | NM | Green | 1 |
| 6 | Support | Telephone Recharges | Service Efficiency | (9,000) | NM | Green | 1 |
| | | **Total HRA** | | **(257,900)** | | | |

**Pressures**

| No | | | Type | 2016/17 PROPOSALS £m | 2016/17 MANDATORY duties | 2016/17 RISK status of ACCEPTABILITY and DELIVERABILITY | Categorisation of financial robustness |
|---|---|---|---|---|---|---|---|
| 1 | Income | Reduction in income arising from phased implementation of gardens and service charges | Income Pressure | 70,562 | M | Green | 1 |
| 2 | Tenancy Mgmnt | Health and Safety Officer | Service Improvement | 47,871 | M | Green | 1 |
| 3 | Tenancy Mgmnt | Community Centres | Service Pressure | 96,000 | NM | Green | 1 |
| 4 | Tenancy Mgmnt | Wardens | Service Pressure | 153,000 | NM | Green | 1 |
| 5 | Estate Services | Aerials | Service Pressure | 14,000 | NM | Green | 1 |
| 6 | Housing Asset Mgmnt | Communications/FOI Officer | Service Improvement | 15,403 | NM | Green | 1 |
| | | **Total HRA** | | **396,836** | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Grand Total HRA** | | **138,936** | | | |

**Flintshire County Council - Base Model Business Plan Assumptions**

**Revenue operating Account - 2016 to 2047**

| Year | Year | Income: Net Rent Income | Income: Other Income | Income: Total Income | Expenditure: Tenancy Mgmnt | Expenditure: Estate Services | Expenditure: Housing Asset Mgmnt | Expenditure: Support Costs | Expenditure: Debt Charges | Expenditure: Total Expenses |
|---|---|---|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| 1 | 2016.17 | (29,348) | (1,178) | (30,526) | 1,809 | 1,051 | 8,433 | 2,309 | 7,208 | 20,810 |
| 2 | 2017.18 | (30,093) | (1,875) | (31,968) | 1,827 | 1,061 | 8,245 | 2,253 | 7,850 | 21,236 |
| 3 | 2018.19 | (30,916) | (2,086) | (33,002) | 1,851 | 1,072 | 8,327 | 2,275 | 8,522 | 22,047 |
| 4 | 2019.20 | (32,731) | (2,108) | (34,839) | 1,870 | 1,083 | 8,410 | 2,298 | 8,769 | 22,429 |
| 5 | 2020.21 | (33,286) | (2,113) | (35,399) | 1,888 | 1,093 | 8,495 | 2,321 | 8,643 | 22,440 |
| 6 | 2021.22 | (35,018) | (2,125) | (37,143) | 1,907 | 1,104 | 8,579 | 2,344 | 8,572 | 22,507 |
| 7 | 2022.23 | (36,244) | (2,139) | (38,382) | 1,926 | 1,115 | 8,665 | 2,367 | 8,429 | 22,503 |
| 8 | 2023.24 | (37,399) | (2,152) | (39,552) | 1,946 | 1,126 | 8,752 | 2,391 | 8,262 | 22,477 |
| 9 | 2024.25 | (38,521) | (2,167) | (40,688) | 1,965 | 1,138 | 8,839 | 2,415 | 8,068 | 22,426 |
| 10 | 2025.26 | (40,440) | (2,191) | (42,631) | 1,985 | 1,149 | 8,928 | 2,439 | 7,895 | 22,395 |
| 11 | 2026.27 | (40,867) | (2,196) | (43,063) | 2,004 | 1,161 | 9,017 | 2,464 | 7,733 | 22,378 |
| 12 | 2027.28 | (42,093) | (2,211) | (44,305) | 2,025 | 1,172 | 9,107 | 2,488 | 7,528 | 22,320 |
| 13 | 2028.29 | (43,356) | (2,227) | (45,583) | 2,045 | 1,184 | 9,198 | 2,513 | 7,327 | 22,267 |
| 14 | 2029.30 | (44,657) | (2,244) | (46,900) | 2,065 | 1,196 | 9,290 | 2,538 | 7,132 | 22,222 |
| 15 | 2030.31 | (45,996) | (2,260) | (48,257) | 2,086 | 1,208 | 9,383 | 2,564 | 6,940 | 22,180 |
| 16 | 2031.32 | (48,287) | (2,289) | (50,577) | 2,107 | 1,220 | 9,477 | 2,589 | 6,751 | 22,144 |
| 17 | 2032.33 | (48,798) | (2,296) | (51,093) | 2,128 | 1,232 | 9,572 | 2,615 | 6,524 | 22,071 |
| 18 | 2033.34 | (50,262) | (2,314) | (52,575) | 2,149 | 1,244 | 9,668 | 2,641 | 6,307 | 22,009 |
| 19 | 2034.35 | (51,769) | (2,333) | (54,102) | 2,171 | 1,257 | 9,764 | 2,668 | 5,943 | 21,803 |
| 20 | 2035.36 | (53,323) | (2,352) | (55,675) | 2,192 | 1,269 | 9,862 | 2,694 | 5,549 | 21,567 |
| 21 | 2036.37 | (54,922) | (2,372) | (57,295) | 2,214 | 1,282 | 9,961 | 2,721 | 5,212 | 21,390 |
| 22 | 2037.38 | (57,658) | (2,407) | (60,064) | 2,236 | 1,295 | 10,060 | 2,749 | 4,926 | 21,266 |
| 23 | 2038.39 | (58,267) | (2,414) | (60,681) | 2,259 | 1,308 | 10,161 | 2,776 | 4,643 | 21,147 |
| 24 | 2039.40 | (60,015) | (2,436) | (62,451) | 2,281 | 1,321 | 10,262 | 2,804 | 4,390 | 21,059 |
| 25 | 2040.41 | (61,815) | (2,459) | (64,274) | 2,304 | 1,334 | 10,365 | 2,832 | 4,228 | 21,063 |
| 26 | 2041.42 | (63,670) | (2,482) | (66,152) | 2,327 | 1,347 | 10,469 | 2,860 | 4,070 | 21,073 |
| 27 | 2042.43 | (65,580) | (2,506) | (68,086) | 2,350 | 1,361 | 10,573 | 2,889 | 4,019 | 21,193 |
| 28 | 2043.44 | (68,846) | (2,547) | (71,394) | 2,374 | 1,375 | 10,679 | 2,918 | 3,970 | 21,315 |
| 29 | 2044.45 | (69,574) | (2,590) | (72,164) | 2,398 | 1,388 | 10,786 | 2,947 | 3,921 | 21,440 |

| Year | Year | Net Operating Balance: Net Operating Expenditure | Net Operating Balance: Balance B/F | Net Operating Balance: CERA | Net Operating Balance: Balance C/F | Available Capital Funding: CERA | Available Capital Funding: MRA | Available Capital Funding: Prudential Borrowing | Available Capital Funding: Capital Receipts | Available Capital Funding: Total Capital Funds | Capital Programme: WHQS Capital Programme | Capital Programme: SHARP programme | Capital Programme: Shortfall / (Surplus) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | | | | | | | |
| 1 | 2016.17 | (9,716) | (1,513) | 10,500 | (728) | 10,500 | 5,000 | 10,463 | | 25,963 | 21,170 | 4,763 | (30) |
| 2 | 2017.18 | (10,732) | (728) | 10,717 | (743) | 10,717 | 5,000 | 13,700 | | 29,417 | 24,159 | 5,200 | (58) |
| 3 | 2018.19 | (10,955) | (743) | 10,927 | (772) | 10,927 | 5,100 | 7,650 | | 23,677 | 18,394 | 5,200 | (82) |
| 4 | 2019.20 | (12,410) | (772) | 12,396 | (785) | 12,396 | 5,100 | - | | 17,496 | 17,473 | 0 | (23) |
| 5 | 2020.21 | (12,958) | (785) | 12,958 | (785) | 12,958 | 5,100 | - | | 18,058 | 16,803 | 0 | (1,255) |
| 6 | 2021.22 | (14,636) | (785) | 14,634 | (788) | 14,634 | 5,100 | - | | 19,734 | 19,611 | 0 | (122) |
| 7 | 2022.23 | (15,879) | (788) | 15,879 | (788) | 15,879 | 5,100 | - | | 20,979 | 15,668 | 0 | (5,311) |
| 8 | 2023.24 | (17,074) | (788) | 17,075 | (787) | 17,075 | 5,100 | - | | 22,175 | 15,243 | 0 | (6,932) |
| 9 | 2024.25 | (18,262) | (787) | 18,264 | (785) | 18,264 | 5,100 | - | | 23,364 | 15,395 | 0 | (7,969) |
| 10 | 2025.26 | (20,235) | (785) | 20,236 | (784) | 20,236 | 5,100 | - | | 25,336 | 15,549 | 0 | (9,787) |
| 11 | 2026.27 | (20,685) | (784) | 20,686 | (783) | 20,686 | 5,100 | - | | 25,786 | 15,705 | 0 | (10,081) |
| 12 | 2027.28 | (21,984) | (783) | 21,986 | (781) | 21,986 | 5,100 | - | | 27,086 | 15,862 | 0 | (11,224) |
| 13 | 2028.29 | (23,316) | (781) | 23,318 | (779) | 23,318 | 5,100 | - | | 28,418 | 16,021 | 0 | (12,398) |
| 14 | 2029.30 | (24,678) | (779) | 24,680 | (778) | 24,680 | 5,100 | - | | 29,780 | 16,181 | 0 | (13,599) |
| 15 | 2030.31 | (26,076) | (778) | 26,078 | (776) | 26,078 | 5,100 | - | | 31,178 | 16,343 | 0 | (14,835) |
| 16 | 2031.32 | (28,433) | (776) | 28,434 | (775) | 28,434 | 5,100 | - | | 33,534 | 16,506 | 0 | (17,028) |
| 17 | 2032.33 | (29,023) | (775) | 29,025 | (772) | 29,025 | 5,100 | - | | 34,125 | 16,671 | 0 | (17,454) |
| 18 | 2033.34 | (30,567) | (772) | 30,569 | (770) | 30,569 | 5,100 | - | | 35,669 | 16,838 | 0 | (18,831) |
| 19 | 2034.35 | (32,300) | (770) | 32,307 | (763) | 32,307 | 5,100 | - | | 37,407 | 17,006 | 0 | (20,401) |
| 20 | 2035.36 | (34,108) | (763) | 34,116 | (755) | 34,116 | 5,100 | - | | 39,216 | 17,176 | 0 | (22,040) |
| 21 | 2036.37 | (35,905) | (755) | 35,911 | (749) | 35,911 | 5,100 | - | | 41,011 | 17,348 | 0 | (23,663) |
| 22 | 2037.38 | (38,798) | (749) | 38,803 | (744) | 38,803 | 5,100 | - | | 43,903 | 17,521 | 0 | (26,381) |
| 23 | 2038.39 | (39,535) | (744) | 39,539 | (740) | 39,539 | 5,100 | - | | 44,639 | 17,697 | 0 | (26,942) |
| 24 | 2039.40 | (41,393) | (740) | 41,396 | (737) | 41,396 | 5,100 | - | | 46,496 | 17,874 | 0 | (28,622) |
| 25 | 2040.41 | (43,211) | (737) | 43,211 | (737) | 43,211 | 5,100 | - | | 48,311 | 18,052 | 0 | (30,258) |
| 26 | 2041.42 | (45,079) | (737) | 45,079 | (738) | 45,079 | 5,100 | - | | 50,179 | 18,233 | 0 | (31,946) |
| 27 | 2042.43 | (46,893) | (738) | 46,889 | (742) | 46,889 | 5,100 | - | | 51,989 | 18,415 | 0 | (33,574) |
| 28 | 2043.44 | (50,079) | (742) | 50,074 | (746) | 50,074 | 5,100 | - | | 55,174 | 18,599 | 0 | (36,575) |
| 29 | 2044.45 | (50,724) | (746) | 50,720 | (750) | 50,720 | 5,100 | - | | 55,820 | 18,785 | 0 | (37,034) |

**Appendix C**
**Draft HRA Capital Programme 2016/17**

| HRA Capital Programme | 2016/17 |
|---|---|
| **WHQS** | **£'m** |
| **CATCH UP REPAIRS / MAJOR WORKS** | |
| Urgent Capital Works 3% on £95m | 0.521 |
| **IMPROVEMENTS / COMMUNAL WORKS** | |
| Fire Risk Assessments Work | 0.150 |
| General DDA Work | 0.050 |
| **IMPROVEMENTS / ACCELERATED WORKS** | |
| Asbestos Survey and Removal (Ongoing Programme) | 0.350 |
| Off Gas Programme | 0.750 |
| ECO Projects | 0.550 |
| Welfare Reform / Adaptations | 0.100 |
| **PROGRAMMED WORK STREAMS** | |
| Internal Works | 11.953 |
| Envelope Works | 2.581 |
| External Works, Paths, Fences | 0.475 |
| Environmental Works - General | 0.950 |
| Capitalised Salaries 6% on £90m | 0.781 |
| Vacant Properties | 0.750 |
| **Total WHQS** | **19.961** |
| **Non WHQS** | |
| Disabled Facilty Grants (DFG) - Mandatory/ Minor Adaps | 1.000 |
| **Total Non - WHQS** | **1.000** |
| **Total Spend (Excluding Inflation)** | **20.961** |
| | |
| **Inflation** | **0.209** |
| | |
| **Total Spend (Including Inflation)** | **21.170** |

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FLINTSHIRE COUNTY COUNCIL

| | |
|---|---|
| **Date of Meeting** | Tuesday 16th February 2016 |
| **Report Subject** | Treasury Management Strategy 2016/17<br>Treasury Management Policy Statement 2016-19<br>Treasury Management Practices 2016-19<br>Treasury Management Mid-Year Review 2015/16 |
| **Report Author** | Corporate Finance Manager |

## EXECUTIVE SUMMARY

The report presents the Treasury Management Strategy 2016/17 for approval, in conjunction with:-

- Treasury Management Policy Statement 2016 – 2019,
- Treasury Management Practices and schedules 2016 – 2019.

In addition the report presents the Treasury Management Mid-Year review 2015/16 for approval.

This report is supplemented by training available to all Members of the Council on treasury management on 26th January 2016.

At a meeting of the Audit Committee on 27th January 2016 Members reviewed the all documents with minor adjustments being made to the Practices and Schedules as a result. The Audit Committee recommended to Cabinet that the Council approves all of the documents listed above.

This morning's Cabinet meeting (16th February 2016) received the recommendation of the Audit Committee. The Cabinet report, which includes all of the documents listed above, is included at Appendix A. Any comments from the Cabinet will be reported verbally.

| RECOMMENDATIONS | |
|---|---|
| 1 | Members approve the documents listed below:<br>• Treasury Management Strategy 2016/17<br>• Treasury Management Policy Statement 2016-2019<br>• Treasury Management Practices and Schedules 2016-2019<br>• Treasury Management Mid-Year Report 2015/16 |

**REPORT DETAILS**

| 1.00 | BACKGROUND TO 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:-<br>• 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.<br>• 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.<br>• 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.<br>• 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*.<br>• 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 guidance on Local Authority investments requires that the Council prepares an Investment strategy before the start of each financial year which sets out the Council's policies for the prudent management of its 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 is distinct from these prudential objectives, however provided that proper levels of security and liquidity are achieved, it may (but only then) be reasonable to seek the highest yield consistent with those priorities.<br><br>The guidance stipulates that the investment strategy must also include the following:<br><br>• Specified Investments<br>• Non-specified Investments<br>• Credit Risk Assessment<br>• Investment Consultants<br>• Investment Training<br>• Investment of money borrowed in advance of need |

| **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 2016/17 & Treasury Management Mid-Year Review 2015/16 |

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

| | |
|---|---|
| **7.00** | **GLOSSARY OF TERMS** |
| 7.01 | Please see the attached Cabinet report at Appendix A |

APPENDIX A

| CABINET |
|---|

| | |
|---|---|
| **Date of Meeting** | Tuesday 16th February 2016 |
| **Report Subject** | Treasury Management Strategy 2016/17<br>Treasury Management Policy Statement 2016-19<br>Treasury Management Practices 2016-19<br>Treasury Management Mid-Year Review 2015/16 |
| **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 2016/17 for approval and recommendation to Council, in conjunction with:-

- Draft Treasury Management Policy Statement 2016 – 2019,
- Draft Treasury Management Practices 2016 – 2019.

In addition the report presents the draft Treasury Management Mid-Year review 2015/16 for approval and recommendation to Council.

This report is supplemented by training available to all Members of the Council on treasury management on 26th January 2016.


| RECOMMENDATIONS | |
|---|---|
| 1 | Members approve and recommend to Council the draft documents listed below:<br>• Draft Treasury Management Strategy 2016/17<br>• Draft Treasury Management Policy Statement 2016-2019<br>• Draft Treasury Management Practices and Schedules 2016-2019<br>• Draft Treasury Management Mid-Year Report 2015/16 |

**REPORT DETAILS**

| 1.00 | EXPLAINING THE APPENDICIES |
|---|---|
| | **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 | The Council has adopted The CIPFA Code of Practice which requires:-<br><br>• 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.<br><br>• 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.<br><br>• 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.<br><br>• 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*.<br><br>• 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 guidance on Local Authority investments requires that the Council prepares an Investment strategy before the start of each financial year which sets out the Council's policies for the prudent management of its 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 is distinct from these prudential objectives, however |

provided that proper levels of security and liquidity are achieved, it may (but only then) be reasonable to seek the highest yield consistent with those priorities.

The guidance stipulates that the investment strategy must also include the following:

- Specified Investments
- Non-specified Investments
- Credit Risk Assessment
- Investment Consultants
- Investment Training
- Investment of money borrowed in advance of need.

**CONSIDERATIONS**

**2016/17 Treasury Management Policy, Strategy and Practices**

Treasury Management Strategy 2016/17

1.04 The 2016/17 Treasury Management Strategy is attached as Appendix 1 for review and discussion. The Strategy is updated and reported annually to Members in accordance with the CIPFA Code of Practice and Welsh Government guidance.

1.05 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.

1.06 The contents and layout of the 2016/17 Strategy have not materially changed from that of the 2015/16 Strategy. Matters that merit the attention of Members along with any changes made are summarised below:-

- Section 2 – Economic context, provided by Arlingclose the Council's treasury management advisor, estimates that the first rise in bank interest rates to be in quarter 3 of 2016 at 0.25%. The Strategy assumes that the average rate for investments in 2016/17 will be around 0.65%, and that the average rate for any new borrowing will be around 3.35%.

- Section 4 – Local context. This section summarises the anticipated treasury position in 2016/17. Activity in 2016/17 will focus more on borrowing and less on investing than in recent years; as the Council's requirement to borrow is forecast to grow due to a planned increase in capital expenditure, whilst there less surplus cash to invest as services plan to spend reserves.

- Section 5 – Investment Strategy. Members will be aware from previous update reports that the consequences of the legislation introduced to reform procedures should financial institutions fail in the future (commonly referred to as 'bail-in'), have led to an increase in risk associated with unsecured bank investments. The Council therefore aims to further diversify into more secure asset classes during 2016/17.

- Section 6 - Borrowing Strategy, a new paragraph has been added explaining that the Council may arrange forward starting loans in 2016/17, if conditions are suitable. That is a future loan and associated interest rate may be agreed during 2016/17, but the cash would not be paid until it is required at some future date, which is pre agreed as part of the loan agreement. This would enable certainty of cost to be achieved, by fixing the interest rate, without suffering a cost of carry in the intervening period.

1.07 A training session open to all Members on treasury management was run by Arlingclose, the Council's Treasury Management advisors, on the morning of 26th January. The aim of the workshop was to aid Members' understanding of the Treasury Management Strategy.

<u>Treasury Management Policy Statement 2016-19</u>

1.08 Attached at Appendix 2 for review and discussion is the Treasury Management Policy Statement to cover the 3 year period from 2016/17 to 2018/19. 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, the document will only be reported to Members during its lifetime in the event of any significant changes. The Policy Statement remains unchanged from the version approved 1st March 2013, which covered the 3 year period from 2013/14 to 2015/16.

<u>Treasury Management Practices and Schedules 2016-19</u>

1.09 The Treasury Management Practices (TMPs) and accompanying schedules to cover the 3 year period from 2016/17 to 2018/19 are attached in Appendix 3 and Appendix 4 for review and discussion. As with the Policy Statement, once approved, this document will only be reported to Members during its lifetime in the event of any significant changes.

1.10 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.

1.11 At a meeting of the Audit Committee on 27th January 2016 Members reviewed the draft Treasury Management Strategy for 2016/17, along with the draft Treasury Management Policy Statement 2016 – 2019 and the draft Treasury Management Practices and Schedules 2016-19 with minor adjustments being made to the Practices and Schedules as a result.

| | |
|---|---|
| | **<u>Treasury Management 2015/16 Update</u>** |
| 1.12 | The draft Treasury Management Mid-Year Report for 2015/16 is attached as Appendix 5 for review. The Mid-Year Report reviews the activities and performance of the treasury management operations during the period 1st April to 30th September 2015. |
| 1.13 | In summary, the key points of the Mid-Year Report are:<br>• The UK economy remained resilient over the six month period. Although the rate of economic growth slowed, GDP has now increased for ten consecutive quarters. Inflation remains low, and briefly turned negative in April. There have been further improvements in the labour market, with unemployment decreasing and average earnings excluding bonuses rising in the three months to July. (Section 3)<br>• Arlingclose at the time of writing (September) expected the first rise in UK interest rates in the second quarter of 2016 (Section 3). This has subsequently been revised (see paragraph 1.06 above).<br>• Local authorities in Wales reached a voluntary agreement to change the financing arrangements for council housing in Wales in April as reported previously. For Flintshire this resulted in a settlement payment to Welsh Government of £79.2m on 2nd April 2015. This was financed with new long term borrowing from the Public Works Loans Board (PWLB), resulting in an increase in long term borrowing from £172.1m on 2nd April to £251.3m. There was no further borrowing activity during the period. (Section 4)<br>• Investments have been made with UK banks and building societies up to periods of 12 months, as well as utilising investment opportunities afforded by money market funds, instant access accounts, Debt Management Office, other Local Authorities and other financial instruments such as Certificates of Deposit (CD's). The average investment balance for the period was £55.6m and the average rate of return was 0.48%. (Section 5)<br>• The treasury function operated within the limits detailed in the Treasury Management Strategy 2015/16. |
| 1.14 | At a meeting of the Audit Committee on 27th January 2016 Members reviewed the draft Treasury Management Mid-Year Review for 2015/16. |

| **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 | **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 | 1. Draft Treasury Management Strategy 2016/17<br>2. Draft Treasury Management Policy Statement 2016-2019<br>3. Draft Treasury Management Practices 2016-2019 Part 1: Principles<br>4. Draft Treasury Management Practices 2016-2019 Part 2: Schedules<br>5. Draft Treasury Management Mid-Year Report 2015/16 |

| 6.00 | **LIST OF ACCESSIBLE BACKGROUND DOCUMENTS** |
|---|---|
| 6.01 | **Contact Officer:** Liz Thomas – Technical Finance Manager<br>**Telephone:** 01352 702289<br>**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.<br><br>**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.<br><br>**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".<br><br>**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.<br><br>**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.<br><br>**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.<br><br>**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.<br><br>**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.<br><br>**Temporary Borrowing:** Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.<br><br>**Unsupported Borrowing**: Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.<br><br>**Yield:** The measure of the return on an investment instrument. |

APPENDIX 1

# FLINTSHIRE COUNTY COUNCIL

# TREASURY MANAGEMENT STRATEGY

# 2016/17

## CONTENTS

**Treasury Management Strategy Report 2016/17**

**The Council is recommended to:**
- **approve the Treasury Management Strategy for 2016/17**
- **approve the Treasury Management Indicators for 2016/17**

## 1.0 Introduction

In April 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 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) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

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.

## 2.0 Economic Context (including Interest Rate Forecast – as provided by Arlingclose Ltd, November 2015).

**Economic background:** Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in November. Wages are growing at 2.4% a year, and the unemployment rate has dropped to 5.2%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 4.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was 2.1% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 82nd consecutive month at its meeting in December 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.

China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. Financial markets have reacted extremely negatively on concerns that the Chinese slowdown will present a significant drag on global growth. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators suggested recent global turbulence has not knocked the American recovery off course, although activity has weakened a little. The Federal Reserve raised policy rates at its meeting in December as expected, but accompanying statements suggested that the tightening cycle will be gradual and very much data dependent. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation and undertook further monetary easing late in the year.

**Credit outlook:** The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

**Interest rate forecast:** The Authority's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 1.8% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

Table 1: Interest rate forecast

| | Bank Rate | 3 month LIBID | 12 month LIBID | 20 year Gilt rate | 50 year Gilt rate |
|---|---|---|---|---|---|
| Q1 2016 | 0.50 | 0.60 | 1.20 | 2.50 | 2.50 |
| Q2 2016 | 0.50 | 0.70 | 1.35 | 2.55 | 2.55 |
| Q3 2016 | 0.75 | 0.80 | 1.45 | 2.55 | 2.60 |
| Q4 2016 | 0.75 | 0.95 | 1.55 | 2.60 | 2.65 |
| Q1 2017 | 1.00 | 1.05 | 1.70 | 2.65 | 2.70 |
| Q2 2017 | 1.00 | 1.15 | 1.80 | 2.70 | 2.75 |
| Q3 2017 | 1.25 | 1.30 | 1.95 | 2.75 | 2.80 |
| Q4 2017 | 1.25 | 1.40 | 2.00 | 2.80 | 2.85 |
| Q1 2018 | 1.50 | 1.55 | 2.10 | 2.85 | 2.90 |
| Q2 2018 | 1.50 | 1.65 | 2.15 | 2.90 | 2.95 |
| Q3 2018 | 1.75 | 1.80 | 2.15 | 2.95 | 3.00 |
| Q4 2018 | 1.75 | 1.85 | 2.15 | 2.95 | 3.00 |

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.65%, and that new long-term loans will be borrowed at a weighted average rate of 3.35%.

## 3.0 Current Treasury Portfolio

The Council's treasury portfolio as at 31st December 2015 was as follows:

Table 2: Current Treasury Portfolio

| | Principal £m | Interest rate % |
|---|---|---|
| **Investments:** | | |
| Call accounts | - | - |
| Money market funds | 10.0 | 0.46 |
| Short-term deposits | 29.0 | 0.56 |
| Long-term deposits | - | - |
| **Total Investments** | **39.0** | **0.54** |
| | | |
| **Borrowing:** | | |
| Short-term loans | - | - |
| Long-term PWLB loans (fixed) | 222.36 | 5.26 |
| Long-term PWLB loans (variable) | 10.00 | 0.65 |
| Long-term market loans (LOBOs) | 18.95 | 4.53 |
| **Total Borrowing** | **251.31** | **5.02** |
| | | |
| **Net Borrowing** | **212.31** | |

## 4.0 Local Context

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

| | 31.3.15 Actual £m | 31.3.16 Estimate £m | 31.3.17 Estimate £m | 31.3.18 Estimate £m | 31.3.19 Estimate £m |
|---|---|---|---|---|---|
| Council Fund Capital Financing Requirement (Borrowing only) | 159 | 174 | 181 | 183 | 185 |
| Housing Revenue Account Capital Financing Requirement (Borrowing only) | 24 | 108 | 116 | 128 | 135 |
| **Capital Financing Requirement (Borrowing only)** | **183** | **282** | **297** | **311** | **320** |
| Less: Current borrowing | -172 | -251 | -251 | -250 | -250 |
| **Funding Required** | **11** | **31** | **46** | **61** | **70** |
| Less: Usable reserves | -54 | -35 | -25 | -18 | -18 |
| Less: Working capital | -4 | -4 | -4 | -3 | -3 |
| **Investments / New borrowing (called the Liability Benchmark)** | **47** | **8** | **-17** | **-40** | **-49** |

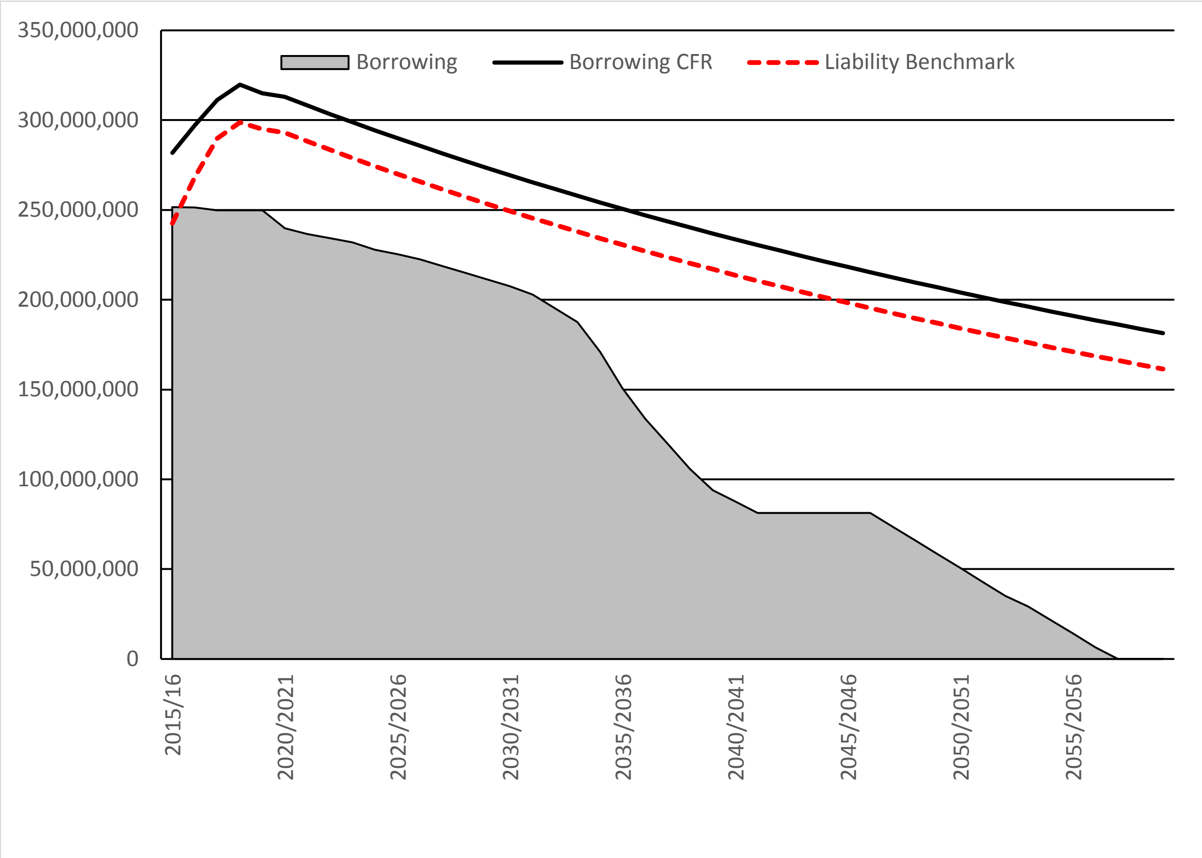
The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing below the CFR, sometimes known as internal borrowing. Internal borrowing is currently cheaper and incurs lower credit risk than external long term borrowing.

Table 3 shows the Authority's CFR increases sharply in 2015/16, this is linked with the capital programme due to the 21$^{st}$ century schools building programme and the capital payment required to exit the Housing Revenue Account (HRA) Subsidy system and introduce Self Financing for the HRA. The level of reserves the Authority has is expected to fall in 2015/16 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 reduction in investments in 2015/16 with further reductions expected in 2016/17,
- a sustained requirement for new borrowing between 2016/17 and 2018/19, possibly required in 2016/17 but more certainly in 2017/18.

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 steep rise in the liability benchmark in 2015/16 corresponds with the need to borrow to fund the increase in capital expenditure described above. The strategy in 2016/17 and over the medium term 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 2016)




The impact of the above will result in the focus of treasury management activity changing. In recent years attention will have been concentrated on investments, which will now switch to borrowing.

Budget implications

The budget for investment income in 2016/17 is £65k, based on an average investment portfolio of £10m at an average interest rate of 0.65%. The total budget for loan interest paid in 2016/17 is £12.9m, based on a debt portfolio of £268.3m at an average interest rate of 4.68%. If levels of investments, borrowing and interest rates differ from those forecast, performance against budget will be correspondingly different.

## 5.0 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 investment balance has ranged between £42.7 and £70.9 million.

Both the CIPFA Code and the WG Guidance require the Council 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.  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 continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure asset classes during 2016/17.  This is especially the case for any longer-term investment made. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits and money market funds.  This diversification will therefore represent a change in strategy over the coming year.

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<br>50 years</td><td colspan="2"></td></tr>
<tr><td>AAA</td><td rowspan="2">£4m<br>5 years</td><td rowspan="2">£7m<br>5 years</td><td rowspan="2">£7m<br>25 years</td><td rowspan="2">£4m<br>5 years</td><td rowspan="4">£4m<br>10 years</td></tr>
<tr><td>AA+</td></tr>
<tr><td>AA</td><td>£4m<br>4 years</td><td>£7m<br>4 years</td><td>£7m<br>15 years</td><td>£4m<br>4 years</td></tr>
<tr><td>AA-</td><td>£4m<br>3 years</td><td>£7m<br>3 years</td><td>£7m<br>10 years</td><td>£4m<br>3 years</td></tr>
<tr><td>A+</td><td>£4m<br>2 years</td><td>£7m<br>2 years</td><td rowspan="3">£7m<br>5 years</td><td>£4m<br>2 years</td><td rowspan="3">£4m<br>5 years</td></tr>
<tr><td>A</td><td>£4m<br>1 year</td><td>£7m<br>1 year</td><td>£4m<br>1 year</td></tr>
<tr><td>A-</td><td>£4m<br>6 months</td><td>£7m<br>6 months</td><td>£4m<br>6 months</td></tr>
<tr><td>Pooled Funds</td><td colspan="5">£7m per fund</td></tr>
<tr><td>BBB-</td><td colspan="5">The Council is restricted to overnight deposits at its’ own current account bank with a limit of £5m 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>£4m<br>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:<br>• an external credit assessment and specific advice from the Authority’s treasury management adviser (£1m each / 1 year limit)<br>• a further policy framework for investing with any other organisations being developed(£100k each / 5 year limit)</td></tr>
</table>

Credit Rating

Investment decisions are made 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.

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+, BBB or BBB- are restricted to overnight deposits at the Authority'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 an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates

Loans, bonds and commercial 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, formerly known as Housing Associations. These bodies are tightly regulated by the Welsh Government or Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed. The Council will consider investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.

Pooled Funds

Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Other Organisations

The Authority may also invest cash with other organisations, for example by making loans to small businesses. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Authority's treasury management adviser.

Foreign countries

Investments in foreign countries will be limited to those that hold an AAA or AA+ / Aa1 sovereign credit rating from all three major credit rating agencies, and to a maximum of £10 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.

Risk assessment and credit ratings

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC 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.

<u>Other information on the security of investments</u>

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 and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the 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.

<u>Specified investments</u>

The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of “high credit quality”.

The 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 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, such as money market funds and other pooled funds; 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 | £10m |
| Total shares in pooled funds | £30m |
| Total investments without credit ratings or rated below A- (not including pooled funds) | £10m |
| Total non-specified investments | £50m |

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.

Planned investment strategy for 2016/17

Treasury management staff will continue to seek out investments that meet the criteria detailed within this strategy whilst having full regard for the Council's cash flow requirements.
The cash flow forecast will be used to divide surplus funds into three categories:

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
- Long-term – cash not required to meet cash flows, and used primarily to generate investment income.

Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Instant access money market funds and bank deposit accounts will be the main methods used to manage short-term cash.

Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks.

Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local authority services. Security remains important, as any losses from defaults will impact on the total return, but fluctuations in price and even occasional losses can be managed over the long term within a diversified portfolio. Liquidity is of lesser concern, although it should still be possible to sell investments, with due notice, if large spending commitments arise unexpectedly. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds will be used to diversify the portfolio.

## 6.0 Borrowing Strategy

The Council currently holds £251.31m of long-term loans, as part of its strategy for funding previous years' capital programmes and HRA buy-out. The balance sheet forecast in section 4 shows that the Council may need to undertake new long term borrowing during 2016/17.

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 be monitored throughout 2016/17 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 much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term 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 the bail-in legislation has increased as referred to in section 5, the planned borrowing strategy helps to mitigate the increased risk.

Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing costs are forecast to rise. Arlingclose will assist the Council with this ‘cost of carry’ and breakeven analysis.

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

In addition, the Council may borrow for short periods of time (normally for up to one month) to cover unexpected cash flow shortages.

<u>Sources of borrowing</u>

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

- Public Works Loan Board (PWLB) and any successor body
- UK local authorities
- any institution approved for investments above
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Clwyd Pension Fund)
- capital market bond investors
- Local Capital Finance Company and other special purpose companies created to enable joint 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:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

<u>LGA Bond Agency (Municipal Bond Agency)</u>

The LGA Bond Agency is a Local Capital Finance Company 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 three reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; there will be a lead time of several months between committing to borrow and knowing the interest rate payable; and up to 5% of the loan proceeds will be withheld from the Authority and used to bolster the Agency’s capital strength instead. Any decision to borrow from the Agency will therefore be the subject of a separate report to Cabinet.

LOBOs

The Authority 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 Authority 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 2016/17, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority 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

These loans leave the Authority 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 9.

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 Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Planned borrowing strategy for 2016/17

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, 2015.

- Effect any borrowing that maybe required in 2016/17 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.

The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as bond issues and bank loans, that may be available at more favourable rates.

Loans that present additional risk to the authority, such as lender's option borrower's option (LOBO) loans and variable rate loans will be restricted to the limit on the net exposure to variable interest rates in the treasury management indicators in section 9.

## 7.0 Policy on Use of Financial Derivatives

In the absence of any legal power to do so, the Authority 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 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:

| | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|
| Upper limit on fixed interest rate exposures | £325m | £350m | £360m |
| Upper limit on variable interest rate exposures | £60m | £60m | £60m |

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% | 10% |
| 12 months and within 24 months | 0% | 10% |
| 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:

| | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|
| Limit on total principal invested beyond year end | £10m | £10m | £10m |

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 Programme report. However they are repeated here for completeness.

| | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|
| Operational boundary – borrowing | £270m | £295m | £305m |
| Operational boundary – other long-term liabilities | £10m | £10m | £10m |
| Operational boundary – TOTAL | £280m | £305m | £315m |
| Authorised limit – borrowing | £300m | £325m | £335m |
| Authorised limit – other long-term liabilities | £25m | £25m | £25m |
| Authorised limit – TOTAL | £325m | £350m | £360m |

## 9.0 Other Matters

The WG Investment Guidance requires the Council to note the following three 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

Investment training

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

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

Investment of Money Borrowed in Advance of Need

The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

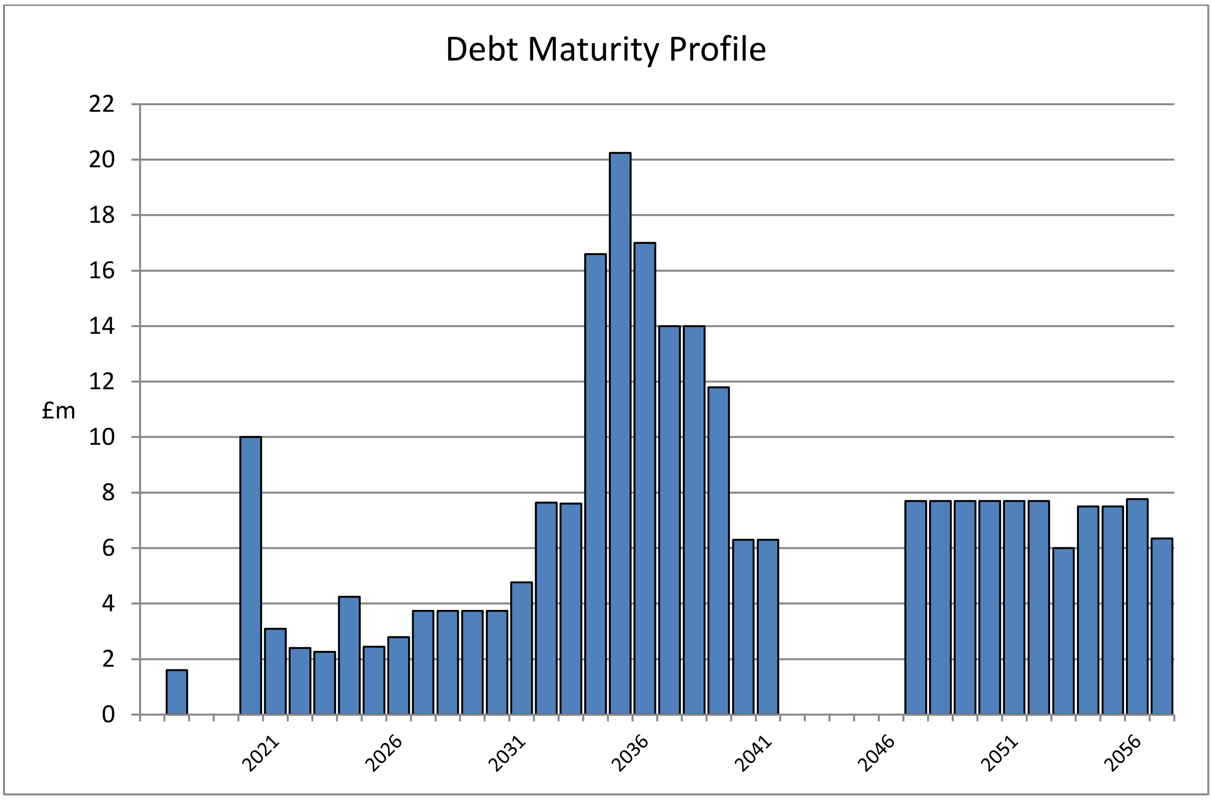
The total amount borrowed will not exceed the authorised borrowing limit of £360 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

**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 |
| 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 |
| 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 if debt rescheduling costs weren't prohibitive | 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



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APPENDIX 2

CYNGOR
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Flintshire
COUNTY COUNCIL

# FLINTSHIRE COUNTY COUNCIL

# TREASURY MANAGEMENT POLICY STATEMENT

# 2016 - 2019

## 1.0 TREASURY MANAGEMENT POLICY STATEMENT

The Council defines the policies and objectives of its treasury management activities as follows: -

1.1 "The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

1.2 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.

1.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.4 The Council greatly values revenue budget stability and will therefore borrow the majority of its long-term funding needs at long-term fixed rates of interest. Short-term and variable rate loans will only be borrowed to the extent that they either offset short-term and variable rate investments or can be shown to produce revenue savings.

1.5 The Council will set an affordable borrowing limit each year in compliance with the *Local Government Act 2003*, and will have regard to the *CIPFA Prudential Code for Capital Finance in Local Authorities* when setting that limit. It will also set limits on its exposure to changes to interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year.

1.6 The Council's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of local authority services is an important, but secondary, objective.

1.7 The Council will have regard to Welsh Government Guidance on Local Government Investments and will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations in which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.

1.8 The Council has adopted the 2011 edition of the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice and has included the Code's required clauses in its Financial Procedure Rules.

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APPENDIX 3

# TREASURY MANAGEMENT PRACTICES

## Part 1: Main Principles

### 2016 - 2019

### Flintshire County Council

## TREASURY MANAGEMENT PRACTICES

Treasury Management Practices (TMPs) set out the manner in which this organisation will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

## TMP1 TREASURY RISK MANAGEMENT

The Chief Finance Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements.

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

### [1] Credit and counterparty risk management

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments, methods and techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

### [2] Liquidity risk management

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

### [3] Interest rate risk management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirement and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

**[4] Exchange rate risk management**

The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

**[5] Refinancing risk management**

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

**[6] Legal and regulatory risk management**

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1.1 credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

**[7] Fraud, error and corruption, and contingency management**

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

**[8] Market risk management**

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

**TMP2 PERFORMANCE MEASUREMENT**

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

**TMP3 DECISION-MAKING AND ANALYSIS**

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

**TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document (including TMP6), and within the limits and parameters defined in TMP1, Risk management.

Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Council will seek proper advice (to include that of its Treasury Management advisors) and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

**TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, and for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council is required, as a result of lack of resources or other circumstances, to depart from these principles, the Chief Finance Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The Chief Finance Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The Chief Finance Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The Chief Finance Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the Chief Finance Officer in respect of treasury management are set out in the schedule to this document. The Chief Finance Officer will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on treasury management.

## TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

The County Council will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.

In addition to the above, the Audit Committee will receive regular monitoring reports on treasury management activities and risks. Audit Committee will also have responsibility for the scrutiny of treasury management policies and practices.

Treasury Management Indicators will be reported in the Strategy.

The present arrangements and the form of these reports are detailed in the schedule to this document.

## TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Chief Finance Officer will prepare, and the Council will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance Measurement, and TMP4 Approved instruments, methods and techniques. The Chief Finance Officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

## TMP8 CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the Chief Finance Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Chief Finance Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 [1] liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

## TMP9 MONEY LAUNDERING

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.

## TMP10 STAFF TRAINING AND QUALIFICATIONS

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Chief Finance Officer will recommend and implement the necessary arrangements.

The Chief Finance Officer will ensure that committee/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule to this document.

## TMP11 USE OF EXTERNAL SERVICE PROVIDERS

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Chief Finance Officer, and details of the current arrangements are set out in the schedule to this document.

## TMP12 CORPORATE GOVERNANCE

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Chief Finance Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

APPENDIX 4

# TREASURY MANAGEMENT PRACTICES

## Part 2: Schedules

### 2016 - 2019

### Flintshire County Council

## TREASURY MANAGEMENT PRACTICES - SCHEDULES

This section contains the schedules which set out the details of how the Treasury Management Practices (TMPs) are put into effect by this organisation.

## TMP1 RISK MANAGEMENT

### 1 Credit & Counterparty Policies

1. Criteria to be used for creating/managing approved counterparty lists/limits -

- The Chief Finance Officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type, sector and specific counterparty limits.
- Treasury Management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties. The complete list is available in the Technical Accountancy Section. It should be noted that not all of these counterparties will be used. This depends on whether they are in the market at the time of investment and whether they are offering competitive rates.
- The Council will use credit criteria in order to select creditworthy counterparties for placing investments.
- Credit ratings will be used as supplied from Fitch, Moody's and Standard & Poors credit rating agencies.
- The minimum level of credit rating for an approved counterparty will be as follows: -

<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<br>50 years</td><td colspan="2"></td></tr>
<tr><td>AAA</td><td rowspan="2">£4m<br>5 years</td><td rowspan="2">£7m<br>5 years</td><td rowspan="2">£7m<br>25 years</td><td rowspan="2">£4m<br>5 years</td><td rowspan="4">£4m<br>10 years</td></tr>
<tr><td>AA+</td></tr>
<tr><td>AA</td><td>£4m<br>4 years</td><td>£7m<br>4 years</td><td>£7m<br>15 years</td><td>£4m<br>4 years</td></tr>
<tr><td>AA-</td><td>£4m<br>3 years</td><td>£7m<br>3 years</td><td>£7m<br>10 years</td><td>£4m<br>3 years</td></tr>
<tr><td>A+</td><td>£4m<br>2 years</td><td>£7m<br>2 years</td><td rowspan="3">£7m<br>5 years</td><td>£4m<br>2 years</td><td rowspan="3">£4m<br>5 years</td></tr>
<tr><td>A</td><td>£4m<br>1 year</td><td>£7m<br>1 year</td><td>£4m<br>1 year</td></tr>
<tr><td>A-</td><td>£4m<br>6 months</td><td>£7m<br>6 months</td><td>£4m<br>6 months</td></tr>
<tr><td>Pooled Funds</td><td colspan="5">£7m per fund</td></tr>
<tr><td>BBB-</td><td colspan="5">The Council is restricted to overnight deposits at its’ own current account bank with a limit of £5m 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>£4m<br>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:<br>• an external credit assessment and specific advice from the Authority’s treasury management adviser (£1m each / 1 year limit)<br>• a further policy framework for investing with any other organisations being developed(£100k each / 5 year limit)</td></tr>
</table>

A definition of the ratings can be found in appendix A.

<u>Banks Unsecured</u>

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+, BBB or BBB- are restricted to overnight deposits at the Authority’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 an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates

Loans, bonds and commercial 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, formerly known as Housing Associations. These bodies are tightly regulated by the Welsh Government or Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed. The Council will consider investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.

Pooled Funds

Shares 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. Money Market Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

<u>Other Organisations</u>

The Authority may also invest cash with other organisations, for example by making loans to small businesses. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Authority's treasury management adviser.

<u>Foreign countries</u>

Investments in foreign countries will be limited to those that hold an AAA or AA+ / Aa1 sovereign credit rating from all three major credit rating agencies, and to a maximum of £10 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.

<u>Non-Specified Investments</u>

Any 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, such as money market funds and other pooled funds; 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.

Non-Specified Investment Limits

| | Cash Limit |
|---|---|
| Total long-term investments | £10m |
| Total shares in pooled funds | £30m |
| Total investments without credit ratings or rated below A- (not including pooled funds) | £10m |
| Total non-specified investments | £50m |

2. Approved methodology for changing limits and adding/removing counterparties

Credit ratings for individual counterparties can change at any time. The Chief Finance Officer is responsible for applying the stated credit rating criteria in 1.1 for selecting approved counterparties, and will add or delete counterparties as appropriate to / from the approved counterparty list when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or take-overs. The Chief Finance Officer will also adjust lending limits and periods when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or take-overs in accordance with the criteria in 1.1.

3. Details of Credit Rating Agencies' services or other services which provide current credit ratings and updates on changes.

- Ratings from the three agencies are updated monthly by the Council's treasury management adviser; however, they will provide immediate notification of any changes which affect Flintshire County Council counterparties. If a counterparty no longer meets the investment criteria, no further investments will be made with that counterparty and consideration will be given to recalling the monies. If a counterparty is being reviewed for a possible downgrade outside the criteria no more investments will be made.
- The Council's treasury management adviser will also inform the Chief Finance Officer of any other market information that they have (e.g. Credit Default Swap prices, news reports and opinion, balance sheet analysis in the absence of credit ratings) which may require credit ratings to be overridden and no further investment to be made with that counterparty.

**1.2 Liquidity**

1. Amounts of approved minimum cash balances and short-term investments

- The Council manages its cash balances on a daily basis, dependent upon cash flow demands. The objective is to achieve a zero cash balance each day by means of temporary investments, borrowing or use of call accounts. Temporary investments are cash flow driven with the objective of ensuring that future temporary borrowing is minimised.

2. Details of:

- Standby facilities - Short-term borrowing undertaken.
- Short-term borrowing facilities - short term borrowing will be arranged for any overdrawn balance through the money market if no call money is available.
- Insurance/guarantee facilities - not required.
- Other contingency arrangements - negotiations with the Council's bankers.
- Call Accounts and Money Market Funds (subject to ratings and sector limits).

**1.3 Interest Rate**

1. Details of approved interest rate exposure limits -

   - The upper limit on fixed interest rate exposures is £325 million.
   - The upper limit on variable interest rate exposures is £60 million.

2. Trigger points and other guidelines for managing changes to interest rate levels

   - This is monitored in conjunction with the Council's treasury advisers through the London money market on a daily basis.
   - The management of a balanced investment portfolio which retains a mix of long term investments (fixed rate) and shorter term (variable rate) investments which are variable to protect against interest risk.

**1.4 Exchange Rate**

Approved criteria for managing changes in exchange rate levels -

- The Council does not make payments or receive foreign currency in sufficient levels that warrant currency management e.g. hedging

**1.5 Refinancing**

1. Debt/other capital financing maturity profiling, policies and practices.

   - To 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.

2. Projected capital investment requirements.

   - The borrowing requirement is determined as part of the Capital Programme.

3. Policy concerning limits on revenue consequences of capital financing.

   - This is part of the ongoing budget monitoring process

**1.6 Legal & Regulatory**

References to relevant statutes and regulations

- Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Chief Finance Officer to be satisfied, by reference to the Monitoring Officer, the Authority's legal department and external advisors as appropriate, that the proposed transaction does not breach statute, external regulations or the Authority's Financial Procedures.

- The Council's legal powers and regulatory requirements come from –

  - ❖ Local Government Act 2003 http://www.opsi.gov.uk/acts/acts2003/pdf/ukpga_20030026_en.pdf
  - ❖ Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (and subsequent amending regulations) http://www.opsi.gov.uk/legislation/wales/wsi2003/wsi_20033239_en.pdf
  - ❖ Welsh Government "Guidance on Local Government Investments" http://wales.gov.uk/topics/localgovernment/publications/guideinvest/;jsessionid=mp3KKnDTyn91SG3PQvlFrpqnBVTnlXvyGH1pynJcCpJg5n9hL0tP!514291769?lang=en
  - ❖ CIPFA "Treasury Management in the Public Services Code of Practice"
  - ❖ CIPFA "Prudential Code for Capital Finance in Local Authorities"

  Hard copies are available in Technical Accountancy.

### 1.7 Fraud, error and corruption, and contingency management

1. Details of systems and procedures to be followed, including internet services.

   - These are documented in the Treasury Management Operational Guidelines.

2. Emergency and contingency planning arrangements

   - This process is currently under review.

3. Fraud, Error & Corruption.

   - There is a system of internal control in place to prevent and identify fraud and error.
   - Any issue identified will be immediately reported to the Chief Finance Officer and Head of Internal Audit and subsequently to Audit Committee and Council.

### 1.8 Market Value of Investments

Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (Government Issue Long Term Stock - GILTS, Certificates of Deposit - CDs, etc.)

- No limits are set, current criteria for these investments does not allow exposure to high fluctuations in value.

## TMP 2 PERFORMANCE MEASUREMENT

### 2.1 Performance Measurement

1. The Council's treasury management advisers recommended the following for use as benchmarks against which to compare performance. For investments, the most commonly used benchmark is the 3 month London Inter-Bank Bid (LIBID) rate.

2. In the annual Treasury Management Outturn Report, investment and borrowing rates are analysed against the above recommended rates and with previous years.

3. Health checks are undertaken by the Council's treasury management advisers.

**2.2 Value for Money**

Frequency for reviewing and tendering for the following services:

- Banking services - tendered every 5 years.
- Money-broking services - annual review.
- Treasury advisers services – tendered every 3 years.
- External Cash Managers - none currently employed but this will be analysed as part of a continuous review.

**2.3 Methods to be employed for measuring the performance of the organisation's Treasury Management activities**

1. The Chief Finance Officer will receive a monthly update on Treasury Management from the Finance Manager – Technical Accounting.

2. The performance of treasury management will be reported quarterly to the Audit Committee and then to Cabinet and Council in the Mid-year Report and Annual Outturn Report using the performance measures outlined in 2.1.

**2.4 Benchmarks and calculation methodology:**

1. Debt management:

   - Average rate on all external debt.
   - Average rate on external debt borrowed in previous financial year.
   - Average rate on internal borrowing.
   - Average period to maturity of external debt.
   - Average period to maturity of new loans in previous year.

2. Investment:

   The performance of investment earnings will be measured against the following benchmarks: -

   - 3 month LIBID rate.

## TMP 3 DECISION-MAKING AND ANALYSIS

### 3.1 Funding, borrowing, lending and new instruments/techniques:

1. Records to be kept:

    - These are documented in the Treasury Management Operational Guidelines. All records are kept to provide a full audit trail for all Treasury decisions.

2. Processes to be pursued:

    - All reports on Treasury Management issues are submitted to the Chief Finance Officer for decision making

3. Issues to be addressed:

    - In respect of every decision made the Council will:

        a. Above all be clear about the nature and extent of the risks to which the Council may become exposed
        b. Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
        c. Be content that the documentation is adequate both to deliver the Council's objectives and protect the organisation's interests, and to deliver good housekeeping
        d. Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded
        e. Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

    - In respect of borrowing and other funding decisions, the Council will:

        a. Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.
        b. Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships.
        c. Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
        d. Consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets.

    - In respect of investment decisions, the organisation will:

a. Consider the optimum period, in the light of cash flow availability and prevailing market conditions.
b. Consider the alternative investment products and techniques available, especially the implications of using any which may expose the organisation to changes in the value of its capital.

4. Considerations to be made before each temporary borrowing and investment decision.

- Borrowing

  a. Are funds available in call accounts?
  b. Arrange temporary borrowing through a broker for the shortest period of time at the lowest rate of interest available.

- Investing

  a. Establish funds available to be invested
  b. Establish a maturity date using cash flow and the Council's treasury advisers monthly investment strategy
  c. Using the Ratings spreadsheet –
  Headroom available with each counterparty
  d. Check the credit ratings and other market information available for the chosen counterparty.
  e. Use a broker to find the highest rate of interest for the requirements above
  f. If after the above, funds still cannot be placed and call accounts and Money Market Funds are full, then invest with DMO.

## TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

### 4.1 Approved activities of the Treasury Management operation

All borrowing is undertaken in accordance with the Local Government Act 2003 section 1 and all investments undertaken in accordance with section 12.

The approved activities are:

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;

- leasing.

## 4.2 Approved Instruments for Borrowing

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

- Public Works Loan Board (PWLB) and any successor body
- UK local authorities
- any institution approved for investments above
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Clwyd Pension Fund)
- capital market bond investors
- Local Capital Finance Company and other special purpose companies created to enable joint 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:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

## 4.3 Approved Instruments for Investments

The annual Treasury Management Strategy provides details of specified and non-specified investments and the maximum limits for each, as is required under Guidance issued by the Welsh Government. The approved investment instruments are -

- Fixed Term Deposits
- Certificates of Deposit
- Bank Accounts (Instant Access & Notice Accounts)
- Pooled Investment Vehicles (Such as Money Market Funds)
- U.K. Treasury Bills
- Loans
- Bonds
- Reverse Repurchase Agreements
- Commercial Papers

## 4.4 Approved Techniques

- Forward dealing up to 364 days;
- Callable deposits.

## 4.5 Approved methods and sources of raising capital finance

Finance will only be raised in accordance with the Prudential Code for Capital Finance, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

**On Balance Sheet**
Public Works Loan Board (PWLB)
European Investment Bank (EIB)
Local Authorities
Banks
Building Societies
Pension Funds
Stock issues
Negotiable Bonds
Internal sources (capital receipts & revenue balances)
Sterling commercial paper
Sterling medium term notes
Finance Leases

**Off Balance Sheet**
Deferred Purchase

**Other Methods of Financing**
Government and EC Capital Grants
Lottery monies
Private Finance Initiative (PFI)

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Chief Finance Officer has delegated powers through this Policy and the Strategy to take the most appropriate form of borrowing from approved sources.

## TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

### 5.1 Limits to Responsibilities/Discretion at Committee/Cabinet levels

1. **County Council**

The Council is responsible for:-

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of annual policy and strategy.
- Approval of/amendments to the organisation's adopted clauses, treasury management policy and strategy.
- Budget consideration and approval.
- Approval of the division of responsibilities.

2. **Cabinet**

The Cabinet is responsible for:

- Receiving reports from the Chief Finance Officer informed by the deliberations of the Audit Committee on the implementation and regular monitoring of its treasury management policy, strategy and practices.
- Consideration of Treasury Policy and Strategy for approval by Council.

3. **Audit Committee**

The Audit Committee is responsible for –

- Reviewing the treasury management policy and practices and making recommendations to Cabinet.
- Receiving and reviewing regular monitoring reports.

### 5.2 Principles and practices concerning segregation of duties

| Procedure | Regular | Trained in Absence |
|---|---|---|
| Cash Balances | Accounting Technician | Accounting Technician/Technical Accountant |
| Dealing and Limit Calculations | Accounting Technician | Accounting Technician/Technical Accountant |
| Logotech | Accounting Technician | Accounting Technician/Technical Accountant |
| Dealing Check | Accounting Technician | Accounting Technician/Technical Accountant/Accountancy Assistant |
| Dealing Authorisation | 8 Authorised Bank Signatories (Chief Officer (People & Resources), Corporate Finance Manager, 6 Finance Managers) | |
| Funds Transfer Operators | Finance Assistant | 3 Accounting Technicians |
| Funds Transfer Approval | 6 Accountants | |
| Bankline System Administrators | Accountant (Systems) | Accounting Technician |

**5.3 Statement of duties/responsibilities of each Treasury post**

1. Chief Finance Officer

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy and strategy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management.
- Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit and liaising with external audit.
- Approving the selection of external service providers (within the Council's Contract Procedure Rules) and agreeing terms of appointment.

2. Finance Manager - Technical Accounting

- To deputise for the Chief Finance Officer.
- To advise the Chief Finance Officer in the discharge of his/her duties.
- Regularly review the Treasury Management function.
- Submitting management information reports to the Chief Finance Officer.
- Drafting reports for Audit Committee, Cabinet and Council.
- Review a monthly report from the Technical Accountant on the performance of the Treasury Management function.

3. Technical Accountant

- Supervise treasury management staff.
- Review the draft report on the performance of the Treasury Management function.
- Identify and recommend opportunities for improved practices.
- Ensure that the day to day activities accord with the Treasury Management Policy Statement and Practices.

4. Accounting Technician

- Execution of transactions.
- Adhere to agreed policies and practices on a day-to-day basis.
- Maintain relationships with counterparties and external service providers.

- Draft reports for Audit Committee, Cabinet and Council.
- Produce cash flow projections and monitor performance.
- Report on the performance of the treasury management function.

5. Other Officers

- To deputise as necessary for the above posts, adhering to their duties and responsibilities.

**5.4 Dealing Limits**

As outlined in 1 - Credit and Counterparty Policies

**5.5 List of Approved Brokers**

Four approved brokers are currently used by the Council (see 11.2).

- ICAP Limited
- Martin Brokers (UK) Plc
- Prebon Marshall Yamane (UK) Limited
- Tradition (UK) Ltd

**5.6 Policy on Brokers' Services**

Reviewed annually.

**5.7 Policy on taping conversations**

No conversations are currently taped

**5.8 Direct Dealing Practices**

This is undertaken as and when required to maximise investment return

**5.9 Settlement transmission procedures**

Standard Settlement Instructions

**5.10 Documentation Requirements**

- Flintshire CC Treasury Management Policy Statement.
- Flintshire CC Treasury Management Annual Strategy.
- Flintshire CC Treasury Management Annual Outturn Report.
- Treasury Management Health checks.
- Loans and Treasury Management System Manual (LOGOTECH).
- Manual Diary and Cash Flow Statement (LOGOTECH).
- Money Market Dealing Form.
- Loans Outstanding Form / Limit Calculations.
- List of Brokers and Telephone Numbers.

- Approved Counterparties (Regular update from TM Advisers).
- Outstanding and Matured Investments/Borrowing File.
- Previous TM Consultants Correspondence Files.
- Arlingclose Consultancy Services Correspondence File (TM Advisers).
- Treasury Management Operational Guidelines.
- Treasury Management (Long Term Borrowing) Operational Guidelines.

**5.11 Arrangements concerning the management of third-party funds.**

Third party funds are included in the net daily bank balance and the funds are utilised by the Council on that basis. Interest is paid as follows -

- Optec Youth Exchange Fund – average monthly rate, quarterly.
- Insurance Fund – average seven day rate, annually.

## TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

**6.1 Annual Treasury Management Strategy Statement**

1. The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This Strategy will be scrutinised by Audit Committee, submitted to the Cabinet and then to the County Council Committee for approval before the commencement of each financial year.

2. The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, this organisation may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

3. The Treasury Management Strategy is concerned with the following elements:

   - the prospects for interest rates;
   - the limits placed by this organisation on treasury activities
   - the expected borrowing strategy;
   - the expected investment strategy;
   - the expectations for debt rescheduling;
   - any extraordinary treasury issue.
   - Treasury Management Indicators.

4. The Treasury Management Strategy will establish the expected move in interest rates (using all available information such as published interest rate forecasts where applicable).

**6.2 Prudential Code for Capital Finance**

1. In accordance with legislation, the Council is required to approve key indicators

and limits for the Prudential Code for Capital Finance. These are listed below and reported in the Prudential Indicators Report.

- Estimates of Capital Expenditure
- Ratio of financing costs to net revenue stream
- Incremental impact of capital investment decisions on council tax/housing rents
- Capital financing requirement
- Authorised limit for external debt
- Operational Boundary for external debt

The following are within the Treasury Management Code.

- Upper limit on fixed interest rate exposures
- Upper limit on variable interest rate exposures
- Upper and lower limits for maturity structure of borrowing
- Limit for principal sums invested for periods longer than 364 days

2. The Chief Finance Officer is responsible for putting forward for approval the relevant limits for the Treasury Management Code into the Annual Treasury Management Strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Chief Finance Officer shall submit the changes for scrutiny by the Audit Committee and recommendation by the Cabinet before submission to County Council for approval.

### 6.3 Annual Investment Strategy

The Welsh Government requires the documentation of an Annual Investment Strategy including the following:

- Specified Investments – Investments offering high security and liquidity
- Non-specified Investments – Investments with greater potential risk
- Investments which can be prudently committed for longer than 1 year.
- Credit Risk Assessment.
- Use of Investment Consultants.
- Investment Training.
- Investment money borrowed in advance of need.

### 6.4 Annual Report on Treasury Management Activity

An annual report will be presented to the Audit Committee, Cabinet and then the County Council at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following: -

- a comprehensive picture for the financial year of all treasury policies, plans, activities and results
- transactions executed and their revenue (current) effects
- report on risk implications of decisions taken and transactions executed

- monitoring of compliance with approved policy, practices and statutory / regulatory requirements
- monitoring of compliance with powers delegated to officers
- degree of compliance with the original strategy and explanation of deviations
- explanation of future impact of decisions taken on the organisation
- measurements of performance
- report on compliance with CIPFA Code recommendations

The report will be subject to review by the Audit Committee

### 6.5 Mid-Year Review

A mid-year report will be presented to the Audit Committee, Cabinet and Council, which will include the following:

- activities undertaken
- variations (if any) from agreed policies/practices
- interim performance report
- regular monitoring
- monitoring of treasury management indicators for local authorities.

The report will be subject to review by the Audit Committee

### 6.6 Management Information Reports

The Technical Accountant will report management information to the Finance Manager - Technical Accountancy monthly for review. The Finance Manager Technical Accountancy will report monthly to the Chief Finance Officer.

### 6.7 Presentation of Reports

As a minimum:

The County Council will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.

In addition to the above, the Audit Committee and Cabinet will receive regular monitoring reports on treasury management activities and risks. Audit Committee will also have responsibility for the scrutiny of treasury management policies and practices.

Treasury Management Indicators will be reported in the strategy.

## TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

### 7.1 Statutory/ Regulatory Requirements

The Treasury Management part of the statement of accounts has been prepared in accordance with the accounting policies applicable to local authorities.

### 7.2 Accounting Practices and Standards

The accounts are prepared in accordance with the CIPFA Treasury Management in the Public Sector Code of Practice, supported by guidance notes on the application of accounting standards.

### 7.3 Budget Monitoring

The budget for treasury management activities is monitored on a monthly basis through the Central Loans and Investment Account (CLIA).

## TMP 8 CASH AND CASH FLOW MANAGEMENT

### 8.1 Arrangements for preparing/submitting cash flow statements

Annual cash flow prepared before the start of the financial year and updated throughout the year.

### 8.2 Content and frequency of cash flow budgets

All known cash flow factors are included for the coming financial year.

### 8.3 Listing of sources of information

Correspondence from external organisations and internal departments, together with various information extracted from the Annual Budget Book.

External –

- Welsh Government
- North Wales Police
- North Wales Fire Authority

Internal –

- Payroll
- Pensions
- Council Tax
- Creditors

### 8.4 Bank statement procedures

All bank statement information is obtained electronically from the NatWest Bankline website.

### 8.5 Procedures for banking of funds

All day to day treasury management transactions are paid and received by the Clearing House Automated Payments System (CHAPS).

### 8.6 Cash Flow Management

Arrangements as detailed in section 3.1.4

### 8.7 Debtors and Creditors

Debtors and Creditors are monitored so that any significant moves can be prepared for. Creditors provide warning of payments 2 days in advance.

## TMP 9 MONEY LAUNDERING

### 9.1 Procedures for establishing identity/authenticity of Lenders

1. The Council does not accept loans from individuals. All loans are obtained from the PWLB or from authorised institutions on the FSA Register which is a public record of financial service firms, individuals and other bodies which fall under its regulatory jurisdiction as defined in the Financial Services & Markets Act 2000 (FSMA). This Act came into force on 1st December 2001.

2. Any borrowing undertaken from the money markets is through money brokers, who are also authorised and regulated by the Financial Services Authority. This adds a further layer of protection as the broker vets the institutions involved in any transactions.

3. Appropriate consideration will be given to identify and verify SMEs when undertaking any lending from SMEs.

## TMP 10 STAFF TRAINING AND QUALIFICATIONS

### 10.1 Details of approved training courses

1. Reviewed as part of the annual Employee Appraisal process. The Council's treasury advisers also provide training on treasury issues to staff when required.

2. Flintshire County Council is a member of the CIPFA Treasury Management Network. Treasury officers receive weekly updates from the Network and attend seminars organised by the Network, as required.

**10.2 Records of training received by Treasury staff**

All training is recorded on a departmental database.

**10.3 Approved qualifications for Treasury staff**

All treasury officers are qualified to AAT Technician level as a minimum.

**10.4 Training of Members**

Audit Committee Members will receive a quarterly Treasury Management report and training will be given as required. Other Members will be invited to attend training and receive treasury reports as outlined in these practices.

**10.5 Statement of Professional Practice (SOPP)**

1. Where the Chief Finance Officer is a member of CIPFA, there is a professional need for the Chief Finance Officer to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

**TMP 11 USE OF EXTERNAL SERVICE PROVIDERS**

**11.1 Details of contracts with Service Providers, including Bankers, Brokers, Consultants & Advisers**

1. Banking services:

   - National Westminster Bank Plc
   - Contract commenced January 2015 to run for 3 years.
   - Cost of core service - £50,000 p.a.
   - Payments due on an ongoing basis throughout the year

2. Money-broking services:

   The following money market brokers' services are utilised for day to day transactions as and when required.

   - ICAP plc
   - Martin Brokers (UK) plc
   - Prebon Marshall Yamane (UK) Limited
   - Tradition UK Limited

3. Treasury Consultant services:

   - Arlingclose Consultancy Services

- Contract commenced 1st May 2010 for 3 years with the option exercised to extend for a further 2 years.
- Cost of service - £9,900 plus VAT per annum
- Payments due quarterly

### 11.2 Procedures and frequency for tendering services

See TMP2 Performance Measurement section (2.2) for full details of services tendered. The process must comply with the Council's Contract Procedure rules.

## TMP 12 CORPORATE GOVERNANCE

### 12.1 List of documents to be made available for public inspection

12.1.1 Treasury Management Policy Statement
12.1.2 Treasury Management Strategy
12.1.3 Treasury Management Practices
12.1.4 Treasury Management Mid Year Report
12.1.5 Treasury Management Annual Outturn Report

## APPENDIX A

### Definition of Ratings

Fitch Long Term

- **AAA** -Highest credit quality. Rating denotes the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. The capacity is highly unlikely to be adversely affected by foreseeable events.
- **AA** - Very high credit quality. Rating denotes expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
- **A** - High credit quality. Rating denotes expectation of low credit risk. The capacity for payment of financial commitments is considered strong. The capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
- **BBB** - Good quality rating. 'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.

  The modifiers "+" & "-'' may be appended to any of the ratings above to denote a relative status within major categories.

Moody's Long Term

- **Aaa** - Judged to be one of the highest quality, with minimal credit risk
- **Aa** - Judged to be of high quality and are subject to very low credit risk
- **A** - Considered upper-medium grade and are subject to low credit risk
- **Baa** - Offers adequate credit quality. However, certain protective elements may be lacking or may be characteristically unreliable over any great length of time.

  Moody's appends numerical modifiers 1, 2 and 3 to each rating classification. 1 indicates that the obligation ranks in the higher end of its category, 2 mid-range and 3 a ranking in the lower end of that category.

Standard & Poors Long Term

- **AAA** - An obligor rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

- **AA -** An obligor rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
- **A -** An obligor rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
- **BBB** - An obligor rated ‘BBB’ has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

  **Plus (+) or minus (-)** The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories

APPENDIX 5

# FLINTSHIRE COUNTY COUNCIL

## TREASURY MANAGEMENT

## MID YEAR REPORT 2015/16

## 1.00 PURPOSE OF REPORT

1.01 To provide members with a mid-year update on matters relating to the Council's Treasury Management function.

## 2.00 BACKGROUND

2.01 Treasury management comprises the management of the Council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2.02 The Council's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of local authority services is an important, but secondary, objective.

2.03 The Council's policy is to appoint external consultants to provide advice on its treasury management function. The current external adviser is Arlingclose Ltd.

2.04 The Council has adopted the 2012 edition of the CIPFA Treasury Management in the Public Services: Code of Practice, which requires the Council to approve a treasury management strategy before the start of each financial year, a mid-year report, and an annual report after the end of each financial year.

2.05 In addition, the Welsh Government (WG) Guidance on Local Government Investments recommends that local authorities amend their investment strategies in light of changing internal or external circumstances.

2.06 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.

2.07 The Council approved the 2015/16 Treasury Management Strategy at its meeting on 17th February 2015.

## 3.00 ECONOMIC & INTEREST RATE REVIEW APRIL – SEPTEMBER 2015.

*Provided by Arlingclose Ltd the Council's Treasury Management advisors*.

*Global:*

As the year began, economic data was largely overshadowed by events in Greece. Markets' attention centered on the never-ending Greek issue stumbled from turmoil to crisis, running the serious risk of a disorderly exit from the Euro. The country's politicians and the representatives of the 'Troika' of its creditors - the European

Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) – barely saw eye to eye. Greece failed to make a scheduled repayment to the IMF on 30th June, in itself not a default until the IMF's Managing Director declares it so. Prime Minister Tsipras blindsided Greece's creditors by calling a referendum on 5th July on reform proposals which by then were off the table anyway. The European Central Bank froze liquidity assistance provided to Greek banks and capital controls within the country severely restricted individuals' and corporates' access to cash.

On 12th July, following a weekend European Union Summit, it was announced that the terms for a third bailout of Greece had been reached. The deal amounting to €86 billion was agreed under the terms that Greece would see tax increases, pension reforms and privatisations; the very reforms Tsipras had vowed to resist. This U-turn saw a revolt within the ruling Syriza party and on 27th August, Alexis Tsipras resigned from his post as Prime Minster of Greece after just eight months in office by calling a snap election, held on 20th September. This gamble paid off as Tsipras led his party to victory once again, although a coalition with the Independent Greeks was needed for a slim parliamentary majority. That government must now continue with the unenviable task of guiding Greece through the continuing economic crisis – the Greek saga is far from over.

The summer also saw attention shift towards China as the Shanghai composite index (representing China's main stock market), which had risen a staggering 50%+ since the beginning of 2015, dropped by 43% in less than three months with a reported $3.2 trillion loss to investors, on the back of concerns over growth and after regulators clamped down on margin lending activity in an effort to stop investors borrowing to invest and feeding the stock market bubble. Chinese authorities intensified their intervention in the markets by halting trading in many stocks in an attempt to maintain market confidence. They surprised global markets in August as the People's Bank of China changed the way the yuan is fixed each day against the US dollar and allowed an aggressive devaluation of the currency. This sent jitters through Asian, European and US markets impacting currencies, equities, commodities, oil and metals. On 24$^{th}$ August, Chinese stocks suffered their steepest one-day fall on record, driving down other equity markets around the world and soon becoming known as another 'Black Monday'. Chinese stocks have recovered marginally since and are trading around the same level as the start of the year. Concerns remain about slowing growth and potential deflationary effects.

*UK Economy:*
The economy has remained resilient over the last six months. Although economic growth slowed in Q1 2015 to 0.4%, year/year growth to March 2015 was a relatively healthy 2.7%. Q2 2015 GDP growth bounced back and was confirmed at 0.7%, with year/year growth showing slight signs of slowing, decreasing to 2.4%. GDP has now increased for ten consecutive quarters, breaking a pattern of slow and erratic growth from 2009. The annual rate for consumer price inflation (CPI) briefly

turned negative in April, falling to -0.1%, before fluctuating between 0.0% and 0.1% over the next few months. In the August Quarterly Inflation Report, the Bank of England projected that GDP growth will continue around its average rate since 2013. The Bank of England's projections for inflation remained largely unchanged from the May report with them expecting inflation to gradually increase to around 2% over the next 18 months and then remain there in the near future. Further improvement in the labour market saw the ILO unemployment rate for the three months to July fall to 5.5%. In the September report, average earnings excluding bonuses for the three months to July rose 2.9% year/year.

The outcome of the UK general election, largely fought over the parties' approach to dealing with the consequences of the structural deficit and the pace of its removal, saw some very big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics.

The US economy slowed to 0.6% in Q1 2015 due to bad weather, spending cuts by energy firms and the effects of a strong dollar. However, Q2 GDP showed a large improvement at a twice-revised 3.9% (annualised). This was largely due to a broad recovery in corporate investment alongside a stronger performance from consumer and government spending and construction and exports. With the Fed's decision on US interest rate dependent upon data, GDP is clearly supportive. However it is not as simple as that and the Fed are keen to see inflation rise alongside its headline economic growth and also its labour markets. The Committee decided not to act at its September meeting as many had been anticipating but have signalled rates rising before the end of the year.

*Market reaction:*

Equity markets initially reacted positively to the pickup in the expectations of global economic conditions, but were tempered by the breakdown of creditor negotiations in Greece. China led stock market turmoil around the globe in August, with the FTSE 100 falling by around 8% overnight on 'Black Monday'. Indices have not recovered to their previous levels but some improvement has been seen. Government bond markets were quite volatile with yields rising (i.e. prices falling) initially as the risks of deflation seemingly abated. Thereafter yields fell on the outcome of the UK general election and assisted by reappraisal of deflationary factors, before rising again. Concerns around China saw bond yields dropping again through August and September. Bond markets were also distorted by the size of the European Central Bank's QE programme, so large that it created illiquidity in the very markets in which it needed to acquire these bonds, notably German government bonds (bunds) where yields were in negative territory.

*Outlook for Q3 and Q4 2015/16:*

Arlingclose's expectation for the first rise in the Bank Rate (interest base rate) remains the second calendar quarter of 2016. The pace of interest rate rises will be gradual and the extent of rises limited. The appropriate level for Bank Rate for the post-crisis UK economy is likely to be lower than the previous norm. We would suggest this is between 2.0% and 3.0%. There is also sufficient momentum in the US economy for the Federal Reserve to raise interest rates in 2015, although risks of issues from China could possibly push this back.

The weak global environment and resulting low inflation expectations are likely to dampen long term interest rates. We project gilt yields will follow a shallow upward path in the medium term, with continuing concerns about the Eurozone, and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued. The uncertainties surrounding the timing of UK and US interest rate rises, and the Chinese stock market-led turmoil, are likely to prompt short term volatility in gilt yields.

The table below details the latest forecast for the Bank of England base rate as provided by our advisors Arlingclose:

| | **Dec 15** | **Mar 16** | **Jun 16** | **Sep 16** | **Dec 16** | **Mar 17** | **Jun 17** | **Sep 17** | **Dec 17** | **Mar 18** | **Jun 18** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Interest Rate | 0.50% | 0.50% | 0.75% | 0.75% | 1.00% | 1.00% | 1.25% | 1.25% | 1.50% | 1.50% | 1.75% |

## 4.00 BORROWING REQUIREMENTS AND DEBT MANAGEMENT

4.01 PWLB (Public Works Loans Board) Certainty Rate Update.

The Authority qualified for borrowing at the ‘Certainty Rate’ (0.2% below the PWLB standard rate) for a 12 month period from 1st November 2014. In August 2015, the Authority submitted its application to WG along with the 2015-16 Capital Estimates Return to access this reduced rate for a further 12 months from 1st November 2015.

4.02 Borrowing Activity to 30th September 2015.

The total long term borrowing outstanding, brought forward into 2015/16 totalled £172.1 million. As reported in the 2015/16 Treasury Management Strategy, the UK and Welsh Governments, along with all 11 stock retaining authorities in Wales were preparing to sign a voluntary agreement to change the financing arrangements for council housing in Wales in early 2015/16.

The negative subsidy system in operation, which required Flintshire to make annual payments of circa £6m in to Welsh Government ceased at the end of 2014/15. The Council was required to buy itself out of the arrangement by making a one-off ‘settlement payment’ to the Welsh Government on 2nd April 2015.

Part of the agreement was that the Council would borrow in full for the settlement payments from the PWLB at special Welsh HRA Subsidy Reform interest rates.

These were set at a margin above PWLB Standard rates due to the methodology adopted by the Welsh Government and HM Treasury in determining the settlement amounts.

Flintshire's settlement payment amounted to £79.2m, and the Council was required to draw down loans that would deliver a minimum interest payment to the PWLB of £3.3m for each of the first five years following settlement.

The agreement will generate revenue savings allowing the Council to increase its investment in existing stock and support the delivery of additional supply of housing.

4.03 Loans with the Public Works Loans Board are in the form of fixed rate (£222.35m) and variable rate (£10m). The remaining £18.95m is variable in the form of Lobo's (Lender's Option, Borrower's Option). The Council's average borrowing rate is currently 5.02%.

| | **Balance 01/04/2015 £m** | **Debt Maturing £m** | **New Debt £m** | **Balance 30/09/2015 £m** |
|---|---|---|---|---|
| **Long Term Borrowing** | 172.1 | 0.00 | 79.2 | 251.3 |
| **TOTAL BORROWING** | **172.1** | **0.00** | **79.2** | **251.3** |
| **Other Long Term Liabilities *** | 7.1 | 0.00 | 0.00 | 7.1 |
| **TOTAL EXTERNAL DEBT** | **179.2** | **0.00** | **0.00** | **258.4** |
| **Increase/ (Decrease) in Borrowing £m** | | | | **79.2** |

4.04 The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

4.05 No other new long term borrowing has been undertaken so far during 2015/16.

Affordability (interest costs charged on new loans) and the "cost of carry" (costs associated with new loans) remain important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

4.06 Loans at Variable Rates

The extent of variable rate borrowing the Council can potentially undertake is influenced by the level of Reserves and Balances. The interest rate on the Council's £10m variable rate loans averaged 0.633%.
The Council has determined that exposure to variable rates is warranted. It also assists with the affordability and budgetary perspective in the short-to-medium

term. Any upward movement in interest rates and interest paid on variable rate debt would be offset by a corresponding increase in interest earned on the Council's variable rate investments. The interest rate risk associated with the Council's strategic exposure of £10m is regularly reviewed with our treasury advisor against clear reference points, this being a narrowing in the gap between short and longer term interest rates by 0.5%. If appropriate, the exposure to variable interest rates will be reduced by switching into fixed rate loans.

4.07 Internal Borrowing

Given the significant cuts to local government funding putting pressure on Council finances, the strategy will be to minimise debt interest payments without compromising the longer-term stability of the portfolio.

The differential between the cost of new longer-term debt and the return generated on the Council's temporary investment returns was significant at around 3.21%.

The use of internal resources in lieu of borrowing has therefore continued to be the most cost effective means of funding capital expenditure, with a projection for £30m to be utilised for this purpose by the end of 2015/16. This has lowered overall treasury risk by reducing both external debt and temporary investments.

The Council acknowledges that this position is not sustainable over the medium term and borrowing options and the timing of such borrowing continue to be assessed, with current expectations that the Council will need to borrow for capital purposes from 2016/17 onwards.

4.08 Lender's Option Borrower's Option Loans (LOBOs)

The Authority 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 at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. The option to change the terms on £18.95m of the Council's LOBOs was not exercised by the lender. The Authority acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

4.09 Debt Rescheduling

The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.
The Corporate Finance Manager, in conjunction with the Council's treasury advisors will continue to review any potential opportunities for restructuring the

Council's debt in order to take advantage of potential savings as interest rates change and to enhance the balance of the long term portfolio (amend the maturity profile and/or the balance of volatility).

## 5.0 INTERIM INVESTMENT AND PERFORMANCE REPORT

5.01 The Welsh Government's Investment Guidance gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

5.02 The maximum investments the Authority had on deposit at any one time totalled £65.4m. The average investment balance for the period was £55.6m and the average rate of return was 0.48%, generating investment income of £133k. The investment income received for the reporting period exceeded the budgeted figure of £65k by £68k.

5.03 Investments have been made with UK banks and building societies up to periods of 12 months, as well as utilising investment opportunities afforded by money market funds, instant access accounts, Debt Management Office, other Local Authorities and other financial instruments such as Certificates of Deposit (CD's).

5.04 The average debt balance held was £251.3m and the average rate paid was 5.02%, generating interest payable of £3.551m in line with budget forecasts (to date).

| | Investments | | Borrowing | |
|---|---|---|---|---|
| | Interest received £'000 | Interest rate % | Interest paid £'000 | Interest rate % |
| Actual | 133 | 0.48 | 3,551 | 5.02 |
| Budget | 65 | 0.65 | 3,579 | 4.53 |
| Difference | +68 | - | -28 | - |

Year end projections are as follows:

| | Investments | | Borrowing | |
|---|---|---|---|---|
| | Interest received £'000 | Interest rate % | Interest paid £'000 | Interest rate % |
| Actual | 200 | 0.5 | 12,597 | 5.02 |
| Budget | 130 | 0.65 | 12,600 | 4.53 |
| Difference | +70 | - | +3 | - |

5.06 *Credit Risk (security)*

Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price. The minimum counterparty credit rating outlined in the 2014/15 Treasury Management Strategy was A-/A3/A- across rating agencies Fitch, S&P and Moody's.

*Counterparty Update (provided by Arlingclose Ltd)*

All three credit ratings agencies have reviewed their ratings in the six months to reflect the loss of government support for most financial institutions and the potential for varying loss given defaults as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions have seen upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS) to BBB+ from A, Deutsche Bank to A from A+, Bank Nederlandse Gemeeten to AA+ from AAA and ING to A from A+. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thueringen.

S&P reviewed UK and German banks in June downgrading Barclays' long-term rating to A- from A, RBS to BBB+ from A- and Deutsche Bank to BBB+ from A. S&P has also revised the outlook of the UK as a whole to negative from stable, citing concerns around a planned referendum on EU membership and its effect on the economy.

At the end of July, the council's treasury advisors Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

5.07 *Liquidity*

In keeping with the WAG's Government's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and call accounts.

5.08 *Yield*

The Council sought to optimise returns commensurate with its objectives of security and liquidity. The Council's investment yield is outlined in 5.02.

## 7.00 COMPLIANCE

7.01 The Council can confirm that it has complied with its Prudential Indicators for the period April to September 2015. These were approved on 17th February 2015 as part of the Council's 2015/16 Treasury Management Strategy.

7.02 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the period April – September 2015. None of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

## 8.00 OTHER ITEMS

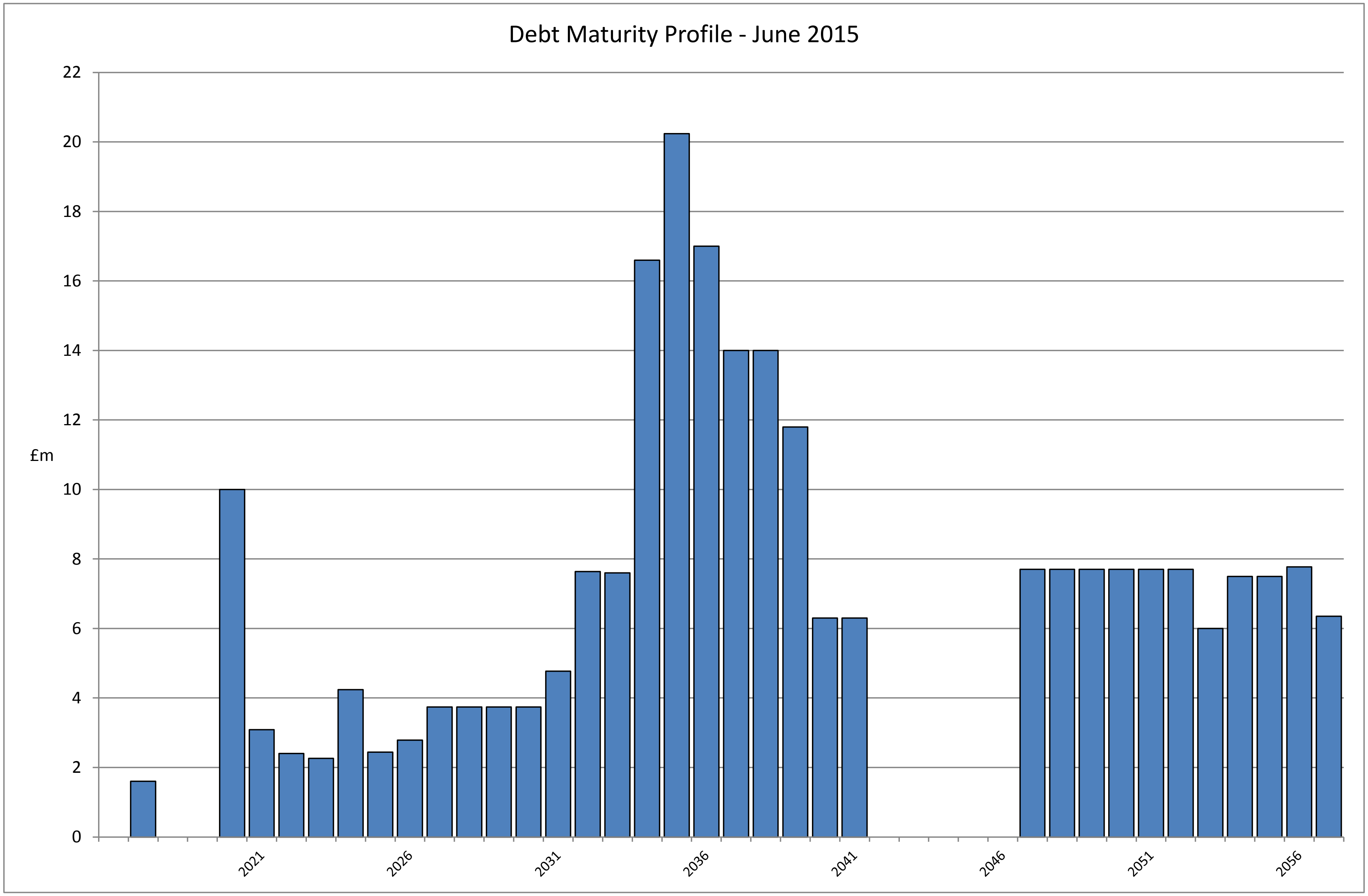
8.01 Other treasury management related activity that took place during April – September 2015 includes:

- The Treasury Management Annual Report 2014/15 was reported to Audit Committee in July. Cabinet and Council reviewed and approved the report in September.
- Quarterly Treasury Management updates were reported to the Audit Committee.
- The Council continues to be a member of the CIPFA Treasury Management Forum and the TM Network Advisory Group.

## 9.00 CONCLUSION

9.01 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the first half of 2015/16.

9.02 As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.


Debt Maturity Profile - June 2015
£m
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Agenda Item 13

FLINTSHIRE COUNTY COUNCIL

| | |
|---|---|
| **Date of Meeting** | Tuesday, 16th February 2016 |
| **Report Subject** | Prudential Indicators 2016/17 to 2018/19 |
| **Report Author** | Corporate Finance Manager |

## EXECUTIVE SUMMARY

This report presents the Prudential Indicators for the period 2016/17 to 2018/19 for approval.

At its meeting on 16th February, 2016 Cabinet considered and approved a detailed report from the Corporate Finance Manager in respect of the setting of Prudential Indicators for the period 2016/17 to 2018/19, which is included at Appendix 1. Any comments from the Cabinet will be reported verbally

| **RECOMMENDATIONS** | |
|---|---|
| 1 | Approve the Prudential Indicators for 2016/17 – 2018/19 as detailed in Section 1 of the attached Cabinet report (Appendix 1). |
| 2 | Delegate authority to 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 (paragraphs 1.07.1, 1.07.2 of the attached Cabinet report (Appendix 1)). |

## REPORT DETAILS

| 1.00 | EXPLAINING THE PRUDENTIAL INDICATORS |
|---|---|
| 1.01 | 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 **affordable, prudent and sustainable**, 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. Further details are contained 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 16th February, 2016 - Prudential Indicators 2017/17 to 2018/19. |

| 6.00 | LIST OF ACCESSIBLE BACKGROUND DOCUMENTS |
|---|---|
| 6.01 | **Contact Officer:** Liz Thomas, Finance Manager, Technical Accountancy<br>**Telephone:** (01352) 702289<br>**E-mail:** liz.thomas@flintshire.gov.uk |

| 7.00 | **GLOSSARY OF TERMS** |
|---|---|
| 7.01 | As per the attached report (Appendix 1). |

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| CABINET MEETING |
|---|

| | |
|---|---|
| **Date of Meeting** | Tuesday 16 February 2016 |
| **Report Subject** | Prudential Indicators 2016/17 - 2018/19 |
| **Portfolio Holder** | Leader of the Council and Cabinet Member for Finance |
| **Report Author** | Corporate Finance Manager |
| **Type of Report** | Strategic |

## 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 2016/17 – 2018/19:

- 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 approve and recommend to the County Council on 16 February 2016:-<br><br>• The Prudential Indicators for 2016/17 - 2018/19 as detailed in Section 1 of the report.<br><br>• 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 (1.07.1, 1.07.2). |

**REPORT DETAILS**

| 1.00 | **EXPLAINING THE PRUDENTIAL INDICATORS** |
|---|---|
| **1.01**<br><br>1.01.1 | **Background**<br><br>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. |
| 1.01.2 | 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. |
| 1.01.3 | The Prudential Code sets out the indicators that must be used, and the factors that must be taken into account in preparing such. |
| **1.02**<br><br>1.02.1 | **Considerations**<br><br>The prudential indicators required by the Prudential Code are designed to support and record local decision making; they are not designed to be comparative performance indicators - the use of them in this way would be likely to be misleading and counter-productive. They are considered in parallel with the treasury management indicators required by the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, as reported elsewhere on this agenda. |
| 1.02.2 | The Prudential Code recognises that in making capital investment decisions, and in reviewing the prudential indicators, the Council must have regard to the following:-<br><br>• Service objectives, e.g. strategic planning for the authority<br>• Stewardship of assets, e.g. asset management planning<br>• Value for money, e.g. option appraisal<br>• Affordability, e.g. implications for Council Tax and housing rents<br>• Prudence and sustainability, e.g. implications for external borrowing<br>• Practicality, e.g. achievability of the forward plan<br><br>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. |

| | |
|---|---|
| 1.02.3 | Affordability is the ultimate constraint on the amount that a local authority can spend or borrow. In practice, when making a decision to invest in a capital asset, the authority must do more than simply determine whether it can afford the immediate cost. In order to ensure long term affordability, decisions have to be prudent, and, in the long term, sustainable. Borrowing has to be prudent because, since future interest rates and revenue streams are uncertain, it must involve an element of risk. Furthermore, if the council is unable to deliver its capital programme, or to afford the cost of running and maintaining the new facilities, the chosen level of capital investment will not be sustainable in the long term. Prudence and affordability are related concepts. |
| 1.02.4 | The Prudential Code specifies that prudential indicators are required to be calculated for the forthcoming financial year and 2 subsequent financial years, this process links in with the Medium Term Financial Plan. |
| **1.03** | **Housing Revenue Account (HRA)** |
| 1.03.1 | As reported to Cabinet previously, the Council along with all other Welsh Councils, exited the HRA negative subsidy system in 2015/16, the final sum payable, to HM Treasury via Welsh government (WG), was £79.248m. This has released revenue savings into the HRA which has allowed the Council to invest in upgrading its existing stock and to increase the supply of social housing in the county. |
| **1.04** | **Prudential Indicators for Capital Expenditure** |
| 1.04.1 | Based on those resources currently allocated (including specific grants, but excluding any rephasing of expenditure from 2015/16 to future years), the estimates of capital expenditure to be incurred in 2016/17 (and the following two years), are as indicated in Table 1 below. |

**Table 1**

| CAPITAL EXPENDITURE | | | |
|---|---|---|---|
| | **2016/17** | **2017/18** | **2018/19** |
| | **Estimate** | **Estimate** | **Estimate** |
| | **£m** | **£m** | **£m** |
| | | | |
| Council Fund | 21.143 | 12.301 | 12.912 |
| | | | |
| Housing Revenue Account | 25.933 | 29.359 | 23.594 |
| | | | |
| **Total** | **47.076** | **41.660** | **36.506** |

| | |
|---|---|
| 1.04.2 | This is in line with the capital programme proposals recommended to commence in 2016/17 in the Council Fund Capital Programme 2016/17 to 2019/20 report and the HRA budget report which are included elsewhere on this agenda. |
| 1.04.3 | The capital expenditure totals essentially provide the base financial data from which all other indicators follow. |

| | |
|---|---|
| **1.05** | **Prudential Indicators for Affordability** |
| 1.05.1 | Estimates of the ratio of financing costs to net revenue stream for 2016/17 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 2 below; these indicators of affordability address the revenue implications of the Council's financial strategy. |

**Table 2**

| RATIO OF FINANCING COSTS TO NET REVENUE STREAM | | | |
|---|---|---|---|
| | **2016/17** | **2017/18** | **2018/19** |
| | **Estimate** | **Estimate** | **Estimate** |
| | **%** | **%** | **%** |
| | | | |
| Council Fund | 6.1% | 6.4% | 6.5% |
| | | | |
| Housing Revenue Account | 24.6% | 26.1% | 27.6% |
| | | | |

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 from rent payers. The estimate of financing costs includes the current commitments and the proposals included in the capital programme report.

The HRA ratio, calculated in accordance with the Prudential Code, reflects the increase in financing costs attributable to the settlement payment required to exit the HRA negative subsidy system.

| | |
|---|---|
| 1.05.2 | The Prudential code requires that the estimate of the incremental impact of capital investment decisions as proposed in the capital budget report, over and above capital investment decisions that have previously been taken by the Council, are reported in terms of their impact on Band D Council Tax and Housing Rents.<br><br>The Council Fund Capital Programme contains no new capital investment decisions, over and above decisions taken in previous years including 21st century schools programme, that have a combined impact to increase revenue costs.<br><br>Similarly, the HRA Capital Programme contains no new capital expenditure decisions, over and above the 30 year Business Plan which was approved by Council in 2015/16 including upgrading existing housing stock to Welsh Housing Quality Standards, and building new social housing. |
| **1.06** | **Prudential Indicators for Prudence** |
| 1.06.1 | Estimates of the capital financing requirement, for 2016/17 are shown in Table 3 overleaf: |

**Table 3**

| CAPITAL FINANCING REQUIREMENT | | | |
|---|---|---|---|
| | **2016/17** | **2017/18** | **2018/19** |
| | **Estimate** | **Estimate** | **Estimate** |
| | **£m** | **£m** | **£m** |
| | | | |
| Council Fund | 183.554 | 187.523 | 189.065 |
| | | | |
| Housing Revenue Account | 112.202 | 122.408 | 131.610 |
| | | | |
| **Total** | **295.755** | **309.931** | **320.675** |

1.06.2 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. The Treasury Management Policy Statement 2016 - 2019 and the Treasury Management Strategy 2016/17 appear elsewhere on this agenda following consideration by the Audit Committee in January 2016. 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.

1.06.3 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'.*

1.06.4 In November 2012 CIPFA issued an amendment to the Prudential Code changing the indicator from net debt (total borrowing and other long-term liabilities less any investments held) to gross debt, following reflection that comparing the capital financing requirement to the net position i.e., net of investments, could potentially mask a position where an authority had borrowed other than for a capital purpose and then subsequently invested the surplus funds.

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.

**1.07 Prudential Indicators for External Debt and Treasury Management**

1.07.1 In respect of its external debt, it is recommended that the Council approves the authorised limits shown in Table 4 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.

**Table 4**

| **AUTHORISED LIMIT FOR EXTERNAL DEBT** | | | |
|---|---|---|---|
| | **2016/17** | **2017/18** | **2018/19** |
| | **Estimate** | **Estimate** | **Estimate** |
| | **£m** | **£m** | **£m** |
| | | | |
| All Borrowing (Cap/Rev) | 299.300 | 323.300 | 333.300 |
| | | | |
| Other Long Term Liabilities | 24.100 | 25.100 | 26.100 |
| | | | |
| **Total** | **323.400** | **348.400** | **359.400** |

The authorised limits are consistent with the authority's current commitments, existing plans and the proposals in the capital programme report, and with its approved Treasury Management Strategy 2016/17. 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.

| | |
|---|---|
| 1.07.2 | Council is also asked to approve the operational boundary for external debt for the same period, shown in Table 5. 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. 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 reported to Council at its next meeting following the change. |

**Table 5**

| OPERATIONAL BOUNDARY FOR EXTERNAL DEBT | | | |
|---|---|---|---|
| | **2016/17** | **2017/18** | **2018/19** |
| | **Estimate** | **Estimate** | **Estimate** |
| | **£m** | **£m** | **£m** |
| | | | |
| All Borrowing (Cap/Rev) | 269.300 | 293.300 | 303.300 |
| | | | |
| Other Long Term Liabilities | 9.100 | 10.100 | 11.100 |
| | | | |
| **Total** | **278.400** | **303.400** | **314.400** |

| | |
|---|---|
| 1.07.3 | 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.<br><br>Council is asked to note that the authorised limit determined in 2016/17 (see section 1.07.1 above) will be the statutory limit determined under section 3 (1) of the Local Government Act 2003. |

| **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 assess 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.<br><br>**Contact Officer:** Liz Thomas - Finance Manager, Technical Accountancy<br>**Telephone:** (01352) 702289<br>**E-mail:** liz.thomas@flintshire.gov.uk |

| 7.00 | **GLOSSARY OF TERMS** |
|---|---|
| 7.01 | **Asset Management Plan** - A plan maintained by an authority of the condition and suitability of its assets, updated regularly and utilised to assess future capital needs<br><br>**Capital Expenditure** - Expenditure on the acquisition of **Non-current Assets** or expenditure that extends the life or value of an existing asset<br><br>**Capital Programme** - 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.<br><br>**Capital Receipt** - Receipts (in excess of £10,000) from the disposal of an asset<br><br>**Capital Scheme** - An individual capital project which is monitored and managed in isolation. The aggregate of all schemes comprises the **Capital Programme**<br><br>**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 from a single document<br><br>**Council Fund** - The fund to which all the Council's revenue and capital expenditure is charged<br><br>**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 21st 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. |

| FLINTSHIRE COUNTY COUNCIL |
|---|

| | |
|---|---|
| **Date of Meeting** | Tuesday, 16th February 2016 |
| **Report Subject** | Minimum Revenue Provision - 2016/17 Policy |
| **Report Author** | Corporate Finance Manager |

## EXECUTIVE SUMMARY

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

At its meeting on 16th February, 2016 Cabinet considered and approved a detailed report from the Corporate Finance Manager in respect of the setting of a prudent Minimum Revenue Provision for the repayment of debt, which is included at Appendix 1. Any comments from the Cabinet will be reported verbally.

| RECOMMENDATIONS | |
|---|---|
| 1 | That Members approve for Council Fund (CF):-<br><br>• Option 1 (Regulatory Method) be used for the calculation of the MRP in 2016/17 for all capital expenditure funded from supported borrowing; this represents a continuation of the approved and adopted policy for 2015/16.<br><br>• Option 3 (Asset Life Method) be used for the calculation of the MRP in 2016/17 for all capital expenditure funded from unsupported (prudential) borrowing or credit arrangements; this represents a continuation of the approved and adopted policy for 2015/16. |
| 2 | That members approve for Housing Revenue Account (HRA):-<br><br>• Option 2 (Capital Financing Requirement Method) be used for the calculation of the HRA's MRP in 2016/17 for all capital expenditure funded by debt; this represents a continuation of the approved and adopted policy for 2015/16. |

## 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.<br><br>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'.<br><br>Welsh Government (WG) has provided guidance which makes recommendations to authorities on the interpretation of the term, this guidance was last updated in April 2010.<br><br>Authorities are required to prepare an annual statement of their policy on making MRP.<br><br>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 16th February, 2016 - Minimum Revenue Provision - 2016/17 Policy. |

| 6.00 | LIST OF ACCESSIBLE BACKGROUND DOCUMENTS |
|---|---|
| 6.01 | **Contact Officer:** Liz Thomas, Finance Manager, Technical Accountancy<br>**Telephone:** (01352) 702289<br>**E-mail:** liz.thomas@flintshire.gov.uk |

| 7.00 | GLOSSARY OF TERMS |
|---|---|
| 7.01 | As per the attached report (Appendix 1). |

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APPENDIX 1

CYNGOR Sir y Fflint Flintshire COUNTY COUNCIL

| CABINET |
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| **Date of Meeting** | Tuesday 16 February 2016 |
| **Report Subject** | Minimum Revenue Provision - 2016/17 Policy |
| **Portfolio Holder** | Leader of the Council and Cabinet Member for Finance |
| **Report Author** | Corporate Finance Manager |
| **Type of Report** | Strategic |

## EXECUTIVE SUMMARY

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 April 2010.

Authorities are required to prepare an annual statement of their policy on making MRP.

| RECOMMENDATIONS | |
|---|---|
| 1 | That members approve and recommend to the County Council on 16 February 2016 for Council Fund (CF):-<br><br>• Option 1 (Regulatory Method) be used for the calculation of the MRP in 2016/17 for all capital expenditure funded from supported borrowing; this represents a continuation of the approved and adopted policy for 2015/16.<br><br>• Option 3 (Asset Life Method) be used for the calculation of the MRP in 2016/17 for all capital expenditure funded from unsupported (prudential) borrowing or credit arrangements; this represents a continuation of the approved and adopted policy for 2015/16. |
| 2 | That members approve and recommend to the County Council on 16 February 2016 for Housing Revenue Account (HRA):-<br><br>• Option 2 (Capital Financing Requirement Method) be used for the calculation of the HRA's MRP in 2016/17 for all capital expenditure funded by debt; this represents a continuation of the approved and adopted policy for 2015/16. |

## REPORT DETAILS

| **1.00** | **EXPLAINING THE MINIMUM REVENUE PROVISION** |
|---|---|
| **1.01**<br><br>1.01.1 | **Meaning of 'Prudent Provision'**<br><br>The WG guidance provides for a number of options for making 'prudent provision'. It explains that provision for the debt which funded the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service. |
| **1.02**<br><br>1.02.1 | **Options for Prudent Provision**<br><br>Option 1 - Regulatory Method<br><br>For capital expenditure funded from borrowing which is supported by 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), since the RSG is calculated on that basis i.e. authorities are able to calculate MRP exactly as if the 2003 Regulations were still in force.<br><br>Formula for calculation is to multiply the adjusted Capital Financing Requirement (CFR) at the end of the preceding financial year less Adjustment A by 4%. Adjustment A is a fixed value determined by changes to statutory regulations referred to above. |

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| 1.02.2 | Option 2 - Capital Financing Requirement Method<br><br>This is a technically simpler alternative to Option 1 and may also be used in relation to supported borrowing. While still based on the concept of the CFR, which is easily derived from the balance sheet, it avoids the complexities of the formula in Regulation 22. However, for most authorities it will probably result in a higher level of provision (and subsequent impact on service budgets) than Option 1, as it would for Flintshire County Council.<br><br>Formula for calculation is to multiply the adjusted CFR at the end of the preceding financial year by 4%. |
| 1.02.3 | Option 3 - Asset Life Method<br><br>For capital expenditure funded from debt under the Prudential system for which no WG support is being given and is therefore self-financed, there are 2 options. Option 3 is to make provision in equal instalments over the estimated life of the asset for which debt is undertaken. This is a possibly simpler alternative to the use of depreciation accounting (Option 4), though it has some similarities to that approach. |
| 1.02.4 | Option 4 - Depreciation Method<br><br>Alternatively, for debt under the Prudential system for which no WG support is being given, Option 4 may be used. This means making MRP in accordance with the standard rules for depreciation accounting. |
| **1.03**<br><br>1.03.1 | **Conditions for using the options**<br><br>The intention is that Options 1 and 2 should be used only for WG supported borrowing. Options 3 and 4 should be used in relation to all capital expenditure which is to be financed by unsupported borrowing or credit arrangements. |
| **1.04**<br><br>1.04.1<br><br><br><br><br>1.04.2 | **Practical Considerations**<br><br>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.<br><br>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. |

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| **1.05** | **Housing Revenue Account** |
| 1.05.1 | 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 calculation of the HRA MRP is now similar to the Council Fund as set out in 1.02 above, with the following modifications:<br><br>• Options 1 and 2 - the percentage is 4% for the Council Fund and 2% for the HRA.<br><br>• 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. |

| **2.00** | **RESOURCE IMPLICATIONS** |
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| 2.01 | The 2016/17 revenue budgets provide for the MRP as follows:<br><br>• Council Fund capital expenditure funded by supported borrowing on the basis of Option 1 - Regulatory Method calculation.<br><br>• Council Fund capital expenditure funded by unsupported (prudential) borrowing or credit arrangements on the basis of Option 3 - Asset Life Method calculation.<br><br>• HRA capital expenditure funded by debt, on the basis of Option 2 - Capital Financing Requirement Method calculation. |

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

| **4.00** | **RISK MANAGEMENT** |
|---|---|
| 4.01 | There are no risks associated with this report. |

| **5.00** | **APPENDICES** |
|---|---|
| 5.01 | None. |

| **6.00** | **LIST OF ACCESSIBLE BACKGROUND DOCUMENTS** |
|---|---|
| 6.01 | Various Welsh Government papers.<br><br>**Contact Officer:** Liz Thomas – Finance Manager, Technical Accountancy |

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| | **Telephone:** (01352) 702289<br>**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<br><br>**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.<br><br>**Council Fund (CF):** The fund to which all the Council's revenue and capital expenditure is charged.<br><br>**Housing Revenue Account (HRA):** The fund to which all the Council's revenue and capital expenditure relating to its housing stock is charged.<br><br>**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.<br><br>**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.<br><br>**Revenue Expenditure:** All expenditure incurred by an authority that cannot be classified as capital expenditure<br><br>**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.<br><br>**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.<br><br>**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. |