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To: All Members of the Council

8 February 2017

Dear Councillor

You are invited to attend a meeting of the Flintshire County Council which will be held at 2.00 pm on Tuesday, 14th February, 2017 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 - 10)

Purpose: To confirm as a correct record the minutes of the previous meeting held on 6 December 2016.

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 **COUNCIL FUND REVENUE BUDGET 2017/18** (Pages 11 - 32)

Report of Chief Executive and Corporate Finance Manager

Purpose: To receive the recommendations of Cabinet and set a balanced budget for 2017/18.

6 **COUNCIL FUND CAPITAL PROGRAMME 2017/18 – 2019/20** (Pages 33 - 54)

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

Purpose: To receive the recommendations of Cabinet and set the Capital Programme for 2017/18.

7 **HOUSING REVENUE ACCOUNT REVENUE BUDGET AND CAPITAL PROGRAMME 2017/18** (Pages 55 - 86)

Report of Chief Executive, Chief Officer (Community and Enterprise), and Corporate Finance Manager

Purpose: To receive the recommendations of Cabinet and set the budgets for 2017/18.

8 **PRUDENTIAL INDICATORS 2017/18 TO 2019/20** (Pages 87 - 100)

Report of Chief Executive and Corporate Finance Manager

Purpose: To receive the recommendations of Cabinet and set the Prudential Indicators.

9 **TREASURY MANAGEMENT STRATEGY 2017/18 AND MID-YEAR REPORT 2016/17** (Pages 101 - 146)

Report of Chief Executive and Corporate Finance Manager

Purpose: To approve the Treasury Management Strategy 2017/18 and the Treasury Management Mid-Year Review 2016/17.

10 **MINIMUM REVENUE PROVISION - 2017/18 POLICY** (Pages 147 - 160)

Report of Chief Executive and Corporate Finance Manager

Purpose: To receive the recommendations of Cabinet and set a prudent Minimum Revenue Provision (MRP) for the repayment of debt.

11 **<u>CO-OPTED MEMBERS</u>** (Pages 161 - 164)

Report of Chief Officer (Governance)

Purpose: To agree the appointment of co-optees to the Standards and Audit Committees.

12 **<u>THE SIX MONTHS RULE</u>** (Pages 165 - 168)

Report of Chief Officer (Governance)

Purpose: To seek the Council's approval for the continued absence of two Members.

Yours sincerely

Robert Robins
Democratic Services Manager

<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.

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FLINTSHIRE COUNTY COUNCIL
6 DECEMBER 2016

Minutes of the meeting of Flintshire County Council held in the Council Chamber, County Hall, Mold on Tuesday, 6 December 2016

PRESENT: Councillor Peter Curtis (Chairman)
Councillors: Bernie Attridge, Glyn Banks, Haydn Bateman, Marion Bateman, Chris Bithell, Derek Butler, Clive Carver, David Cox, Paul Cunningham, Ron Davies, Alan Diskin, Glenys Diskin, Chris Dolphin, Ian Dunbar, Andy Dunbobbin, David Evans, Veronica Gay, Robin Guest, David Healey, Cindy Hinds, Ray Hughes, Dennis Hutchinson, Hilary Isherwood, Joe Johnson, Christine Jones, Kevin Jones, Richard Jones, Colin Legg, Brian Lloyd, Richard Lloyd, Mike Lowe, Dave Mackie, Nancy Matthews, Billy Mullin, Sara Parker, Mike Peers, Vicky Perfect, Neville Phillips, Gareth Roberts, Ian Roberts, David Roney, Tony Sharps, Aaron Shotton, Paul Shotton, Ian Smith, Nigel Steele-Mortimer, Carolyn Thomas, Owen Thomas, David Williams, David Wisinger, and Arnold Woolley

APOLOGIES:
Councillors: Alex Aldridge, Adele Davies-Cooke, Rosetta Dolphin, Carol Ellis, Jim Falshaw, Alison Halford, George Hardcastle, Rita Johnson, Phil Lightfoot, Hilary McGuill, Ann Minshull, Mike Reece, and Sharon Williams.

IN ATTENDANCE:
Chief Executive, Chief Officer (Governance), Chief Officer (Organisational Change 2), Corporate Finance Manager, Finance Manager (Technical Accountancy), Finance Manager, Senior Manager Safeguarding and Commissioning, Revenues Manager, Waste Services Manager, Senior Manager Business Change and Support, and Committee Officers

Prior to the start of the meeting the Chairman announced that it was with regret he had to inform Members that Councillor Jim Falshaw had resigned as a County Councillor with effect from 31 December 2016, due to ill health. The Chairman would write to Councillor Falshaw on behalf of Members to thank him for his years of service and dedication as a Councillor and to wish him a good recovery.

Councillors Clive Carver and Tony Sharps paid tribute to Councillor Falshaw and expressed their appreciation for his hard work and commitment. Councillor Sharps added that his presence and contribution at County Hall would be missed and wished him well for the future.

67. COUNCIL MINUTES

The minutes of the meeting held on 15th November 2016 had been circulated with the agenda.

Accuracy

Councillor Mike Peers referred to his comments on page 7, paragraph 1, and asked that the words Welsh Government be inserted prior to the words ‘capital/infrastructure plans’ to provide clarification of his point.

Councillor Gareth Roberts referred to his comments on page 7, third paragraph, and asked that the word ‘simpler’ be changed to ‘simple’.

Matters arising

Council Fund Budget 2017/18 – Stages 1 and 2

Councillor Mike Peers referred to his suggestion on page 9, second paragraph, and asked if the Welsh Government (WG) had been asked if funding could be provided for the Council to be compliant with the Welsh Language Standards.

The Chief Executive explained that local government had collectively pressed for funding before the Standards were introduced but none had been provided. He advised that the Council had not yet finalised the Welsh Language Standards for Flintshire. A meeting was scheduled to be held with the Welsh Language Commission shortly. When the total cost was known the Council would then be in a position, collectively with other Councils, to request that discussions with WG be reopened on future funding.

Councillor Nancy Matthews commented on the process on Stage 1 of the budget proposals, and said there was a need to be mindful of the requests made by Members for more detailed information and that it should be provided in time for sufficient consideration to be given.

Councillor Richard Jones referred to his comments on page 9 in relation to the Stage 1 business plan proposals. He said there were a number of reasons why the proposals could not be accepted and explained that page 4 of the Stage 1 business plan proposals was missing from the papers for the meeting of the Environment Overview & Scrutiny Committee on 19 July 2016. At the meeting of the Social & Health Overview & Scrutiny Committee on 21 July 2016 the Stage 1 business plan proposals were not provided. A request for the consequences document at the meeting of the Corporate Resources Overview & Scrutiny Committee on 28 September 2016 was not provided until 28 November 2016 (one and half days prior to the meeting of the Corporate Resources Overview & Scrutiny Committee on 30 November 2016). Councillor Jones said that not all Members had been given the opportunity to ask their questions at Overview & Scrutiny Committee. Although Stage 1 business plan proposals were approved by Council at the meeting held on 15 November 2016 there were changes in proposal descriptions that had been made later. He said that the consultation was lacking in clarity and transparency.

RESOLVED:

That subject to the above amendments, the minutes be approved as a correct record.

68. DECLARATIONS OF INTEREST

There were no declarations of interest.

69. PETITIONS

Councillor Carolyn Thomas presented a petition on behalf of local residents to support the public bus service from Mold to Wrexham though the villages of Cymau, Llanfynydd, Treuddyn and Nercwys.

In response to the concerns expressed by Councillor Thomas, Councillor Bernie Attridge gave an assurance that the Council had no plans to remove any bus services for the duration of the current administration in place until May 2017.

The Chief Executive gave an update and explained that the Council was maintaining the bus services at its own financial risk in-year and was awaiting a decision from the WG on interim funding.

70. PUBLIC QUESTION TIME

The Chief Officer (Governance) advised that none had been received.

71. QUESTIONS

The Chief Officer (Governance) advised that none had been received.

72. NOTICE OF MOTION

The Chief Officer (Governance) advised that none had been received.

73. 2017/18 COUNCIL FUND BUDGET STAGE 2

The Chief Executive introduced the report to present the Corporate Financial Stewardship Proposals (Part 2 of the Strategy) for approval. He advised that the proposals had been considered, and recommended at the meeting of Cabinet which had been held prior to the meeting of County Council this afternoon, and following consideration by the Corporate Resources Overview & Scrutiny Committee on 30 November 2016.

The Chief Executive provided background information and context and outlined the further work to be done to close the 'budget gap' and conclude the budget proposals for 2017/18. The Chief Executive, Corporate Finance Manager, and Finance Manager, Technical and Accountancy, gave a joint presentation which covered the following areas:

- the forecast 'Budget Gap' 2017/18
- where the Council had 'left off' in November
- Corporate financial stewardship proposals

- Apprentice Tax Levy
- central loans and investment account
- summary of overall budget position
- Domiciliary care cap review
- Corporate financial stewardship – ongoing work
- final stages of 2017/18 budget setting

Councillor Aaron Shotton thanked the Chief Executive, and Corporate Finance Manager and his Team, for their presentation and work on the Stage 2 budget proposals. He was grateful that Officers had not brought forward a request for cuts to be made to services but had found innovative solutions in corporate financing and over how the Council would meet its revenue provision for borrowing and debt.

Councillor Shotton advised that Cabinet, at a meeting which had been held prior to the meeting of the Council this afternoon, had endorsed to Council a final set of detailed proposals for Stage 2 of the budget and he moved the recommendation in the report. The proposal was seconded. Councillor Shotton said he supported the incremental approach to setting the budget and commented that Members had been given more opportunity this year than previously to engage with and discuss elements within the budget process. He sought support from Members for the resolute approach which had been taken in Flintshire to protect services from cuts, despite reduced government funding and austerity, which was different to the stance adopted in other local authorities.

Councillor Shotton spoke of the commitment within the budget this year to provide a 1.3% increase in the school budget. He commented on the further work to be done to set a legal balanced budget and to continue lobbying of the Welsh Government for recognition and support of the Council's low funding position with specific emphasis on social services care pressures. Councillor Shotton gave a commitment that in leading to a balanced budget the Council would not bring forward any proposals for cuts to services

In response to the comments made by Councillor Nigel Steel Mortimer concerning the annual Minimum Revenue Provision charge and his suggestion for further savings to be achieved through consideration of the third option, the Chief Executive advised that the annuity method was not appropriate for historic debt but might be appropriate for selective future borrowing. The Finance Manager, Technical Accountancy, acknowledged that whilst the suggestion put forward was more affordable in the short term it would not be considered more prudent or sustainable in the long term and explained the reasons why the annuity method was not recommended as the way forward. The Chief Executive explained that following extensive discussion with the Council's advisors and the Wales Audit Office all were clear that the recommended method was the most appropriate.

Councillor Mike Peers asked that figures which are presented as part of the balancing of the budget are robust and realistic. He also commented on the reference made by the Corporate Finance Manager to in-year pressures and reserves and explained why he would like to explore this further. The Chief Executive acknowledged the point raised and gave an assurance that Officers were not complacent that any overspends in-year could be mitigated by reserves. He commented on the contingency reserve which was created specifically to give in-year protection against risk and said it was used correctly, however, the point about the scale of risk was acknowledged. The Chief Executive also responded to the comments made by Councillor Peers about estimated figures and explained that the figures presented had been reasonably stable for several months, with some small variations, and that some cost pressures were beyond the Council's control. He commented on the solid budget process and the importance of the rigour, transparency and scrutiny which had taken place to date. The Corporate Finance Manager clarified that his reference had been to a small reserve for unforeseen events in year.

Councillor Robin Guest referred to the annuity method for future borrowing and asked if the Council would need to make a formal decision on this in the future or if a decision was made on a case by case basis as borrowing was made. He also referred to the figures in the report concerning the Apprenticeship Levy and sought clarification of the figure which would be taken from reserves. Responding to the question on the Apprenticeship Levy the Chief Executive said that it was recommended that £699k be taken from reserves. The Corporate Finance Manager advised that the Council would be asked to formally approve the principles and changes to the Minimum Revenue Provision for budget purposes today and then case by case as appropriate going forward.

RESOLVED:

That the Stage 2 budget proposals for 2017/18 be approved.

74. LOCAL DEMOCRACY AND BOUNDARY COMMISSION FOR WALES (LDBCW) ELECTORAL REVIEW – POLICY AND PRACTICE

The Chief Officer (Governance) provided background information to the report. He advised that in June 2016 the Cabinet Secretary for Finance and Local Government published a Written Statement asking the Commission to restart its 10 year electoral review programme with a new prioritised timetable. The Cabinet Secretary requested that all 22 electoral reviews be completed in time for the new arrangements to be put in place for the 2022 Local Government Elections.

The Chief Officer explained that the Commission had adopted consistent methodology and principles to determine the number of elected members which were appropriate for each Council and this was detailed in appendix 2 of the report. It was also intended to carry out a periodic electoral review of every Council to ensure ward boundaries were correct in terms of past and proposed development. The Chief Officer informed that the councillor to population ratio in Flintshire was 1:3000 and the 'target' number of councillors determined for Flintshire was 63. The Commission's review of the County of Flintshire would commence in Quarter 4, 2018, and conclude in Quarter 2, 2020. The Chief Officer explained that the Council and Councillors would have the opportunity to feed into the review whilst it was underway and to comment on proposals before they were finalised.

The Chief Executive commented that this was the first formal recognition of the Minister's commitment for current Councils to have at least 10 years of renewed terms. There would be a full review process with ample opportunity for comment and for the principles to be tested to follow.

Councillor Billy Mullin moved the recommendation in the report which was duly seconded.

Councillor Gareth Roberts commented on the concerns which had been raised following previous consideration of the boundary commission review around how the ratio of 1:3000 was determined.

Councillor Owen Thomas expressed concerns regarding the proposed size of boundaries and the increase in workload for Councillors as a result.

RESOLVED:

That the revised Policy and Practice Document and the timing of the review for the County of Flintshire, as stated above, be noted.

75. MEMBERS OF THE PRESS AND PUBLIC IN ATTENDANCE

There was one member of the press and twelve members of the public present.

(The meeting started at 2.00pm and ended at 3.55pm)

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Chairman

FLINTSHIRE COUNTY COUNCIL

Date of Meeting	Tuesday, 14 February 2017
Report Subject	Council Fund Revenue Budget 2017/18
Report Author	Chief Executive and Corporate Finance Manager

EXECUTIVE SUMMARY

The Council has developed the budget for 2017/18 in stages.

The Stage One budget proposals for the service portfolios were approved by Council on 15 November.

The Stage Two proposals for corporate financial stewardship were approved by Council on 6 December having been given prior consideration by the Corporate Resources Overview and Scrutiny Committee on 30 November.

In sharing the options to balance the budget with the Corporate Resources Overview and Scrutiny Committee on 20 January the remaining budget gap was confirmed to be £1.997m.

Cabinet will consider a report on the morning of 14 February (attached) which details the remaining options to balance the budget for 2017/18 to meet the Council's statutory duty. A verbal report will be made to Council.

RECOMMENDATIONS	
1	That the Council receives and considers the recommendations of Cabinet for balancing the budget for 2017/18.

REPORT DETAILS

1.00	**Balancing the Budget for 2017/18**
1.01	The annual Council Fund budget for 2017/18 has been developed in two stages: • Stage One: which covers Part 1 of our Medium Term Financial Strategy (MTFS) – service reform based on the service portfolio business plans • Stage Two: which covers Parts 2 and 3 of our Medium Term Financial Strategy (MTFS) – corporate financial stewardship and working with Welsh Government.
1.02	The Stage One budget proposals were approved by Council on 15 November and the Stage Two proposals for corporate financial stewardship were approved by Council on 6 December having been given prior consideration by the Corporate Resources Overview and Scrutiny Committee on 30 November.
1.03	In sharing the options to close the budget gap with the Corporate Resources Overview and Scrutiny Committee on 20 January a remaining gap to be found of £1.997m was reported.
1.04	Cabinet will consider a report a report on the morning of 14 February (attached) which details the remaining options to balance the budget for 2017/18 to meet the Council's statutory duty. A verbal report will be made to Council.

2.00	**RESOURCE IMPLICATIONS**
2.01	As contained within the report to Cabinet of 14 February 2017 which is attached.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	As contained within the report to Cabinet of 14 February 2017.

4.00	**RISK MANAGEMENT**
4.01	As contained within the report to Cabinet of 14 February 2017.

5.00	**APPENDICES**
5.01	Appendix A – Council Fund Revenue Budget 2017/18, Cabinet 14 February 2017 Appendix B - Council Fund Revenue Budget Appendices, Cabinet 14 February 2017

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Council Report 15 November 2016 Stage One http://committeemeetings.flintshire.gov.uk/mgIssueHistoryHome.aspx?IId=20333&LLL=0 Council Report 6 December 2016 – Stage Two http://committeemeetings.flintshire.gov.uk/mgIssueHistoryHome.aspx?IId=20481&LLL=0 Corporate Resources Overview and Scrutiny Committee Report 20 January 2017 – Closing Strategy http://committeemeetings.flintshire.gov.uk/documents/s41530/Council%20Fund%20Budget%20Report%20201718%20Part%203%20Closing%20Strategy.pdf?LLL=0 Colin Everett, Chief Executive and Gary Ferguson, Corporate Finance **Contact Officer:** Gary Ferguson, Corporate Finance Manager **Telephone:** (01352) 702271 **E-mail:** gary.ferguson@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	As set out in the attached report.

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CABINET

Date of Meeting	Tuesday, 14 February 2017
Report Subject	Council Fund Revenue Budget 2017/18
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Chief Executive and Corporate Finance Manager
Type of Report	Strategic

EXECUTIVE SUMMARY

The Council has developed the budget for 2017/18 in stages.

The Stage One budget proposals for the service portfolios were approved by Council on 15 November (See Table 1).

The Stage Two proposals for corporate financial stewardship were approved by Council on 6 December having been given prior consideration by the Corporate Resources Overview and Scrutiny Committee on 30 November (See Table 2).

In sharing the options to balance the budget with the Corporate Resources Overview and Scrutiny Committee on 20 January the remaining budget gap was confirmed as £1.997m (See Table 3).

The Council has long campaigned for increased investment in Social Care. The Welsh Government has confirmed that the charging cap limit for domiciliary care will be raised from £60 per week to £70 per week from 1 April 2017. For Flintshire this will generate projected additional income of £0.238m in 2017/18.

An additional specific grant of £10m was also announced to support the rising costs of domiciliary care across Wales as part of the Final Local Government Settlement. Flintshire expects to receive around £0.430m of this. Whilst this funding will be received via a grant in 2017/18, the funding has been confirmed as ongoing and will be transferred into the Settlement for 2018/19.

Taking into account increased income levels and the specific grant for domiciliary care the gap is reduced by £0.668m to £1.329m.

The North Wales Fire and Rescue Authority has set an increase of 4% in its levy. When taking into account regional population changes Flintshire's annual increase will be 4.52%. This is a cost pressure of £0.317m for which there is no provision in the current budget estimate. As this increase cannot be met by further reductions in Council budgets the only options are to add the increase to Council Tax (equal to a 0.55% rise) or to meet the cost from reserves and balances.

The budget gap is increased to £1.646m once the increase in the levy is taken into account.

The Corporate Resources Overview and Scrutiny Committee on 20 January recommended that that the proposed level of school investment be maintained in the final budget proposals for 2017/18.

Assuming that the current level of school investment is maintained then the closure of the budget comes down to striking a balance between the level of Council Tax to be set and drawing upon reserves and balances. It is important to note that funding derived from Council Tax is recurrent funding which will assist budget setting in future years.

Members are requested to consider the formal advice of the Section 151 Officer and Chief Executive and to recommend a final position to Council based on a balanced judgement.

RECOMMENDATIONS	
1	Re-affirm the stage one and stage two budget proposals for 2017/18.
2	Recommend to Council a method of closing the remaining budget gap.
3	Receive and consider the formal advice of the Section 151 Officer and Chief Executive in making recommendation 2 above.

REPORT DETAILS

1.00	BALANCING THE BUDGET FOR 2017/18
1.01	The report sets out the requirements and options to finalise a balanced budget for 2017/18 to meet the Council's statutory duty. Full consideration of the Council's Medium Term Financial Strategy and the options for the 2017/18 budget process has been given by Cabinet, Council and the Overview and Scrutiny Committees in stages over the past twelve months.
1.02	The annual Council Fund budget for 2017/18 has been developed in two stages: • Stage One: which covers Part 1 of our Medium Term Financial Strategy (MTFS) – service reform based on the service portfolio business plans • Stage Two: which covers Parts 2 and 3 of our Medium Term Financial Strategy (MTFS) – corporate financial stewardship and working with Welsh Government.
1.03	The Stage One budget proposals were approved by Council on 15 November and are summarised below:

Table 1

Portfolio		£m
Planning and Environment		0.205
Streetscene and Transportation		1.350
Social Care		0.690
Education and Youth		0.873
Organisational Change		0.943
Community and Enterprise		0.629
Corporate Services		0.903
Central and Corporate Finance		0.150
Total		5.743

Full details of all service portfolio business plan efficiency proposals can be accessed by the following hyperlink

http://committeemeetings.flintshire.gov.uk/documents/s40622/Council%20Fund%20Budget%2020172018.pdf?LLL=0

1.04	The Stage Two proposals on corporate financial stewardship were approved by Council on 6 December following consideration by Corporate Resources Overview and Scrutiny Committee on 30 November and are summarised below: **Table 2**

Description		£m
Council Tax Base Increase		0.345
Independent Living Fund (ILF)		0.412
Transition to Adulthood		0.162
Flint Extra Care Scheme		0.170
Schools Investment		0.400
Apprentice Tax Levy		0.470
Central Loans and Investment Account (CLIA)		2.690
Total		4.649

1.05	At the meeting on 6 December new and emerging pressures totalling £0.597m were also reported and added to the budget requirement for 2017/18. A full list of all pressures included in the budget are included as Appendix 4.
1.06	The Final Local Government Settlement was received on 21 December. A full report was given to Cabinet and to the Corporate Resources Overview and Scrutiny Committee in January. The impact of the Settlement was a net reduction in funding of £0.157m having taking into account a new responsibility for homelessness services of a value of £0.201m.
1.07	At the Corporate Resources Overview and Scrutiny Committee on 20 January the amount remaining to be found to achieve a balanced budget stood at £1.997m as summarised in the table below: **Table 3**

Description		£m
Projected Budget "gap"		14.4
Less:		
Portfolio Business Plans		(5.7)
Corporate Financial Stewardship		(4.6)
Provisional Settlement		(2.8)
Add:		
New and Emerging Pressures		0.6
Impact of Final Settlement		0.1
Remaining Budget "Gap"		2.0

The limited options available to meet the remaining budget gap were considered at the meeting which was open to all members and an update is provided below.

	Domiciliary Care - Charging Levels
1.08	Welsh Government has confirmed that the charging cap for home care will be raised from the current amount of £60 per week to £70 per week (from 1 April 2017). For Flintshire this will generate additional income of approximately £0.238m in 2017/18.
1.09	An additional specific grant of £10m to support the rising costs of domiciliary care across Wales was confirmed as part of the Final Settlement. Although the formula distribution for the grant is yet to be confirmed, the Council expects to receive around £0.430m. Although this funding will be received via a grant in 2017/18 the funding has been confirmed as recurring and will be transferred into the Settlement for 2018/19. **The additional funding from a combination of the increase in the charging cap, combined with a share of the specific grant, reduces the projected gap by £0.668m to £1.329m.**
	Local Taxation
1.10	The forecast assumes a Council Tax increase of 3% for 2017/18 as standard. The maximum permissible annual rise for councils is 5% per year. As a guideline every 0.1% of increase in Council Tax contributes approximately £0.058m to the budget position (net of the impact of increased benefit entitlements under the Council Tax Reduction Scheme budget).
1.11	It has previously been reported that the North Wales Fire and Rescue Authority approved an increase of 4% on its levy at its meeting on the 19 December. When taking into account regional population changes Flintshire's annual increase is set at 4.52%. This presents an added cost pressure of £0.317m for which there is not currently any provision in the budget estimate.
1.12	As this increase cannot be met by further reductions in Council budgets there are only two options: add the levy increase to Council Tax, increasing the planned rise from 3.00% to 3.55% or meeting the cost through the reserves and balances. **The budget gap is increased to £1.646m once the increase in the levy is taken into account.**
	Schools Investment
1.13	An uplift of £1.2m (1.34%) is currently included for the overall schools budget. The budget is distributed to schools through the local schools funding formula. Any reduction in this provision would cause risks for schools budget planning.
1.14	The Corporate Resources Overview and Scrutiny Committee has recommended that the planned level of investment be maintained in the final budget proposals for 2017/18.

	Use of Reserves and Balances
1.15	The final option is to utilise reserves to assist in the budget for 2017/18 noting that this only provides a one year solution. As part of the Corporate Financial Stewardship options an amount of £0.699m has already been earmarked to meet the first year costs of the new UK Government introduced Apprentice Tax Levy.
1.16	Any use of reserves in the budget would need to be made good in the base budget in the following year. Any use of reserves to balance the budget greater than £2m is considered to be high risk noting that £0.699m is already being drawn down as explained in 1.15 above.
	Council Tax and the Use of Reserves and Balances
1.17	Assuming that the current level of school investment is maintained 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.
1.18	A judgement has to be made over what is a prudent level of reserves and balances to draw upon being mindful of the impacts for budget setting in 2018/19 and future years.
1.19	It is important to note that funding derived from Council Tax is recurrent funding which will contribute to the budget position for both 2017/18 and future years.
1.20	Members should consider carefully the formal advice of the Section 151 Officer and the Chief Executive in making this judgement.
	Overall Budget Position
1.21	The table below summarises the overall position and the budget gap remaining:

Table 4

Proposed Budget 2017/18	£M
Funding	
Aggregate External Funding (AEF)/RSG NNDR	185.033
Council Tax	70.123
Budget Requirement	**255.156**
Specific Grants (Estimated)	33.744
Use of Reserves	0.699
Total Funding	**289.599**
Expenditure	
Base Budget Rolled Forward	287.578

Prior Year Budget Decisions Recurring (Appendix 1)	4.193
Prior Year Budget Decisions One off dropping out (Appendix 1)	(0.221)
Transfers in/out of settlement (Appendix 2)	0.498
Inflation (Appendix 3)	2.574
Pressures & Investments Recurring (Appendix 4)	5.821
Fire Levy Increase	0.317
Efficiencies - Business Planning	(5.743)
Efficiencies – Review of MRP Policy	(2.690)
Efficiencies – Social Care	(0.668)
Less Specific Grants 2016/17	(34.159)
Plus Specific Grants 2017/18 (Estimated Appendix 5)	33.744
Total Expenditure	**291.245**
Gap as per Cabinet Report	**1.646**

Funding

1.22 The budget proposals (unbalanced) set a budget requirement of £255.156M which is an amount of £2.370M below the calculated Standard Spending Assessment (SSA) of £257.526M. At this level of spend, the increase on the Band D Council Tax Rate (excluding Police and Town/Community Council precepts) is 3% which is equal to an increase of £32.14 on 2016/17 and a Band D rate of £1,103.55.

Expenditure

1.23 *Previous Year Budget Decisions*
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 2015/16 and 2016/17 equate to a net increase of £3.972m as detailed in Appendix 1. These amounts have been reviewed as part of the 2017/18 budget and where appropriate an adjustment made to reflect the current position.

1.24 *Transfers in/out of the Settlement (including new responsibilities)*
The transfers in/out of the settlement as confirmed in the Final Settlement are summarised in appendix 2.

1.25 *Pay and Price Inflation*
A summary of the inflationary increases to the budget are summarised in appendix 3. Pay inflation has been included at 1%.

1.26 *Specific Grants*
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. As a general principle this will be cost neutral to the Council. Appendix 5 provides further details.
	Unearmarked Balances and Earmarked Reserves
	Base Level of Unearmarked Reserves
1.27	The budget proposals do not change the current base level of reserves of £5.769M which provide a safeguard in the current uncertain financial climate.
	Contingency Reserve
1.28	The monthly budget monitoring report has provided updates on the movements on this reserve. The Month 9 monitoring report shows a projected balance of £5.279M in the Contingency Reserve as at 31 March 2017. It is recommended that this reserve is retained to mitigate the risks set out later in the report and for future budget planning. Whilst the base level of reserves is a known sum which is set aside, the level of the Contingency Reserve is subject to change.
	Council Fund Earmarked Reserves
1.29	As outlined in the Reserves and Balances Protocol the level of Earmarked Reserves is reported quarterly through the monthly budget monitoring Report. Appendix 6 details the estimated closing balances for 2016/17 and 2017/18 for all reserves and balances and includes a projected earmarked amount of £2.885m for the budget strategy. The Section 151 Officer is satisfied that the level of these reserves is sufficient and appropriate (see also Section 1.35 – 1.41).
1.30	The Council continues to progress the implementation of different delivery methods for some of its services and it is considered prudent to set aside some funding as a contingency against any financial issues arising in the early stages. It is recommended that a sum of £0.250m is ring-fenced for this purpose.
	Budget Risks and Issues
	Single Environment Grant
1.31	Welsh Government is considering making a reduction in this grant of 6.7% in 2017/18. This would cause an immediate operational budget pressure of £0.200m if introduced.
	Transportation Costs
1.32	Following on from one of the Council's main transport providers going into liquidation there is a risk that the cost of maintaining the local public and school bus services could require an additional £0.675m in a full year. Negotiations with Welsh Government over future funding, and reviews of routes and service frequency, continue.

	Social Care Fees
1.33	Negotiations are ongoing with external care providers on their annual fee increases for 2017/18. The recommended fee increases can be contained within the total provision within the draft budget.
1.34	Any amount remaining following the conclusion of this process will be set aside as a risk contingency to assist with managing the ongoing budget risks explained above.
	Opinions of the Statutory Officers
1.35	**Opinion of the Corporate Finance Manager** Section 25 of the Local Government Act 2003 includes a specific duty on the Chief Finance Officer (for Flintshire this is the Corporate Finance Manager) to report to the Council when it is considering its budget and Council Tax setting on the robustness of the estimates and the adequacy of reserves. The Act requires the Council to have regard to this report in making its decisions in relation to the budget.
1.36	The 2017/18 budget has again been set within the context of the Medium Term Financial Strategy and continues to present a significant financial challenge for the Council. The Council's budget strategy for dealing with this has been clearly set out in detail for all stakeholders in previous budget reports and complemented by a series of member scrutiny sessions together with community engagement events across the County.
1.37	For the estimates contained within the budget, all figures are supported by a clear and robust methodology with the efficiency proposals considered achievable, but not without risk. The pressures are supported by evidenced method statements.
1.38	The Council's Reserves and Balances Protocol sets out how the Council will determine, manage and review the level of its Council Fund Balance and Earmarked Reserves taking into account 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 and this has continued to be done in 2016/17 through the budget monitoring report. This ensures that members are able to have a better understanding of all reserves held by the Council.
1.39	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.
1.40	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 2017/18 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. However, I believe that the budget assumptions represent a measured and acceptable level of risk. A robust programme for the delivery of the efficiencies within the budget and to the

	timescales set together with effective and disciplined in-year financial management will ensure that budgets are managed effectively with prompt action taken to mitigate any impacts should variances occur.
1.41	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 £5.279M) 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.
1.42	**Opinion of the Chief Executive** My professional advice complements that of the Corporate Finance Manager as set out above. 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.
1.43	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. The budget proposals for 2017/18 are not without risk. In addition several ongoing budget risks, caused by circumstances beyond the Council's control, are set out in the report. The Council has to be confident that these risks are understood and are manageable. An underlying organisational risk is that there is less financial flexibility to adjust to meet 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.
1.44	The Council has been advised previously that without national funding to meet proven costs, with the risks of further reductions in national budgets, and with the ongoing transfer of responsibilities from Governments to Local Government to fund ongoing responsibilities such as national pay awards and new responsibilities such as the Apprentice Tax Levy, then its budget might not be sustainable. Fair and sustainable funding at a national level will be the predominant risk facing the newly elected Council from May.

2.00	**RESOURCE IMPLICATIONS**
2.01	As set out in the report.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	Consultation with Group Leaders, Overview and Scrutiny Committees, senior officers and service teams, and external partners have been held in

	the development of the business plans, budget proposals and resilience assessments. A major public and workforce engagement exercise was also run in October – December.

4.00	**RISK MANAGEMENT**
4.01	All parts of the financial forecast, and all budget solutions, are risk assessed stage by stage. Services have already been assessed against the tests of efficiency, value for money and resilience with the assessments being reported to the Overview and Scrutiny Committees throughout July 2016.

5.00	**APPENDICES**
5.01	Appendix 1 – Previous Years Growth / Items Dropping Out Appendix 2 – Transfers in / out of Settlement Appendix 3 – Inflation Appendix 4 – Pressures & Investments Appendix 5 – Specific Grants Appendix 6 – Summary of Council Fund Earmarked Reserves

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Colin Everett, Chief Executive and Gary Ferguson, Corporate Finance Manager **Contact Officer:** Gary Ferguson **Telephone:** 01352 702271 **E-mail:** gary.ferguson@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	**Medium Term Financial Strategy (MTFS):** a written strategy which gives a forecast of the financial resources which will be available to a Council for a given period, and sets out plans for how best to deploy those resources to meet its priorities, duties and obligations. **Revenue Support Grant:** the annual amount of money the Council receives from Welsh Government to fund what it does alongside the Council Tax and other income the Council raises locally. Councils can decide how to use this grant across services although their freedom to allocate according to local choice can be limited by guidelines set by Government. **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). **Standard Spending Assessment (SSA):** A notional calculation of what each council needs to spend to provide a standard level of service which is used as part of the formula for distributing Revenue Support Grant. **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. **Specific Grants**: An award of funding from a grant provider (e.g. Welsh Government) which must be used for a pre-defined purpose. **Central Loan and Investment Account (CLIA):** brings together the revenue costs of all Council's borrowing and investment activity. Contains; interest on debt, MRP (see below), Treasury Management costs (staff, advisors, software etc., charges for debt rescheduling undertaken in earlier years and income generated from investments. Also referred to as Capital Financing Charges. **Minimum Revenue Provision (MRP):** method for charging (debt-funded) capital expenditure to the revenue account in local authority accounts. Full Council sets an MRP policy annually selecting from a range of options contained with Welsh Regulations set by Welsh Government.

Budget 2017/18
Council Fund Revenue

Previous Years Growth/ Items Dropping Out

APPROVED 2015/16 BUDGET	**2017/18 £m**
Social Services	
Transition	0.478
Total Social Services	**0.478**
Community & Enterprise	
Council Tax Reduction Scheme (CTRS)	0.314
Total Community & Enterprise	**0.314**
Central & Corporate	
Actuarial Review	1.300
Prudential Borrowing	0.029
Single Status Agreement	1.300
Commercial Property Pressure	0.133
Total Central & Corporate	**2.762**
Total Approved 2015/16 Budget	**3.554**

APPROVED 2016/17 BUDGET	**2017/18 £m**	**2018/19 £m**
Social Services		
Extra Care	0.080	0.420
Total Social Services	**0.080**	**0.420**
Community & Enterprise		
Council Tax Reduction Scheme (CTRS)	0	0.323
Total Community & Enterprise	**0.000**	**0.323**
Central & Corporate		
Auto Enrolment	0.559	0.559
Single Status	0	0.157
Total Central & Corporate	**0.559**	**0.716**
Less Pressure dropping out:		
Streetscene and Transportation		
Sustainable Waste Grant Impact	(0.221)	
Total Streetscene and Transportation one off	**(0.221)**	
Total 2016/17 Budget	**0.418**	**1.459**
Total Prior Year Decisions Recurring	**3.972**	**1.459**

Budget 2017/18
Council Fund Revenue

Transfers in/out of settlement

Transfers in:	**£m**	**£m**
Delivering Transformation Grant	0.123	
Deprivation of Liberty Safeguards	0.009	
Blue Badge Scheme (£454)	0.000	
Food Hygeine rating	0.002	
Total Transfers in (Pressure)		0.134
Transfers out:		
Teacher Registration fees		(0.045)
Net effect (Pressure)		**0.089**
New Responsibilities		
Social Services:		
Increasing Capital Limits for Residential Care		0.195
War Disablement Pension Disregard		0.013
Homelessness Prevention		0.201
Total		**0.498**

Budget 2017/18
Council Fund Revenue

Inflation

	Total £m
Pay	0.915
Price - Other	0.313
Schools Investment	1.201
Food	0.051
Fuel	0.033
Energy	0.061
Total Inflation	**2.574**

Budget 2017/18
Council Fund Revenue

Pressures & Investments

	2017/18 £m	2018/19 £m	2019/20 £m
Social Services			
Independent Sector Care 16/17	0.646	0.646	0.646
Independent Sector Care 17/18	2.709	4.767	4.767
Independent Living Fund (ILF)	0.000	0.412	0.412
Total Social Services	**3.355**	**5.413**	**5.413**
Streetscene &Transportation			
Gas Engine Income	0.150	0.150	0.150
Total Streetscene & Transportation	**0.150**	**0.150**	**0.150**
Governance			
ICT Broadband in Schools	0.115	0.115	0.115
Members Allowances	0.007	0.007	0.007
Welsh Language Standards	0.035	0.035	0.035
Procurement	0.002	0.002	0.002
Total Governance	**0.159**	**0.159**	**0.159**
Community & Enterprise			
Council Tax Reduction Scheme (CTRS)	0.000	0.000	0.337
Total Community & Enterprise	**0.000**	**0.000**	**0.337**
Central & Corporate			
Insurance	0.100	0.100	0.100
Apprentice Tax Levy	0.699	0.699	0.699
Commercial Property Pressure	0.253	0.253	0.253
Central Loans and Investments (MRP)	0.700	0.700	0.700
Non Domestic Rates (NDR) Revaluation	0.127	0.127	0.127
Unachieved Workforce Efficiencies	0.278	0.278	0.278
Total Central & Corporate	**2.157**	**2.157**	**2.157**
Total Pressures and Investments	**5.821**	**7.879**	**8.216**

Budget 2017/18
Council Fund Revenue

Specific Grants

		Budget 2016-17 £	Budget 2017-18 £	Variance to 2016-17 £	Confirmed (C) or Estimated (E)
Education & Youth					
Non Delegated	Promoting Positive Engagement (Youth Crime Prevention Fund)	188,600	196,143	7,543	C
	YOT / Youth Justice Board (inc. JAC)	200,000	221,956	21,956	E
	School Uniform Financial Assistance Scheme	29,000	29,000	0	E
	Welsh Network of Healthy School Schemes	114,000	101,380	(12,620)	E
	Youth Support Grant (Youth Service Revenue Grant)	126,218	176,820	50,602	C
	Free School Milk	269,403	245,891	(23,512)	E
	Families First	1,532,678	1,532,678	0	C
	Pupil Deprivation Grant	3,171,700	3,250,000	78,300	E
	Education Improvement Grant for Schools	6,124,180	6,336,004	211,824	C
		11,755,778	**12,089,872**	**334,094**	
Delegated	DCELLS (Post 16 provision in schools)	5,004,686	4,756,182	(248,504)	C
	Adult Community Learning	0	2,075	2,075	C
		5,004,686	**4,758,257**	**(246,429)**	
Social Services	Social Care Workforce Development Programme	367,000	312,069	(54,931)	E
	Well Being Activity	10,000	0	(10,000)	C
	Flying Start	2,954,700	2,954,700	0	E
	Out of School Childcare	97,877	97,877	0	C
		3,429,577	**3,364,646**	**(64,931)**	
Streetscene & Transportation	Concessionary Travel	2,058,000	2,180,000	122,000	E
	Local Transport Services	399,062	645,562	246,500	E
	Sustainable Waste - now Environment & Sustainable Development	2,943,729	2,798,064	(145,665)	E
	Bus Service Support Grant (Prev Taith)	0	557,000	557,000	E
	Welsh Young Person Travel Discount Scheme	0	120,000	120,000	E
		5,400,791	**6,300,626**	**899,835**	
Planning & Environment	Safer Communities Fund	221,881	221,881	0	E
	Substance Misuse	638,139	522,744	(115,395)	E
	Crime Reduction and Anti Social Behaviour	31,566	31,566	0	E
	Domestic Abuse Co-ordinator Funding	37,500	92,400	54,900	E
		929,086	**868,591**	**(60,495)**	
Community & Enterprise	Supporting People	5,809,818	5,809,818	0	E
	Communities First	676,315	0 *	(676,315)	E
		6,486,133	**5,809,818**	**(676,315)**	
Organisational Change	Free Swimming	164,807	121,500	(43,307)	E
	National Exercise Referral	125,000	123,750	(1,250)	E
	NE Wales Play Forum	319,010	0	(319,010)	E
	Active Young People	541,638	305,303	(236,335)	E
	Community Learning	2,034	2,034	0	E
		1,152,489	**552,587**	**(599,902)**	
Total		**34,158,540**	**33,744,397**	**(414,143)**	

Budget 2017/18
Council Fund

Summary of Council Fund Earmarked Reserves

	Estimated Balance 01/04/17 £m	Estimated Balance 31/03/18 £m
Service Balances		
Planning & Environment	0.147	0.010
Education & Youth	0.537	0.316
Social Services	0.027	0.000
Streetscene & Transpotation	0.020	0.000
Community & Enterprise	0.000	0.000
Organisational Change	0.535	0.535
Corporate Services	1.095	0.017
Total	**2.361**	**0.878**
Corporate Balances		
Single Status/Equal Pay	4.929	3.195
General Reserve - Investment in Organisational Change	0.606	0.338
General Reserve - Budget Strategy	2.885	0.635
Total	**8.420**	**4.168**
Specific Reserves		
Benefits Equalisation	0.085	0.300
County Elections	0.167	0.167
Supporting People	0.387	0.000
Unitary Development Plan	0.464	0.334
Building Control	0.151	0.091
Waste Disposal	0.310	0.210
Flintshire Enterprise Ltd	0.073	0.073
Design Fees	0.200	0.200
Winter Maintenance	0.250	0.250
Insurance Funds	1.405	1.650
Cash Receipting Review	0.088	0.088
Grants & Contributions	1.040	0.905
Total	**4.620**	**4.268**
Total Earmarked Reserves	**15.401**	**9.314**

FLINTSHIRE COUNTY COUNCIL

Date of Meeting	Tuesday, 14th February 2017
Report Subject	Council Fund Capital Programme 2017/18 – 2019/20
Report Author	Chief Executive, Chief Officer, Organisational Change, Corporate Finance Manager

EXECUTIVE SUMMARY

This report presents the Council Fund Capital Programme for the period 2017/18 – 2019/20 for approval.

The proposals were considered by the Corporate Resources Overview and Scrutiny Committee on 20th January 2017 (a meeting, which was open to all Members), where Members had the opportunity to offer comments and feedback.

Cabinet have considered and recommended the proposals contained within the detailed Cabinet report attached at Appendix A which provides a fuller explanation of the recommendations below.

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 2017/18 - 2019/20.
2	Approve the schemes included in Table 3 (paragraph 1.20) of the Cabinet report for the Investment section of the Council Fund Capital Programme 2017/18 - 2019/20.
3	Members are asked to note the shortfall in funding of schemes in financial years 2018/19 and 2019/20 as set out in the Cabinet report. Options to address this including a combination of future capital receipts, alternative grants, prudential borrowing or the re-phasing of schemes will be considered during 2017/18, and updates provided to Members in future capital programme monitoring reports.

4	Members are asked to note the development of a longer term Capital Strategy and Asset Management Plan.

REPORT DETAILS

1.00	**CAPITAL PROGRAMME 2017/18 - 2019/20**
1.01	Please see attached Cabinet report at Appendix A

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

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

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

5.00	**APPENDICES**
5.01	Appendix A – Report to Cabinet 14th February 2017: Council Fund Capital Programme 2017/18 – 2019/20.

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

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

CABINET

Date of Meeting	Tuesday 14th February 2017
Report Subject	Council Fund Capital Programme 2017/18 – 2019/20
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Chief Executive, Chief Officer (Organisational Change) and Corporate Finance Manager
Report Type	Strategic

EXECUTIVE SUMMARY

This report presents the Council Fund Capital Programme for the period 2017/18 – 2019/20 for approval and recommendation to Council.

The proposals were considered and supported by Corporate Resources Overview and Scrutiny Committee on the 20th January 2017. Their comments and feedback are summarised within the report for Cabinet's consideration.

The Council funded Capital Programme is only one part of the Council's contribution to investing in local infrastructure, facilities and assets. Regional programmes such as the Economic Growth Strategy which draw on national funds, and separate capital programmes such as the Housing Revenue Account (HRA) Capital Programme which includes Wales Housing Quality Standard (WHQS) and Strategic Housing and Regeneration Programme (SHARP), and the 21st Century Schools Programme delivered in partnership between the Council and Welsh Government, supplement the Council funded capital programme.

The Council funded programme primarily supports infrastructure assets and buildings (e.g. highways and schools) and investment in our new or readopted service models (e.g. leisure and social care). The proposed capital investments are aligned to the portfolio service business plans and the Improvement Plan.

The Capital Strategy and Asset Management Plan is being updated to support the current and emerging longer term Council priorities and to meet the investment needs of our new or readopted service business models. The new Strategy will be more visionary and will be an evidential basis for the leverage of national funds to meet Council priorities.

This report builds on the Capital Strategy and Asset Management Plan adopted in February 2016 which splits the Council Fund Capital Programme into three sections;

1. Statutory / Regulatory - allocations to cover statutory and regulatory works

2. Retained Assets - allocations to fund infrastructure works necessary to ensure service and business continuity

3. Investment - allocations to fund works necessary to remodel services to deliver efficiencies outlined in Portfolio business plans and invest in services as outlined in the Improvement Plan.

The majority of the programme can be funded from supported borrowing, capital receipts and grants. There is a shortfall in general funding which would need to be met through a combination of future capital receipts, alternative grants, prudential borrowing or by phasing schemes over several years.

The information in this report refers to Council Fund (CF) schemes only.

RECOMMENDATIONS	
1	Members are asked to approve and recommend to Council the allocations and schemes in Table 2 (paragraph 1.07) for Statutory/Regulatory and Retained Assets sections of the Council Fund Capital Programme 2017/18 - 2019/20.
2	Members are asked to approve and recommend the schemes included in Table 3 (paragraph 1.20) for the Investment section of the Council Fund Capital Programme 2017/18 - 2019/20.
3	Members are asked to note that the shortfall in funding of schemes in 2018/19 and 2019/20 (paragraph 1.30) at this point in the approval process is flexible. Options including a combination of future capital receipts, alternative grants, prudential borrowing or phasing schemes over several years will be considered during 2017/18, and included in future capital programme reports.
4	Members are asked to note the development of a longer term Capital Strategy and Asset Management Plan.

REPORT DETAILS

1.00	DEVELOPING THE CAPITAL PROGRAMME 2017/18 – 2019/20
1.01	The Council funded capital programme has limited resources to support Council priorities, needs and liabilities. The council funded programme is only one part of the Council's contribution to investing in local infrastructure, facilities and assets. Regional programmes such as the Economic Growth Strategy which draw on national funds, and separate capital programmes such as the Housing Revenue Account (HRA) Capital Programme which includes Wales Housing Quality Standard (WHQS) and Strategic Housing and Regeneration Programme (SHARP), and the 21st Century Schools Programme, delivered in partnership between the Council and Welsh Government, supplement the council funded capital programme. The Council will need to be inventive to attract greater capital funds in the future through alternative funding sources and the use of its own land assets. The council funded programme primarily supports infrastructure assets and buildings (e.g. highways and schools) and investment in our new or readopted service models (e.g. leisure services and social care). The proposed capital investments are aligned to the portfolio service business plans and the Improvement Plan. The Capital Strategy and Asset Management Plan is being updated to support the current and emerging longer term Council priorities and to meet the investment needs of our new or readopted service business models. The new Strategy will be more visionary and will be an evidential basis for the leverage of national funds to meet Council priorities. Longer-term planning will put the Council in a stronger position to attract national funds of different types – from capital grant to borrowing approvals - to support its priorities in areas such as economic development infrastructure, transport, education, housing and service models for example in social care.

	Projected Funding Available 2017/18 - 2019/20
1.02	Table 1 below shows the general capital funding currently projected to be available to fund the capital programme over the next 3 years. **<u>Table 1</u>**
1.03	Table 1 above assumes that the Un-hypothecated Supported Borrowing allocation and the General Capital Grant received from Welsh Government (WG) in the years 2017/18 to 2019/20 remains the same as the information provided in the 2017/18 final financial settlement for Welsh local government. Compared with 2016/17 final financial settlement the Un-hypothecated Supported Borrowing allocation has reduced by £0.057m and General Capital Grant by £0.034m, a total reduction of £0.091m. There was no change to allocations between the provisional and final settlement.
1.04	The only capital receipts included in the total funding available in Table 1 are those that have been received to date (£3.567m). That is prior year's receipts, and 2016/17 receipts (to date, as at the month 6 capital monitoring report 2016/17) which are unspent to date. This strategy continues and builds upon the prudent policy of allocating capital receipts to fund capital projects when these receipts are actually received rather than when we anticipate the receipt. The current projection is for a further £2.2m of capital receipts to be received by the end of 2016/17. This only includes sales that are actively progressing to legal completion and are rated as a low risk of not being achieved. A further £2.8m of capital receipts is anticipated by the end of the financial year, but there is more risk due to their size and complexity that these will slip into the early part of 2017/18. Future capital receipts over the period 2017/18 – 2019/20 are estimated to be in the region of £7m.

ESTIMATED AVAILABLE FUNDING 2017/18 - 2019/20

	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Funding (Excluding Specific Funding)				
Un-hypothecated Supported Borrowing (USB)	4.124	4.124	4.124	12.372
General Capital Grant (GCG)	2.510	2.510	2.510	7.530
Capital Receipts Available (As at M6 2016/17)	3.567	0.000	0.000	3.567
Total	**10.201**	**6.634**	**6.634**	**23.469**

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 2017/18 – 2019/20
1.06	The Council's Capital Strategy and Asset Management Plan sets out the Capital Programme in three parts; 1. Statutory / Regulatory section – allocations 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 due to Health and Safety requirements etc. 2. Retained Assets section – to ensure service and business continuity. Allocations to fund schemes that maintain, enhance and improve retained assets and infrastructure to deliver services. Significant needs identified by service plans / condition surveys etc. 3. Investment section – to fund costs incurred when remodelling and investing in services. 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.

Statutory / Regulatory and Retained Asset Allocations – 2017/18 – 2019/20

1.07 Table 2 shows the proposed allocations for the period 2017/18 - 2019/20 for the Statutory / Regulatory and Retained Asset sections of the Capital Programme.

Table 2

PROPOSED ALLOCATIONS 2017/18 - 2019/20

	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Statutory / Regulatory Section				
DD Act - Individual pupils	0.250	0.250	0.250	0.750
Private sector renewals & improvements	1.496	1.496	1.496	4.488
School building works	0.100	0.100	0.100	0.300
Corporate property works	0.300	0.300	0.300	0.900
IT - Firewalls, protection from cyber attacks	0.070	0.000	0.000	0.070
Special inspections - Flintshire bridge	0.510	0.000	0.000	0.510
Total Statutory / Regulatory	**2.726**	**2.146**	**2.146**	**7.018**
Retained Assets Section				
School building works	1.000	1.000	1.000	3.000
Corporate property works	0.300	0.300	0.300	0.900
Highways asset management plan	0.600	0.600	0.600	1.800
IT - Network replacement	0.300	0.000	0.000	0.300
IT - Server replacement	0.200	0.000	0.000	0.200
IT - Replacement of equip. to 'back up' data	0.050	0.000	0.000	0.050
TC - Telephony / Box office upgrade	0.100	0.000	0.000	0.100
Playareas and synthetic sports pitches	0.487	0.200	0.200	0.887
Headroom	0.250	0.250	0.250	0.750
Total Retained Assets Section	**3.287**	**2.350**	**2.350**	**7.987**

1.08 The information in Table 2 is explained in more detail in paragraphs 1.09 to 1.19 below.

1.09 **Equalities Act – Individual Pupils**

An annual allocation to adapt and modify schools for children who have disabilities to support and create increasingly inclusive school environments.

1.10	**Private Sector Renewals and Improvements** Annual allocations to improve and adapt private sector homes: • Disabled Facilities Grants – adaptations enabling residents to continue to live independently in their own homes • Partnership working with Care and Repair to support vulnerable residents • Delivery of 'Houses into Homes' and 'Home Improvement Loans' loan schemes in partnership with Welsh Government • Property appreciation loans – support to older and vulnerable residents to adapt and improve their homes, where they would not necessarily have the financial means to do so. The loan takes the form of a legal charge against the property which becomes repayable when the property changes owners.
1.11	**School Building Works** An annual allocation to fund the most urgent property works required at schools split across the regulatory / statutory and retained assets sections of the capital programme prioritised according to greatest need. The retained assets section has been increased by £0.100m from 2017/18 onwards to introduce a programme of toilet upgrades in both primary and secondary schools to ensure compliance with Education (School Premises) Regulations 1999 and Department for Education and Skills document "Toilets in Schools". There is currently a backlog of such works estimated to be in the region of £1.5m which is often reflected as a Health and Safety issue in Estyn inspections of schools.
1.12	**Corporate Property Works** An annual allocation to fund the most urgent property works required at non-school premises split across the regulatory / statutory and retained assets sections of the capital programme prioritised according to greatest need.
1.13	**IT – Firewalls, Protection from Cyber Attacks** To access Department of Works and Pensions systems in undertaking Housing Benefit work the Council must connect to the Public Sector Network (PSN). To connect to the PSN the Council's security systems must meet accreditation standards, and to maintain accreditation the firewall currently in use needs to be upgraded as does the server which checks inbound e-mails and protects the Council from cyber-attack. Without these upgrades the Council will not meet the accreditation standards and performance in the service area will decrease as a result.
1.14	**Flintshire Bridge** The Flintshire Bridge is a complex and unique cable suspended structure that requires a variety of frequent and complex inspections to identify

	maintenance issues and remedial treatments. These inspections are classified as general, principal and special. General and principal inspections (revenue funded) are sufficient for the reinforced concrete form of the bridge, and these are undertaken at three and six year intervals, respectively. Special inspections are concerned with the cables, which are the most dynamic parts of the bridge. Significant defects can only be identified through special inspections, conducted at 10 year intervals which can be capitalised as they are necessary to ensure safe continued use of the asset. The 10 year inspection is now overdue, and is vital to ensure the continued safe use of the bridge. There is a risk that further capital works will be required depending on the results of the 10 year inspection.
1.15	**Highways Asset Management Plan (HAMP)** An annual allocation to fund the HAMP which includes resurfacing of the classified highway network, replacement programme for street lighting columns and structural maintenance. Whilst the Council has a statutory duty to maintain the Highways Network in a safe condition for travel, how the Council does this is not defined. WG set targets for road condition indices, and at present Flintshire is performing better than the target set as a result of significant additional investment from WG in recent years. A longer term view over the next 20 years needs to be considered with decisions made regarding how the Council wants the Highways Network to perform against the target set, alongside the annual investment required to achieve that target. Maintaining the current position would require annual investment of circa £3m. Discussions will take place as part of the development of the longer term Capital Strategy outlined later in the report.
1.16	**IT Infrastructure** Various schemes required to maintain service and business continuity; • **Network replacement** – networking equipment will reach the end of its life during 2017/18 and will no longer be supported by the manufacturer. Failure to replace the equipment will result in reduced network performance. • **Server replacement** – the database server which supports Human Resource, Housing and Revenues and Benefits systems is reaching the end of its life and needs to be replaced. Failure to replace will result in reduced performance for these systems. • **Replacement of equipment to 'back up' data** – the equipment and technologies are outdated and need to be updated to ensure effective back up of data.

	Officers from IT advise that all of the schemes above are absolutely necessary for business continuity at current performance levels, with real risks of reduced performance should the Council fail to invest.
1.17	**Theatr Clwyd – IT Infrastructure** Theatr Clwyd generates revenues ranging between £1.5 and £1.8m per annum through box office sales over the phone and via the internet. The IT infrastructure which support sales is old and failing at peak sale times (evenings and weekends) when limited corporate IT support is available. Upgraded systems with external support are needed to ensure the Theatr's core business continues and customers and their theatre bookings are not lost.
1.18	**Play Areas and Synthetic Sports Pitches** An annual allocation to fund the most urgent requirements to; • Replace play equipment that has reached the end of its useful life at play areas • Replace the playing surface of synthetic sport pitches which are in poor condition and have reached the end of their useful lives • Upgrade play areas
1.19	**'Headroom'** 'Headroom' has been built in to the capital programme to enable the programme to be more flexible such that funding can be allocated to small schemes as they present in year either as a result of opportunities or unforeseen circumstances. An example would be the need to complete further highways works as a result of an exceptionally severe winter over and above any planned works funded from the annual allocation.

	Investment Section of the Capital Programme 2017/18 – 2019/20
1.20	Table 3 shows the proposed schemes for the period 2017/18 - 2019/20 for the Investment section of the Capital Programme.

Table 3

PROPOSED INVESTMENT SCHEMES 2017/18 - 2019/20

	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Investment Section				
Community asset transfers*	0.250	0.250	0.000	0.500
School extension and remodelling				
Castell Alun High School - Hope	0.000	0.600	4.000	4.600
Glan Aber Primary - Bagillt	0.073	0.683	0.241	0.997
Property works at leisure centres / libraries	0.454	0.000	0.000	0.454
LD Day services facility*	2.045	1.955	0.000	4.000
Extension and remodelling of Arosfa**	0.100	0.000	0.000	0.100
Household recycling centres**	1.000	0.000	0.000	1.000
Total Investment Section	**3.922**	**3.488**	**4.241**	**11.651**

* Subject to approval of business case & confirmation of amount
** Subject to grant funding becoming available during the year

1.21	Schemes within Table 3 are explained in more detail below at paragraphs 1.22 to 1.29.
1.22	**Community Asset Transfers** Capital funding has previously been granted to community groups to 'pump prime' Community Asset Transfers (CATs) with £1m of funding having been earmarked to date. To continue with the project a further £0.500m is needed.
1.23	**School Extension and Remodelling** A high level suitability assessment of the entire school estate is nearing completion. The service is developing a range of criteria to assist in objectively prioritising school capital projects for inclusion within future capital programmes. The following school buildings (see paragraphs 1.24 and 1.25) are considered to have the most pressing needs requiring extension and remodelling of current buildings. Construction will take place over more than four financial years and has phased start dates in order to make the overall

	capital programme affordable over the time period.
1.24	**Castell Alun High School** To bring the school building up to current day standards providing facilities that are fit for purpose and suitable for delivering the future curriculum. The school would be extended with the provision of a new two storey Art and Design Technology block and remodelled in other areas. This will remove the need for mobile classrooms currently on site but which are nearing the end of their economic working life (and will need replacing). Start date 2018/19 financial year.
1.25	**Glan Aber Primary School, Bagillt** The school building currently has a number of issues including; classrooms which do not meet minimum size requirements for classes of 30 pupil places such that classes are being taught in the hall, resulting in the school being unable to deliver aspects of the PE curriculum. The proposed scheme will convert the existing hall to provide two suitable teaching spaces, with circulation, and the construction of a new hall at the appropriate size for the number of pupils on roll together with minor extensions to three classrooms to provide appropriate size and shape, more suitable for curriculum delivery. The scheme will take place over four financial years. Start date 2017/18 financial year.
1.26	**Property Works at Leisure Centres and Libraries** The buildings will be run by a separate entity under an Alternative Delivery Models (ADMs) in the future. Undertaking priority works highlighted within building condition surveys is key to enhancing service provision and the success of the ADM. Assisting the new organisations sustainability and prospects of maximising income generation. It is possible that some of the works may need to be completed within the 2016/17 financial year.
1.27	**Learning Disability Day Services Facility** The scheme involves a replacement day care facility with an option to include other community based facilities. The current building (Glanrafon) is not capable of supporting an efficient service and has reached the end of its useful life. A replacement facility is needed to transform the way the service is delivered. A full business case is being developed with construction starting in 2017/18 which will take place over more than a single financial year.
1.28	**Extension and Remodelling at Arosfa Disability Short Breaks** Arosfa is a short term care facility supporting children and young people who have a physical or learning disability. The facility is regularly oversubscribed meaning short term care has to be purchased out of county at additional cost. Capital investment is needed to refurbish the facility to provide an additional two bedrooms. This will generate revenue savings by reducing the costs of Out of County placements, and provide additional, higher quality

	short term care closer to home for our clients. Welsh Government Intermediate Care Fund Grant will start the scheme in 2016/17. It is likely that further grant funding will be available in 2017/18, however, this cannot be confirmed at this point in time and therefore it is necessary to include within the Council's Capital Programme so that the works can be completed.
1.29	**Household Recycling Centres (HRCs)** Cabinet, at its meeting in July 2016 noted progress in reviewing provision at and location of, HRCs, including an option for two additional large or 'super sites' to supplement the two existing facilities at Sandycroft and Greenfield. Cabinet is due to receive a full report on the preferred location and individual site layouts shortly. Whilst costs are not yet fully finalised, the working estimate is in the region of £0.500m - £1m, with the possibility of further grant funding from Welsh Government.
	Summary (Generally funded) Capital Programme 2017/18 – 2019/20
1.30	Table 4 below summarises the Capital Programme and available funding:

Table 4

SUMMARY (GENERALLY FUNDED) CAPITAL PROGRAMME 2017/18 - 2019/20

	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Statutory / Regulatory Section	2.726	2.146	2.146	7.018
Retained Assets Section	3.287	2.350	2.350	7.987
Investment Section	3.922	3.488	4.241	11.651
Total (All Sections)	**9.935**	**7.984**	**8.737**	**26.656**
Estimated available general funding	10.201	6.634	6.634	23.469
Surplus / (Shortfall)	**0.266**	**(1.350)**	**(2.103)**	**(3.187)**

1.31	Table 4 shows that there is an overall shortfall in projected funding of £3.187m, with specific shortfalls in 2018/19 and 2019/20 To meet the shortfall the Council will potentially need to borrow to fund the schemes (unsupported borrowing commonly referred to as prudential borrowing), which has the impact of increasing debt financing costs of interest and revenue provision for repayment of debt in the revenue budget. There is the potential for significant capital receipts to be generated during

	the remainder of 2016/17 - with a current projection for a further £2.2m (low risk rating) to be received by the end of 2016/17, and, a further £2.8m with a moderate risk of slipping into 2017/18 as detailed in paragraph 1.04 above. A total of £5m, which is in excess of the shortfall. Furthermore over the period 2017/18 – 2019/20 a prudent estimate in the region of £7m of receipts is forecast.
1.32	The Council has developed a prudent policy of only allocating capital receipts to fund capital projects when receipts are actually received; rather than when we anticipate the receipt to be received, and this position continues to be the case. All of the schemes proposed for inclusion within the Capital Programme invest in assets and / or reconfigure models of service provision. They are pivotal to support the delivery of the Council's strategic priorities outlined in portfolio business plans and the Improvement Plan.
1.33	There is also the possibility of grant funding from Welsh Government for some schemes which will reduce the borrowing requirement and the pressure in generating capital receipts.
1.34	The scheme at Castell Alun school costing £4.8m in total over a four year period will not begin until financial year 2018/19 by which time the capital receipts needed to fund the scheme should have been realised. In the event that capital receipts were not available, the scheme could be delayed until capital receipts are made available. Similarly, should the capital receipts be realised earlier the scheme could be brought forward and started earlier. Further, between the design phase and the construction phase of the larger schemes such as the schools and the Learning Disabilities Day services facilities there will be an opportunity to 'pause and review' such schemes to consider, amongst other things, the funding available before construction commences.

	Specific Grants and Borrowing
1.35	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 already approved is shown in Table 5.

Table 5

ESTIMATED AVAILABLE SPECIFIC FUNDING 2017/18 - 2019/20

	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Specific Funding				
Specific Capital Grants	2.847	4.116	1.238	8.201
Unsupported (Prudential) Borrowing	6.653	5.406	1.239	13.298
Local Govt Borrowing Initiative - 21st C Schools	0.000	1.080	0.000	1.080
Total	**9.500**	**10.602**	**2.477**	**22.579**

1.36	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 Table 5 above. As details become available they will be reported to Members via the quarterly 2017/18 Capital Programme monitoring reports.
1.37	Details of the schemes funded by the above are shown in Table 6 below.

Table 6

SPECIFICALLY FUNDED SCHEMES 2017/18 - 2019/20

	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Specifically Funded Schemes				
21st Century Schools - Band A	5.952	10.392	2.477	18.821
SHARP - Loans to NEW Homes for Affordable Homes	3.548	0.210	0.000	3.758
Total	**9.500**	**10.602**	**2.477**	**22.579**

The first scheme in table 6 is the continuation of the 21st Century School building programme – Band A schemes which includes completing the final works at schools in Holywell and Deeside 6th in Deeside and the works at Penyffordd Primary school and Connah's Quay High school.

	The second scheme in table 6 is the capital loan to the Council's wholly owned subsidiary, North East Wales Homes (NEW Homes) to build affordable homes on The Walks site in Flint as part of the Council's Strategic Housing and Regeneration Programme (SHARP). The loan is classed under accounting regulations as capital expenditure and therefore included within the Capital Programme. The building of council houses for social rents forms part of the HRA activities and will be included within the HRA Capital Programme.
	Summary Total Council Fund Capital Programme 2017/18 - 2019/20
1.38	Table 7 summarises the total proposals for the 2017/18 - 2019/20 Capital Programme.

Table 7

SUMMARY CAPITAL PROGRAMME 2017/18 - 2019/20

	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Expenditure				
Statutory / Regulatory Section	2.726	2.146	2.146	7.018
Retained Assets Section	3.287	2.350	2.350	7.987
Investment Section	3.922	3.488	4.241	11.651
Specific Section	9.500	10.602	2.477	22.579
Total Programme (All Sections)	**19.435**	**18.586**	**11.214**	**49.235**
Funding				
General Funding	10.201	6.634	6.634	23.469
Grant Funding	2.847	4.116	1.238	8.201
Unsupported (Prudential) Borrowing	6.653	5.406	1.239	13.298
Local Govt Borrowing Initiative - 21st C Schools	0.000	1.080	0.000	1.080
Total Projected Funding	**19.701**	**17.236**	**9.111**	**46.048**
Surplus / (Shortfall)	**0.266**	**(1.350)**	**(2.103)**	**(3.187)**

	Comments and Feedback from Corporate Resources Overview and Scrutiny Committee
1.39	The proposals were considered at a meeting of the Corporate Resources Overview and Scrutiny Committee open to all Members on the 20th January 2017. Members scrutinised the proposals in detail and were in support of all schemes included.
1.40	The Committee wished to raise their concerns regarding the Flintshire Bridge. The Committee accepted the need to complete the 10 year special

	inspection in order to ensure continued safe used of the bridge. Concerns were raised about the results of the inspection and how the Council would fund the cost of any remedial works necessary should any be identified. Given the size and complexity of the structure the Committee questioned the bridge being the responsibility of a Local Authority, a position adopted many years ago when the bridge was constructed. The Committee suggested that the Council should formally respond to the current Welsh Government consultation on the preferred route into North Wales, to include making the route over the Flintshire bridge a trunk road and in doing so passing responsibility and any future liabilities over to Welsh Government.
	Developing a Forward Capital Strategy and Asset Management Plan
1.41	The Capital Strategy and Asset Management Plan is being updated to support the current and emerging longer term Council priorities and to meet the investment needs of our new or readopted service business models. The new Strategy will be more visionary and will be an evidential basis for the leverage of national funds to meet Council priorities.
1.42	The Council is a partner in the North Wales Economic Growth Strategy. Regional partners will be expected to co-invest in the Strategy with the Welsh and UK Governments. This is a major initiative for which priorities, and funding solutions, are under development.
1.43	Investment will be needed in the regional waste transfer station network to support the operation of the new regional energy from waste facility secured by the North Wales Residual Waste Treatment Project. The regional partnership is in discussion with Welsh Government over possible additional capital grant to subsidise the shared investment to be made by the five partner councils.
1.44	A feasibility study to assess options to increase provision at the Council's residential care homes is underway. This follows a recent detailed analysis of future demand for such services and consideration of the ability of private sector care home providers to effectively address an increase in future demand.
1.45	The Council will shortly be submitting schemes to Welsh Government for inclusion within Band B of the 21st Century Schools Programme. Whilst WG's selection criteria and funding mechanism for Band B has not yet been confirmed, it is anticipated that Council's will have to fund a share of the costs. Successful schemes forming part of this programme would not commence until 2019 at the earliest.
1.46	A feasibility study is underway to review options and recommend a credible and affordable proposal for a redevelopment of the Theatr to be funded by national sources including the Arts Council of Wales Lottery Fund.
1.47	Implementation of 'Digital Flintshire' the Councils refreshed IT Strategy which will;

	• ensure Information is treated as a key corporate asset ensuring it is compliant, accurate, relevant and secure so that it is used to design and deliver more effective and efficient services, and • deliver secure, reliable, resilient and cost effective digital infrastructure that is responsive to the needs of the council and its customers

2.00	**RESOURCE IMPLICATIONS**
2.01	Financial consequences for capital resources are as set out within the report.
2.02	As previously stated there are revenue consequences of borrowing in interest costs and revenue provision for debt repayment. The costs of supported borrowing and prudential borrowing for the 21st century schools programme has been built into the Medium Term Financial Plan (MTFP).
2.03	In the event that the Council needs to prudentially borrow to fund the investment section of the capital programme as outlined in paragraphs 1.31 to 1.34 the estimated revenue costs of borrowing are outlined in Table 8 below for information. This assumes that the borrowing is associated with the schemes which have a long estimated useful life over which to spread the debt financing charges, 50 years for school extensions. The costs are not included within the MTFP at present:

Table 8

ESTIMATED DEBT FINANCING COSTS

	Expd £m	Interest From year of expd £m	MRP 2019/20 onwards £m	Total Annual £m
Capital Expenditure Incurred				
2018/19 - School extensions	1.350	0.036	0.027	0.063
2019/18 - School extensions	2.103	0.056	0.042	0.098
Total	**3.453**	**0.092**	**0.069**	**0.161**

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	Comments from Corporate Resources Overview and Scrutiny Committee on the Capital Programme are included within the report.

4.00	**RISK MANAGEMENT**
4.01	Any decisions made which involve the Council's assets and its Capital Programme often have very large and long term financial implications. When the Council sets its capital programme a separate report to assessing the affordability, prudence and sustainability of the capital plans called the Prudential Indicator report is produced which is included elsewhere on the agenda.

5.00	**APPENDICES**
5.01	None

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Expressions of Interest forms and Business Case forms completed by Portfolios **Contact Officer:** Liz Thomas, Finance Manager – Technical Accounting **Telephone:** 01352 702289 **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 **Capital Expenditure** - Expenditure on the acquisition of **Non-current Assets** or expenditure that extends the life or value of an existing asset **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. **Capital Receipt** - Receipts (in excess of £10,000) from the disposal of an asset **Capital Scheme** - An individual capital project which is monitored and managed in isolation. The aggregate of all schemes comprises the **Capital Programme** **Capital Strategy** - A corporate document providing clear strategic guidance about an authority's objectives, priorities and spending plans, demonstrating the link to key corporate and service objectives. May be combined with the **Asset Management Plan (AMP)** to form a single document **Council Fund** - The fund to which all the Council's revenue and capital

	expenditure is charged **Disposal** - The decommissioning or transfer of an asset to another party **Financing** - The process of allocating resources to meet the cost of capital expenditure, which can be done on a project, asset or whole programme basis. This contrasts with making the invoice payments relating to capital expenditure, which should be managed within the authority's overall treasury management policy **General Capital Grant -** Annual capital grant from Welsh Government; 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). **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. **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).

FLINTSHIRE COUNTY COUNCIL

Date of Meeting	Tuesday, 14 February 2017
Report Subject	Housing Revenue Account (HRA) Revenue Budget 2017/18 and Capital Programme 2017/18
Report Author	Chief Executive, Chief Officer (Community and Enterprise) and Corporate Finance Manager

EXECUTIVE SUMMARY

The final proposals for the HRA Revenue and Capital budget for the 2017/18 financial year, including proposed rent increases were considered by Cabinet on 14 February and the outcome of the Cabinet will be reported verbally to Council.

A copy of the report is attached as Appendix 1.

RECOMMENDATIONS	
1	Members are recommended to receive and approve the recommendations from Cabinet on 14 February.

REPORT DETAILS

1.00	EXPLAINING THE HRA REVENUE BUDGET AND CAPITAL PROGRAMME 2017/18
1.01	As set out in the report to Cabinet 14th February.

2.00	RESOURCE IMPLICATIONS
2.01	As set out in the report to Cabinet 14th February.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	As set out in the report to Cabinet 14th February.

4.00	RISK MANAGEMENT
4.01	As set out in the report to Cabinet 14th February.

5.00	APPENDICES
5.01	Appendix 1 – Report to Cabinet 14 February 2017

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	None. **Contact Officer:** Clare Budden, Chief Officer (Community and Enterprise) **Telephone:** 01352 703800 **E-mail:** clare.budden@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	As set out in the report to Cabinet 14th February.

CABINET

Date of Meeting	Tuesday, 14 February 2017
Report Subject	Housing Revenue Account (HRA) Budget 2017/18 & Capital Programme 2017/18
Cabinet Member	Cabinet Member for Housing
Report Author	Chief Executive Chief Officer (Community & Enterprise) Corporate Finance Manager
Type of Report	Strategic

EXECUTIVE SUMMARY

The purpose of this report is to present for approval the Housing Revenue Account (HRA) Budget for 2017/18, and HRA Business Plan.

RECOMMENDATIONS	
1	That Cabinet Members approve and recommend to the Council, the HRA budget for 2017/18 as set out in the Business plan.
2	That Cabinet Members approve a rent increase of 2.5% (plus up to or minus £2) as set out in the business plan with target rents applied for new tenancies.
3	That Cabinet Members approve and recommend to the Council a garage rent increase of £1 per week and a garage plot rent increase of £0.20 per week.
4	That Members approve the proposed HRA Capital programme for 2017/18 as set out in Appendix 4.

REPORT DETAILS

1.00	**BACKGROUND TO THE DRAFT HRA BUDGET AND HRA BUSINESS PLAN**
1.01	**Considerations**
	The HRA is required to produce a 30 year business plan. The first four years focuses on the achievement of the Welsh Housing Quality Standards (WHQS), Choices document promises kept, ongoing efficiencies made and 200 new council homes built. The longer term picture shows a strong 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. The strategic context for this year's HRA budget setting includes the following: • The need to ensure the treasury management strategy continues to meet the Councils new and ongoing borrowing requirements; • Delivering a prudent plan for income maximisation; • Setting a balanced budget with 3% surplus revenue over expenditure; • Continued drive to ensure all service costs are efficient and that value for money can be achieved; • Maximisation of revenue efficiencies to minimise the borrowing required to meet WHQS by 2020; • Delivery of new build Council housing.
1.02	**Self financing**
	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 council's 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 borrowing cap is £144m. In summary, Flintshire's borrowing requirements and/or limits for borrowing are (approximately) as follows: • Existing HRA borrowing £25.7m • Borrowing to achieve settlement £79.2m • Total Borrowing for WHQS £15.3m • Total Borrowing for new build £24.8m 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. The current borrowing assumptions for 2017/18 are:- • Borrowing for WHQS £4.1m • Borrowing for new build £7.7m This will take borrowing levels up to £125m once the minimum revenue provision has been deducted.
1.03	**Rents**
	The Social Housing Rents policy was introduced by Welsh Government (WG) in April 2015 for local authorities and is in place for five years. The policy aims to achieve rent convergence between Council and Housing Association rents over time. Welsh social rent policy is devolved from the U.K government. There has been 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. WG 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 2017/18. In a written statement on the 21st November 2016, the Department of Works & Pensions (DWP) Secretary for State announced that the Government proposes that the local housing allowance (LHA) cap for tenants living in general needs social housing will be applied from April 2019. When this proposal is implemented, rents for many 1 bedroom properties in Flintshire will reach the cap quite quickly. This could have negative impacts on the HRA business plan and the viability of some new housing developments. The WG rent policy requires all service charges to be disaggregated from rents. The Council is in the process of completing this. There is flexibility for each landlord to set the rent band at either target rent, 5% below or 5% above. The Council agreed to set Flintshire rents at target to support tenant affordability. The rent policy sets out the total target rent band for each landlord. The Councils target rent for 2017/18 is £91.69. Currently the Councils average rent is £85.87. Where a landlord's weekly rent is lower than the target rent band, transitional protection applies to tenants. In any year a landlord is not permitted to increase the rent for any individual tenant by more than £2 per week in addition to the agreed average annual rate of rent increase for the sector as a whole. The inflation indices used for uplifting rents each year are based on Consumer Price Index (CPI) at the previous September and a real increase percentage of 1.5. CPI for September 2016 was 1% plus 1.5% giving rent inflation for 2017/18 of 2.5%.
1.04	**Garage Rents**

	Garage rents are currently charged at £5.61 per week and garage plots £1 per week. An increase of £1 per week is proposed for garages and £0.20 for garage plots.
1.05	**Capital programme**
	£20m has been built into the WHQS and Asset investment programme for 2017/18. This includes provision for internal work streams, external enveloping works, environmental programmes, fire risks and Disability Discrimination Act (DDA) works, Asbestos, off gas and energy efficiency works. Cabinet has approved the Asset investment plan to achieve the WHQS by 2020 and the budget set will ensure that the council is still on track to meet its commitment to achieve the standard. In addition, £7.704m of prudential borrowing has been budgeted in 2017/18 for Council housing building schemes. Attached to this report for Cabinet approval: - • HRA Business Plan – Appendix 1 • 30 year HRA business plan summary - Appendix 2 • HRA business efficiency & investment proposals - Appendix 3 • Capital programme for 2017/18 - Appendix 4

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 continue its Council house building programme in 2017.
2.02	Additional staff have been appointed 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 will be discussed with the Tenants Federation at their February meeting.
3.02	Detailed consultation has been undertaken with tenants and elected members to inform the preparation of the WHQS investment programme.
3.03	Full local consultation is carried out for each new build scheme.

4.00	RISK MANAGEMENT
4.01	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.
4.04	The Business Plan assumes a confirmation of Major Repairs Allowance (MRA) for the full 30 year life of the Business Plan.

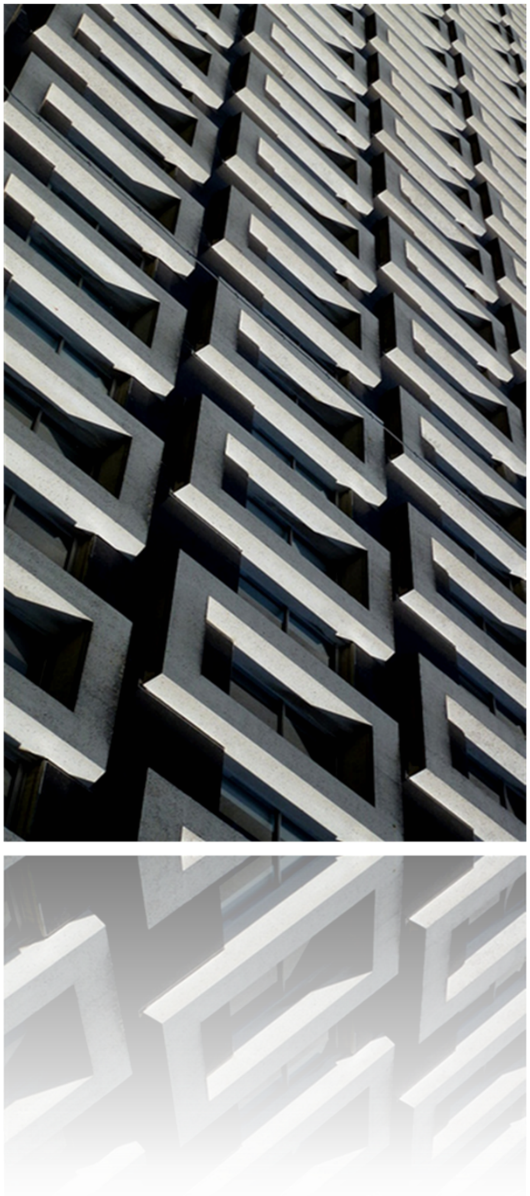
5.00	**APPENDICES**
5.01	Appendix 1 - HRA Business Plan Appendix 2 - 30 year HRA Business Plan Summary Appendix 3 - HRA business efficiency and investment proposals Appendix 4 - Capital programme

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	None. **Contact Officer:** Clare Budden, Chief Officer (Community & Enterprise) **Telephone:** 01352 703800 **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 2017. **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. **Capital expenditure:** money spent by the organisation on acquiring or maintaining fixed assets, such as land, buildings, and equipment. **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. **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.

	Major Repairs Allowance: Welsh Government grant paid to local authorities in Wales who still manage and maintain their council housing.

APPENDIX 1



FLINTSHIRE HOUSING REVENUE ACCOUNT:

BUSINESS PLAN

2017 - 2047

INTRODUCTION

The HRA funds the landlord function of the council for 7,189 homes. This includes repairs and maintenance, including upgrading properties and environmental improvements, neighbourhood management including resolving anti-social behaviour and estate caretaking, income collection and customer involvement.

BACKGROUND

The budget was set in 2016 for the thirty year period 2016/2046. Value for money principles were adopted to maximise resources for stock investment, service improvement and new build. It did, as with any business plan, make some financial assumptions, and therefore any aspects which were adopted will need to be kept under review to ensure that assumptions reflect actual costs, performance and risks on an annual basis.

This report will highlight how we actually performed during 2016/17 and report any changes to the financial assumptions agreed in 2016/17 based on new information.

2012 HOUSING BALLOT – CHOICES DOCUMENT

In 2012, the council balloted its tenants on the option for 'stock transfer'. This process involved making commitments to tenants on service quality and performance, should tenants opt to stay with the council or move to an alternative landlord. 71% of tenants used their vote, with 88% choosing Flintshire County Council to remain as their landlord.

This plan and budget proposals once approved will provide sufficient resources to ensure that all promises made to tenants in the Choices document can be delivered. At the time of the ballot a 5 year stock improvement programme was promised which would provide full kitchen and heating replacement schemes with limited work streams for other property fixtures. At this stage the full WHQS standard could not be delivered until 2038.

Since that time, following detailed cost and investment analysis work, robust efficiency plans and improved performance (coupled with relatively low levels of borrowing), the investment programme has been accelerated and full achievement of the standard can be delivered by 2020.

RESOURCES FOR 2017/18

Rents

The Social Housing rents policy was introduced by Welsh Government in April 2015 for local authorities. This policy was aimed at achieving rent convergence between council and housing association rents over time.

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.

In a written statement on the 21st November 2016, the DWP Secretary for State announced that the government proposes that the local housing allowance (LHA) cap for tenants living in general needs social housing will be applied from April 2019. 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.

The WG rent policy required all service charges to be disaggregated from rents by April 2016. 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.

The rent policy sets out the total target rent band for each landlord. The councils target rent band for 2017/18 is £91.69. Currently the Councils average rent is £85.87. Where a landlord's weekly rent is lower than the target rent band, transitional protection will apply to tenants. In any year a landlord will not be permitted to increase the rent for any individual tenant by more than £2 per week in addition to the agreed average annual rate of rent increases for the sector as a whole.

The inflation indices to be used for uplifting rents each year will be based on CPI at the previous September and a real increase percentage of 1.5% will be applied to the inflation indices.
CPI for Sept 2016 is 1% plus 1.5% giving rent inflation for 2017/18 of 2.5%. Anticipated Rental (including voids rent loss) and other income for the three year period 2016/17, 2017/18 and 2018/19 are shown in the table below:

Garage Rents
Garage rents are currently charged at £5.61 per week. We are proposing an increase of £1 per week. Garage plots are currently a £1 per week. We are proposing a .20p per plot per week increase.

Anticipated Rental (including voids rent loss) and other income for the three year period 2017/18, 2018/19 and 2019/20 are shown in the table below:

Year	Net Rental Income	Other Income	Total Income
2017 – 2018	£30,850,000	£ 1,292,000	£ 32,142,000
2018 – 2019	£32,032,000	£ 1,664,000	£ 33,696,000
2019 – 2020	£33,916,000	£ 1,735,000	£ 35,651,000

Rent Charges		2017/18				
		£'s			No.	
Property Type	**No. of Properties**	Target Rent	Average Transitional Rent	Variance	Equal to / above Target Rent	Below Target Rent
G1Bedsit	21	65.71	65.78	0.07	21	0
G1bungalow	12	81.71	85.06	3.35	3	9
G1Flat	163	76.42	76.27	-0.16	150	13
G1House	1	81.71	72.84	-8.86	0	1
G2Bungalow	3	90.78	83.83	-6.96	0	3
G2Flat	293	84.64	82.33	-2.31	78	215
G2House	710	90.78	85.56	-5.22	190	520
G2Maisonette	9	82.14	82.14	0.00	9	0
G3Bungalow	4	99.86	99.02	-0.84	3	1
G3Flat	41	92.85	88.61	-4.24	11	30
G3Maisonette	1	90.35	90.35	0.00	1	0
G3House	3,147	99.86	91.26	-8.60	335	2,812
G4House	126	108.94	98.12	-10.82	13	113
G5House	5	118.02	106.24	-11.78	1	4
G6House	5	118.02	110.62	-7.40	2	3
M1Mini Group Bungalow	299	81.71	77.60	-4.10	97	202
M1Mini Group Flat	116	76.42	76.47	0.04	114	2
M2Mini Group Bungalow	94	90.78	86.07	-4.72	29	65
M2Mini Group Flat	23	84.64	83.68	-0.96	2	21
M3Mini Group Bungalow	1	99.86	99.86	0.00	1	0
S1Sheltered Bedsit	63	65.71	66.01	0.30	63	0
S1Sheltered Bungalow	851	81.71	78.09	-3.61	218	633
S1Sheltered Flat	321	76.42	76.39	-0.04	314	7
S1Sheltered House	1	81.71	78.96	-2.74	0	1
S2Sheltered Bungalow	508	90.78	83.74	-7.05	64	444
S2Sheltered Flat	306	84.64	84.44	-0.20	236	70
S2Sheltered House	1	90.78	81.94	-8.84	0	1
S2Wardens Bungalow	2	90.78	90.78	0.00	2	0
S2Wardens Flat	5	84.64	84.64	0.00	5	0
S2Wardens House	1	90.78	86.55	-4.23	0	1
S3Sheltered Bungalow	4	99.86	94.93	-4.94	2	2
S3Wardens Bungalow	16	99.86	97.78	-2.08	6	10
S3Wardens Flat	1	92.85	91.52	-1.33	0	1
S3Wardens House	20	99.86	93.25	-6.62	3	17
SO3Shared ownership houses	15	99.86	90.81	-9.05	2	13
	7,189	**91.69**	**85.87**	**-5.82**	**1,975**	**5,214**

Note

G = General Need

S = Sheltered

M = Mini Group (over 55s with no warden service)

The number equates to the number of bedrooms the property has for example a G3house is a general need 3 bed house.

The above chart shows the transitional rents chargeable to Flintshire tenants under the new rents policy from 2017/18 and how they compare to target rents. The average rent chargeable for 2017/18 is £85.87 some £5.82 below the weekly target rent under the new policy. There are currently 1,975 (27%) tenancies at target rent.

Empty Properties
Void rent loss is currently at 1.41 % of rental income. The business plan continues to assume this level of void rent loss.

Service Charges
By April 2016, the Welsh Government expected all social landlords to separate services from rents and introduce charges, to recover the cost of services in addition to rent. Prior to this the cost of these services were spread across all tenancies. Through the separation of service charges from rents, tenants are able to see how much they pay for the rent of their home and how much they pay for any additional services that they receive e.g. aerials, laundry services, window cleaning and communal cleaning.

The introduction of service charges aims to achieve greater transparency and fairness for tenants, providing greater accountability whilst helping to improve both the efficiency and quality of services being delivered.

The Council is currently working in collaboration and sharing best practice with three other North Wales stock retaining Councils. These being Wrexham, Denbighshire and Isle of Anglesey.

Flintshire is implementing service charges on a phased basis for existing/ongoing tenancies. From April 2015 all new tenants pay for services. A tenant consultation exercise will commence in June 2017 to discuss service disaggregation (such as individual gardening).

With the exception of services provided for the benefit of individuals, the service charges outlined above are all currently ‘housing benefit eligible’. Currently, 67% of all Council Housing tenants were in receipt of full or partial housing benefit.

Expenditure

Proposed financial changes to the 2017/18 business plan

HRA Business Planning

Efficiencies

No	Section	Description	Type	2017/18 £m	Notes
1	Various	Price Inflation	Service Efficiency	(71,182)	During the 2016/17 business planning process, we had built in an element of price inflation. We have removed this price inflation to help fund some of the pressures the HRA is facing.
2	Estate Management	Estate Caretaker	Structural Review	(18,667)	Removal of vacant position
3	Management & Support	Handy Person	Structural Review	(38,488)	This vacant position is being removed from the budget as the estate caretakers are completing this work.
4	Various	Employee Travel	Service Efficiency	(11,091)	A result of the review of essential car users and rates.
5	Management & Support	Conference/Seminars	Service Efficiency	(13,544)	A reduction in the conference budget.
6	Estate Management	Supplies & Services	Service Efficiency	(4,165)	A review of supplies and services budgets.
7	Housing Asset Management	Fleet Costs (Disabled Adaptations)	Service Efficiency	(40,000)	We are able to capitalise the cost of vehicles used for the capital works on adapted properties.
8	Estate Management	Neighbourhood Housing Assistant	Structural Review	(19,310)	Removal of vacant position.
		Total HRA		**(216,447)**	

Investment Decisions/Cost Pressures

No	Section	Description	Type	2017/18 £m	Notes
1	Income	Reduction in income arising from phased implementation of service charges	Income Pressure	311,428	Reduction in income in line with phased introduction of Service Charges
2	Housing Programmes	SHARP - Site Investigation Fees/Other Costs	Service Improvement	79,000	Revenue budget to support the cost of the SHARP which cannot be capitalised (e.g. legal fees, land valuations)
3	Estate Management	Gardens	Service Pressure	55,000	Reflective of increased contract costs
4	Estate Management	Laundry	Service Pressure	14,000	Reflective of increased contract costs
5	Estate Management	Aerials	Service Pressure	20,000	Reflective of increased contract costs
6	Estate Management	Window Cleaning	Service Pressure	10,500	Reflective of increased contract costs
7	Estate Management	Communal Cleaning		9,000	Reflective of increased contract costs
8	Housing Asset Mgmnt	Waste Removal	Service Pressure	20,000	Reflective of increased contract costs
9	Housing Asset Mgmnt	Electrical Qualifying Officer	Service Improvement	40,226	Additional position introduced to cover Health & Safety requirements
10	Management & Support	Insurance	Historic Budget Flaw	78,000	To correct a budget flaw
11	Estate Management	Revenues Manager	Service Pressure	16,772	To reflect a charge of 25% to the HRA for work on rent collection.
12	Management & Support	Apprentice Levy	Service Pressure (national policy)	37,129	New national policy (0.5% of paybill)
13	Landlord Services	Servicing & Adhoc Call Outs	Service Pressure	40,000	(e.g. smoke alarm testing, lift maintenance).
		Total HRA		**731,055**	

		Grand Total HRA		**514,608**	

Staff and associated costs
The business plan includes 231.53 established Positions (FTE) within the Housing Revenue Account in 2017/18.

Housing Asset Management
Housing Asset Management (HAM) includes Responsive repairs, voids, WHQS and cyclical works and Disabled adaptations. Total FTE's for HAM assumed in the plan are 175. The revenue budget for 2017/18 is £8.457m.

Estate Management
Estate Management includes Rents, Anti-Social Behaviour, Tenant participation and Tenancy management services. Total FTE's assumed in the plan are 33.8. The planned budget is £1.647m.

Landlord Services
Landlord Services includes all costs associated with service charges and landlord costs for communal buildings. Total FTE's assumed in the plan for Landlord Services are 8.0. The planned budget is £1.318m.

Management & Support Services
Management & Support Services include Finance and cash collection, I.T, member services, HR and Training, Legal, Insurance, Buildings, admin and corporate management costs. The FTE's assumed on the plan for Management & Support Services are 14.68. The planned budget is £2.320m.

Capital Financing

Financial Year	New Loans	New Loans	Mid Year	Total Costs	Closing HRA Debt	Limit on indebtedness	Borrowing Capacity
	Build Programme	WHQS					
2017.18	£7,704,000	£4,100,000	£119,983,027	£7,500,531	£124,732,693	£143,934,209	£19,201,956
2018.19	£5,378,667	£3,500,000	£127,924,700	£7,956,858	£131,116,706	£143,934,209	£12,817,503
2019.20	£5,166,667	£1,400,000	£133,088,872	£8,268,822	£135,061,039	£143,934,209	£8,873,170

As per the self-financing agreement introduced in April 2015, the borrowing limits agreed for the council were £15m for new build, £25m for WHQS and £107.2m for the buy-out. This new borrowing in addition to existing borrowing gave us a debt cap of £143.9m (limit on indebtedness above).

The above table shows the planned new borrowing for WHQS and new build alongside the closing HR debt balance and borrowing cap. The level of borrowing remains within the cap.
The capital programme for 2017/18 is £20.040m of which the majority is allocated to achieving the Welsh Housing Quality Standard.

Strategic Housing and Regeneration Programme (SHARP) - Council House Build Programme

Following Cabinet approval in September 2014 Flintshire has made good progress to deliver upon its strategic vision of developing 500 new (200 council, 300 affordable) at a range of sites across the county over the next five years. Wates Residential were appointed as the Council's development partner in June 2015, and in addition to the council's ambitious house-building programme, a range of linked regeneration and community benefit initiatives are also being delivered. These include;

- Environmental protection and improvements;
- Development of sub-contracting and supply chain opportunities including transparency of opportunities and award procedures including advertisement through Sell2Wales;
- Increased social return on investment through engagement and consultation with the community;
- Workforce and training initiatives.

SHARP Tranche 1

Tranche 1 of the SHARP is underway, delivering 42 new Council homes on The Walks, Flint and at Custom House School, Connah's Quay. The breakdown of property types is shown below:

Property Type	The Walks, Flint	Custom House School, Connah's Quay
1Bed Apartment	4	-
2 Bed Apartment	2	-
2 Bed House	18	8
3 Bed House	6	4
Sub Total	30	12
Total	42	

Custom House School, Connah's Quay

Custom House, Connah's Quay is the first completed scheme to be delivered through the SHARP, with tenants moving into the new properties at the beginning of December 2016, 2 months ahead of schedule. A Local Lettings Policy has been developed to ensure local people are prioritised for the scheme.

There has been a number of consultation events where Councillors, members of the local community and future tenants have visited the site. This has been well received and has raised the profile of the SHARP Council housing building programme.

The Walks, Flint
The build for the scheme commenced March 2016, with a projected completion of March 2018. In addition to the 30 Council properties, 62 affordable units will also be delivered on the site. These properties will be managed by the Council's NEW Homes Housing Company which was set up in April 2014 to assist those families living in Flintshire who do not qualify for Council properties due to their income being too high, but do not have sufficient income levels to access the private rented or low cost home ownership markets.

The Council and NEW Homes are developing joint estate management and maintenance policies to ensure all tenants living on the scheme receive an equitable, high quality service from both landlords. Similarity to the Custom House scheme, a Local Lettings Policy will be implemented, which will be consulted upon early in 2017 in preparation for allocations.

In addition to addressing housing need from the Council's Housing Register, the scheme will also assist applicants from its Specialist Housing Register who are in need of adapted and specialist accommodation.

SHARP Tranche 2
Sites for tranche 2 have been agreed, planning approved and pre-development work is underway. Consultation has taken place for each scheme with the local Member and communities. The site location and mix is outlined in the table below.

Site location	***1 Bed Apart.***	***2 Bed Apart***	***2 Bed House***	***3 Bed House***	***2 Bed Bung.***	***Total***
Maes y Meillion and Heol Y Goron, Leeswood		4	3	2	4	**13**
Redhall, Connah's Quay			5			**5**
Dairy Site, Connah's Quay			3	3		**6**
Ysgol Delyn, Mold			10	6		**16**
Melrose Centre, Aston	2		2	2		**6**
The Police Station, Flint						**tbc**
Total						**46**

SHARP Tranche 3
The Council is currently in the process of undertaking detailed site feasibility works on a number of additional sites for inclusion in Tranche 3. These sites will be presented for Council approval in spring 2017. A projected £15.5M from the Council's Housing Revenue Account Borrowing Cap is proposed for the Council's House Building Programme.

Social and Economic Return on Investment

The following table provides a summary of the Social and Economic return on investment to date for the tranche 1 schemes at Custom House, Connah's Quay and The Walks, Flint. Going forward this will be measured and recorded for both the SHARP and WHQS programmes.

Employment & Training

Table 1. SHARP Community Investment Performance Batch 1 Sites	
Benefit	**Narrative**
Employment and Training	
194	Local people have benefited from Employment & Training Initiatives on this project
653	Training/employment weeks have been created for local people
3640	Hours have been invested to support these people by Wates staff
£195,090	Is the value of investment into training local people
Investing in the local economy	
£1,497,241	Has been spent with local small businesses on this project
£2,440,503	Economic Benefit has been generated for the local community as a result of this spend
£19,460	Has been invested into Social Enterprises on this project
Investing in the Community	
229 Hours	have been invested into volunteering in the community
£21,781	Has been invested into local charities / community causes
£2,676,834	Worth of Economic, Environmental and Social Value has been generated on this project
*According to FSB, 63 pence of every £1 spent locally with an SME is reinvested into the local economy for the Batch 1 sites (Custom House and The Walks).	

Flintshire Apprenticeship Academy
In October last year, the Council started working with Futureworks Flintshire to set an Apprentice Academy in the county. The academy is helping to maximise the creation of skilled local people through apprenticeships, which are needed for the Council's SHARP housing construction and WHQS refurbishment programmes over the next five years.

Council construction contracts always place a requirement on the contractor to provide apprentice opportunities and to recruit local labour, however it is often difficult to complete the apprenticeships owing to the nature of the contracts. The creation of this academy will ensure that full apprenticeships can be made and delivered.

Futureworks Flintshire is a community interest company which has the relevant experience, the right culture and values to be a close partner to the Council and working with a third party reduces significantly the cost of scheme administration for the Council.
Currently four apprentices are working with council-appointed contractors three with Wates Residential and one with Keepmoat.

BRIEF SUMMARY OF RECENT SERVICE CHANGES / EFFICIENCIES ALREADY ESTABLISHED

Delivering the Choices Document promises
Since the positive ballot result for the future ownership of the council housing stock, the council has focussed on delivering the promises made to tenants in the Choices document. These included both service improvements and stock investment. A number of the successes are detailed below;

- Increased the number of Tenant Liaison Officers from 3 to 5 full time, this has resulted in a significant reduction in the number of customer phone enquires in relation to the improvement programme.
- Restructured Capital Works team, investing in clerk of works and system support staff, to ensure continued smooth delivery of the WHQS programme up to 2020
- Remodelled the caretaking function to provide Handy person services to our most vulnerable customers without increasing costs, service will be reviewed in 17/18 to assess options around income generation.
- Implemented the Flintshire “lettable standard” for all empty properties after extensive consultation with customers which should increase satisfaction with new tenancy and reduce customer enquiries

Supporting customers in their homes through Adaptations
As from the start of the current financial year we have operated two categories of work for Disabled Facility Grants. Major and Minor adaptations. Minor consists of small works up to the value of a thousand pounds. Major adaptations consist of large value works which can be at a value of between £5k up to £30k.

Up to the end of quarter three we have logged 278 jobs for major adaptations with a committed value of £ 438,473 and ongoing/complete work for minors at 467 jobs with a committed value of £54,867.35. The overall budget for DFG work is £1m.

Service Transformation
Service reviews on all areas of the business have continued during the year, staff and customers have been involved in ensuring that key services are providing value for money, meet customer expectations and increase productivity. Some of the achievements in 2016/17 are:

- Restructure of Housing Management teams to allow a clear focus on new customers and existing customers through introducing dedicated teams for both. This will ensure the right people are allocated the right property making tenancies more sustainable.
- Upgraded the IT systems used to manage ASB which will allow for improved monitoring of performance, customer satisfaction and case management.
- Implemented new “self-serve” procedure for customer decorating materials, allows customer to order on line and reduces management and administration costs
- Reduced void security costs by £110 k by only using physical security on “higher risk” voids
- In advanced discussions with a local Social Enterprise to deliver void clearance services, employing Flintshire tenants and creating further job opportunities, by April 2017

Welsh Housing Quality Standards

WHQS – The Journey So Far
The Delivery programme continues to operate on a geographical split by using distinct “districts” to package WHQS work into manageable contracts. Customer consultation continues to take place in order to capture customer feedback ensure that the programme meets customer expectations, any lessons learnt are turned into actions for service improvement. Methods for systematically measuring individual customer satisfaction are currently being developed and will be implemented in 2017/18.

Work Streams are packaged in the following way:

WHQS – Work Streams

- The Internal Works will comprise of Kitchens, Bathroom and Heating Upgrades.
- The Envelope Works will consist of the following elements; Roofing, Chimney Repairs, Rain Water Goods, Rendering/ Pointing, Windows/ Doors etc.
- The External Works will consist of Footpaths and Fencing etc. within the curtilage of the properties.
- The Environmental Work Stream is set to target issues that affect the community such as parking and communal walk ways and ensuring best use of garages and associated land.

In addition to the main work streams listed above, the Capital Works team have also concentrated on the two clusters of non-traditional housing to increase fuel efficiency in those properties. The Easiform properties in the Holway estate are being treated presently and will be finished this financial year providing much needed improvements to the estate.

The three Tower blocks at Flint have now been renovated and provide excellent facilities for the occupants. The Towers have benefited from new internal heating pipework fitted following the demolition of the surrounding Maisonettes, the pipework was not fit for purpose and was renewed to increase efficiency in heating the blocks and to reduce the demand for future repair and maintenance. To improve fire safety a Sprinkler system was fitted retrospectively to provide additional protection and reassurance to the occupants of the blocks.

The environmental work stream has taken advantage of additional Vibrant and Viable funding, providing a new lease of life to the flats located at Pen Y Lan Courts in Connahs Quay. The complex now provides a much more aesthetically pleasing landscape and provides additional security measures to the blocks.

Delivery figures for 2016-2017

		WORK STREAM	DISTRICT	PROPERTIES	TOTALS
YEAR 2 2016-2017	*Internal Works*	WHOLE HOUSE (K&B&H)	Deeside & Saltney	275	581
			Mold	306	
		Kitchens & Bathrooms	Holywell	276	449
			Flint	173	
		Bathrooms & Heating	C'Quay & Shotton	368	368
	Envelope Works	WHOLE HOUSE	Flint	209	209
		Gutter Line & Above Works	-	-	-
		Gutter Line & BelowWorks	-	-	-

WHQS Programme Out-turns

2014-15	Planned	Delivered
Heating Upgrades	600	966
Kitchen Replacements	922	1,023
Smoke Detectors	475	439
Bathroom Replacements	120	127

2015-16	Planned	Delivered
Heating Upgrades	334	192
Kitchen Replacements	1,129	1,393
Smoke Detectors	500	508
Bathroom Replacements	1,507	1,688
Roofs	317	112
Windows Doors	317	112

The Heating Upgrades are slightly behind as some customers have shown a reluctance to switch from oil / solid fuel due to low oil prices, staff continue to work closely with these customers to sell the benefits of upgrade, plus oil prices are now on the increase which should have an impact.

The Envelope work stream (Roofs, windows and Doors) was also behind programme for the year, factors influencing this were the contract being the last major tender to procure which resulted a later start on site.

Another contributing factor to this particular programme has been the renewal of Scottish Power cables on the Holway Estate.

I.T system- Anti- Social Behaviour Case Management
The upgrade of the current ReACT System to the latest version will further enhance the ability to effectively manage the Tenancy Management and Enforcement element of the service – there will be an enhanced ability to monitor costs of cases to be tracked to ensure value for money as well as helping improve performance by enabling effective case and performance management. This has be enhanced further with the introduction of a customer satisfaction survey from Quarter 2 of 2015/16 in relation to ASB case management with 66.7% recorded satisfaction.
During the first 2 quarters of 2016/17 there have been:

- 5 Postponed Possession Orders obtained
- 3 Mediation referral
- 1 Injunction
- 13 Referrals to Police and relevant support services

During the period there has been further development of effective partnerships with a wide range of agencies including Police, mental health, drug and alcohol services and tenancy support due to the complexity of the ASB cases. This has led to an increased focus on early intervention and support alongside legal enforcement action.

There is to be a revision of the current ASB procedure to ensure compliance with current legislation and best practice which will further enable the team to take consistent, effective and appropriate action when dealing with Anti-social Behaviour on the estates.

New proposals for efficiencies and service improvement
This plan provides additional efficiencies of c£0.216m. The principles underpinning the efficiencies are as follows:

- Procurement and contract management
- Realising and releasing capacity
- Improved performance
- Increased customer satisfaction

FUTURE FORECASTING & DEMAND

The demand for social housing is nationally outstripping supply, so there is minimal risk to the HRA not having sufficient demand for its properties in general terms. However, the design and location of some properties has resulted in low demand which incurs costs for the council through rent loss.

Discussions have started with colleagues in Social Services to explore further options, for best use of sheltered accommodation, which fit in with their longer term strategic plans.

WHQS must be achieved by 2020/2021 requiring an investment of £107m (stock condition survey figure pre inflation) however it can be assumed that this additional investment will have a positive impact on the demand for repairs, and the scale of investment needed post 2020/21. Completion of the works will gradually (from April 2015), release capacity for the DLO workforce to undertake capital work streams.

WHAT THE FUTURE SERVICE WILL LOOK LIKE AND WHAT NEEDS TO CHANGE:

- Review of Asset Management Strategy to ensure all stock is fit for both current needs and emerging needs, particularly those residents affected by Welfare Reform;
- Implement a revised Performance Management Framework across all services and continue to make best use of business intelligence from IT system;
- Housing Management and Housing Asset Management working together to implement estate wide improvements. and protect council property assets ;
- Introduction of more customer self-serve options to reduce transaction cost and promote channel choice;
- Following implementation of housing management restructure provide a more proactive management and maintenance service that will improve tenancy sustainability, enforce tenancy conditions and ultimately protect WHQS investment;
- Develop IT system to enable “Right First Time” response to repairs and other customer enquiries to be performance managed;
- All repairs undertaken through appointment and scheduling system;
- More automated workflows through Civica and Capita System;
- Implement revised Customer Involvement Strategy that will enable performance to be challenged at a local neighbourhood level and ensure methods of involvement and feedback are in line with customer preferences;
- Improve methods of collecting and analysing customer satisfaction across all key service areas;
- Deliver the new ‘handypersons’ service in line with service objectives and review potential to charge.
-

RISK MANAGEMENT

A risk management plan has been developed for the WHQS programme and this is regularly monitored by both scrutiny committee and the Cabinet. Reports have also been considered on progress of the Choices Document promises by Scrutiny Committee and by regular reporting to tenant’s conferences and the Tenants Federation. The risk register below is updated and monitored monthly at the HRA Programme Board.

Ref	Description/Issue	Risk	Mitigation Act (MA) / Response Plan (RP)
1	MRA funding certainty - MRA is	• MRA funding is only guaranteed	• Ensure delivery of WHQS programme

Ref	Description/Issue	Risk	Mitigation Act (MA) / Response Plan (RP)
	included within the HRA 30 year Business Plan at £5.0m per annum	year on year • MRA funding not received	• Fully complete Welsh Government MRA returns on a quarterly basis • Lobby Welsh Government on need for MRA to continue to invest in the Housing stock • Monitor and review at HRA Programme Board
2	Meeting the WHQS by 2020 - Delivering a significantly increased investment programme	• Annual Programme not delivered to targets • Major supplier issues • Contractor performance or contractor viability issues • Loss of key staff • Recruitment to delivery team • Significant stock condition issues • Tenant satisfaction	• Effective contractor management • Appoint sufficient resource in delivery team • Develop a revised delivery team structure • Appoint additional Tenant Liaison Officers • Post inspection of completed work • Monitor and review at HRA Programme Board
3	Delivering the New Build Programme by 2020	• Insufficient or unsuitable land and /or complex ownership issues, • not maximizing commercial opportunities • Expensive scheme costs • Poor quality product leading to poor customer	• Integration of the Programme with the development of the Local Development Plan (LDP) and the housing strategy • KPI's in place including quality standards • Specialist software identified to support financial viability assessments of potential schemes

Ref	Description/Issue	Risk	Mitigation Act (MA) / Response Plan (RP)
		satisfaction • Failure to deliver within budget • Inadequate internal capacity	• Integrated Communications Plan • Design Procurement process to meet commissioning objectives • More intensive site visits to be conducted on potential development sites • Early feasibility investigations to be undertaken in respect of sites identified • Concurrent work stream to liaise with highways; planning and street scene officers • Experienced Housing Programme and Design and Consultancy teams in place • Monitor and review at HRA Programme Board
4	Introduction of charging for services	• Quality and cost of services delivered • Recovery of income • Tenant satisfaction	• Extensive tenant consultation • Effective debt management arrangements • Review of standard and cost of services delivered • Monitor and review at HRA Programme Board
5	Maximising rental	• Poverty issues	• Effective tenancy

Ref	Description/Issue	Risk	Mitigation Act (MA) / Response Plan (RP)
	income particularly in light of full roll out of Universal Credit from Spring 2017	• Increase in rent arrears • Tenancy sustainment issues	management and support • Creative use of DHP • Consideration to resource for tenancy sustainment • Monitor and review at HRA Programme Board
6	Meeting Annual Efficiency targets - Delivering the HRA efficiency plan ensuring savings targets are achieved	• Efficiency targets not met • Detrimental impact on service delivery • Tenant satisfaction	• Monitor progress through Council Housing Service Senior Management Team • Service Plans and 1:1's • Financial management and monitoring • Monitor and review at HRA Programme Board
7	Proposed Rent review	• Impact on HRA Business Plan • Ability to deliver WHQS • Ability to deliver New Build programme • Impact on HRA services and sustainability	• Ensure dialogue with Welsh Government • Ensure representation on relevant National boards • Modelling and risk management • Monitor and review at HRA Programme Board

CONCLUSION

This plan is written at a time of significant change for council housing finance across Wales. There are positive opportunities ahead to provide good quality housing services; local homes maintained to a high standard and new council homes built to meet local housing need.

Flintshire County Council - HRA Base Model Business Plan Assumptions

			Income			Expenditure						Net Operating Balance					
	Yr	Year	Net Rent Income	Other Income	Total Income	Estate Mgmnt	Landlord Services	Housing Asset Mgmnt	Mgmnt & Support	Debt Charges	Total Expenses	Net Operating Expenditure	Balance B/F	CERA	Balance C/F	3% of expenditure	Check Balance
			£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
*	0	2016.17	(30,228)	(383)	(30,611)	1,499	1,206	8,124	2,271	7,098	20,198	(10,413)	(1,178)	10,531	(1,060)	(945)	Ok
	1	2017.18	(30,850)	(1,292)	(32,142)	1,647	1,318	8,457	2,320	7,545	21,287	(10,855)	(1,060)	10,890	(1,025)	(998)	Ok
	2	2018.19	(32,032)	(1,664)	(33,696)	1,663	1,319	8,541	2,369	8,002	21,894	(11,802)	(1,025)	11,733	(1,094)	(1,041)	Ok
	3	2019.20	(33,916)	(1,735)	(35,651)	1,679	1,333	8,626	2,392	8,313	22,343	(13,307)	(1,094)	13,253	(1,149)	(1,099)	Ok
	4	2020.21	(34,526)	(1,799)	(36,325)	1,642	1,346	8,712	2,416	8,364	22,480	(13,844)	(1,149)	13,322	(1,671)	(1,099)	Ok
	5	2021.22	(35,439)	(1,811)	(37,250)	1,664	1,348	8,799	2,440	8,160	22,411	(14,839)	(1,671)	15,302	(1,208)	(1,154)	Ok
	6	2022.23	(35,653)	(1,823)	(37,476)	1,680	1,362	8,887	2,465	7,987	22,381	(15,095)	(1,208)	14,794	(1,509)	(1,138)	Ok
	7	2023.24	(36,366)	(1,835)	(38,201)	1,697	1,375	8,975	2,490	7,796	22,334	(15,867)	(1,509)	16,092	(1,284)	(1,175)	Ok
	8	2024.25	(37,093)	(1,848)	(38,941)	1,714	1,389	9,065	2,514	7,584	22,267	(16,674)	(1,284)	16,396	(1,563)	(1,183)	Ok
	9	2025.26	(38,562)	(1,874)	(40,436)	1,731	1,403	9,156	2,540	7,395	22,225	(18,212)	(1,563)	18,206	(1,569)	(1,236)	Ok
	10	2026.27	(38,592)	(1,874)	(40,466)	1,749	1,417	9,247	2,565	7,221	22,199	(18,267)	(1,569)	18,522	(1,314)	(1,244)	Ok
	11	2027.28	(39,363)	(1,888)	(41,251)	1,766	1,431	9,340	2,591	7,012	22,139	(19,112)	(1,314)	18,844	(1,581)	(1,252)	Ok
	12	2028.29	(40,151)	(1,901)	(42,052)	1,784	1,445	9,433	2,617	6,809	22,088	(19,964)	(1,581)	19,673	(1,872)	(1,275)	Ok
	13	2029.30	(40,954)	(1,915)	(42,869)	1,802	1,460	9,528	2,643	6,616	22,048	(20,821)	(1,872)	21,009	(1,685)	(1,314)	Ok
	14	2030.31	(41,773)	(1,930)	(43,702)	1,820	1,474	9,623	2,669	6,429	22,015	(21,687)	(1,685)	21,851	(1,522)	(1,339)	Ok
	15	2031.32	(43,428)	(1,958)	(45,386)	1,838	1,489	9,719	2,696	6,248	21,990	(23,396)	(1,522)	23,200	(1,718)	(1,378)	Ok
	16	2032.33	(43,460)	(1,959)	(45,419)	1,856	1,504	9,816	2,723	6,035	21,935	(23,485)	(1,718)	23,556	(1,647)	(1,387)	Ok
	17	2033.34	(44,330)	(1,974)	(46,304)	1,875	1,519	9,914	2,750	5,834	21,892	(24,412)	(1,647)	24,419	(1,640)	(1,412)	Ok
	18	2034.35	(45,216)	(1,990)	(47,206)	1,894	1,534	10,014	2,778	5,500	21,719	(25,486)	(1,640)	25,289	(1,837)	(1,433)	Ok
	19	2035.36	(46,121)	(2,005)	(48,126)	1,913	1,550	10,114	2,805	5,140	21,521	(26,605)	(1,837)	26,667	(1,775)	(1,468)	Ok
	20	2036.37	(47,043)	(2,022)	(49,064)	1,932	1,565	10,215	2,833	4,834	21,379	(27,685)	(1,775)	27,552	(1,908)	(1,491)	Ok
	21	2037.38	(48,907)	(2,054)	(50,961)	1,951	1,581	10,317	2,862	4,576	21,287	(29,674)	(1,908)	29,945	(1,637)	(1,560)	Ok
	22	2038.39	(48,943)	(2,055)	(50,998)	1,970	1,597	10,420	2,890	4,321	21,198	(29,800)	(1,637)	29,846	(1,590)	(1,554)	Ok
	23	2039.40	(49,922)	(2,072)	(51,994)	1,990	1,613	10,524	2,919	4,094	21,141	(30,853)	(1,590)	30,755	(1,688)	(1,580)	Ok
	24	2040.41	(50,921)	(2,089)	(53,010)	2,010	1,629	10,630	2,948	3,954	21,170	(31,839)	(1,688)	31,672	(1,855)	(1,608)	Ok
	25	2041.42	(51,939)	(2,107)	(54,046)	2,030	1,645	10,736	2,978	3,817	21,206	(32,840)	(1,855)	32,598	(2,098)	(1,637)	Ok
	26	2042.43	(52,978)	(2,125)	(55,103)	2,050	1,661	10,843	3,008	3,785	21,347	(33,756)	(2,098)	34,032	(1,822)	(1,684)	Ok
	27	2043.44	(55,077)	(2,162)	(57,238)	2,071	1,678	10,952	3,038	3,755	21,493	(35,745)	(1,822)	35,474	(2,093)	(1,732)	Ok
	28	2044.45	(55,118)	(2,162)	(57,281)	2,092	1,695	11,061	3,068	3,727	21,643	(35,638)	(2,093)	35,926	(1,805)	(1,750)	Ok
	29	2045.46	(56,221)	(2,182)	(58,402)	2,113	1,712	11,172	3,099	3,703	21,798	(36,604)	(1,805)	36,386	(2,023)	(1,768)	Ok
	30	2046.47	(57,345)	(2,201)	(59,546)	2,134	1,729	11,284	3,130	3,682	21,957	(37,589)	(2,023)	37,356	(2,255)	(1,802)	Ok

		Available Capital Funding					Capital Programme					
Yr	Year	CERA	MRA	Prudential Borrowing	Capital Receipts	Total Capital Funding	WHQS Capital Programme	DFG	SOLAR PV	SHARP	Total Capital Programme	Shortfall / (Surplus)
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
0	2016.17	10,531	5,050	12,817		28,398	20,870	1,010	0	6,518	28,398	0
1	2017.18	10,890	5,050	11,804		27,744	19,010	1,030	0	7,704	27,744	0
2	2018.19	11,733	5,100	8,879		25,712	19,282	1,051	0	5,379	25,712	0
3	2019.20	13,253	5,100	6,567		24,919	18,681	1,072	0	5,167	24,919	0
4	2020.21	13,322	5,100	-		18,422	14,745	1,093	0	2,583	18,422	0
5	2021.22	15,302	5,100	-		20,402	13,487	1,115	0	5,800	20,402	0
6	2022.23	14,794	5,100	-		19,894	13,757	1,137	0	5,000	19,894	0
7	2023.24	16,092	5,100	-		21,192	14,032	1,160	0	6,000	21,192	0
8	2024.25	16,396	5,100	-		21,496	14,312	1,183	0	6,000	21,496	0
9	2025.26	18,206	5,100	-		23,306	14,599	1,207	0	7,500	23,306	0
10	2026.27	18,522	5,100	-		23,622	14,891	1,231	0	7,500	23,622	0
11	2027.28	18,844	5,100	-		23,944	15,188	1,256	0	7,500	23,944	0
12	2028.29	19,673	5,100	-		24,773	15,492	1,281	0	8,000	24,773	0
13	2029.30	21,009	5,100	-		26,109	15,802	1,307	0	9,000	26,109	0
14	2030.31	21,851	5,100	-		26,951	16,118	1,333	0	9,500	26,951	0
15	2031.32	23,200	5,100	-		28,300	16,440	1,359	0	10,500	28,300	0
16	2032.33	23,556	5,100	-		28,656	16,769	1,387	0	10,500	28,656	0
17	2033.34	24,419	5,100	-		29,519	17,105	1,414	0	11,000	29,519	0
18	2034.35	25,289	5,100	-		30,389	17,447	1,443	0	11,500	30,389	0
19	2035.36	26,667	5,100	-		31,767	17,796	1,471	0	12,500	31,767	0
20	2036.37	27,552	5,100	-		32,652	18,152	1,501	0	13,000	32,652	0
21	2037.38	29,945	5,100	-		35,045	18,515	1,531	0	15,000	35,045	0
22	2038.39	29,846	5,100	-		34,946	18,885	1,561	0	14,500	34,946	0
23	2039.40	30,755	5,100	-		35,855	19,263	1,593	0	15,000	35,855	0
24	2040.41	31,672	5,100	-		36,772	19,648	1,625	0	15,500	36,772	0
25	2041.42	32,598	5,100	-		37,698	20,041	1,657	0	16,000	37,698	0
26	2042.43	34,032	5,100	-		39,132	20,442	1,690	0	17,000	39,132	0
27	2043.44	35,474	5,100	-		40,574	20,850	1,724	0	18,000	40,574	0
28	2044.45	35,926	5,100	-		41,026	21,267	1,758	0	18,000	41,026	0
29	2045.46	36,386	5,100	-		41,486	21,693	1,794	0	18,000	41,486	0
30	2046.47	37,356	5,100	-		42,456	22,127	1,829	0	18,500	42,456	0

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HRA Business Planning

Efficiencies

No	Section	Description	Type	2017/18 £m	Notes
1	Various	Price Inflation	Service Efficiency	(71,182)	Price inflation has been removed.
2	Estate Management	Estate Caretaker	Structural Review	(18,667)	Removal of vacant position
3	Management & Support	Handy Person	Structural Review	(38,488)	This vacant position is being removed from the budget as the estate caretakers are completing this work.
4	Various	Employee Travel	Service Efficiency	(11,091)	A result of the review of essential car users and rates.
5	Management & Support	Conference/Seminars	Service Efficiency	(13,544)	A reduction in the conference budget.
6	Estate Management	Supplies & Services	Service Efficiency	(4,165)	A review of supplies and services budgets.
7	Housing Asset Management	Fleet Costs (Disabled Adaptations)	Service Efficiency	(40,000)	Capitalisation of the cost of vehicles used for the capital works on adapted properties.
8	Estate Management	Neighbourhood Housing Assistant	Structural Review	(19,310)	Removal of vacant position.
		Total HRA		**(216,447)**	

Investment Decisions/Cost Pressures

No	Section	Description	Type	2017/18 £m	Notes
1	Income	Service Charges	Income Pressure	311,428	Reduction in income in line with phased introduction of Service Charges
2	Housing Programmes	SHARP - Site Investigation Fees/Other Costs	Service Improvement	79,000	Revenue budget to support the cost of the SHARP which cannot be capitalised (e.g. legal fees, land valuations)
3	Estate Management	Gardens	Service Pressure	55,000	Reflective of increased contract costs
4	Estate Management	Laundry	Service Pressure	14,000	Reflective of increased contract costs
5	Estate Management	Aerials	Service Pressure	20,000	Reflective of increased contract costs
6	Estate Management	Window Cleaning	Service Pressure	10,500	Reflective of increased contract costs
7	Estate Management	Communal Cleaning		9,000	Reflective of increased contract costs
8	Housing Asset Mgmnt	Waste Removal	Service Pressure	20,000	Reflective of increased contract costs
9	Housing Asset Mgmnt	Electrical Qualifying Officer	Service Improvement	40,226	Additional position introduced to cover Health & Safety requirements
10	Management & Support	Insurance	Historic Budget Flaw	78,000	To correct a budget flaw
11	Estate Management	Revenues Manager	Service Pressure	16,772	To reflect a charge of 25% to the HRA for work on rent collection.
12	Management & Support	Apprentice Levy	Service Pressure (national policy)	37,129	New national policy (0.5% of paybill)
13	Landlord Services	Servicing & Adhoc Call Outs	Service Pressure	40,000	(e.g. smoke alarm testing, lift maintenance).
		Total HRA		**731,055**	
		Grand Total HRA		**514,608**	

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Draft HRA Capital Programme 2017/18

HRA Capital Programme	2017/18
WHQS	**£'m**
CATCH UP REPAIRS / MAJOR WORKS	
Urgent Capital Works 3% on £95m	0.522
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	0.500
Welfare Reform / Adaptations	0.100
PROGRAMMED WORK STREAMS	
Internal Works	9.856
Envelope Works	4.231
External Works, Paths, Fences	0.475
Environmental Works - General	0.950
Capitalised Salaries 6% on £90m	1.076
Vacant Properties	0.750
Total WHQS	**19.010**
Non WHQS	
Disabled Facilty Grants (DFG) - Mandatory/ Minor Adaps	1.030
Total Non - WHQS	**1.030**
SHARP Programme	
Batch 1	2.018
Batch 2	3.103
Batch 3	2.583
Total SHARP Programme	**7.704**
Total Capital Spend	**27.744**

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FLINTSHIRE COUNTY COUNCIL

Date of Meeting	Tuesday, 14th February 2017
Report Subject	Prudential Indicators 2017/18 to 2019/20
Report Author	Chief Executive and Corporate Finance Manager

EXECUTIVE SUMMARY

This report presents the Prudential Indicators for the period 2017/18 to 2019/20 for approval.

Cabinet have considered and recommended the detailed report from the Corporate Finance Manager in respect of the setting of Prudential Indicators for the period 2017/18 to 2019/20, included at Appendix 1.

RECOMMENDATIONS	
1	Approve the Prudential Indicators for 2017/18 – 2019/20 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 1.19 - 1.20 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 14th February, 2017 - Prudential Indicators 2017/18 to 2019/20.

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

7.00	GLOSSARY OF TERMS
7.01	As per the attached report (Appendix 1).

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CYNGOR Sir y Fflint Flintshire COUNTY COUNCIL

CABINET MEETING

Date of Meeting	Tuesday 14 February 2017
Report Subject	Prudential Indicators 2017/18 - 2019/20
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Chief Executive and Corporate Finance Manager
Type of Report	Operational

EXECUTIVE SUMMARY

Under the Prudential Code for Capital Finance in Local Authorities (the Prudential Code), authorities are required to set a range of Prudential Indicators (PI's). This report provides details of the Council's Prudential Indicators for 2017/18 – 2019/20:

- 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 14 February 2017:- • The Prudential Indicators for 2017/18 - 2019/20 as detailed in Section 1 of the report. • 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 (1.19 - 1.20).

REPORT DETAILS

1.00	EXPLAINING THE PRUDENTIAL INDICATORS
1.01	**Background** 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.
1.04	**Considerations** 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.
1.05	The Prudential Code recognises that in making capital investment decisions, and in reviewing the prudential indicators, the Council must have regard to the following:- • Service objectives, e.g. strategic planning for the authority • Stewardship of assets, e.g. asset management planning • Value for money, e.g. option appraisal • Affordability, e.g. implications for Council Tax and housing rents • Prudence and sustainability, e.g. implications for external borrowing • Practicality, e.g. achievability of the forward plan 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.

1.06	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.
1.07	The Prudential Code specifies that prudential indicators are required to be calculated for the forthcoming financial year and 2 subsequent financial years.
	Housing Revenue Account (HRA)
1.08	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.
	Prudential Indicators for Capital Expenditure
1.09	Based on those resources currently allocated (including specific grants, but excluding any rephasing of expenditure from 2016/17 to future years), the estimates of capital expenditure to be incurred in 2017/18 (and the following two years), are as indicated in Table 1 below.

Table 1

CAPITAL EXPENDITURE				
	2016/17	**2017/18**	**2018/19**	**2019/20**
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£m	**£m**	**£m**	**£m**
Council Fund	25.243	19.435	18.586	11.214
Housing Revenue Account	25.933	27.744	25.712	24.920
Total	**51.176**	**47.179**	**44.298**	**36.134**

1.10	This is in line with the capital programme proposals in the Council Fund Capital Programme – 2017/18 – 2019/20 report and the HRA budget report which are included elsewhere on this agenda.
1.11	The capital expenditure totals essentially provide the base financial data from which all other indicators follow.

Prudential Indicators for Affordability

1.12 Estimates of the ratio of financing costs to net revenue stream for 2017/18 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**	**2019/20**
	Estimate	**Estimate**	**Estimate**	**Estimate**
	%	**%**	**%**	**%**
Council Fund	6.1%	5.1%	5.2%	5.2%
Housing Revenue Account	24.6%	25.2%	25.9%	25.6%

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.

1.13 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.

The Council Fund Capital Programme contains a number of new capital schemes which invest in assets and / or reconfigure models of service provision, over and above decisions taken in previous years. They are pivotal to support the delivery of the Council's strategic priorities outlined in portfolio business plans and the Improvement Plan.

1.14 At the present time there is an overall shortfall in projected general capital funding, with specific shortfalls in 2018/19 and 2019/20. To meet this shortfall the Council will potentially have to borrow to fund the schemes which would increase revenue costs, the incremental impact of which on Band D Council Tax is shown in Table 3 below.

The Council's intention is to fund the shortfall from a combination of future capital receipts, alternative grants, and by phasing schemes overall several years. Borrowing would therefore be used as a last resort and therefore the estimates in Table 3 represent the worst case scenario.

Table 3

ESTIMATED INCREMENTAL IMPACT OF CAPITAL INVESTMENT			
	2017/18	**2018/19**	**2019/20**
	Estimate	**Estimate**	**Estimate**
	£	**£**	**£**
Council Fund	0.00	1.44	2.52
Housing Revenue Account	Nil	Nil	Nil

The HRA Capital Programme contains no new capital expenditure decisions, over and above the 30 year Business Plan which was approved by Council in 2016/17 including upgrading existing housing stock to Welsh Housing Quality Standards, and building new social housing.

Prudential Indicators for Prudence

1.15 Estimates of the capital financing requirement, for 2017/18 are shown in Table 4 below:

Table 4

CAPITAL FINANCING REQUIREMENT				
	2016/17	**2017/18**	**2018/19**	**2019/20**
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£m	**£m**	**£m**	**£m**
Council Fund	187.654	208.091	214.154	217.441
Housing Revenue Account	112.202	120.711	129.650	135.817
Total	**299.856**	**328.803**	**343.804**	**353.259**

1.16	The capital financing requirement measures the Council's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements. In accordance with best professional practice, the Council does not associate debt with particular items or type of expenditure. The authority has an integrated treasury management strategy and has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Council has, at any point in time, a number of cash flows both positive and negative, and manages its treasury position in terms of its debt and investments in accordance with its approved Treasury Management Policy and Strategy. In day to day cash management, no distinction can be made between revenue cash and capital cash. External debt arises as a consequence of all the financial transactions of the Council and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the Council's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements.
1.17	CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following; gross debt and the capital financing requirement, as a key indicator of prudence. *'In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional financing requirement for the current and next two financial years'.* The purpose of the indicator is to ensure authorities are only borrowing in the medium to long term for capital purposes.
1.18	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.
1.19	**Prudential Indicators for External Debt and Treasury Management** In respect of its external debt, it is recommended that the Council approves the authorised limits shown in Table 5 overleaf 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 5

AUTHORISED LIMIT FOR EXTERNAL DEBT				
	2016/17	**2017/18**	**2018/19**	**2019/20**
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£m	**£m**	**£m**	**£m**
All Borrowing	303	340	346	352
Other Long Term Liabilities	24	35	35	35
Total	**328**	**375**	**381**	**387**

The authorised limits are consistent with the Council's current commitments, existing plans and the proposals in the capital programme report, and with its approved Treasury Management Strategy 2017/18. 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.

1.20 Council is also asked to approve the operational boundary for external debt for the same period, shown in Table 6. 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 6

OPERATIONAL BOUNDARY FOR EXTERNAL DEBT				
	2016/17	**2017/18**	**2018/19**	**2019/20**
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£m	**£m**	**£m**	**£m**
All Borrowing (Cap/Rev)	273	320	326	332
Other Long Term Liabilities	9	20	20	20
Total	**283**	**340**	**346**	**352**

1.21	It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since actual external debt reflects the position at a point in time. Council is asked to note that the authorised limit determined in 2017/18 (see section 1.18 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. **Contact Officer:** Liz Thomas - Finance Manager, Technical Accountancy **Telephone:** (01352) 702289 **E-mail:** liz.thomas@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	**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 **Capital Expenditure** - Expenditure on the acquisition of **Non-current Assets** or expenditure that extends the life or value of an existing asset **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. **Capital Receipt** - Receipts (in excess of £10,000) from the disposal of an asset **Capital Scheme** - An individual capital project which is monitored and managed in isolation. The aggregate of all schemes comprises the **Capital Programme** **Capital Strategy** - A corporate document providing clear strategic guidance about an authority's objectives, priorities and spending plans, demonstrating the link to key corporate and service objectives. May be combined with the **Asset Management Plan (AMP)** to from a single document **Council Fund** - The fund to which all the Council's revenue and capital expenditure is charged **Disposal** - The decommissioning or transfer of an asset to another party **Financing** - The process of allocating resources to meet the cost of capital expenditure, which can be done on a project, asset or whole programme basis. This contrasts with making the invoice payments relating to capital expenditure, which should be managed within the authority's overall treasury management policy **General Capital Grant -** Annual capital grant from Welsh Government which the Council decides how to use the funding. **Housing Revenue Account -** The fund to which all the Council's revenue and capital expenditure relating to its housing stock is charged. **Local Government Borrowing Initiative (LGBI) -** Similar to **supported borrowing**. In recent years as Welsh Government funding has been under pressure, schemes that would have been funded by capital grant have been funded by LGBI. Welsh Government provides the revenue support for borrowing costs incurred by the Council in borrowing to fund capital schemes (the difference with supported borrowing being that it's for a specific purpose aligned to Welsh Government priorities). LGBI has recently been used for highways maintenance and is now being used to part fund the Welsh Government element of the 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 14th February 2016/17
Report Subject	Treasury Management Strategy 2017/18 & Mid-Year Report 2016/17
Report Author	Chief Executive and Corporate Finance Manager

EXECUTIVE SUMMARY

The report presents the Treasury Management Strategy 2017/18 and the Treasury Management Mid-Year review 2016/17 for approval.

At a meeting of the Audit Committee on 25th January 2017 Members reviewed the Strategy and the Mid-Year review and recommended to Cabinet that the Council approves both.

Cabinet have received and approved the recommendation of the Audit Committee. The Cabinet report, which includes both appendices, is included at Appendix A.

RECOMMENDATIONS	
1	Members approve the: • Treasury Management Strategy 2017/18 • Treasury Management Mid-Year Report 2016/17

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:- • The Council to create and maintain a Treasury Management Policy Statement which states the Council's policies, objectives and approach to risk management of its treasury management activities. • The Council to create and maintain suitable Treasury Management Practices (TMPs) and accompanying schedules, stating how those policies and objectives will be achieved and prescribing how those activities will be managed and controlled. • The Council to receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs. • Responsibility for Treasury Management to be clearly defined. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the Corporate Finance Manager, who will act in accordance with the organisation's policy statement and TMPs and, CIPFA's *Standard of Professional Practice on Treasury Management*. • A body to be responsible for the scrutiny of Treasury Management Policy, Strategy and Practices. The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management function. The Audit Committee has previously agreed to include treasury management as a standing item on each quarterly agenda to receive an update.
1.03	The Welsh Government 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

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 2017/18 & Treasury Management Mid-Year Review 2016/17

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

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

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CYNGOR Sir y Fflint
Flintshire
COUNTY COUNCIL

CABINET

Date of Meeting	Tuesday 14th February 2017
Report Subject	Treasury Management Strategy 2017/18 and Mid-Year Report 2016/17
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Chief Executive and Corporate Finance Manager
Type of Report	Strategic

EXECUTIVE SUMMARY

The report presents the draft Treasury Management Strategy 2017/18 for approval and recommendation to Council.

In addition the report presents the draft Treasury Management Mid-Year review 2016/17 for approval and recommendation to Council.

RECOMMENDATIONS	
1	Members approve and recommend to Council the draft documents listed below: • Draft Treasury Management Strategy 2017/18 • Draft Treasury Management Mid-Year Report 2016/17

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:- • The Council to create and maintain a Treasury Management Policy Statement which states the Council's policies, objectives and approach to risk management of its treasury management activities. • The Council to create and maintain suitable Treasury Management Practices (TMPs) and accompanying schedules, stating how those policies and objectives will be achieved and prescribing how those activities will be managed and controlled. • The Council to receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs. • Responsibility for Treasury Management to be clearly defined. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the Corporate Finance Manager, who will act in accordance with the organisation's policy statement and TMPs and, CIPFA's *Standard of Professional Practice on Treasury Management*. • A body to be responsible for the scrutiny of Treasury Management Policy, Strategy and Practices. The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management function. The Audit Committee has previously agreed to include treasury management as a standing item on each quarterly agenda to receive an update.
1.03	The Welsh Government 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.

1.04	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.
	<u>CONSIDERATIONS</u>
	2017/18 Treasury Management Strategy and Practices
	<u>Treasury Management Strategy 2017/18</u>
1.05	The 2017/18 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. 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 2017/18 Strategy has not changed significantly from that of the 2016/17 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, and highlights that the major external influence on strategy is the UK's exit from the European Union. Financial markets are weighed down with uncertainty, and this is likely to remain the case for some time. The fall in sterling and near doubling in oil prices have combined to drive inflation expectations higher, though the Bank of England is likely to look through this when setting interest rates so to avoid derailing the economy. Arlingclose expect the UK Bank Rate to remain at 0.25% during 2017/18, though lower and even negative rates are not being ruled out completely. The Strategy assumes that the average rate for investments in 2017/18 will be around 0.3%, and that the average rate for any new borrowing will be around 2.2%. • Section 4 – Local context. This section summarises the anticipated treasury position in 2017/18. Activity in 2017/18 as 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. This section is largely a continuation of the 2016/17 strategy, the aim being to diversify into more secure asset classes where possible, especially should any medium to longer term investments be made. The main changes made to the Investment Strategy is to reduce the limits of amounts that can be invested with a single counterparty, reflecting the reduction in total investments, to mitigate the risk from counterparty default. • Section 6 - Borrowing Strategy. Again, this section is largely a continuation of the 2016/17 strategy. The Council has been forecasting a long term borrowing requirement for some time. The required amount needs to be confirmed before a commitment to long term borrowing is made, and the use of short term borrowing will be used to assist during this period. The use of forward starting loans will also be considered. That is a future loan and associated interest rate may be agreed during the year, but the cash wouldn't be paid until it is required at some future date, which is pre agreed as part of the loan transaction. This would enable certainty of cost to be achieved, by fixing the interest rate, without suffering a cost of carry in the intervening period.
	Treasury Management Practices and Schedules 2016 – 2019
1.07	The Treasury Management Practices (TMPs) and accompanying schedules to cover the 3 year period from 2016/17 to 2018/19 were approved in February 2016. It was agreed that once approved this operational document will only be reported to Members during its lifetime in the event of any significant changes. Some minor changes have been made to bring the practices and schedules in line with the draft 2017/18 strategy.
1.08	At a meeting of the Audit Committee on 25th January 2017 Members recommended the draft Treasury Management Strategy for 2017/18 to Cabinet.
	Treasury Management 2016/17 Mid-Year Report
1.09	The draft Treasury Management Mid-Year Report for 2016/17 is attached as Appendix 2 for approval. The Mid-Year Report reviews the activities and performance of the treasury management operations during the period 1st April to 30th September 2016.
1.10	In summary, the key points of the Mid-Year Report are: • The UK economy showed reasonably strong growth in quarter 2 (calendar year). However, the outlook changed significantly with the result of the EU referendum on 23rd June. The perceived risks and political turmoil prompted a sharp decline in household, business and investor sentiment. • This prompted the Monetary Policy Committee to initiate substantial

	monetary policy easing at its August meeting, including a cut in the Bank Rate to 0.25%, further Quantitative Easing, and cheap funding for banks (Term Funding Scheme). The returns on investments for some products declined to new record lows. • Other expected consequences of BREXIT included a rise in unemployment and inflation, dampening economic growth, real wage growth and real investment returns. However, after an initial sharp drop, equity markets bounced back, while other economic data held up better than expected, perhaps suggesting a less severe slowdown than initially feared. • Arlingclose's rate outlook has progressed from 'lower for longer', to 'even lower for even longer', to 'even lower for the indeterminable future'. The Bank Rate is expected to remain at 0.25%. Global interest rate expectations have been pared back considerably. • The Council undertook no new borrowing in the period; total long term borrowing remained £251.3m at an average rate of 5.01%. • The average investment balance for the period was £36.4m and the average rate of return was 0.51%, • The treasury function operated within the limits detailed in the Treasury Management Strategy 2016/17.
1.11	At a meeting of the Audit Committee on 25th January 2017 Members recommended the draft Treasury Management Mid-Year Report for 2016/17 to Cabinet.

2.00	**RESOURCE IMPLICATIONS**
2.01	Financial implications are addressed in the report and 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	• Draft Treasury Management Strategy 2017/18 • Draft Treasury Management Mid-Year Report 2016/17

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

7.00	GLOSSARY OF TERMS
7.01	**Authorised Limit:** A statutory limit that sets the maximum level of external debt for the Council. **Balances and Reserves**: Accumulated sums that are held, either for specific future costs or commitments (known as earmarked) or generally held to meet unforeseen or emergency expenditure. **Bank Rate:** The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". **Basis Point:** A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in interest rates and bond yields. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. **Bond:** A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life. **Capital Expenditure:** Expenditure on the acquisition, creation or enhancement of capital assets. **Capital Financing Requirement (CFR):** The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed. **Certificates of Deposits (CD's**): A savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination. CDs are generally issued by commercial banks. The term of a CD generally ranges from one month to five years. **Cost of Carry:** The "cost of carry" is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%. **Consumer Price Index (CPI):** The UK's main measure of inflation (along with Retail Price Index or 'RPI') The Monetary Policy Committee of the Bank of England set the Bank Rate in order to try and keep CPI at or close to the target set by the Government. The calculation of CPI includes many items of normal household expenditure but excludes some items such as mortgage interest payments and Council Tax.

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

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

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

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

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

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

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

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

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

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

IFRS: International Financial Reporting Standards.

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

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

Monetary Policy Committee (MPC): A committee of the Bank of England, which meets to decide the Bank Rate. Its primary target is to keep CPI 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): QE is a form of monetary policy where a Central Bank creates new money electronically to buy financial assets, like government bonds. This cash injection lowers the cost of borrowing and boosts asset prices to support spending.

Revenue Expenditure: Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.

Retail Price Index (RPI): A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent.

Term Deposits: Deposits of cash with terms attached relating to maturity and rate of return (Interest).

Specified Investments: Term used in the Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.

Supported Borrowing: Borrowing for which the costs are supported by the government or third party.

Supranational Bonds: Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.

Treasury Bills (T-Bills): Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. They are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have an AAA-rating.

Treasury Management Code: CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.

Treasury Management Practices (TMP): Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.

Temporary Borrowing: Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.

Unsupported Borrowing: Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.

Yield: The measure of the return on an investment instrument.

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APPENDIX 1

CYNGOR
Sir y Fflint
Flintshire
COUNTY COUNCIL

FLINTSHIRE COUNTY COUNCIL

DRAFT
TREASURY MANAGEMENT
STRATEGY

2017/18

CONTENTS

Treasury Management Strategy Report 2017/18

The Council is recommended to:
- **approve the Treasury Management Strategy for 2017/18**
- **approve the Treasury Management Indicators for 2017/18**

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.

In accordance with WG Guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly.

2.0 Economic Context (including Interest Rate Forecast – as provided by Arlingclose Ltd, November 2016).

Economic background: The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

Looking overseas, the US economy and its labour market showing steady improvement, with Federal Reserve increasing interest rates in December 2016 by 0.25%. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of Italy's referendum on its constitution (December 2016), the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

Credit outlook: Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

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 European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. 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 continue to fall.

Interest rate forecast: The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a distinct possibility, to keep long-term interest rates low.

Table 1: Interest rate forecast

	Bank Rate	3 month LIBID	12 month LIBID	20 year Gilt rate	50 year Gilt rate
Q1 2017	0.25	0.25	0.60	1.70	1.60
Q2 2017	0.25	0.25	0.50	1.50	1.40
Q3 2017	0.25	0.25	0.50	1.40	1.30
Q4 2017	0.25	0.30	0.50	1.40	1.30
Q1 2018	0.25	0.30	0.50	1.40	1.30
Q2 2018	0.25	0.30	0.50	1.40	1.30
Q3 2018	0.25	0.30	0.50	1.40	1.30
Q4 2018	0.25	0.30	0.60	1.45	1.35
Q1 2019	0.25	0.30	0.70	1.50	1.40
Q2 2019	0.25	0.30	0.85	1.55	1.45
Q3 2019	0.25	0.30	0.90	1.60	1.50
Q4 2019	0.25	0.30	0.90	1.65	1.55

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.3%, and that new long-term loans will be borrowed at a weighted average rate of 2.2%.

3.0 Current Treasury Portfolio

The Council's treasury portfolio as at 31st December 2016 was as follows:

Table 2: Current Treasury Portfolio

	Principal £m	**Interest rate %**
Investments:		
Call accounts	-	-
Money market funds	7.1	0.27
Short-term deposits	8.0	0.38
Long-term deposits	-	-
Total Investments	**15.1**	**0.33**
Borrowing:		
Short-term loans	-	-
Long-term PWLB loans (fixed)	222.36	5.26
Long-term PWLB loans (variable)	10.00	0.46
Long-term market loans (LOBOs)	18.95	4.53
Total Borrowing	**251.31**	**5.01**
Net Borrowing	**236.21**	

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

	31.3.16 Actual £m	31.3.17 Estimate £m	31.3.18 Estimate £m	31.3.19 Estimate £m	31.3.20 Estimate £m
Council Fund Capital Financing Requirement (Borrowing only)	169	183	186	192	193
Housing Revenue Account Capital Financing Requirement (Borrowing only)	105	115	126	133	138
Capital Financing Requirement (Borrowing only)	**274**	**298**	**312**	**325**	**331**
Less: Current borrowing	-251	-251	-250	-250	-250
Funding Required	**23**	**47**	**62**	**75**	**81**
Less: Usable reserves	-51	-34	-28	-26	-25
Less: Working capital	-5	2	4	4	7
Investments / New borrowing (called the Liability Benchmark)	**33**	**-15**	**-38**	**-53**	**-63**

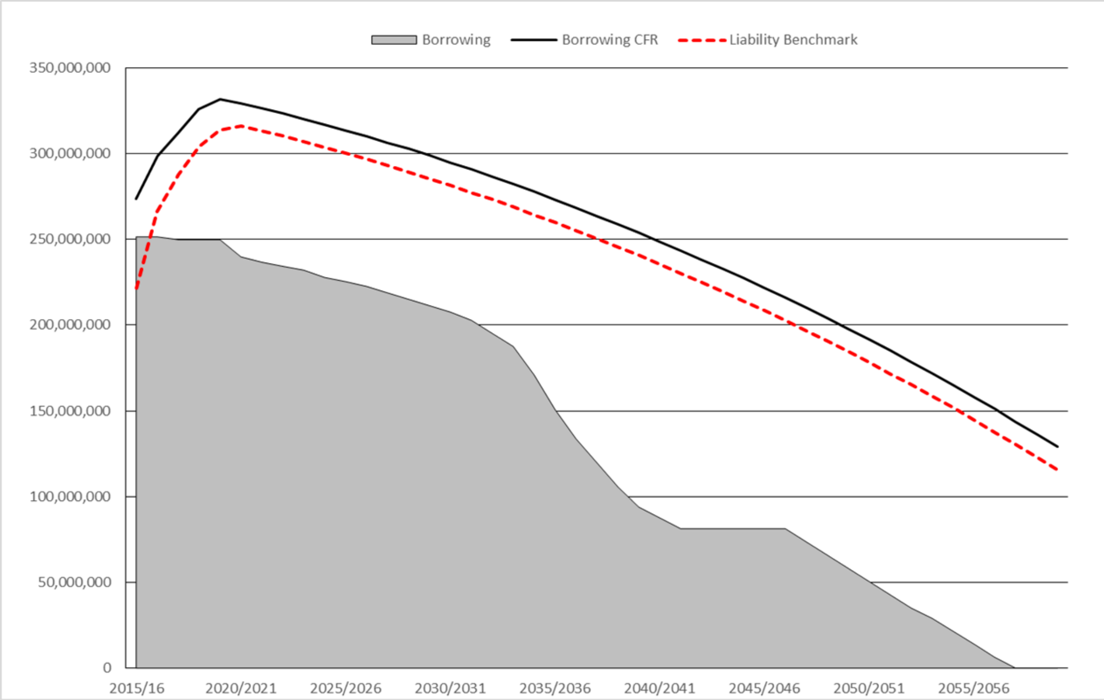
The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing below the CFR, sometimes known as internal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

Table 3 shows the Authority's CFR increases during 2016/17, this is linked with the capital programme due to the 21st century schools building programme and the HRA capital programme which includes building new social housing and improving the existing stock to Welsh Housing Quality Standard (WHQS). The level of reserves the Authority has is expected to fall in 2016/17 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 2016/17 with further reductions expected in 2017/18
- a sustained requirement for new borrowing between 2016/17 and 2019/20

The graph in table 4 shows the Council's anticipated liability benchmark over the next 50 years, being the net requirement for borrowing after considering resources available from reserves and working capital. The rise in the liability benchmark corresponds with the need to borrow to fund the increase in capital expenditure described above. The strategy in 2017/18, the same as 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 (December 2016)



Budget implications

The budget for investment income in 2017/18 is £45k, based on an average investment portfolio of £15m at an average interest rate of 0.3%. The total budget for loan interest paid in 2017/18 is £13.2m, based on a debt portfolio of £287.8m at an average interest rate of 4.47%. 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 £15.1 and £67.1 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.

Negative Interest Rates

If the UK enters into a recession in 2017/18, there is a very small chance that the Bank of England could set its Bank Rate at or below zero, which could feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. Although cash levels are decreasing, the Council could not avoid the need to occasionally invest funds in the short term for cash flow (liquidity) purposes, and therefore will be exposed to negative rates. This means that when an investment is returned at maturity, it will be less than originally invested as interest will be charged by the Counterparty rather than being paid. In this event, the aim will be to minimise investments and invest at the lowest negative rate.

<u>Strategy</u>

Given the increasing risk and falling returns from short-term unsecured bank investments, the Council aims to diversify into more secure and/or higher yielding asset classes during 2017/18 so far as cash liquidity requirements allow. This is especially the case if any medium to longer-term investments are made. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits and money market funds.

<u>Investment criteria and limits</u>

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

Table 5: Investment criteria and limits

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

<table>
<tr><th>Minimum Credit Rating</th><th>Banks Unsecured</th><th>Banks Secured</th><th>Government</th><th>Corporates</th><th>Registered Providers</th></tr>
<tr><td>UK Government</td><td colspan="2"></td><td>£ Unlimited
50 years</td><td colspan="2"></td></tr>
<tr><td colspan="6"></td></tr>
<tr><td>AAA</td><td rowspan="2">£2m
5 years</td><td rowspan="2">£2m
5 years</td><td rowspan="2">£2m
25 years</td><td rowspan="2">£2m
5 years</td><td rowspan="4">£2m
10 years</td></tr>
<tr><td>AA+</td></tr>
<tr><td>AA</td><td>£2m
4 years</td><td>£2m
4 years</td><td>£2m
15 years</td><td>£2m
4 years</td></tr>
<tr><td>AA-</td><td>£2m
3 years</td><td>£2m
3 years</td><td>£2m
10 years</td><td>£2m
3 years</td></tr>
<tr><td>A+</td><td>£2m
2 years</td><td>£2m
2 years</td><td rowspan="3">£2m
5 years</td><td>£2m
2 years</td><td rowspan="3">£2m
5 years</td></tr>
<tr><td>A</td><td>£2m
1 year</td><td>£2m
1 year</td><td>£2m
1 year</td></tr>
<tr><td>A-</td><td>£2m
6 months</td><td>£2m
6 months</td><td>£2m
6 months</td></tr>
<tr><td colspan="6"></td></tr>
<tr><td>Pooled Funds</td><td colspan="5">£3m per fund</td></tr>
<tr><td colspan="6"></td></tr>
</table>

BBB-	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)		
Unrated Local Authorities		£3m 2 years	
Unrated Other	The Council may invest in any other unrated organisation, subject to: • an external credit assessment and specific advice from the Authority's treasury management adviser (£1m each / 1 year limit) • a further policy framework for investing with any other organisations being developed(£100k each / 5 year limit)		

Credit Rating

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

Banks Unsecured

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the 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 the likelihood of receiving government support if needed.

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

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.

Other information on the security of investments

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements 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.

Specified investments

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	£5m
Total shares in pooled funds	£20m
Total investments without credit ratings or rated below A- (not including pooled funds)	£5m
Total non-specified investments	£30m

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 2017/18
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 expects to undertake new borrowing during 2017/18.

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 2017/18 to inform and confirm the Council's long term borrowing need (figures in section 4 are an estimate). This is to ensure that the Council does not commit to long term borrowing too early and borrow unnecessarily which will be costly. The use of short-term borrowing will assist with such. This will be balanced against securing low long term interest rates currently being forecast.

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently lower than long-term rates, it is likely to be more cost effective in the short-term to 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 bail-in legislation in particular. The benefit of internal/short term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when the long term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2017/18 with a view to keeping future interest costs low, even if this causes additional costs in the short-term.

Whilst such a strategy is most likely to be beneficial in the short term as official interest rates are expected to 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.

Alternatively, the Authority may arrange forward starting loans during 2017/18, 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 (see below) 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

Municipal Bond Agency (Local Capital Finance Company)

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 2017/18, 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 2017/18

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, 2016.

- Effect any borrowing that maybe required in 2017/18 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 explicit 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 Policy on Apportioning Interest to HRA

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

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

9.0 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:

	2017/18	2018/19	2019/20
Upper limit on fixed interest rate exposures	£340m	£346m	£352m
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:

	2017/18	2018/19	2019/20
Limit on total principal invested beyond year end	£5m	£5m	£5m

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

Borrowing limits

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

	2017/18	2018/19	2019/20
Operational boundary – borrowing	£320m	£326m	£332m
Operational boundary – other long-term liabilities	£20m	£20m	£20m
Operational boundary – TOTAL	£340m	£346m	£352m
Authorised limit – borrowing	£340m	£346m	£352m
Authorised limit – other long-term liabilities	£35m	£35m	£35m
Authorised limit – TOTAL	£375m	£381m	£387m

10.0 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.

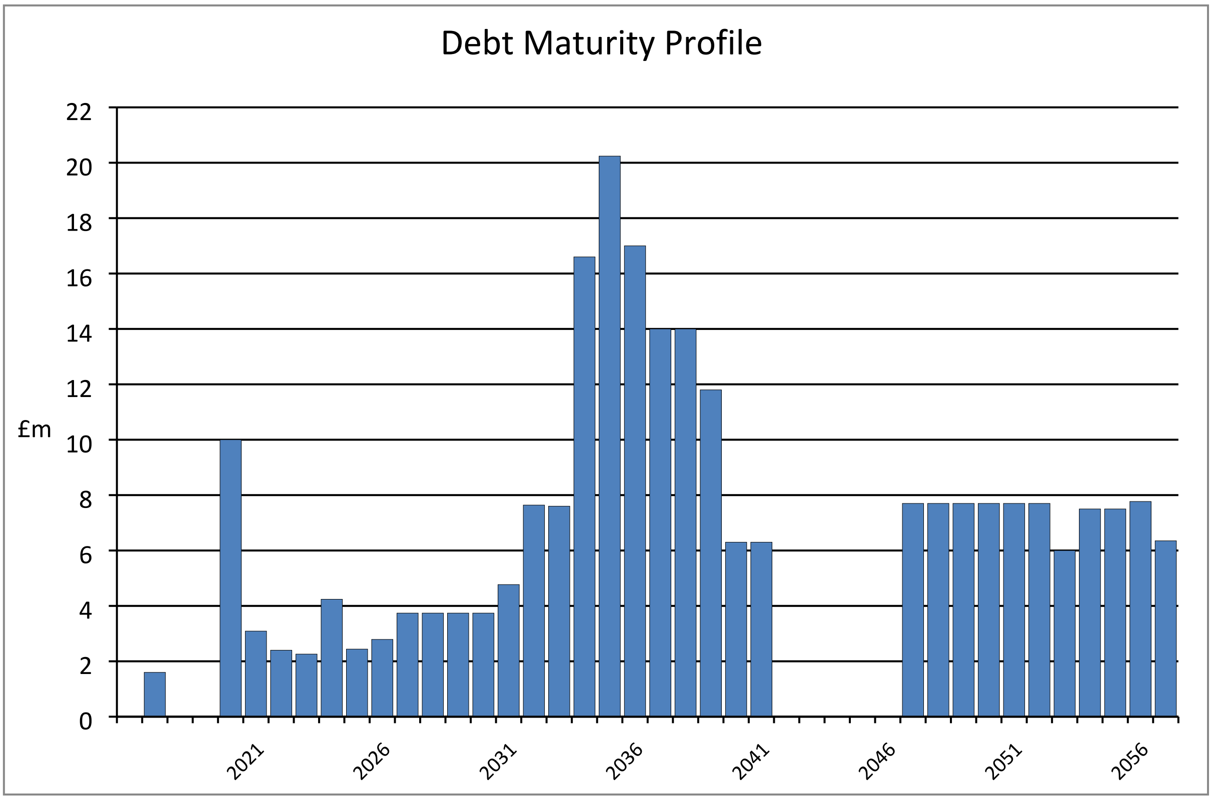
The total amount borrowed will not exceed the authorised borrowing limit of £380 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

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



APPENDIX 2

FLINTSHIRE COUNTY COUNCIL

TREASURY MANAGEMENT

DRAFT MID YEAR REPORT 2016/17

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. In September 2016 Arlingclose Ltd were reappointed as the Council's advisors for a period of 3 years, following a competitive tendering exercise.

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 2016/17 Treasury Management Strategy at its meeting on 16th February 2016.

3.00 ECONOMIC & INTEREST RATE REVIEW APRIL – SEPTEMBER 2016.

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

The preliminary estimate of Q2 2016 GDP showed reasonably strong growth as the economy grew 0.7% quarter-on-quarter, as compared to 0.4% in Q1 and year/year growth running at a healthy pace of 2.2%. However the UK economic outlook changed significantly on 23rd June 2016. The surprise result of the referendum on EU membership prompted forecasters to rip up previous projections and dust off worst-case scenarios. Growth forecasts had already been downgraded as 2016 progressed, as the very existence of the referendum dampened business investment, but the crystallisation of the risks and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment.

The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. The minutes of the August meeting also suggested that many members of the Committee supported a further cut in Bank Rate to near-zero levels (the Bank, however, does not appear keen to follow peers into negative rate territory) and more QE should the economic outlook worsen.

In response to the Bank of England's policy announcement, money market rates and bond yields declined to new record lows. Since the onset of the financial crisis over eight years ago, Arlingclose's rate outlook has progressed from 'lower for longer' to 'even lower for even longer' to, now, 'even lower for the indeterminable future'.

The new members of the UK government, particularly the Prime Minister and Chancellor, are likely to follow the example set by the Bank of England. After six years of fiscal consolidation, the Autumn Statement on 23rd November is likely to witness fiscal initiatives to support economic activity and confidence, most likely infrastructure investment. Tax cuts or something similar cannot be ruled out.

Whilst the economic growth consequences of BREXIT remain speculative, there is uniformity in expectations that uncertainty over the UK's future trade relations with the EU and the rest of the world will weigh on economic activity and business investment, dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.

Meanwhile, inflation is expected to pick up due to a rise in import prices, dampening real wage growth and real investment returns. The August Quarterly *Inflation Report* from the Bank of England forecasts a rise in CPI to 0.9% by the end of calendar 2016 and thereafter a rise closer to the Bank's 2% target over the coming year, as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.

The rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes, concentrating instead on the negative effects of Brexit on economic activity and, ultimately, inflation.

Market reaction: Following the referendum result gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. The yield on the 10-year gilt fell from 1.37% on 23rd June to a low of 0.52% in August, a quarter of what it was at the start of 2016. The 10-year gilt yield has since risen to 0.69% at the end of September. The yield on 2- and 3-year gilts briefly dipped into negative territory intra-day on 10th August to -0.1% as prices were driven higher by the Bank of England's bond repurchase programme. However both yields have since recovered to 0.07% and 0.08% respectively. The fall in gilt yields was reflected in the fall in PWLB borrowing rates.

On the other hand, after an initial sharp drop, equity markets appeared to have shrugged off the result of the referendum and bounced back despite warnings from the IMF on the impact on growth from 'Brexit' as investors counted on QE-generated liquidity to drive risk assets.

The most noticeable fall in money market rates was for very short-dated periods (overnight to 1 month) where rates fell to between 0.1% and 0.2%

Outlook for the remainder of 2016/17:

The economic outlook for the UK has immeasurably altered following the popular vote to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU, particularly with regard to Single Market access.

The short to medium-term outlook has been more downbeat due to the uncertainty generated by the result and the forthcoming negotiations. Economic and political uncertainty will likely dampen or delay investment intentions, prompting lower activity levels and potentially a rise in unemployment. The downward trend in growth apparent on the run up to the referendum may continue through the second half of 2016, although some economic data has held up better than was initially expected, perhaps suggesting a less severe slowdown than feared.

Arlingclose has changed its central case for the path of Bank Rate over the next three years. Arlingclose believes any currency-driven inflationary pressure will be looked through by Bank of England policymakers. Arlingclose's central case is for Bank Rate to remain at 0.25%, but there is a 40% possibility of a drop to close to zero, with a small chance of a reduction below zero.

Gilt yields are forecast to be broadly flat from current levels, albeit experiencing short-term volatility.

	Dec 16	Mar 17	Jun 17	Sept 17	Dec 17	Mar 18	Jun 18	Sept 18	Dec 18	Mar 19	Jun 19
Interest Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%

Global interest rate expectations have been pared back considerably. There remains a possibility that the Federal Reserve will wait until after November's presidential election, and probably hike interest rates in in December 2016 but only if economic conditions warrant.

In addition, Arlingclose believes that the Government and the Bank of England have both the tools and the willingness to use them to prevent market-wide problems leading to bank insolvencies. The cautious approach to credit advice means that the banks currently on the Authority's counterparty list have sufficient equity buffers to deal with any localised problems in the short term.

4.00 BORROWING REQUIREMENTS AND DEBT MANAGEMENT

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

In August 2016, the Authority submitted its application to WG along with the 2016-17 Capital Estimates Return to access this reduced rate for a further 12 months from 1st November 2016.

4.02 The total long term borrowing outstanding, brought forward into 2016/17 totalled £251.3 million.

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 5.01%.

	Balance 01/04/2016 £m	**Debt Maturing £m**	**New Debt £m**	**Balance 30/09/2016 £m**
Long Term Borrowing	251.3	0.00	0.00	251.3
TOTAL BORROWING	**251.3**	**0.00**	**0.00**	**251.3**
Other Long Term Liabilities *	7.1	0.60	0.00	6.5
TOTAL EXTERNAL DEBT	**258.4**	**0.60**	**0.00**	**257.8**
Increase/ (Decrease) in Borrowing £m				**-0.6**

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 2016/17.

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 0.52%.

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. 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 2.67%.

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 £15m to be utilised for this purpose by the end of 2016/17. 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 during the year as well as maximising the use of internal borrowing.

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 £51.1m. The average investment balance for the period was £36.4m and the average rate of return was 0.51%, generating investment income of £94k.

5.03 Investments have been made with UK banks and building societies up to periods of 185 days (6 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 5.01%, generating interest payable of £3.578m in line with budget forecasts (to date).

	Investments		Borrowing	
	Interest received £'000	Interest rate %	Interest paid £'000	Interest rate %
Actual	94	0.51	3.578	5.01
Budget	33	0.67	3.582	5.02
Difference	61	-	4	-

Year end projections are as follows:

	Investments		Borrowing	
	Interest received £'000	Interest rate %	Interest paid £'000	Interest rate %
Actual	110	0.35	12,703	5.01
Budget	65	0.67	12,930	5.02
Difference	45	-	227	-

5.05 *Credit Risk (security)*

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating for institutions defined as having "high credit quality" is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Counterparty Update (provided by Arlingclose Ltd)

Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.

Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK. S&P took similar actions on rail company bonds guaranteed by the UK Government. S&P also downgraded the long-term ratings of the local authorities to which it assigns ratings as well as the long-term rating of the EU from AA+ to AA, the latter on the agency's view that it lowers the union's fiscal flexibility and weakens its political cohesion.

Moody's affirmed the ratings of nine UK banks and building societies but revised the outlook to negative for those that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.

There was no immediate change to Arlingclose's credit advice on UK banks and building societies as a result of the referendum result. Our advisor believes there is a risk that the uncertainty over the UK's future trading prospects will bring forward the timing of the next UK recession.

The European Banking Authority released the results of its 2016 round of stress tests on the single market's 51 largest banks after markets closed on Friday 29th July. The stress tests gave a rather limited insight into how large banks might fare under a particular economic scenario. When the tests were designed earlier this year, a 1.7% fall in GDP over three years must have seemed like an outside risk. Their base case of 5.4% growth now looks exceptionally optimistic and the stressed case could be closer to reality. No bank was said to have failed the tests. The Royal Bank of Scotland made headline news as one of the worst performers as its ratios fell by some of the largest amounts, but from a relatively high base. Barclays Bank and Deutsche Bank ended the test with Common Equity Tier 1 (CET1) ratios below the 8% threshold, and would be required to raise more capital should the stressed scenario be realised. The tests support our cautious approach on these banks.

In July Arlingclose completed a review of unrated building societies' annual financial statements. Cumberland, Harpenden and Vernon Building Society were removed from Arlingclose's advised list, following a deterioration in credit indicators. The maximum advised maturity was also lowered for eleven societies from 6 months to 100 days due to the uncertainty facing the UK property market following the EU referendum.

In June Moody's downgraded Finland from Aaa to Aa1 on its view that Finnish economic growth will remain weak over the coming years, reducing the country's ability to absorb economic shocks.

Fitch upgraded the long-term rating of ING Bank from A to A+ based on Fitch's view of the bank's solid and stable financial metrics and its expectation that that the improvement in earnings will be maintained.

Fitch also upgraded Svenska Handelsbanken's long-term rating from AA- to AA reflecting the agency's view that the bank's earnings and profitability will remain strong, driven by robust income generation, good cost efficiency and low loan impairments.

5.06 *Liquidity*

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

5.07 *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.

6.00 COMPLIANCE

6.01 The Council can confirm that it has complied with its Prudential Indicators for the period April to September 2016. These were approved on 16th February 2016 as part of the Council's 2016/17 Treasury Management Strategy.

6.02 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 2016. 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.

7.00 OTHER ITEMS

7.01 Other treasury management related activity that took place during April – September 2016 includes:

- The Treasury Management Annual Report 2015/16 was reported to Audit

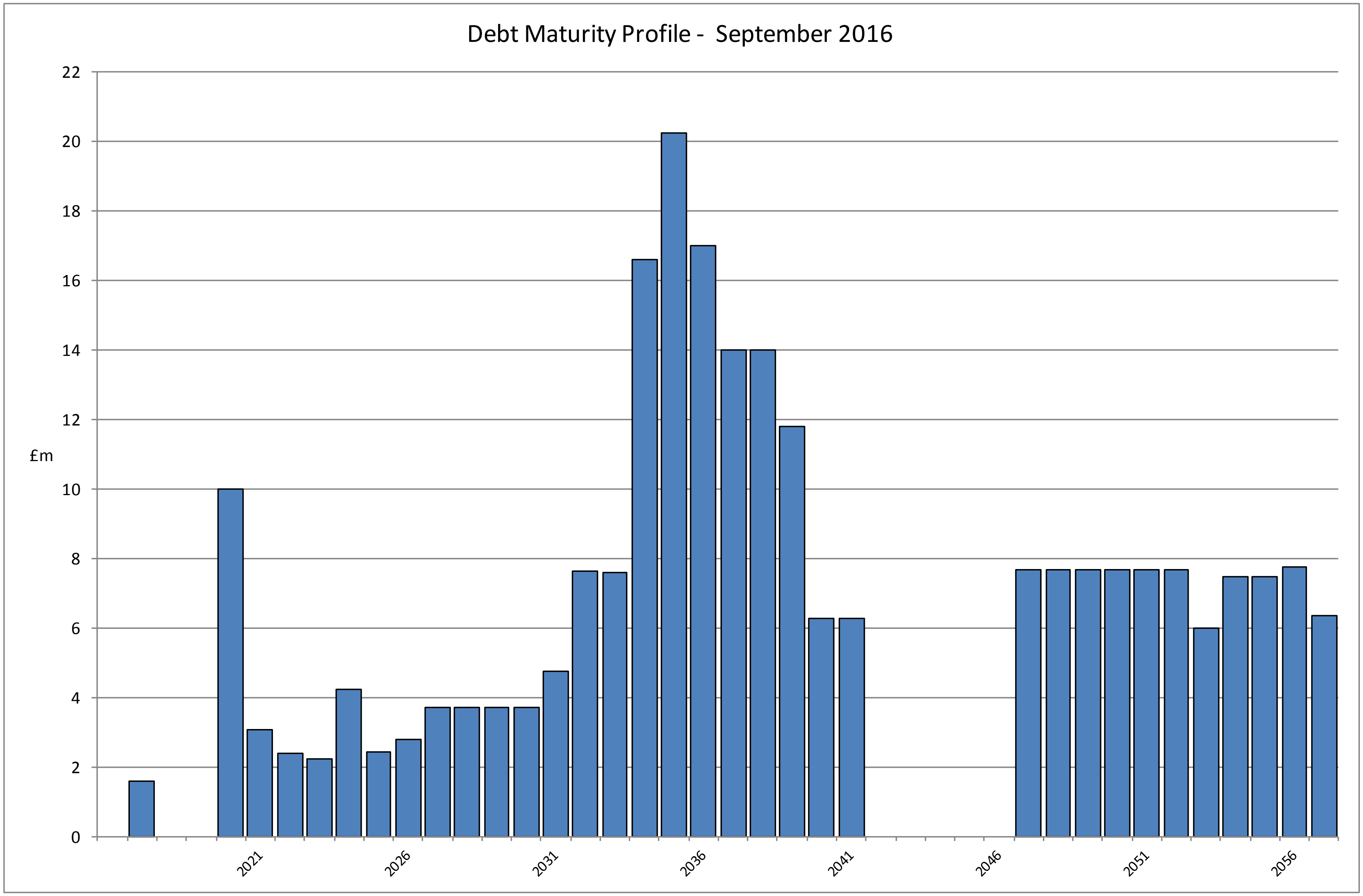
Committee on 13th July 2016. Cabinet and Council reviewed and approved the report in September.

- 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.
- In July Internal Audit issued their 2015-16 Audit Report on Treasury Management. Audit Opinion gave a ‘Green’ level of assurance, with just two recommendations.

8.00 <u>CONCLUSION</u>

8.01 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 2016/17.

8.02 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 - September 2016
£m
22
20
18
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2056

FLINTSHIRE COUNTY COUNCIL

Date of Meeting	Tuesday, 14th February 2017
Report Subject	Minimum Revenue Provision - 2017/18 Policy
Report Author	Chief Executive and 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.

Cabinet have 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.

RECOMMENDATIONS	
1	That Members approve for Council Fund (CF):- • Option 3 (Asset Life Method) be used for the calculation of the MRP in financial year 2017/18 for the balance of outstanding capital expenditure funded from supported borrowing fixed as at 31st March 2016. The calculation will be the 'straight line' method over 50 years. • Option 3 (Asset Life Method) be used for the calculation of the MRP in 2017/18 for all capital expenditure funded from supported borrowing from 1st April 2016 onwards. The calculation will be the 'straight line' or 'annuity' (where appropriate) method over an appropriate number of years, dependent on the period of time that the capital expenditure is likely to generate benefits. • Option 3 (Asset Life Method) be used for the calculation of the MRP in 2017/18 for all capital expenditure funded from unsupported (prudential) borrowing or credit arrangements.
2	That members approve for Housing Revenue Account (HRA):- • Option 2 (Capital Financing Requirement Method) be used for the calculation of the HRA's MRP in 2017/18 for all capital expenditure

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

REPORT DETAILS

1.00	EXPLAINING THE MINIMUM REVENUE PROVISION
1.01	Local Authorities are required each year, under the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 ('the 2008 Regulations'), to set aside some of their revenue resources as provision for the repayment of debt. Regulation 22 of the 2008 Regulations requires an authority to each year make an amount of Minimum Revenue Provision (MRP) which it considers to be 'prudent', though the regulation itself does not define 'prudent provision'. Welsh Government (WG) has provided guidance which makes recommendations to authorities on the interpretation of the term, this guidance was last updated in April 2010. Authorities are required to prepare an annual statement of their policy on making MRP. Further detail is provided in the attached report to Cabinet (Appendix 1).

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

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

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

5.00	**APPENDICES**
5.01	Appendix 1 - Report to Cabinet 14th February, 2017 - Minimum Revenue Provision - 2017/18 Policy.

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

7.00	**GLOSSARY OF TERMS**
7.01	As per the attached report (Appendix 1).

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CABINET

Date of Meeting	Tuesday 14th February 2017
Report Subject	Minimum Revenue Provision – 2017/18 Policy
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Chief Executive and Corporate Finance Manager
Type of Report	Operational

EXECUTIVE SUMMARY

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

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

As part of the budget strategy for 2017/18 officers critically reviewed the Council's 2016/17 MRP policy along with our treasury management advisors and recommended that changes be made to parts of the policy. Detailed reports and presentations were made to Cabinet, Corporate Resources Overview and Scrutiny Committee and Council through November and December 2016 outlining the review and the recommended changes. Changes to the 2016/17 and the 2017/18 policy were approved at the December 2016 Council meeting.

This report restates the revised 2017/18 MRP policy as part of the suite of 2017/18 budget setting reports being considered by Cabinet and Council during February 2017.

RECOMMENDATIONS	
1	Members approve and recommend to County Council for Council Fund (CF) outstanding debt that:- • Option 3 (Asset Life Method) be used for the calculation of the MRP in financial year 2017/18 for the balance of outstanding capital expenditure funded from supported borrowing fixed as at 31st March 2016. The calculation will be the 'straight line' method over 50 years. • Option 3 (Asset Life Method) be used for the calculation of the MRP in 2017/18 for all capital expenditure funded from supported borrowing from 1st April 2016 onwards. The calculation will be the 'straight line' or 'annuity' (where appropriate) method over an appropriate number of years, dependent on the period of time that the capital expenditure is likely to generate benefits. • Option 3 (Asset Life Method) be used for the calculation of the MRP in 2017/18 for all capital expenditure funded from unsupported (prudential) borrowing or credit arrangements.
2	That members approve and recommend to the County Council for Housing Revenue Account (HRA) outstanding debt:- • Option 2 (Capital Financing Requirement Method) be used for the calculation of the HRA's MRP in 2017/18 for all capital expenditure funded by debt.
3	Members approve and recommend to County Council that MRP on loans from the Council to NEW Homes to build affordable homes through the Strategic Housing and Regeneration Programme (SHARP) (which qualify as capital expenditure in accounting terms) be as follows:- • No MRP is made during the construction period (of short duration) as the asset has not been brought into use and no benefit is being derived from its use. • Once the assets are brought into use, capital repayments will be made by NEW Homes. The Council's MRP will be equal to the repayments made by NEW Homes. The repayments made by NEW Homes will be classed, in accounting terms, as capital receipts, which can only be used to fund capital expenditure or repay debt which is a form of MRP. The capital repayment / capital receipt will be set aside to repay debt, and is the Council's MRP policy for repaying the loan.

REPORT DETAILS

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

	'The options are those likely to be most relevant for the majority of authorities but other approaches are not meant to be ruled out, provided they are fully consistent with the statutory duty to make prudent revenue provision. Authorities must always have regard to the guidance, but having done so, may in some cases consider that a more individually designed MRP approach is justified. *The decision on what is prudent is for the Authority and it is not for the Welsh Government to say in particular cases whether any proposed arrangement is consistent with the statutory duty.'*
1.04	In a recent letter to all local authorities the Auditor General for Wales concurred that it is for each authority to determine what is a 'prudent' policy.
	Options for Prudent Provision within WG Guidance
1.05	Option 1 - Regulatory Method For capital expenditure funded from supported borrowing which is supported through funding in the Revenue Support Grant (RSG), authorities may continue to use the formula specified in the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (the regulations which preceded the 2008 Regulations). Under this method the outstanding capital expenditure (known as the Capital Financing Requirement CFR) funded from supported borrowing less Adjustment A is written down annually by 4% on a reducing balance basis. Adjustment A is a commutation adjustment, a fixed value determined by changes to statutory regulations referred to above (which all Welsh Council's will have). The method implies that borrowing will be repaid over a 25 year period (in that 100% / 4% = 25), however as the calculation applies the 4% to the reducing balance it takes much more than 25 years to fully repay the borrowing. The method is commensurate with the methodology used in the Revenue Support Grant to allocate revenue funding from WG to finance debt, as it also uses the 4% reducing balance method on notional outstanding debt.
1.06	Option 2 - Capital Financing Requirement Method The same as Option 1 without adjusting for Adjustment A, which results in a higher charge.
1.07	Option 3 - Asset Life Method Provision is made over the estimated life of the asset for which debt is undertaken.

	This can be calculated using the 'straight line' method or the 'annuity' method. To illustrate the difference, as an example an asset which is purchased at a cost of £4m which has an estimated useful life of 50 years;- • Straight line method - equal annual MRP charge £4m / 50 years = £0.080m • Annuity or inflation method – annual MRP charge that takes the time value of money in the form of inflation into consideration Year 1 = £0.047m Year 2 = £0.048m Year 3 = £0.049m Year 4 = £0.050m Year 5 = £0.051m
1.08	Option 4 - Depreciation Method Alternatively, provision is made in accordance with the standard rules for depreciation accounting. The method is similar to option 3 above
1.09	Welsh Government guidance requires that either option 3 or 4 be used for all capital expenditure which is to be financed by unsupported borrowing or other long term liabilities. Options 1 and 2 are not permitted for this use.
	Housing Revenue Account (HRA)
1.10	Following the introduction of self-financing for the HRA and the voluntary exit from the negative subsidy system on 31st March, 2015, from 1st April 2015 the calculation of the HRA MRP is now similar to the Council Fund as set out above, with the following modifications: • Options 1 and 2 - the percentage is 4% for the Council Fund and 2% for the HRA; and • Options 1 and 2 can be used in relation to capital expenditure incurred before 1st April 2021. After that date only Options 3 and 4 may be used.
1.11	The Council approved loans to its wholly owned subsidiary NEW Homes for the purpose of building affordable homes. The loans qualify as capital expenditure and therefore need to be part of the MRP policy. At its meeting on 14th June 2016 the Council approved the MRP calculation for loans to NEW Homes as outlined in recommendation 3 above.
	Practical Considerations
1.12	The useful life of an asset will vary depending on the class of asset concerned; a vehicle or ICT equipment may be financed over 5 years whereas a new school over 50 years. Judgements about the useful life will need to be made on an individual basis as expenditure is incurred.

1.13	Large capital projects may take a number of years to complete, for example the 21st Century Schools building programme. In this instance the MRP is incurred in the year after the asset has become operational, rather than during the construction phase.
1.14	The MRP on most assets will be calculated on a 'straight line' basis, with consideration being given to an 'annuity' method when appropriate including: • Where the flow of benefits from an asset are expected to increase in later years, for example capital schemes promoting administrative efficiencies or revenues that increase over time • Capital schemes whose purpose is to generate income that will increase with inflation over time for example rents from house building
1.15	It is important to note that the capital financing position on outstanding capital expenditure (the Capital Financing Requirement) and the Council's level of external borrowing are not the same. Regulations stipulate that the Council can only borrow for capital purposes. However in day to day cash management, no distinction can be made between revenue cash and capital cash. External debt arises as a consequence of all the financial transactions of the Council and not simply those arising from capital spending. (Though checks are in place to ensure the Council does not borrow in the medium to long term for revenue purposes, as referred to in the Prudential Indicator report included elsewhere on the agenda). In practice the Council is under borrowed, this arises when the level of external borrowing is below the capital financing position on outstanding capital expenditure. The Council through its treasury management processes makes use of available cash arising from reserves etc. to fund capital expenditure and has 'internally' borrowed to an extent. This cash would otherwise have been invested at very low rates of return. External borrowing would also be that much more, at higher borrowing interest rates than any returns on cash invested. Such activities are considered best practice and are done so in accordance with the Council's Treasury Management Policy Statement, Strategy, Schedules and Practices.
1.16	The MRP annual charge to the revenue account is based on the Capital Financing Requirement (the outstanding capital expenditure). It is not the same as the cash repayment of external borrowing. The simplified example below illustrates the difference: Assume a 10 year maturity loan of £15m is taken out to fund capital expenditure of £15m on an asset with a life of 20 years. The annual MRP charge to the revenue account on straight line asset life basis is £15m / 20 years = £0.750m.

	At year 10, the loan is repaid from cash on the balance sheet at £15m, but only £0.750m x 10 = £7.5m has been charged through the Council's revenue account. A decision would need to be made, either to take out another 10 year loan, or fund from internal cash resources for that 10 year period, dependent on the Council's position at that time.

2.00	**RESOURCE IMPLICATIONS**
2.01	The 2017/18 Council Fund and HRA budgets provide for the MRP charges in accordance with the calculations set out in the report.
2.02	There are no other resource implications as a direct result of this report.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	In changing the Council's MRP policy during the year detailed discussions took place with the Council's treasury management advisors, senior internal officers and key Cabinet members. Wales Audit Office were also consulted as external auditors.
3.02	The revised MRP policy was reviewed by Cabinet and Corporate Resources Overview and Scrutiny Committee before being approved at County Council as part of Stage 2 of the 2017/18 budget in December 2016.

4.00	**RISK MANAGEMENT**
4.01	The impacts of an MRP policy has long term effects that cannot be readily undone and therefore carries a significant amount of associated risk for future generations. The Well-being of Future Generations (Wales) Act 2015, when fully enacted, will put in place a requirement to; *"act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs".* It also requires that authorities take account of, amongst other things; *"the importance of balancing short term needs with the need to safeguard the ability to meet long term needs".* The MRP policy ensures that costs are spread evenly amongst the tax and

	rent payers benefiting from the capital expenditure. This is not considered as compromising the ability of future generations to meet their own needs merely that future generations pay for assets from which they benefit from using.

5.00	**APPENDICES**
5.01	None

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Hyperlink to Council Fund Stage 2 Budget 2017/18 report to Council 6th December2016 http://committeemeetings.flintshire.gov.uk/documents/s40871/201718%20Council%20Fund%20Budget%20Stage%202.pdf?LLL=0 **Contact Officer:** Liz Thomas – Finance Manager, Technical Accountancy **Telephone:** (01352) 702289 **E-mail:** liz.thomas@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	**Capital Expenditure:** Expenditure on the acquisition of non-current assets or expenditure that extends the life or value of an existing asset **Capital Financing Requirement (CFR):** A measure of the capital expenditure incurred historically by an authority that has yet to be financed from capital receipts, capital grants or revenue financing. **Council Fund (CF):** The fund to which all the Council's revenue and capital expenditure is charged. **Housing Revenue Account (HRA):** The fund to which all the Council's revenue and capital expenditure relating to its housing stock is charged. **Minimum Revenue Provision (MRP):** A charge made to the Council Fund to repay borrowing taken out for capital expenditure. Authorities must determine their own prudent MRP charge each year, taking into consideration statutory guidance issued by the Government. **Prudential Code:** The code of practice drawn up by the Chartered Institute of Public Finance and Accountancy (CIPFA) to underpin the requirements of the Local Government Act 2003 in respect of an authority's duty to determine the affordability, prudence and sustainability of its capital investment needs. **Revenue Expenditure:** All expenditure incurred by an authority that cannot be classified as capital expenditure **Revenue Support Grant (RSG):** Is paid to each authority to cover the cost

	of providing standard services less the Council Tax income at the standard level. **Unhypothecated Supported Borrowing (USB), commonly referred to as Supported Borrowing:** Each year Welsh Government provide Council's with a Supported Borrowing allocation. Council's borrow to fund capital expenditure equivalent to that annual allocation, Welsh Government then include funding to cover the revenue costs associated with the borrowing for future years within the Revenue Support Grant. The Council decides how this funding is spent. **Unsupported Prudential Borrowing**: Borrowing administered under the **Prudential Code**, whereby authorities can set their own policies on acceptable levels and types of borrowing. The Prudential Framework allows authorities to take out loans in response to overall cash flow forecasts and other factors provided they can show that the borrowing is to meet planned capital expenditure in the current year or the next three years.

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FLINTSHIRE COUNTY COUNCIL

Date of Meeting	Tuesday, 14 February 2017
Report Subject	Co-opted Members
Cabinet Member	Cabinet Member for Corporate Management
Report Author	Chief Officer (Governance)

EXECUTIVE SUMMARY

The Council must appoint people who are not councillors to, amongst others, the Audit Committee and Standards Committee. This is so that these committees are seen to be more independent.

Since the last elections council has made a number of such appointments and the term of office for 2 of those co-opted members runs out in May. Both are eligible to be reappointed for a further term. Thereafter they must stand down because they cannot serve more than 2 terms of office under the relevant legislation for those committees. In addition, the legislation relating to Standards Committees currently specifies that the second term of office can be a maximum of 4 years.

Both have worked diligently in their roles and have made a beneficial contribution to the governance of the Council. However only the member on the Standards Committee is willing to be reappointed. There therefore needs to be a recruitment process for a replacement on the Audit Committee

RECOMMENDATIONS	
1	That Council reappoints Rob Dewey to the Standards Committee for 4 years.
2	That Council thanks Paul Williams for his work and efforts on the Audit Committee
3	That Council advertises for a new co-optee on the Audit Committee and that applications be interviewed by a panel consisting of the Leader of Council, the Chair of Audit, the section 151 officer and the Monitoring Officer

REPORT DETAILS

1.00	**Explaining the requirement to appoint co-optees**
1.01	Under the Standards Committee (Wales) Regulations 2001 (as amended) the committee must include a majority of co-optees (termed “independent members” within the legislation). Those co-optees must be recruited via advertisement at first but then can be reappointed for a second term without re-advertising the position.
1.02	The Council appointed a number of co-optees in 2013 following advert. They were appointed for varying terms so that their positions did not all fall vacant at the same time (resulting in a complete loss of their combined experience). The first term office to expire will be Rob Dewey whose term comes to an end in May 2017.
1.03	Rob Dewey is the vice chair of the committee. He is well regarded by the committee and is willing to serve again.
1.04	The Local Government (Wales) Measure 2011 requires the Council to appoint at least 1 co-optee to its Audit Committee (called a “lay member” in the legislation). The Council appointed Paul Williams to the Audit Committee (following advert) in June 2012. His term also ends May 2017. Whilst he is equally well regarded he does not wish to be re-appointed so the council must advertise for a replacement.
1.05	The legislation requires the council to place an advert in the local press seeking applications. I would propose that the applicants should be interviewed by panel consisting of the Leader of Council, the Chair of Audit, the section 151 officer and the Monitoring Officer. That panel will then make recommendations to council for its approval.
1.06	If the Council does not reappoint the Rob Dewey then it will need to advertise that position in the local press as well. If both positions are to be advertised then I would suggest adding the chair of the Standards Committee to the appointment panel. In addition, any panel to appoint a co-optee to the Standards Committee must include a lay person who has themselves been recruited via advert.

2.00	**RESOURCE IMPLICATIONS**
2.01	If the Council does not reappoint the incumbents then it will need to advertise the vacancies in the local press. Based on the cost of recent adverts this is likely to be around £3,000.00. There is nothing to prevent the same advert being used for the positions on both committees.
2.02	In addition the Council will need to appoint (via advertisement) a lay person to serve on the appointment panel to the Standards Committee at similar cost. The total expenditure on advertising is therefore likely to be £6,000.

2.03	The role descriptions and adverts used last time are still available for both committees. They would need a updating but it would be possible to place an advert relatively quickly.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None.

4.00	**RISK MANAGEMENT**
4.01	The terms of office for each co-optee expire in May 2017 so there is plenty of time to advertise if that is the chosen course of action. The interview process includes a number of restrictions on candidates to ensure that only people who are truly independent of the Council may be appointed, and careful interviewing is used to ensure that candidates of the right calibre are selected.
4.02	Adverts would be placed bilingually in order to attract applications from Welsh speakers, and would be sent to local community groups representing people with disabilities to ensure that no potential candidate is accidentally excluded by the medium through which the vacancies are advertised.

5.00	**APPENDICES**
5.01	There are no appendices

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Not relevant **Contact Officer:** Gareth Owens, Chief Officer Governance **Telephone:** 01352 702344 **E-mail:** Gareth.legal@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	**Co-optee –** the council consists of a chairman and 69 members who are all elected. By contrast, legislation sometimes provides for a person to be appointed to a committee without being elected through a process called co-option.

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FLINTSHIRE COUNTY COUNCIL

Date of Meeting	Tuesday, 14 February 2017
Report Subject	The Six Months Rule
Report Author	Chief Officer (Governance)

EXECUTIVE SUMMARY

Where a Member has been, or it is likely that they will be absent from meetings for a period of six months, the Council is able to approve that absence. This is a provision of section 85 of the Local Government Act 1972.

Two Members are currently in a position where they have not been able to attend a meeting for several months. It is therefore recommended that the Council approve their absences until the end of the life of this Council.

RECOMMENDATIONS	
1	That Council approves the absence of Councillors Aldridge and Halford until the end of the life of the life of this Council.

REPORT DETAILS

1.00	**EXPLAINING THE CIRCUMSTANCES LEADING TO THE RECOMMENDATION**
1.01	Members will be aware that section 85 of the Local Government Act 1972 provides that if a Member is unable to attend meetings for a six months period, they are automatically cease to be a Member, unless the Council exercises its discretion in advance to approve the absence.
1.02	Two Members of the Council have been unable to attend meetings since the autumn of last year. Members will already be aware of the circumstances behind these absences. Therefore, it is appropriate to recommend to the Council that the absences until the end of the life of this Council, on 8th May (four days after the 4th May County Council elections) be approved.

2.00	**RESOURCE IMPLICATIONS**
2.01	None

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	Both of the Members referred to in this report, together with their respective group leaders have been made aware of its contents.

4.00	**RISK MANAGEMENT**
4.01	Both Members represent dual member wards, so there is still representation available to residents during their indisposition.

5.00	**APPENDICES**
5.01	None

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	None **Contact Officer:** Robert Robins, Democratic Services Manager **Telephone:** 01352 702320 **E-mail:** Robert.robins@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	None

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