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Contact Officer:
Maureen Potter on 01352 702322
maureen.potter@flintshire.gov.uk

To: All Members of the Council

13 February 2019

Dear Councillor

You are invited to attend a meeting of the Flintshire County Council which will be held at 2.00 pm on Tuesday, 19th February, 2019 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 **MINUTES** (Pages 5 - 18)

Purpose: To confirm as a correct record the minutes of the meeting held on 29th January 2019.

3 **DECLARATIONS OF INTEREST**

Purpose: To receive any Declarations and advise Members accordingly.

4 **CHAIRMAN'S COMMUNICATIONS**

Purpose: To receive the communications as circulated.

5 **PETITIONS**

Purpose: To receive any Petitions.

6 **PUBLIC QUESTION TIME**

Purpose: This item is to receive any Public Questions: none were received by the deadline.

7 **QUESTIONS**

Purpose: To note the answers to any questions submitted in accordance with County Council Standing Order No. 9.4(A): none were received by the deadline.

8 **NOTICES OF MOTION**

Purpose: This item is to receive any Notices of Motion: none were received by the deadline.

9a **COUNCIL FUND BUDGET 2019/20** (Pages 19 - 86)

Report of Chief Executive, Corporate Finance Manager

Purpose: To receive recommendations from Cabinet to Council to close the annual budget for 2019/20 following the Council debate on 29 January, and the further review work on corporate finance options and risks undertaken in the interim.

9b **COUNCIL FUND CAPITAL PROGRAMME 2019/20 – 2021/22** (Pages 87 - 112)

Report of Chief Executive, Chief Officer (Housing and Assets), Corporate Finance Manager)

Purpose: To approve schemes for inclusion within the Capital Programme over the 3 year period 2019/20 – 2021/22

10 **CAPITAL STRATEGY INCLUDING PRUDENTIAL INDICATORS 2019/20 – 2021/22** (Pages 113 - 134)

Report of Corporate Finance Manager

Purpose: To approve a range of Prudential Indicators linked to the Capital Programme over the 3 year period 2019/20 – 2021/22

11 **HOUSING REVENUE ACCOUNT BUDGET 2019/20, HOUSING REVENUE ACCOUNT BUSINESS PLAN AND HOUSING REVENUE ACCOUNT 30 YEAR FINANCIAL BUSINESS PLAN** (Pages 135 - 178)

Report of Chief Executive, Chief Officer (Housing and Assets), Corporate Finance Manager

Purpose: To approve the Housing Revenue Account (HRA) Budget for 2019/20, HRA Business Plan and the summary HRA 30 year Financial Business Plan

12 **MINIMUM REVENUE PROVISION 2019/20** (Pages 179 - 190)

Report of Corporate Finance Manager

Purpose: To approve the Council’s policy for Minimum Revenue Provision (repayment of debt) for financial year 2019/20

13 **TREASURY MANAGEMENT STRATEGY 2019/20 & TREASURY MANAGEMENT POLICY STATEMENT, PRACTICES AND SCHEDULES 2019/20 – 2021/22** (Pages 191 - 266)

Report of Corporate Finance Manager

Purpose: To approve the 2019/20 Treasury Management Strategy, 2019/20 – 2021/22 Treasury Management Policy, Practices and Schedules.

Yours sincerely

Robert Robins
Democratic Services Manager

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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
29TH JANUARY 2019

Minutes of the meeting of Flintshire County Council held in the Council Chamber, County Hall, Mold on Tuesday, 29th January 2019.

PRESENT: Councillor Paul Cunningham (Chairman)
Councillors: Mike Allport, Bernie Attridge, Glyn Banks, Haydn Bateman, Marion Bateman, Sean Bibby, Chris Bithell, Helen Brown, Bob Connah, Jean Davies, Rob Davies, Ron Davies, Chris Dolphin, Rosetta Dolphin, Andy Dunbobbin, Mared Eastwood, Carol Ellis, David Evans, Veronica Gay, George Hardcastle, David Healey, Gladys Healey, Patrick Heesom, Cindy Hinds, Dave Hughes, Kevin Hughes, Ray Hughes, Joe Johnson, Paul Johnson, Rita Johnson, Christine Jones, Richard Jones, Tudor Jones, Colin Legg, Brian Lloyd, Richard Lloyd, Dave Mackie, Hilary McGuill, Billy Mullin, Ted Palmer, Mike Peers, Michelle Perfect, Vicky Perfect, Neville Phillips, Mike Reece, Ian Roberts, Tony Sharps, Aaron Shotton, Paul Shotton, Ralph Small, Ian Smith, Carolyn Thomas, Owen Thomas, Martin White, Andy Williams, David Williams, David Wisinger and Arnold Woolley.

APOLOGIES:
Councillors: Janet Axworthy, Sian Braun, Derek Butler, Clive Carver, Geoff Collett, David Cox, Adele Davies-Cooke, Ian Dunbar and Mike Lowe.

IN ATTENDANCE:
Chief Executive, Chief Officer (Governance), Chief Officer (Housing and Assets), Chief Officer (Planning and Environment), Chief Officer (Education and Youth), Chief Officer (Streetscene and Transportation), Chief Officer (Social Services), Corporate Finance Manager, Finance Managers, Senior Manager Human Resources and Organisational Development, Corporate Business and Communications Officer, Revenues Manager, Democratic Services Manager, Team Leader - Elections and Team Leader – Committee Services.

80. PRESENTATIONS

Corporate Business and Communications

Winners of the Silver Award in the Armed Forces Covenant Employer Recognition Scheme Awards.

The Chief Executive congratulated the team on the Award which they had worked tirelessly for and said only seven local authorities in Wales had achieved the Silver Award. Flintshire was also close to achieving the Gold Award. Two members of the team were ex-servicemen and had brought a great insight.

Councillor Dunbobbin paid tribute to the Armed Forces Steering Group which had made great progress in Flintshire. He also said how close the team were in achieving the Gold Award which he was proud of. A lot of positive work was being undertaken with partners and he thanked everybody involved.

Human Resources and Organisational Development

Finalists in Best Change Management Initiative category of the Chartered Institute of Personnel and Development Wales Awards 2018 for its work in the transition of services to Aura Wales.

The Chief Executive said this was a combined Council and Aura team award which was about how the process was handled, including personnel, in establishing a Mutual model. This required trust in the Council and support was provided from the Unions - he paid tribute to everybody involved.

Councillor Mullin congratulated the team on being finalists in the category which demonstrated their commitment, dedication and professionalism.

81. MINUTES

The minutes of the meetings held on 11th December 2018 were submitted and confirmed as a correct record.

RESOLVED:

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

82. DECLARATIONS OF INTEREST

The Chief Officer (Governance) said a personal interest would be recorded for those Members who were on the North Wales Fire and Rescue Authority in relation to agenda item number 13 – White Paper Reform of Fire and Rescue Authorities in Wales.

On agenda item number 14 – Pay Policy Statement for 2019/20 – Members who had family members who were employed by the Council would need to declare a personal interest. Accordingly, Councillors Attridge, Bithell, McGuill, Mullin, Phillips, Aaron Shotton, Small, Smith and Carolyn Thomas declared personal interests.

In response to a question from Councillor Dunbobbin, the Chief Officer said an interest did not need to be declared for him being in receipt of Council Tax benefit.

83. CHAIRMAN’S COMMUNICATIONS

A copy of the Chairman’s Communications had been circulated to all Members prior to the meeting.

Councillor Phillips thanked the Chairman for visiting Mrs Rowlands, a constituent within his ward, on her 100th birthday which was greatly appreciated given that it was on New Year’s Eve. He also thanked Councillor Attridge for his swift response when a fire had broken out at a property. Following a question, the Chief Executive said that a list of emergency contacts would be re-issued to Members.

84. PETITIONS

Councillor Richard Lloyd presented a petition from the residents of Saltney for 20mph speed limits to be enforced on residential streets in Saltney, and for traffic calming measures to be installed on the roads. This followed a serious road traffic incident where a 10 year old boy was seriously injured.

85. PUBLIC QUESTION TIME

None were received.

86. QUESTIONS

None were received.

87. QUESTIONS FROM MEMBERS ON COMMITTEE MINUTES

None were received.

88. NOTICES OF MOTION

None were received.

89. COUNCIL FUND BUDGET 2019/20 – THIRD AND CLOSING STAGE

The Chief Executive introduced the Council Fund Budget 2019/20 – Third and Closing Stage report to which the Cabinet report of 22nd January 2019 was appended. Additional information had been circulated to Members the previous day, following a request at Cabinet, on the non-mandatory services which could be at risk if no additional funding was forthcoming from WG, and the Council Tax equivalent of those services.

The Chief Officer (Governance) explained that it was the collective duty of Council to set a legal and balanced budget. He explained the importance of not overloading the budget with risks and that any proposals put forward would have to have realistic timescales and be deliverable, with sufficient finances set aside for main risks. He concluded with the need for Members to listen to the advice from the statutory roles of the Section 151 Officer and the Chief Executive in advising the Council.

The Chief Executive and Corporate Finance Manager delivered a presentation which covered the following areas:

- Setting a legal and balanced budget;
- Updated forecast for 2019/20;
- Stage 1 – Corporate Budget Solutions;
- Stage 2 – Portfolio Business Plan Proposals;
- Final Settlement;
- Other changes to the forecast 2019/20;
- Impact of grant announcements;
- Summary of revised forecast;

- Remaining options and possibilities;
- Reserves and balances;
- Types of reserves;
- Managing the in-year 2019/20;
- Prudent level of reserves for 2019/20;
- Council Tax;
- Potential Council Tax rises in Wales 2019/20;
- Council Tax (Band D) comparators 2018/19;
- Council Tax indicative comparators 2019/20;
- Council Tax indicative Welsh comparators 2019/20;
- Schools and Social Care budgets;
- Schools funding 2019/20;
- Social Care funding 2019/20;
- Professional opinions;
- Future outlook;
- Medium term forecast;
- #backtheask;
- Update from the AMs and MPs meeting;
- Budget scenarios; and
- Next steps and timelines.

The Chief Executive said the options remaining to achieve a legal and balanced budget were outlined in the Cabinet report. The scope for further service reductions for this financial year of any scale had been exhausted, and the portfolio resilience statements which demonstrated the risks to service capacity and performance of any other budget reductions had been accepted by Overview and Scrutiny Committees and Cabinet. A number of Member workshops had also been held. He commented on the implications of potential suggestions at this late stage including workforce and trade union relationships. Any new decisions would take time to implement and could not result in immediate or sufficient savings for the 2019/20 budget year as a consideration in balancing the budget.

The position of the specific requests made to Welsh Government (WG) for financial assistance was detailed in the report. Beyond a financial intervention by WG the only remaining budget options to balance the budget were Council Tax income and reserves and balances, with the scope for the latter being limited. The Corporate Finance Manager provided an explanation of the proposed prudent level of reserves he was recommending to be held to mitigate the impact of the factors outlined in the report. Based on the analysis in the report, there was only a relatively small amount of reserves of £0.189m available to make a further contribution to the budget for 2019/20.

On potential Council Tax rises, the Chief Executive provided information on indicative figures on the increase range and how many councils that applied to – there were three Councils currently known to be looking to set a 9%+ Council Tax rise. He emphasised that 8.5% was not recommended by officers, but this was the figure that would bridge the budget gap and was a requirement as the calculations stood. The addition of the increase in the North Wales Fire and Rescue Levy would need to be included, bringing the overall increase to 8.9%.

The Revenues Manager explained that, based on that 8.9% increase, it would equate to an annual increase of £104.81 for an average Band 'D' household, which was £8.73 per month. Latest intelligence indicated that an 8.9% increase would result in Flintshire setting a Council Tax charge which would be £34 lower than the Welsh average for 2019/20.

The Corporate Finance Manager and Chief Executive confirmed that their professional opinions were as detailed in the report to Cabinet. The Chief Executive commented on the risks to the workforce with many teams already under stress due to (a) service demands and (b) cumulative reductions in their capacity. Intricate financial forecasting had taken place and the figures provided to Members were robust.

The budget scenarios were:

Scenario 1: the Council sets a budget within its known resources and without any national support. The Chief Executive said this would be difficult but it could be achieved.
Scenario 2: local government receives an improved Settlement and the Council can set a budget with more resources. The Chief Executive said there was little chance of this happening.
Scenario 3: Flintshire receives an improved Settlement with supplementary funding and the Council can set a budget with more resources. The Chief Executive said this had never happened before so he felt the probability was very low.
Scenario 4: the Council cannot set a legal and balanced budget and has to default to the statutory procedures and risk a national intervention. The Chief Executive said this was the default position and a situation nobody would want to find themselves in. The Corporate Finance Manager would need to issue a Section 114 Notice where an action plan would need to be agreed in 21 days for the Council to recover its budget in-year and would only be allowed to spend on committed expenditure – anything discretionary would have to be suspended and the situation could spiral out of control. No Council in Wales had ever had to issue a 114 Notice.

There was a final engagement planned with WG which had been arranged by Councillor Kevin Hughes, which would see a delegation of Members attending the Senedd on Tuesday 5th February and hopefully meet with Assembly Members – full details would be available nearer the time. Following that there was a County Council meeting on 19th February prior to the formal setting of the Council Tax on 28th February.

Councillor Aaron Shotton thanked all officers who had undertaken work on the budget to date and commented on the number of County Council, Cabinet, Overview and Scrutiny Committee meetings and workshops that had taken place where they budget had been discussed prior to today. Each Member meeting had universally recognised and accepted that there was no further efficiencies of scale to be found in services without putting those services at risk.

The Council had been through ten years of austerity and a pragmatic cross-party approach had been adopted which had seen services protected and a change in delivery models. Flintshire was one of the most cost effective councils in Wales and that could be demonstrated by the efficiencies found whilst still providing the level of services it did. However, the Council was now at the limit and there were no further efficiencies to be found. He reiterated the situation in that if no further intervention was received from WG, the only options to bridge the funding gap was Council Tax and the use of reserves and balances, which was limited. He moved deferment of the item until the cross party delegation had been to WG on 5th February because, if additional funding was made available, the Council Tax increase could be suppressed. He thanked Councillor Kevin Hughes for organising the delegation to WG and engendering the cross party approach.

Recognition and support was being sought from WG for the needs of Flintshire residents and businesses – WG expected the average Council Tax increase to be 6.5% yet Flintshire was looking at 8.5% which was a step too far and support was needed. Advice had been received on the implications for the Council if a legal and balanced budget was not set – there needed to be acceptance across the Chamber that there were no further efficiencies available. If a legal and balanced budget was not set then non mandatory services would be at risk and he cited examples of the music service, Theatr Clwyd, youth services, play schemes, countryside services and subsidised buses. Councillor Attridge seconded the proposal for deferment of the item.

Councillor Peers said it was appropriate to defer the item, particularly based on resolution (2) from Cabinet on 22nd January *"that Cabinet advise Council that in the absence of an improvement in the Local Government Settlement by Welsh Government then the Council will have to rely on a Council Tax rise in the region of 8.5% to meet its own expenditure requirements for 2019/20 (excluding the increase in the Levy of the North Wales Fire and Rescue Authority)".* He commented on Councillor Aaron Shotton's remarks at the County Council meeting on 11th December where he said funding from WG was inadequate and that he did not wish to see a Council Tax rise in the region of 9%; this had been reiterated by Councillor Peers at the meeting that had taken place with AM's on 11th January where Councillor Shotton said it was unlikely any Member would want to support such a rise in Council Tax. The Cabinet report of 22nd January stated the Settlement was still inadequate to meet Flintshire's funding requirements.

On the potential 8.5% Council Tax rise, Councillor Peers said the gap should be funded by WG, not local tax payers and asked what the Leadership was proposing if there was no improvement in funding from WG? He commented on the Stage 1 proposals which had been previously agreed where a 4.5% increase in Council Tax had been approved along with £1.9m VAT rebate taken from reserves. On the per capita table, Flintshire was 19th out of 22 local authorities and £134 per person lower than the Welsh average – he provided details of the top six Councils in the annual Settlement and the increase they had received on the provisional Settlement.

In March 2018 the reserves, as listed by the Wales Audit Office (WAO) were £49m – further reserves needed to be considered. £1.4m had been recovered from the change in accounting policy for the Minimum Revenue Provision (MRP) and was available to be used from reserves. Cabinet transferred it into the contingency reserve in September 2018. At the same time, £1.9m VAT rebate was also transferred, intended to be used for the Medium Term Financial Strategy (MTFS) but was now being used to support Stage 1 of the budget.

A Treasury Management presentation had been delivered to Members that morning and £22.6m of Council finances had been invested and could be accessed from between 15 and 35 days. At that presentation Members were also informed that the debt was now £290m and he queried whether the consolidation of those debts could be looked into. Council expenditure for 2019/20 would need to be re-assessed to avoid an unacceptable Council Tax rise of 8.5%.

Councillor Richard Jones said at the last County Council meeting there was a consensus that Members did not want to see a Council Tax rise of over 5%. Based on a Council Tax rise being set at that level, he said that to avoid a reduction in services provided by the Council then the two remaining things to be considered were reserves and balances and corporate financing options. A letter had been received from Julie James AM and Rebecca Evans AM, as Cabinet Ministers, which stated there was no evidence Flintshire was disadvantaged by the Settlement formula – based on that he did not feel there was much chance that Flintshire would get additional funding following their visit to WG on 5th February.

Following a request from him at the budget meeting the previous year, officers established what part of earmarked reserves could be used to support schools and he wanted to do a similar thing this year. The estimated balance as at 1st April 2019 was detailed in the paperwork, with figures against specific earmarked reserves, which would not move within the financial year – he felt that was unacceptable and if it was felt at the beginning of the year that the balance would not move, it should not be included as an earmarked reserve and that it should be used; it totalled £1.318m.

In addition he suggested that capital receipts could be put into the revenue account through the Minimum Revenue Provision (MRP) charge, and not into the capital account. The MRP charge was estimated at approximately £4m and he felt there was an opportunity for some of the capital money to be utilised in that way. This was a corporate responsibility and would not affect services. He moved an amendment that the two options described by him be looked into by officers, which was seconded by Councillor Heesom.

The mover and the seconder of the original motion, Councillors Aaron Shotton and Attridge, accepted the amendment which then became the substantive motion.

The Corporate Finance Manager explained that the use of capital receipts for the revenue budget was not usually allowed. Contact would be made with Wales Audit Office (WAO) and details on that possibility would be provided to Members prior to the next County Council meeting on 19th February.

Councillor Chris Dolphin thanked Councillor Kevin Hughes for arranging the delegation visit to WG on 5th February and said that an 8.5% Council Tax rise was unacceptable. He referred to the letter from Julie James AM who had held a meeting on the funding formula at which the Leader of the Council was present. There were no details contained within to say that there had been any opposition to the formula by those present – he queried whether the message on the formula being flawed was reaching WG. He commented on the support always provided by the Liberal Democrat Group as they were supportive, whilst recognising that difficult decisions were needed to ensure that the Council Tax rise did not reach 8.5%; if cuts needed to be made he said Cabinet needed to take those decisions by looking at the non-mandatory services. He commented on the number of Household Recycling Centres in close proximity of one another and urged Cabinet Members and officers to be creative and look at all areas including this.

Councillor Heesom also did not support an 8.5% Council Tax increase and said the responsibility of the budget lay with the Leader and the Leadership of the Council. He praised the quality of the documents that had been provided to Members by officers which were articulate and of a high standard for which he was grateful. On reserves and balances he said there was a question on what actual reserves were available. He also made reference to the Treasury Management training that had taken place that morning where a discussion had taken place on reserves and cited £49m being available for the Council. There was also the issue of capital receipts which were a significant amount and were available for the purposes of balancing the budget.

This was an on-going issue with trying to balance the budget and he said the strategy needed to be re-thought in the future and it may be the case that non-mandatory services would need to be considered and he blamed the Leadership for the situation and not WG. On the prudent level of reserves outlined in the document, he said that further information was required as to how those amounts had been arrived at, which he felt were token sums, and requested those details in advance of the next meeting. He also commented that no scrutiny had ever taken place on the Central Loans and Investment Account and requested further information on that.

The Chief Executive said that the information and figures contained within the report were professional opinions based on detailed data which was available to Members.

In response to a question from Councillor Sharps on whether it was possible for housing bands to be re-evaluated, the Revenues Manager explained that it could not be done by Flintshire alone as a change would be required in primary law in Wales. The last evaluation of houses in Wales was carried out in 2005; the last one in England to be carried out was in 1993.

Councillor Kevin Hughes commented on the unfairness of children in Flintshire receiving less funding for education than other children across Wales. He also said he did not wish to see an 8.5% Council Tax rise however a budget did need to be set. He was pleased that a cross party delegation was going to WG on 5th February which showed a united front from Flintshire County Council and he urged all Members to work together for the benefit of the local residents in the County.

Councillor Brown said she had also attended the Treasury Management training that morning. On the Capital Programme the code said it should be affordable in terms of Council Tax levels. She said Members needed to see the Capital Programme with every item within so that it could be re-evaluated either at the next meeting on 19th February or sooner, as a proposed rise in Council Tax of 8.5% was not acceptable and it was not the responsibility of the residents to fund the gap. She also commented on the rise in rent arrears and the increases in numbers of people relying on food banks. The Chief Executive explained that a report on the Capital Programme would be reported to Council on 19th February and said that the Programme contained the longer term plans. He said Members needed to be mindful of what was in the longer term Capital Programme that did not require a commitment from the 2019/20 budget as it was a rolling programme over a number of years – the usual report could possibly be extended to include the longer term plan including the burden that could be placed on revenue.

Councillor Gay proposed that the £1.4m recovered from the change in accounting policy in the MRP be used to help bridge the gap. The Chief Executive explained that given the amendment that had been proposed by Councillor Richard Jones and now formed part of the substantive motion, Members would need the advice of officers in taking reserves and balances into account. An agreement would be needed by Council that there was sufficient remaining to meet all of the risks – he suggested that her proposal was therefore not valid as it was being taken out of sync; the whole of the reserves package needed to be looked at and Members would need to make a decision, on 19th February, based on risk. This was accepted by Councillor Gay.

Councillor Bithell provided details of the agreed Police and Crime Commissioner precept which had been agreed earlier that week and said the passporting of taxes onto residents could not continue and it bore no resemblance to income. Councillors Woolley and Ellis also concurred that an increase of 8.5% was not acceptable, particularly when the precepts for the North Wales Fire and Rescue Authority, the Police and Crime Commissioner and the Town and Community Council precepts were added. The Chief Executive said given the requests for further information a briefing for Members would be arranged prior to the meeting on 19th February.

The Corporate Finance Manager said reference had been made to reserves of £49m and he explained that it was comprised of a number of elements such a capital receipts and reserves, HRA and the earmarked reserves - the actual usable reserves was £5.8m as outlined in the report. On Treasury Management he said it was important not to confuse the availability of cash on a temporary basis with reserves, citing when the RSG was received compared to when the payroll system ran. Debt rescheduling was also looked at on a regular basis and was scrutinised by the Audit Committee.

The Chief Executive said nobody was making light of a potential 8.5% Council Tax rise but it was the primary role of officers to advice Members to help them inform a view to be able to approve a balanced budget within the limitations available. On the delegates visit to WG, he said there was no history of any package being offered to individual Councils. On the funding formula, he said the view of officers was different to that of WG; the formula had been contested over the years but had never been part of a formal consultation or vote and had not been reviewed for around 20 years. The Council believed the balance between rurality, deprivation and population was imbalanced. He referred to a previous debate in the Chamber on the information from the Local Government Commissioner for Finance in 2016. The Commission had recommended in its final report that (1) a freeze be applied to demographic led changes on the funding formula as it stood (which would have meant Flintshire would not have been on the funding floor this year); and (2) a full review of the funding formula be undertaken as it was dated.

As well as setting a budget for 2019/20, it was also important to look beyond that year and, as an illustration, if the Council was to use an extra £1.3m of reserves this year, that would result in the equivalent of 4.5% Council Tax the following year required just to bridge the gap for the funding used from reserves in the absence of any other funding solution to replace them. On capital receipts there was a diminishing number remaining – the Capital Programme was heavily subsidised for things in urgent need. On the comments made by Councillor Dolphin, he said there was nothing left to offer of scale on services which had been accepted at all of the Overview and Scrutiny Committees. If jobs were removed that would result in services being withdrawn or closed. The teacher pension issue was a huge risk to the Council and if the Council had to take half of that funding responsibility it could 'sink' the Council's budget without the recommended reserves in place.

Councillor Aaron Shotton, in summing up, explained that, as outlined in the Constitution and as explained by the Chief Officer (Governance) at the outset, the budget was not the responsibility of the Leader but of the Council as a collective, based on a recommendation from Cabinet. He was not proposing an 8.5% Council Tax increase. However, Cabinet had recognised that, following officer advice, the only option to achieve a legal and balanced budget was by setting a Council Tax of 8.5% to bridge the gap if there was no intervention from WG.

Councillor Chris Dolphin had suggested that further cuts be made to services, he said he would not be proposing any further cuts to services which was based on the advice from professional officers and each Overview and Scrutiny Committee. On the letter from the Minister he believed it was used within a press release by an Assembly Member which was unfortunate as it mis-represented Flintshire's case. The Council had never asked for an immediate review of the funding formula as it was recognised that it would take time and would not address the situation the Council faced now. What was being asked for was recognition of how the funding formula did not meet the Council's needs. He provided assurance that he constantly raised the issue at WLGA meetings. He welcomed the amendment from Councillor Jones but asked Members to be mindful that if it was legal to use capital receipts to substitute revenue funding it would result in investments possibly not starting or continuing, such as Castell Alun High School, Ysgol Glan Aber and Marleyfield Care Home. On the use of any further reserves, the Cabinet took the advice from professional offices which was detailed in the report which was based on risk.

<u>RESOLVED</u>:

(a) That a decision on the budget be deferred for Council to engage with Welsh Government – through a cross-party delegation – for an improved Local Government Settlement, in order to suppress Council Tax rises in Flintshire and across Wales, by specifically increasing recurring funding for schools and children's services;

(b) That officers look into the possibility of utilising earmarked reserves that were not protected in 2018/19, to be used in 2019/20, totalling £1.3m;

(c) That officers look into the possibility of capital receipts being utilised to fund the Minimum Revenue Provision charge to release revenue funding; and

(d) That requests for further information would be dealt with at a briefing for Members which would be arranged prior to the County Council meeting on 19th February.

90. FLINTSHIRE ELECTORAL REVIEW

The Democratic Services Manager introduced the Flintshire Electoral Review report. The appendix to the report outlined the proposals to be submitted to the Local Democracy and Boundary Commission for Wales (LDBCW) based on the extensive work undertaken with Members.

The Chief Executive explained the colour coding in the appendix, and said if Members agreed that the document captured the suggestions made by them then it would be sent to the Commission. The colour coding was:

- Green – proposals where there was agreement and it was within a variance of 25% of the proposed County average;
- Amber – proposals where there was some disagreement but it was a ‘favoured’ option and it was within a variance of 25% of the proposed County average; and
- Red – proposals where there was no agreement or the proposals was not compliant as it was not within a variation of 25% of the County average.

Following a number of comments and suggestions from Members, it was agreed that the document would clearly show which options related to which colour where more than one option was shown.

Councillor Richard Lloyd felt the document should include reference to single Member electoral wards.

Following a question from Councillor Brown the Chief Executive said the Boundary Commission could be asked how much the review had cost.

The Commission would now prepare Draft Proposals for the electoral arrangements for the County of Flintshire which would be published in Autumn 2019 – a 12 week consultation period would then follow. At Stage Three the Commission would prepare a Final Proposals Report which would be submitted to Welsh Government in 2020 along with those for all other Councils in Wales.

RESOLVED:

(a) That the proposals be submitted to the Local Democracy and Boundary Commission for Wales with the document clearly showing which colour relates to which option; and

(b) That the Council provide background information to the Local Democracy and Boundary Commission for Wales in support of the positive proposals included in the appendix and, in the case of those areas where no compliant proposal was made, the full set of options considered by Members.

91. WHITE PAPER: REFORM OF FIRE AND RESCUE AUTHORITIES IN WALES

The Chief Executive introduced the White Paper: *Reform of Fire and Rescue Authorities in Wales* report which provided details of the proposed changes to the governance and membership of fire and rescue authorities, and their relationship with constituent local authorities in budget-setting.

The Council had not expressed any concerns over the governance of the North Wales Fire and Rescue Authority and had been satisfied that the Authority had fully engaged the Council, as a constituent local authority, in consultations on its key strategies and its budget strategy. The responses to the consultation questions within the White Paper were appended to the report.

Councillor Owen Thomas said he had been a member of the North Wales Fire and Rescue Authority for seven years and it was a very efficient organisation despite having cuts to their budget year on year. He commented on initiatives undertaken by the service to help achieve efficiencies such as smoke alarms being installed in homes as a preventative measure and the closure of some fire stations. He did not support the White Paper. Councillor Paul Shotton said fire fighters deserved the continued support of the authority and he fully supported the Council's response.

The Chairman commented on his employment in the Fire Service and said funding for the service should be from Central Government, as it should for the Police.

RESOLVED:

That the draft responses to the questions in appendix 2 be endorsed as the formal Flintshire response to the *Reform of Fire and Rescue Services in Wales* White Paper.

92. PAY POLICY STATEMENT

The Chief Executive introduced the Pay Policy Statement report and explained that all local authorities were required to publish a Pay Policy Statement annually. This was the seventh annual statement published by the Council.

The Senior Manager of Human Resources and Organisational Development said the latest Equal Pay Audit was appended to the report for information.

The Pay Policy Statement formed a key component of the organisation's approach to managing its workforce in general and, in particular, reward and recognition which was one of the five strategic priorities of the People Strategy 2016-19.

Sections subject to amendment during the course of the year were:

- Section 6 – the Government had for some time been planning to implement a cap on Public Sector exit payments of £95,000 and a process of recovery of Chief Officer exit payments where certain conditions applied. Any changes would be effected by the Enterprise Act 2016. The Act gave powers to Welsh Ministers to 'relax' any regulations made. At the time of writing the report draft regulations were awaited to be consulted upon which would then give any powers to Welsh Ministers to determine the approach in Wales; and
- Section 11 – one agreement had been reached on a new pay policy.

RESOLVED:

That the Pay Policy Statement for 2019/20 be approved, and the latest Equal Pay Audit be noted.

93. ARMED FORCES COVENANT ANNUAL REPORT APRIL 2017 – DECEMBER 2018

The Chief Executive introduced the Armed Forces Covenant Annual Report April 2017 – December 2018 report which was the second Annual Report of Flintshire County Council's Armed Forces Covenant.

The Corporate Business and Communications Officer explained that the Armed Forces Covenant aimed to recognise the sacrifices made by the Armed Forces community within the County and helped provide support for them and their families to ensure that they did not face disadvantage because of military service.

Councillor Dunbobbin, as the Council's Armed Forces Champion and Chair of the multi-agency steering group, paid tribute to the work of everybody involved and moved the report.

Councillor Peers thanked Councillor Dunbobbin and the steering group for the dedication of commemorative stones for two people from Flintshire who were awarded the Victoria Cross (V.C.) for their gallantry during World War One – Frederick Birks V.C. from Buckley and Harry Weale V.C. from Shotton.

The Chief Executive suggested that a report be submitted to a future meeting of County Council when the Gold Award was achieved which was supported.

RESOLVED:

(a) That the positive progress made in meeting the Armed Forces Covenant be noted and the commitments for further improvement be supported; and

(b) That the Armed Forces Covenant Annual Report be endorsed prior to publication on the Council's website.

94. STATEMENT OF GAMBLING POLICY RENEWAL

As Chair of Licensing Committee, Councillor Sharps introduced the Statement of Gambling Policy Renewal report.

The new Policy was required to commence on 31st January 2019 in accordance with the Gambling Act 2005. Consultation had taken place during October and November 2018 including being reported to the Licensing Committee.

RESOLVED:

(a) That the Draft Policy be approved for adoption for the period 31st January 2019 to 30 January 2022; and

(b) That any minor changes made during the life of the policy are delegated to the Licensing Committee.

95. MEMBERS OF THE PRESS AND PUBLIC IN ATTENDANCE

There was one member of the press and no members of the public in attendance.

(The meeting started at 2.00 p.m. and ended at 5.30 p.m.)

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Chairman

FLINTSHIRE COUNTY COUNCIL

Date of Meeting	Tuesday 19th February 2019
Report Subject	Council Fund Budget 2019/20
Report Author	Chief Executive and Corporate Finance Manager

EXECUTIVE SUMMARY

At the Council meeting on 29th January it was agreed to defer consideration of the Council Fund Budget report and for officers to review several specific areas of corporate finance and come back with further technical advice and professional opinion.

The specific areas were:-

- the Minimum Revenue Policy (MRP) commitments, and the scope for reducing the annual revenue contribution by using capital receipts to reduce total financeable debt;
- the detailed rationale for recommending the retention of the reserves as listed in the table in the report and in the presentation slides; and
- the justification for retaining the earmarked reserves that are forecast to remain at a static level over the next year.

Further explanation was also requested on the scope for debt rescheduling under the Treasury Management Strategy.

Council had agreed to that information being provided in a budget briefing session to take place before this meeting.

Council also supported a delegation visiting Welsh Government to make representations. The Senedd delegation took place on Tuesday 5th February and a group of cross-party Members were able to make representations directly to the Minister for Housing and Local Government.

Additional technical advice and professional opinion is being provided in a series of detailed advice notes. These are listed in the Background Papers section at the end of this report and will be published when available. The report considered by Council on 29th January is resubmitted as Appendix A.

RECOMMENDATIONS	
1	That following the delegation visit to Welsh Government the Council is advised that there has been no indication by Welsh Government of any intent to adjust the Settlement for 2019/20. Council should either note and accept this outcome or advise on making a further formal request to Welsh Government for assistance.
2	That following the holding of a further budget briefing, and the receipt of the additional technical advice and professional opinion provided, the Council now receives and considers the recommendations of Cabinet for balancing the budget for 2019/20.

REPORT DETAILS

1.00	EXPLAINING THE CURRENT POSITION – BALANCING THE BUDGET FOR 2019/20
1.01	Cabinet received a report on the Council Fund Budget 2019/20 – Third and Closing Stage at its meeting on 22 January. This report is attached as Appendix A. **Resolutions from Cabinet:** (1) Cabinet note the updated budget forecast position as the basis for setting a legal and balanced budget for 2019/20; (2) Cabinet advise Council that in the absence of an improvement in the Local Government Settlement by Welsh Government then the Council will have to rely on a Council Tax rise in the region of 8.5% to meet its own expenditure requirements for 2019/20 (excluding the increase in the Levy of the North Wales Fire and Rescue Authority); (3) Cabinet invite Council to engage with Welsh Government – through a cross-party delegation - for an improved Local Government Settlement, in order to suppress Council Tax rises in Flintshire and across Wales, by specifically increasing recurring funding for schools and children's services; and (4) Officers provide information on those non-mandatory services where Council could review its policies and funding commitments. The information to include financial values (to the Council Tax payer) and the risks associated with making any changes to current commitments.
1.02	The previous report to Council, which is attached, covers the budget position in full.
1.03	Final confirmation of the precepts set by Town and Community Councils have now been received and the average increase for a Band D property is 2.13%. Confirmation of the Police and Crime Commissioner increase has been confirmed as 7.74%. Setting a Council Tax Band D charge at an overall increase of 8.9% (including the increase of 0.5% for North Wales Fire and Rescue Authority levy) the overall increase in Council Tax would be 8.49%.

1.04	The Senedd delegation took place on Tuesday 5th February, with 27 Flintshire Members and the Chair of Anglesey County Council, Councillor Dylan Rees participating. The delegation met the two Flintshire Assembly Members and a group of cross-party Members made representations directly to the Minister for Housing and Local Government, Julie James AM.
1.05	There has been no indication by Welsh Government of any intent to adjust the Settlement for 2019/20. Council should either note and accept this outcome or advise on making a further formal request to Welsh Government for assistance.

2.00	**RESOURCE IMPLICATIONS**
2.01	As contained within the report to Cabinet of 22 January 2019 which is attached.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	As contained within the report to Cabinet of 22 January 2019 which is attached.

4.00	**RISK MANAGEMENT**
4.01	As contained within the report to Cabinet of 22 January 2019 which is attached.

5.00	**APPENDICES**
5.01	Appendix A - Council Report 29 January 2019 and Cabinet Report 22 January 2019. Appendix B - Council Presentation 29 January 2019.

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	As included in the Cabinet Report 22 January 2019 **Additional technical notes available:** Capital Receipts and Minimum Revenue Provision (MRP) Treasury Management (Debt Rescheduling and Cash flow) Un earmarked Reserves – Prudent Level Earmarked Reserves **Contact Officer:** Colin Everett, Chief Executive 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.

APPENDIX A

FLINTSHIRE COUNTY COUNCIL

Date of Meeting	Tuesday, 29th January 2019
Report Subject	Council Fund Budget 2019/20 – Third and Closing Stage
Report Author	Corporate Finance Manager and Chief Executive

EXECUTIVE SUMMARY

Cabinet received a report on the Council Fund Budget 2019/20 – Third and Closing Stage at its meeting on 22 January. This report is attached as Appendix A.

Resolutions from Cabinet:

(1) Cabinet note the updated budget forecast position as the basis for setting a legal and balanced budget for 2019/20;

(2) Cabinet advise Council that in the absence of an improvement in the Local Government Settlement by Welsh Government then the Council will have to rely on a Council Tax rise in the region of 8.5% to meet its own expenditure requirements for 2019/20 (excluding the increase in the Levy of the North Wales Fire and Rescue Authority);

(3) Cabinet invite Council to engage with Welsh Government – through a cross-party delegation - for an improved Local Government Settlement, in order to suppress Council Tax rises in Flintshire and across Wales, by specifically increasing recurring funding for schools and children's services; and

(4) Officers provide information on those non-mandatory services where Council could review its policies and funding commitments. The information to include financial values (to the Council Tax payer) and the risks associated with making any changes to current commitments.

The Council has developed the budget for 2019/20 in three stages:

Stage 1: Corporate Finance Solutions
Stage 2: Service Portfolio Efficiencies
Stage 3: Final Balancing Stage

The attached report provides an update on each stage. A presentation will be made at the Council meeting. **Stage Three:** this is the closing stage and the Council will need to set a balanced budget to meet its legal duty. It is the collective responsibility of the whole Council to set the budget on the advice of Cabinet. The options remaining to achieve a legal balanced budget are set out in the Cabinet report for consideration. The scope for further service reductions for this financial year has been exhausted. The portfolio resilience statements which demonstrate the risks to service capacity and performance of any other budget reductions have been accepted by the Overview and Scrutiny Committees and Cabinet. The position of the specific requests made to Welsh Government for financial assistance is also set out within the report. Beyond a financial intervention by Welsh Government the only remaining options to balance the budget are Council Tax Income and Reserves and Balances. The scope for the latter is limited.

RECOMMENDATIONS	
1	That the Council receives and considers the recommendations of Cabinet for balancing the budget for 2019/20.

REPORT DETAILS

1.00	**BALANCING THE BUDGET FOR 2019/20**
1.01	The Council has developed the budget for 2019/20 in three stages:
1.02	**Stage One**: Corporate Finance Solutions were reviewed by Overview and Scrutiny Committees throughout October and November and approved by Council on 20 November.
1.03	**Stage Two**: Service Portfolio efficiencies were considered at the Corporate Resources Overview and Scrutiny Committee throughout October and November and approved by Council on 20th November.
1.04	**Stage Three**: this is the closing stage and the Council will need to set a balanced budget to meets its legal duty. It is the collective responsibility of the whole Council to set the budget on the advice of Cabinet. The options remaining to achieve a legal balanced budget are set out in this report for consideration. There is no scope for further reductions of scale. Beyond a financial intervention by Welsh Government the only remaining options to balance the budget are Council Tax Income and Reserves and Balances. The scope for the latter is limited.
1.05	Cabinet received a report on the 22 January 2019 (attached) which details the remaining options to balance the budget for 2019/20 to meet the Council's statutory duty. The Cabinet resolutions are set out in the Executive

	Summary and a presentation on the budget will also be made to Council. The Council has a further meeting scheduled in the Council diary for 19 February. At a further meeting on 28 February Council will formally need to set the Council Tax having received the Police and Crime Commissioner Annual precept, The Fire and Rescue Authority Annual levy, and the precepts from the 34 Town and Community Councils.

2.00	**RESOURCE IMPLICATIONS**
2.01	As contained within the report to Cabinet of 22 January 2019 which is attached.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	As contained within the report to Cabinet of 22 January 2019 which is attached.

4.00	**RISK MANAGEMENT**
4.01	As contained within the report to Cabinet of 22 January 2019 which is attached.

5.00	**APPENDICES**
5.01	Appendix A Cabinet Report 22 January 2019.

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	As included in the Cabinet Report 22 January 2019 **Contact Officer:** Colin Everett, Chief Executive 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.

CYNGOR Sir y Fflint Flintshire COUNTY COUNCIL

CABINET

Date of Meeting	Tuesday, 22nd January 2019
Report Subject	Council Fund Budget 2019/20 – Third and Closing Stage
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Corporate Finance Manager and Chief Executive
Type of Report	Strategic

EXECUTIVE SUMMARY

The Council has developed the budget for 2019/20 in three stages similarly to the budget setting process in recent years.

Under stages one and two the Council has already approved the proposals for cost estimate reductions for Corporate Finance and Service Portfolios respectively.

Under stage three, the closing stage, the Council will need to set a balanced budget to meets its legal duty. It is the collective responsibility of the whole Council to set the budget on the advice of Cabinet. Officers provide professional advice to both.

The options remaining to achieve a legal balanced budget are set out in this report for consideration. There is no scope for further reductions in Corporate Finance and Service Portfolios of any scale. The portfolio resilience statements which demonstrate the risks to service capacity and performance of any further budget reductions have been accepted by the Overview and Scrutiny Committees and Cabinet. The Council has been central to campaigning across Wales for an improved Financial Settlement for local government through the collective case-making of the Welsh Local Government Association and our own press and social media-based campaign #backtheask.

Whilst the funding position for local government and Flintshire has improved on the original forecast at three stages – at the Provisional Settlement (October), at the intervention of the out-going First Minister (November) and at the Final Settlement (December) – the Settlement is still inadequate to meet our funding requirements. Beyond a further financial intervention by Welsh Government the only remaining options to balance the budget are Council Tax income and drawing upon reserves and balances. The scope for the latter is limited.

The budget gap to be bridged to reach a legal and balanced budget stands at £3.102m, based on the calculations and assumptions set out within this report.

A full presentation of the report will be made at the Council meeting.

List of Tables:

RECOMMENDATIONS	
1	Cabinet note the updated budget forecast position as the basis for setting a legal and balanced budget for 2019/20.
2	Cabinet advise Council that in the absence of an improvement in the Local Government Settlement by Welsh Government then the Council will have to rely on a Council Tax rise in the region of 8.5% to meet its own expenditure requirements for 2019/20 (excluding the increase in the levy of the North Wales Fire and Rescue Authority).
3	Cabinet invite Council to make a final request to Welsh Government for an improved Local Government Settlement in order to suppress Council Tax rises in Flintshire and across Wales.

REPORT DETAILS

1.00	**ARRIVING TO THIS FINAL STAGE OF THE BUDGET 2019/20**
1.01	**Budget Process and Timeline** The annual budget for 2019/20 has been developed in three stages.
1.02	A report to Cabinet in April this year gave the first detailed overview of the financial forecast for 2019/20. At that stage the projected budget "gap" stood at £12.2m. Internal workshops to brief Members on the updated financial forecast and the changing national budget position were held in two phases in July and September. A report to Cabinet in September provided the latest update on the financial forecast for 2019/20. At this stage the projected budget "gap" then stood at £13.7m. The Provisional Local Government Settlement was announced on 9 October and

	resulted in an overall reduction of 1% in funding which had the effect of increasing the overall gap to £15.3m. A report to Cabinet in November gave an update on the financial forecast and recommended to Council that the Stage One (Corporate Finance) and Stage Two (Service Portfolio) solutions be adopted. A special meeting of County Council approved both stages of the budget on 20 November.
1.03	**Stage One – Corporate Finance Solutions** Prior to approval by County Council the Stage One budget proposals were reviewed by Corporate Resources Overview and Scrutiny Committee (on 15 November) and a summary is detailed below. **Table 1: Stage One Budget Proposals Approved and Adopted**

Corporate Budget Solutions	£m
Council Tax (illustrative 4.5%)	3.635
New Income Streams	0.100
Reserves and Balances	1.900
Alternative Delivery Model (ADM) Subsidies	0.400
Reduction in Corporate Management	0.250
Housing Revenue Account (HRA) – Council Fund Recharges	0.158
Transport Cost Anomalies	0.100
Cost Pressure Reductions:	
- Inflation/Pensions	1.144
- Other Workforce Costs	0.250
Total	**7.937**

Note 1: full details of the above proposals can be accessed via the hyperlink listed under Background Papers at the end of the report.

1.04	**Stage Two - Service Portfolio Efficiencies** The Stage Two budget proposals totalling £0.963m were also reviewed by Corporate Resources Overview and Scrutiny Committee (on 15 November) prior to approval by Council. The proposals contribute £0.630m to the budget once the income targets and workforce reductions, which are included in the Stage One solutions have been deducted.

Table 2: Stage Two Budget Proposals Approved and Adopted

Portfolio	**£m**
Corporate	0.360
Social Services	0.315
Education & Youth	0.076
Streetscene & Transportation	0.065
Planning, Environment and Economy	0.111
Housing & Assets	0.035
Total	**0.963**
Budget Strategy ***Less:***	
Income	0.143
Targeted Employee Post Reductions	0.190
Balance of Operational Efficiencies	**0.630**

Note 1: details of the service portfolio business plan efficiency proposals can be accessed via the hyperlink listed under Background Papers at the end of the report.

Final Local Government Settlement

1.05 The Final Local Government Settlement was announced by Welsh Government on 19 December. The head-line figures are detailed below.

<u>Standard Spending Assessment (SSA)</u>

The final SSA for 2019/20 is £269.127m (£267.547m at the Provisional Settlement stage) which is an *increase* of 1.8% on the SSA for 2018/19 (£264.333m)

<u>Aggregate External Finance (AEF)</u>

The final Aggregate External Finance for 2019/20 is £188.980m (£187.817m at the Provisional Settlement stage) which when compared to the adjusted 2018/19 AEF figure of £189.549m represents a *decrease* of 0.3% (All Wales average is an *increase* of 0.2%). AEF combines Revenue Support Grant (RSG) and National Non-Domestic Rates (NNDR).

The Final Settlement confirmed the two transfers into the Settlement as follows:

- Teachers Pay Grant (£0.694m)

	• Free School Meals Grant (£0.257m) There were no transfers out of the Settlement identified. The Final Settlement advised of one additional new responsibility for increasing capital limits for residential care charging. The Council already has a pressure of £1.009m included in the budget forecast for this - therefore no adjustment is required. The impact of the Final Settlement improved the position for the Council by £1.163m with the funding floor (a limit beyond which no Council can be funded in detriment) being raised up to 0.3%. Flintshire County Council still remains at the floor level as at the Final Settlement stage.
	Other Changes to the Forecast
1.06	During the period December to January the following changes to the financial forecast have been made. The net impact is an increase of £0.170m to the budget 'gap' as shown in Table 3: **North Wales Fire and Rescue Authority Levy (additional £0.381m)** Following a consultation period the North Wales Fire and Rescue Authority has now set its budget for 2019/20. The levy will be increased and the additional contribution required of Flintshire County Council as a constituent authority is £0.381m. The impact of this increase in the levy is a 0.583% increase in Council Tax. **Social Care Commissioning Costs (reduction of £0.150m)** The level of fees for Independent Sector providers has now been agreed for 2019/20 with the overall costs being lower than the initial estimate. **Reduction in Prior Year Pressure for Social Services – Learning Disabilities Day Services (reduction of £0.055m)** A budget pressure for the transition to a new model of service for Learning Disabilities Day Services in the base budget will now reduce by £0.055m in 2019/20. **Regional Education Consortium GwE (reduction of £0.006m)** A reduction in annual operating costs of £0.006m has been agreed by GwE (a 1% decrease net of a 2% allowance for inflation) which will make a minor reduction in the contribution from the Council as a constituent authority.
1.07	**<u>Impact of Confirmed Grant Announcements</u>** Following the Provisional Settlement the First Minister announced some additional grants which have the following impact on the budget 2019/20: **Schools - Teachers Pay Award (£0.375m)** A further £7.5m across Wales to meet cost pressures of implementing the teachers' pay award – an additional £0.375m for the Council. **Children's Services (£0.110m)** A further £2.3m across Wales to help prevent children from being taken into care –

	an additional £0.110m for the Council. The following additional funding announcements made by Welsh Government also impact on the budget 2019/20: **Social Care Grant (£1.410)** An amount of £30m across Wales to meet social care demand cost pressures – an additional £1.410m for the Council. It has been confirmed that there is flexibility around the grant conditions and qualifying criteria and that the funding can be used to meet the costs of existing demands on services. **Social Care and Health (£0.705m)** An amount of £15m across Wales which will be allocated regionally through the Regional Partnership Boards via the Integrated Care Fund. The proportionate amount for Flintshire is £0.705m. The conditions and the distribution method are not yet confirmed at this stage. There is a risk that the Council will not secure this amount in full as the grant allocation for North Wales becomes available.
1.08	The updated forecast, following approval of both Stages One and Two, the announcement of the Final Settlement, and other changes, is shown in Table 3 below. The remaining budget 'gap' still to be balanced stands at £3.102m. **Table 3: Revised Financial Forecast**

Item	£m
Revised Gap at Provisional Stage	**15.262**
Less: Stage 1 Budget Proposals Approved	(7.937)
Less: Stage 2 Budget Proposals Approved	(0.630)
Less: Final Settlement Revised Reduction in Grant	(1.163)
Less: Further Changes emerging Dec/Jan	0.170
Less: Impact of Grant Announcements	(2.600)
Revised Working Budget Gap at Stage Three	**3.102**

	STAGE THREE – THE CLOSING STAGE OF BUDGET SETTING
1.09	There is no scope for further reductions in cost estimates for Corporate Finance and Service Portfolios for 2019/20 of scale. This position has been accepted by the Overview and Scrutiny Committees, Cabinet and Council. Specific requests have been made to Welsh Government for an improved Settlement for local government in Wales and for Flintshire. These requests, as summarised in the report to Council in December and in the #backtheask campaign have only been met in part. The Settlement on offer is not adequate to meet the funding needs of Flintshire.
1.10	Beyond a financial intervention by Welsh Government the only remaining options to balance the budget are Council Tax income and drawing upon reserves and balances. These two options are explored in the sections which follow. Following a recent consultation meeting with local and regional Assembly Members, and local

	constituency Members of Parliament, a specific request has been made for an additional £33M to be made available for local authorities in Wales. Acceptance of this request would make a marked improvement on the budget forecast for the Council and would generate an estimated financial benefit of £1.6m. This would enable the Council to contain an annual Council Tax rise to between 6.0% and 7.0%. At this level the annual Council Tax rise would be (1) similar to that set for 2018/19 and (2) in line with the budget planning assumption of Welsh Government that Council Tax will rise at an average of 6.5% across Wales.
	Use of Reserves and Balances
1.11	Public bodies are encouraged to make strategic use of their reserves and balances to contribute to annual budget setting. The situation across local government in England and Wales is variable with some councils being ‘reserve rich’ and others being ‘reserve poor’. Compared to many councils Flintshire has modest and limited reserves to call upon. We have an established protocol for openly reporting on the reserves held, and the purpose for retaining each of them, every quarter. This is seen as good practice in our sector. The Council has drawn on its reserves to (1) cross-fund one-off cost pressures (2) balance the budget as needed and (3) meet the costs of voluntary redundancies to reduce the Council workforce in recent years. Reserves can only be used once, and an over-reliance upon their use to balance annual budgets is not a sustainable way of funding services. Over the past three years the Council has utilised £6.179m from its reserves. In setting the 2018/19 budget the Council used £1.945m to help balance the budget with an additional £0.460m agreed on a ‘one-off’ basis to assist schools with their in-year cost pressures. This use of reserves is not a sustainable solution in funding the Council’s recurring expenditure needs.
1.12	The Council has limited useable or ‘un-earmarked’ reserves to draw upon. The Month 8 Budget Monitoring Report for 2018/19 advises of a projected Contingency Reserve at 31st March 2019 of £7.689m. Stage One budget solutions already include use of £1.9m of reserves as part of the strategy to balance the 2019/20 budget – leaving £5.789m as a projected Contingency Reserve remaining for 2019/20. This is subject to change between now and the close of the financial year. The Council also holds earmarked reserves which are set aside for specific purposes. Some are restricted in their use by, for example, the terms and conditions of grant where their source is Government funding. An update on current projected levels of earmarked reserves shows that the amount is likely to reduce from £13.6m in 2018/19 to £7.3m by the end of the financial year as these reserves are ‘drawn down’ (See Appendix 9). The Council reviews its remaining earmarked reserves on an ongoing basis, and only those for which there is a strong business case will be retained with the remainder being released for use as part of the Medium-Term Financial Strategy.
1.13	The Contingency Reserve, currently projected at £5.789m, is the Council’s main ‘defence’ against in-year cost pressures. It is utilised to meet the impact of an overall overspend in any given financial year.
1.14	The Council could also be exposed to any of several significant additional cost pressures later in 2019/20. Reserves will need to be held back as an in-year ‘buffer’ to meet them. Known corporate in-year risks include the outcome of the

	ongoing pay modelling work, replenishment of earmarked reserves for the costs of redundancy, and potential exposure to a proportion of the cost of the increased employer contributions to teachers' pensions – something which is being negotiated at a UK national level. Other major risks we face are rising social care costs, and the upward trend in the number of cases of Out of County placements across Wales which has resulted in a projected in-year overspend of £1.717m (noting that this cost pressure at this level has been addressed by the inclusion of an additional budget pressure in the budget proposals for 2019/20), and the impact of any new high-cost placements. National market conditions are also uncertain at a time of UK-European trade market access negotiations with risks to inflation levels for goods including food and fuel.
1.15	Taking all of the above factors into account it is imperative that a prudent level of reserves is held to mitigate the impact of one or all of these factors. The table below details recommended levels to be maintained for these specific purposes.

Table 4: Prudent Level of Reserves

Detail	**£m**
Contingency Reserve Available (Month 8)	7.689
Less: Approved use of Budget 2019/20 (Stage One)	(1.900)
Revised Amount Remaining	5.789
Increased annual budget management tolerance level 2019/20 due to imminent national market uncertainties e.g. financial markets and inflation levels	(2.600)
Contingency against further variations in 2018/19 e.g. Out of County Placements	(1.000)
Investment in change to achieve future efficiencies to support the MTFS over the next three years	(1.000)
Known Corporate Risks: Pay Modelling costs, replenishment of earmarked reserves for the costs of redundancy, and potential exposure to teacher pension employer contributions.	(1.000)
Amount Remaining	0.189

As shown in the analysis above there is only a relatively small amount of £0.189m available to make a further contribution to the budget for 2019/20 - based on the recommended levels required to maintain a prudent level of reserves.

	Council Tax
1.16	Stage Three is the final and the closing stage of the 2019/20 budget process. Having taken account of all changes since the position reported in December there is still a remaining 'gap' of £3.1m to be bridged to achieve a legal and balanced budget. Beyond a financial intervention by Welsh Government the Council will need to rely on Council Tax to bridge the 'gap'. Welsh Government has made a budget planning assumption that Council Tax will rise at an average of 6.5% across Wales. There is no 'cap' which restricts the level at which any Council can set Council Tax. This is a decision devolved to local authorities. As the position stands the Council will have to rely on a Council Tax rise in the

	region of 8.4/5% to meet its own expenditure requirements for 2019/20 after the utilisation of the small use of reserves identified in para 1.15. The addition of the increase in the North Wales Fire and rescue levy will bring the overall Council Tax increase to 8.9%.
	STAGE THREE – OVERALL POSITION AND CONCLUDING ADVICE
1.17	The table below summarises the overall position and the remaining budget 'gap' to be bridged through the limited budget balancing options which remain open to the Council.

Table 5: Proposed Budget 2019/20

<u>**Funding**</u>	**£m**
Aggregate External Funding (AEF)/RSG NNDR	188.980
Council Tax at 18/19 level (4.5% indicative increase)	79.148
SSA/Budget Requirement	**268.128**
Specific Grants (Estimated)	31.042
Use of Reserves	1.900
Total Funding	**301.070**
<u>**Expenditure**</u>	
Base Budget Rolled Forward	297.599
Transfers in/out of settlement (Appendix 2)	0.576
Previous Years Budget Decisions (Appendix 1)	(0.055)
Inflation (Appendix 3)	5.412
Cost Pressures and Investments (Appendix 4)	7.470
Fire Levy Increase (Appendix 4)	0.381
Efficiencies - Stage 1 (Appendix 5)	(1.664)
Efficiencies - Stage 1 Corporate (Appendix 5)	(2.402)
Efficiencies - Stage 2 (Appendix 6)	(0.630)
Efficiencies – Stage 3 (Appendix 7)	(2.231)
Less Specific Grants 2017/18	(31.326)
Plus Specific Grants 2018/19 (Estimated Appendix 8)	31.042
Total Expenditure	**304.172**

	Remaining Budget Gap — **3.102**
1.18	To follow the commentary in 1.09 and 1.10 above it should be noted that in the Council's formal response to Welsh Government on the Provisional Settlement (dated 28th November) we did say that "*without an improved Settlement to this level* (i.e. our campaign request) *Welsh Government must accept that it is knowingly shifting the responsibility for paying for local services from national funding to the local Council Tax payer*". We also said that "*as with our approach last year we invite Welsh Government to review our budget plans and risk and resilience statements, to be assured that we have taken all reasonable steps to secure a balanced budget before turning to you for national support*". The Council has not received a response to our letter or to this invitation.
	Funding
1.19	The budget expenditure proposals (unbalanced) set a budget requirement of £268.128m. This includes £188.980m of the Council's core grant (Revenue Support Grant and share of National Rates Pool) and £79.148m of Council Tax yield based the indicative increase in Council Tax that was approved as part of the Stage One budget solutions.
	Expenditure Provisions
1.20	**Previous Year Budget Decisions and Pressures** Each year indicative amounts for pressures and investments from the previous year are included in the budget. These are updated as part of the ongoing review of the forecast and are summarised in Appendix 1. Details of all other pressures taken into account in the budget process are included in Appendix 4.
1.21	**Transfers Into/Out of the Settlement** The transfers in and out of the settlement as confirmed in the Final Settlement are summarised in Appendix 2.
1.22	**Pay and Price Inflation** A summary of the inflationary increases in the budget is included in Appendix 3. The impact of the two-year National Joint Council (NJC) pay awards is included. The pay modelling work to revise the Council's pay spine is ongoing. The cost of the preferred pay model exceeding the base provision in the draft budget remains an open risk.
1.23	**Specific Grants** Appendix 8 provides the most up to date information on specific grants. The levels of funding for some specific grants have not yet been confirmed by Welsh Government.
1.24	**Managing the In-Year Position**

	As an important organisational discipline we will continue to review all operational budgets and cost pressures throughout the year to (1) aim to stay within budgets and avoid a projected year-end overspend on the Council Fund and (2) identify operational efficiencies to either off-set cost pressures or release funds back into the Contingency Reserve.
	Opinions of the Statutory Officers
1.25	**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 on its budget.
1.26	The 2019/20 budget has again been set within the context of the Medium Term Financial Strategy. It presents a significant financial challenge. The Council's budget strategy for dealing with this has been clearly set out in detail in previous budget reports, supported by a series of member workshop sessions.
1.27	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 - some of which have been reviewed by the Council's internal auditors on a sample basis.
1.28	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 legislation and professional guidance. An outcome of this protocol was to report to both Cabinet and Corporate Resources Overview and Scrutiny Committee the level of Earmarked Reserves held on a quarterly basis. This has been continued throughout 2018/19 through the monthly budget monitoring report. This process ensures that members can have a good understanding of all the reserves held by the Council.
1.29	The Council's overall level of reserves and balances is reviewed on an ongoing basis with the adequacy and purpose of reserves held being rigorously challenged. Any reserves no longer required at the level held are released for use.
1.30	I can confirm the reasonableness of the estimates contained in the proposed budget having regard to the Council's spending needs in 2019/20 and the financial context within which the budget is being set. It is clear that there are still some significant and open risks within the 2019/20 budget proposals - particularly around pay provision, social care demands, and the stability of the financial markets and inflation levels. Therefore, it is important that the Council protects its current level of reserves as far as possible to safeguard against these risks. 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 is essential to ensure that budgets are managed effectively - with prompt action taken to mitigate any impacts should variances occur.
1.31	In 2019/20 the Council was successful in the achievement of a significant VAT

	rebate which provided an additional £1.9m. This has been transferred into the Contingency Reserve. The budget proposals approved at Stage One include a commensurate contribution of £1.9m from Reserves and Balances. The rebate has provided a 'windfall' for the Council's reserves which are reducing in size. Use of this additional reserve in this way enables the Council to make a similar contribution to the 2019/20 budget as in previous years.
1.32	Within the context described above, I recommend that the Council should maintain sufficient general balances of £5.769m and retain a sizeable Contingency Reserve as a safeguard to manage any in-year cost pressures and variances as detailed in paragraph 1.15. The over-use of reserves in the balancing of the annual budget would create a level of risk which I could not support.
	Opinion of the Chief Executive
1.33	My professional advice complements that of the Corporate Finance Manager, as set out above, and concentrates on the wider risks posed by the challenge of setting a legal and balanced budget.
1.34	The draft budget as presented follows the Medium-Term Financial Strategy adopted by the Council. It has been developed according to the budget setting model which has been recommended by the Constitution Committee. It is the most balanced approach possible for achieving an annual budget, as required by law and the principles of good governance, whilst attempting to protect the improvement objectives and public service duties and obligations of the Council. However, there are medium term risks – beyond 2019/20 - that the Council will not achieve its priority outcomes as set out in the Council Plan, or maintain performance to service standards, as it might have done, due to ongoing reducing budgets and reducing organisational capacity.
1.35	I cannot recommend making any further reductions of scale to service portfolio budgets without risking either (1) failure in meeting the Council's mandatory duties (2) failure in meeting required service standards and/or (3) failing to implement adopted Council policy and service standards for non-mandatory services which the Council has decided to retain and protect. Neither can I support making any further reductions in management or workforce capacity without risking either (1) placing unfair expectations or undue pressure on individuals or teams (2) having sufficient capacity to manage and oversee all Council functions and systems and/or (3) safe corporate governance and legal compliance. The resilience statements shared with and accepted by each of the Overview and Scrutiny Committees demonstrate all of the above. I cannot recommend to the Council any option which would knowingly place any service in such a position that it would be unsafe or unsustainable, or fail in my/our duty of care to employees.
1.36	**Concluding Advice** The final budget forecast position, and the limited options available to the Council to fulfil its collective responsibility to set a legal and balanced budget are set out within the report. The advice on which to base a decision is clearly set out. There is no other concluding advice to give Council.
	THE MEDIUM TERM OUTLOOK

1.37	The financial forecast for the medium-term - 2020/21 – 2022/2023 - has been reviewed to refresh the Medium-Term Financial Strategy. A high-level estimate on the major cost pressures predicted over the next three years following this budget is included in Table 6. The forecast assumes that annual pay increases will trend be at a 2% and that we will continue to have a similar level of commissioning cost pressures within Social Services. Any decision on the level of reserves used to balance the budget will also impact on the following year. The 2019/20 budget should be set within the context of the medium-term position.

Table 6: Medium-Term Forecast

Cost Pressure Group		**20/21**	**21/22**	**21/23**
		£m	**£m**	**£m**
Pay Inflation		3.326	3.393	3.460
Non Pay Inflation		0.759	0.759	0.759
Social Care/CLIA Pressures*		3.470	4.044	4.100
Repayment of Reserve from 2019/20		1.900	0	0
Total		**9.455**	**8.196**	**8.319**

**Excludes any impact of Actuarial Review and future borrowing costs*

There are a number of variables which will have a major impact on the forecast and its reliability, none of which are within our control. The level of funding for local government in future funding settlements, the continuity and funding level of key specific grants, increases in demand-led Social Services cost pressures together with global economic uncertainty will necessitate this initial forecast being subject to regular revision.

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

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	Many people and organisations have been engaged in the development of the budget over seven months from July 2018 to now. There has been no singular consultation exercise or set period. There has been ample public communication and the opportunity for open debate on social media particularly through the #backtheask campaign. There has been no specific public consultation exercise – such as the series of public meetings held on each of the past three budget years – as there are no meaningful options on public services remaining on which to consult.
3.02	Engagement has taken place over this three-stage iterative budget setting process with:- • Group Leaders

	• Members through three stages of workshops in July and September • MPs, AMs and Regional AMs • Welsh Government • Welsh Local Government Association • County Forum (of local town and community councils) • Flintshire Joint Trade Union Committee • School Budget Forum • Education Consultative Committee • Primary and Secondary Heads Federation • Flintshire Governors Association • Headteachers and Chairs of Governors of all local schools • Flintshire Local Voluntary Council • Flintshire Public Services Board partners • Chief Officers • Service Managers • Portfolio Teams (through the business planning process) • the workforce (through two seminars with a combined attendance of 225)

4.00	**RISK MANAGEMENT**
4.01	The overall risks in setting the budget are set out within the report. The resilience statements for each Service Portfolio, which set out the specific risks to services of reducing base budgets further, have been shared with and accepted by the Overview and Scrutiny Committees. There are a number of open risks of specific grant certainty (paragraph 1.07) and in-year cost pressures (paragraph 1.30) set out within the report. The Council has a legal duty to set a balanced budget, based on the professional advice of its officers. Failure to do so would lead to the triggering of draconian statutory provisions which would restrict the ability of the Council to commit expenditure and thereby to function effectively.

5.00	**APPENDICES**
8.01	Appendix 1: Previous Year Budget Decisions Appendix 2: Transfers into/out of the Settlement Appendix 3: Inflation Appendix 4: Cost Pressures and Investments Appendix 5: Stage 1 Efficiencies Appendix 6: Stage 2 Efficiencies Appendix 7: Stage 3 Efficiencies Appendix 8: Specific Grants Appendix 9: Summary of Earmarked Reserves

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Cabinet Report – 20 November 2018; 2019/20 Council Fund Budget: Updated Forecast and Stage 1 and Stage 2 Budget Proposals

	Council Meeting 11 December 2018 Slides – Council Fund Budget 2019/20: Stage 3 Update Corporate Resources Overview and Scrutiny Committee 15 November 2018 – Presentation on the Stage 1 and Stage 2 budget Proposals
6.02	**Contact Officers:** Colin Everett, Chief Executive Gary Ferguson, Corporate Finance Manager **Telephone:** 01352 702101 **E-mail:** gary.ferguson@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
	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. **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). **Revenue Support Grant (RSG):** 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. **Specific Grants**: An award of funding from a grant provider (e.g. Welsh Government) which must be used for a pre-defined purpose. **Aggregate External Finance (AEF)**: represents the support for local revenue spending from the Welsh Government and is made up of formula grant. Formula grant includes the revenue support grant (RSG), and the distributable part of non-domestic rates (NDR). Amounts are determined annually and in advance of each new financial year as part of the Local Government Financial Settlement. **The 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. The Provisional Settlement is the draft budget for local government published by the Welsh Government for consultation. The Final

	Settlement is the approved budget post-consultation. **Budget**: a statement expressing the Council's policies and service levels in financial terms for a particular financial year. **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. **Earmarked Reserves:** Funding set aside that must be used for a specific purpose. **Un-earmarked Reserves:** Funding set aside as a safeguard against unforeseen events and can be used for any purpose**.** The Council maintains a prudent base level. **Contingency Reserve:** A reserve accumulated from historical underspends and used to mitigate in-year variations. **Integrated Care Fund (ICF):** A regional grant allocated by Welsh Government which is administered by a regional partnership board. Local Authorities, Health and other partner agencies work in partnership to support older people, people with a learning disability and children with complex needs. **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. **Welsh Local Government Association**: the representative body for unitary councils, fire and rescue authorities and national parks authorities in Wales.

Budget 2019/20
Council Fund Revenue

Previous Year Budget Decision

One-off Items Dropping Out **Approved 2018/19 Budget**	**2019/20** **£m**
Social Services	
Work Opportunities Pressure Reduction	0.055
Total Social Services	**0.055**
Total 2019/20 Budget	**0.055**

Budget 2019/20
Council Fund Revenue

Transfers in/out of settlement

Transfers in:	**£m**	**£m**
Teachers Pay Grant	0.319	
Free School Meals Grant	0.257	
Total Transfers in (Pressure)		0.576
Net effect (Pressure)		**0.576**

Budget 2019/20
Council Fund Revenue

Inflation

	Total £m
Pay (Non Schools)	3.251
NJC Pay Schools	1.402
Other Schools Inflation	0.192
Fuel	0.034
Energy/Water	0.329
Price	0.204
Total Inflation	**5.412**

Budget 2019/20
Council Fund Revenue

Cost Pressures & Investments

	2019/20 £m	2020/21 £m
Social Services		
Social Care Commissioning	1.450	1.450
Transition to Adulthood	0.640	0.640
Out of County Placements (Joint with E & Y)	1.655	1.655
Residential Care Pressure	1.009	1.009
Total Social Services	**4.754**	**4.754**
Streetscene &Transportation		
North Wales Waste Partnership	0.425	0.000
Waste Recycling Income	0.180	0.180
Total Streetscene & Transportation	**0.605**	**0.180**
Planning & Environment		
Local Development Plan	0.172	0.000
Total Planning & Environment	**0.172**	**0.000**
Education & Youth (E & Y)		
Minority Ethnic A Grant	0.048	0.048
Additional Learning Needs (ALN) reforms	0.142	0.142
Total Education & Youth	**0.190**	**0.190**
Governance		
Members Allowances	0.030	0.030
Universal Credit Support Funding Transfer	0.019	0.019
Contact Centre	0.100	0.100
Microsoft Licence Renewal	0.150	0.150
Total Governance	**0.299**	**0.299**
Community & Enterprise		
Council Tax Care Leavers Discount Scheme	0.027	0.027
Council Tax Reduction Scheme (CTRS)	0.341	0.341
Bad Debt Collection - (one Year efficiency dropping out)	0.144	0.144
Single Person Discount - (one year efficiency dropping out)	0.300	0.300
Total Community & Enterprise	**0.812**	**0.812**
Housing & Assets		
County Hall - (one year efficiency dropping out)	0.300	0.300
Energy Efficiency Pressure	0.050	0.050
SHARP	0.020	0.020
Total Planning & Resources	**0.370**	**0.370**
Central & Corporate		
CLIA - Borrowing Costs	0.226	0.226
North Wales Fire & Rescue Levy	0.381	0.381
Coroners	0.042	0.042
Total Central & Corporate	**0.649**	**0.649**
Total Pressures and Investments	**7.851**	**7.254**

Budget 2019/20
Council Fund Revenue

Stage 1 Efficiencies

Stage 1 Corporate Efficiency	£m
Minimum Revenue Provision	1.400
Domiciliary Care Charging Cap	0.264
Total Stage 1 Efficiency	**1.664**

Stage 1 Corporate Efficiency	£m
New Income Streams	0.100
Management of Workforce and Inflation cost pressures	1.144
Workforce Terms and Conditions	0.250
ADM Subsidies	0.400
Reduction in Corporate Management Costs	0.250
HRA/Council Fund Recharges	0.158
School Transport	0.100
Total Stage 1 Corporate Efficiency*	**2.402**

*Excluding Reserves and Council Tax

Budget 2019/20
Council Fund Revenue

Stage 2 Efficiencies

Stage 2 Business Planning Efficiencies	**£m**
Portfolio	
Corporate	0.150
Social Services	0.300
Education & Youth	0.076
Streetscene & Transportation	0.005
Planning & Environment	0.063
Housing & Assets	0.035
Total Stage 2 Corporate Efficiency*	**0.630**

*Net of Stage 1 targets for income and targeted post reductions

Budget 2019/20
Council Fund Revenue

Stage 3 Efficiencies	**£m**
Gwe Efficiency	0.006
Social Care Additional Funding	1.410
Childrens Services Additional Funding	0.110
Regional Allocation Health & Social Care	0.705
Total Stage 3 Efficiency	**2.231**

Budget 2019/20
Council Fund Revenue

Specific Grants

		Budget 2018-19* £	Budget 2019-20 £	Variance £	Confirmed (C) or Estimated (E)
Education & Youth					
Non Delegated	Promoting Positive Engagement (Youth Crime Prevention Fund)	196,143	196,143	0	E
	YOT / Youth Justice Board (inc. JAC)	221,956	221,956	0	E
	Welsh Network of Healthy School Schemes	101,380	101,380	0	E
	Youth Support Grant (Youth Service Revenue Grant)	126,820	126,820	0	E
	Free School Milk	245,891	245,891	0	E
	Families First	1,532,678	1,505,090	(27,588)	E
	Pupil Development Grant	2,977,000	3,587,850	610,850	E
	Education Improvement Grant for Schools	5,822,154	5,814,343	(7,811)	E
		11,224,022	**11,799,473**	**575,451**	
Delegated	6th Form Funding (Formally DCELLs)	4,756,182	4,729,890	(26,292)	E
		4,756,182	**4,729,890**	**(26,292)**	
Social Services	Social Care Workforce Development Programme	312,069	312,069	0	E
	Flying Start	2,904,700	2,904,700	0	E
	Out of School Childcare	97,877	97,877	0	E
		3,314,646	**3,314,646**	**0**	
Streetscene & Transportation	Concessionary Travel	2,180,000	2,180,000	0	E
	Local Transport Services (Capital)	974,500	0	(974,500)	E
	Sustainable Waste - now Environment & Sustainable Development	852,852	852,852	0	E
	Bus Service Support Grant	557,000	557,000	0	E
	Welsh Young Person Travel Discount Scheme	60,000	60,000	0	E
		4,624,352	**3,649,852**	**(974,500)**	
Planning & Environment	Safer Communities Fund	221,881	221,881	0	E
	Substance Misuse	522,744	522,744	0	E
	Crime Reduction and Anti Social Behaviour	31,566	31,566	0	E
	Domestic Abuse Co-ordinator Funding	92,400	92,400	0	E
	Environment & Sustainable Development Grant (non-Waste)	178,068	178,068	0	E
		1,046,659	**1,046,659**	**0**	
Housing & Assets	Supporting People	5,809,818	5,950,819	141,001	E
		5,809,818	**5,950,819**	**141,001**	
Chief Executives	Free Swimming	121,500	121,500	0	E
	National Exercise Referral	123,750	123,750	0	E
	Active Young People	305,303	305,303	0	E
		550,553	**550,553**	**0**	
Total		**31,326,232**	**31,041,892**	**(284,340)**	

***2018/19 Budget including estimated amounts not final**

Budget 2019/20
Council Fund - Revenue

Summary of Earmarked Reserves

	Estimated Balance 01/04/19 £m	Estimated Balance 31/03/20 £m
Service Balances		
Planning, Environment & Economy	0.172	0.099
Education & Youth	0.000	0.000
Social Services	0.095	0.095
Streetscene & Transpotation	0.000	0.000
Housing & Assets	0.002	0.002
Strategic Programmes	0.000	0.000
Corporate Services	0.065	0.021
Theatre Clwyd	0.200	0.200
Total	**0.534**	**0.417**
Corporate Balances		
Single Status/Equal Pay	0.538	0.000
General Reserve - Investment in Organisational Change	0.525	0.338
Total	**1.064**	**0.338**
Specific Reserves		
Benefits Equalisation	0.318	0.318
County Elections	0.205	0.205
Local Development Plan	0.180	0.034
Building Control	0.013	0.013
Waste Disposal	0.120	0.060
Flintshire Enterprise Ltd	0.058	0.058
Design Fees	0.100	0.100
Winter Maintenance	0.215	0.215
Car Parking	0.022	0.022
Insurance Funds	1.805	1.805
Cash Receipting Review	0.084	0.084
Flintshire Trainees	0.476	0.000
Customer Services Strategy	0.103	0.103
Supervision Fees	0.049	0.049
LMS Curriculum	0.097	0.097
Emergency Remediation	0.048	0.048
Solar Farms	0.221	0.221
Grants & Contributions	1.618	1.618
Total	**5.731**	**5.049**
Total Earmarked Reserves	**7.329**	**5.805**

Council Fund Budget 2019/20 – Third and Closing Stage

County Council

29 January 2019

Content

- Setting a legal and balanced budget
- The updated financial forecast
- Council Reserves and Balances
- Council Tax
- Schools and Social Care Budgets
- Professional opinions on the budget
- Budget setting scenarios
- The medium-term outlook
- The next steps

Setting a Legal and Balanced Budget

- The duty to set a legal balanced budget is upon the whole Council as a collective (a reserved matter)
- Legal: all budget proposals are within our powers
- Balanced: income and planned cost reductions combined match planned and expected expenditure
- Risk Balance: not overloading the budget with risks e.g. speculative or imprecise/un-costed budget proposals
- Implementation: proposals having realistic timescales
- Provisions: sufficient financial set-aside for main risks
- Advice: statutory roles of the S151 Officer and the Chief Executive in advising Council

Updated Forecast for 2019/20

CYNGOR
Sir y Fflint
Flintshire
COUNTY COUNCIL

The Forecast for 2019/20

» Initial gap of £12.2m identified back in April 2018

» Forecast kept under review over the summer period and shared at a series of member workshops. Cabinet in September advised of an updated forecast gap of £13.7m

» Gap Increased to £15.3m upon receipt of the Provisional Settlement

» Stages 1 and 2 approved at Council in November reduced the gap to £6.7m

Stage 1 – Corporate Budget Solutions

» Council Tax (illustrative 4.5%)	£3.635m
» New Income Streams	£0.100m
» Reserves and Balances	£1.900m
» ADM Subsidies	£0.400m
» Reduction in Corporate Management	£0.250m
» HRA – Council Fund Recharges	£0.158m
» Transport Anomalies	£0.100m
» Cost Pressure Management	
» Inflation / Pensions	£1.144m
» Other workforce Costs	£0.250m

Total of £7.937M

Stage 2 –Portfolio Business Plan Proposals

Portfolio	£m
Corporate	0.360
Social Services	0.315
Education & Youth	0.076
Streetscene & Transportation	0.065
Planning, Environment & Economy	0.111
Housing & Assets	0.035
Total	**0.963**
Budget Strategy	
Less:	
Income	0.143
Targeted Post Reductions	0.190
Balance of Operational Efficiencies	**0.630**

Final Settlement (1)

- Final Settlement announced on 19 December

- Standard Spending Assessment (SSA) for 2019/20 at £269.127m (an increase of 1.8% on 2018/19)

- Aggregate External Finance (AEF) for 2019/20 £188.980m - an increase of £1.163m to the AEF from the Provisional Settlement announced in October

- Represents a decrease of 0.3% (Revised Floor) for Flintshire compared with an all Wales average increase of 0.2%

Final Settlement (2)

- Transfers into the settlement for:
  - Teachers Pay grant - £0.694m
  - Free School Meals - £0.257m

- Additional Responsibility for increasing capital limits for residential care charging – pressure already included in our budget forecast

- Average Council Tax increase of 6.5% across Wales assumed by Welsh Government in their calculations

Other Changes to the Forecast 2019/20

- **Reduction** in Social Care Pressures
  - Commissioning Costs (£0.150m)
  - Day Services Costs (£0.055m)

- **Increase** in North Wales Fire & Rescue Levy of £0.381m

- Reduction in contribution to Regional Education Consortium GwE (0.006m)
- **Impact: overall increase of £0.170m**

Impact of Grant Announcements

- Social Care Grant £30m all Wales to meet Social Care demand cost pressures – local benefit £1.410m
- Children's Services £2.3m all Wales to help prevent children being taken into care – local benefit £0.110m
- Schools – Teachers Pay Award £7.5m all Wales to meet cost pressures of pay award – local benefit £0.375m
- Social Care and Health £15m all Wales to be allocated regionally – local benefit £0.705m (conditions and distribution not yet confirmed so an open risk)
- **Positive impact of £2.600m**

Summary of Revised Forecast

	£m
Revised Gap at Provisional Stage	15.262
Less: Stage 1 Budget Proposals Approved Stage 2 Budget Proposals Approved	(7.937) (0.630)
Revised Gap	**6.695**
Less: Final Settlement Revised Reduction in Grant	(1.163)
Less: Impact of Grant Announcements	(2.600)
Add: Further Changes emerging Dec/Jan	0.170
Revised Working Budget Gap at Stage Three	**3.102**

Remaining Options and Possibilities

- No scope for further reductions for Corporate Finance and Service Portfolios for 2019/20 of any scale

- Specific Requests to Welsh Government **#backtheask** campaign met in part and ongoing

- Beyond a financial intervention by Welsh Government the only remaining options are Council Tax income and drawing upon Reserves and Balances

Reserves & Balances

Types of Reserves

- **Base Reserve**: recommended financial practice and expected by regulators (stands at 2% of budget)

- **Contingency Reserve**: useable reserve set aside as a safeguard against in-year predicted and unforeseen cost pressures

- **Earmarked Reserves**: funding set aside for a specific purpose e.g. winter maintenance reserve

Managing the In-Year 2019/20

- The big in-year risks for which reserves need to be held back for the budget to be prudent are:-
  - Outcome of the ongoing pay modelling work
  - Protection against an in-year overspend as per the adopted MTFS key performance indicator
  - Replacement of earmarked reserves for the cost of redundancy and Invest to Save
  - Potential exposure to a proportion of the increased employer contribution costs for Teachers Pensions
  - Rising Social Care costs
  - National market condition uncertainty

Prudent Level of Reserves for 2019/20

Detail	£m
Contingency Reserve Available (as per budget monitoring 2018/19 at month 8)	7.689
Less: Approved use of budget 2019/20 (Stage One)	(1.900)
Revised Amount remaining	5.789
Less: Increased Annual Budget Management tolerance level 2019/20 due to imminent national market uncertainties e.g. financial markets and inflation levels	(2.600)
Less: Contingency against further variations in 2019/20 e.g. Out of County Placements	(1.000)
Less: Investment in change to achieve future efficiencies to support MTFS	(1.000)
Less: Known Corporate Risks: Pay Modelling costs, costs of redundancy, exposure to teacher pension employer contributions increase	(1.000)
Amount remaining	0.189

CYNGOR Sir y Fflint
Flintshire COUNTY COUNCIL

Council Tax

Council Tax

- Without any further funding announcements the remaining budget gap of £3.1m would require an overall council tax for Flintshire in the region of 8.4/5% after the utilisation of available reserves

- The addition of the increase in the NW Fire and Rescue levy will bring the overall increase to 8.9%

- Welsh Government planning assumptions are that Council Tax will rise at an average of 6.5% across Wales

Potential Council Tax Rises in Wales 2019/20

Increase Range	Number of Councils
Under 5%	7
5% - 6%	8
6% - 7%	2
7% - 8%	1
8% - 9%	1*
9%+	3

Council Tax (Band D) Comparators 2018/19

» Flintshire County Council	£1,178
» Blaenau Gwent (highest)	£1,571
» Pembrokeshire (lowest)	£ 994
» Welsh Average	£1,219

» ***Flintshire is £41 below the Welsh Average***

» English Authority Comparators

» Cheshire West and Chester	£1,448
» Cheshire East	£1,404
» Wirral	£1,480

Council Tax Indicative Comparators 2019/20

- A 8.9% rise in Council Tax will equate to an annual increase of £104.81 for an average Band 'D' household, that is £8.73 per month or £2.02 per week
- 49% of Flintshire households would pay less as they fall into lower property bands (Band 'A' to 'C')

Band	No of Properties	Annual Charge	Annual Increase	Monthly Increase	Weekly Increase
A	4,326	854.94	69.87	5.82	1.34
B	9,381	997.43	81.52	6.79	1.57
C	20,367	1,139.92	93.16	7.76	1.79

Council Tax Indicative Welsh Comparators 2019/20

» Latest intelligence indicates that an 8.9% increase (including the Fire Levy Increase) would result in Flintshire setting a council tax charge which would still be **£34** lower than the Welsh average for 2019/20

» The additional 2.4% increase over and above the 6.5% increase assumed in the final settlement equates to £28.26 per year, £2.36 per month or £0.54 per week for a Band 'D' household

Schools and Social Care Budgets

Schools Funding 2019/20

Description	£m
NJC – Pay Costs	1.402
Teachers Pay	0.319
General Inflation	0.192
Free School Meals Increase	0.257
Total Funded from RSG	**2.170**
% Increase on Delegated School Budget	2.47%
Teachers Pay Grant (Estimate)	0.375
Total Funding Increase	**2.545**
Overall % Increase for Schools	2.89%

Social Care Funding 2019/20

- Net uplift for Social Care of 6% which equates to £4.2m excluding contributions from the additional grant announcements

- Budget includes increases for the impact of Out of County Placements, Commissioning costs, Transition to Adulthood and Residential Care

- Net of the additional grant contributions the uplift is 2.9%

Professional Opinions

Professional Opinions

- **Section 151 Officer/Corporate Finance Manager**: confirms the reasonableness of the budget estimates; significant risks around social care demand and the stability of financial markets; essential to protect a sizeable Contingency Reserve to safeguard against these risks; a robust programme for the delivery of the efficiencies with effective and disciplined in-year financial management is essential
- **Chief Executive**: budget developed according to budget model recommended by Constitution committee; cannot recommend any further reductions to service portfolio budgets or further reductions in workforce capacity without significant risks as set out in the report

The Basis of the Professional Opinions

- comprehensive and intricate cost forecasting completed
- ongoing review of all cost bases in services with comprehensive and challenging business plans for service portfolios over a period of 3-4 years
- service choices made through a series of reviews with budgets aligned to fit
- ongoing review of all corporate costs and overheads
- corporate choices made by members e.g. MRP policy
- risk and resilience analysis and statements
- legal and contractual obligations met e.g. pay awards

Cyngor Sir y Fflint
Flintshire County Council

Future Outlook

Professional Opinions – The Future

- The sustainability of Council budgets is under serious threat with few local service choice options remaining
- Concern over a reliance on diminishing reserves in annual budget-setting over a series of years
- Proliferation of unfunded national commitments an ongoing cause of major concern
- Difficult to see how the Council will be able to successfully balance the budget for 2020/21 onwards without some reversal of national fiscal policy
- Inevitable pressure on local taxation and local income sources to sustain future budgets
- Early planning for 2020/21 - 2022/23 critical with an updated forecast for the medium-term

Medium Term Forecast

Cost Pressure Group	20/21	21/22	22/23
	£m	**£m**	**£m**
Pay Inflation	3.326	3.393	3.460
Non Pay Inflation	0.759	0.759	0.759
Social Care/CLIA Pressures*	3.470	4.044	4.100
Repayment of Reserve from 2019/20	1.900	0	0
Total **** Excludes any impact of Actuarial Review and future borrowing costs***	**9.455**	**8.196**	**8.319**

#BacktheAsk 3

Update from the AMs and MPs meeting

- Letter sent on 14 January 2019 following the meeting with AM's MP's on 11 January 2019
- Advised of the options available to achieve a balanced budget - Council Tax or improved national funding, and advised that the Final Settlement will require a Council Tax increase of 8.5% (excluding the fire levy increase)
- **Extracts**
- Ask for support of the budget and acknowledgment of extra funding within Welsh Government
- Point out that the additional funding did not fully meet our asks
- Drew attention to the shift from central funding to local taxation
- Ask for distribution of an additional £33m to Councils enabling us to contain our Council Tax increase to a level within the range of 6 – 7% in line with WG assumptions

Budget Scenarios

Scenario 1: the Council sets a budget within its known resources and without any national support

Scenario 2: local government receives an improved Settlement and the Council can set a budget with more resources

Scenario 3: Flintshire receives an improved Settlement with supplementary funding and the Council can set a budget with more resources

Scenario 4: the Council cannot set a legal and balanced budget and has to default to the statutory procedures and risk a national intervention

Next Steps and Timelines

» Meeting Today

» Final engagement with Welsh Government

» Further Council meeting on 19 February

» Council Tax formal resolution-setting at Council meeting on 28 February

FLINTSHIRE COUNTY COUNCIL

Date of Meeting	Tuesday, 19th February 2019
Report Subject	Council Fund Capital Programme 2019/20 – 2021/22
Report Author	Chief Executive, Chief Officer Housing & Assets, Corporate Finance Manager

EXECUTIVE SUMMARY

This report presents the Council Fund Capital Programme for the period 2019/20 – 2021/22 for approval.

The proposals will be considered by the Corporate Resources Overview and Scrutiny Committee on 14th February 2019 where Members will have the opportunity to offer comments and feedback. This feedback will be taken into account by Cabinet when it meets prior to Council.

Cabinet will consider the detailed report, included at Appendix A, and the feedback from Corporate Resources Overview and Scrutiny Committee, at their meeting on 14th February 2019 and their recommendations will be reported at the meeting.

RECOMMENDATIONS	
1	Approve the allocations in Table 4 (paragraph 1.04.1) of the Cabinet report for Statutory/Regulatory and Retained Assets sections of the Council Fund Capital Programme 2019/20 - 2021/22
2	Approve the schemes included in Table 5 (paragraph 1.05.1) of the Cabinet report for the Investment section of the Council Fund Capital Programme 2019/20 - 2021/22.
3	Members are asked to note the shortfall in funding of schemes in financial years 2019/20 and 2020/21 (paragraphs 1.06.1) as set out in the Cabinet report. Options including a combination of future capital receipts, alternative grants (if available), prudential borrowing or the re-phasing of schemes will be considered during 2019/20, and updates provided to Members in future capital programme monitoring reports.
4	Approve the schemes included in Table 7 (paragraph 1.07.04) of the

	Cabinet report for the specifically funded section of the Council Fund Capital Programme which will be funded in part through Prudential Borrowing.

REPORT DETAILS

1.00	**CAPITAL PROGRAMME 2019/20 - 2021/22**
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 19th February 2019: Council Fund Capital Programme 2019/20 – 2021/22.

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

APPENDIX A

CABINET

Date of Meeting	Tuesday 19th February 2019
Report Subject	Development of 2019/20 – 2021/22 Capital Programme
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Chief Executive, Chief Officer Housing & Assets and Corporate Finance Manager
Report Type	Strategic

EXECUTIVE SUMMARY

This report presents the Capital Programme for the period 2019/20 – 2021/22 for recommendation to Council.

The Council's capital programme encompasses investing significant resources in assets for the long term to enable the delivery of high quality, value for money public services. Assets include buildings (such as schools, care homes and day centres, infrastructure (such as highways, IT networks, and household recycling centres), and assets not owned by the Council (such as works to improve and adapt private sector homes). The proposed capital investments outlined within this report are closely aligned to portfolio service business plans and the Council Plan.

The Council has limited capital resources from Welsh Government to support Council priorities, needs and liabilities; however it has the powers to fund Capital schemes by borrowing, but this is temporary and ultimately the cost and repayment of any borrowing is charged to the Council's revenue budget. Schemes funded by borrowing are carefully considered due to the long term impacts on the Council's revenue budget.

The report splits the Council Fund Capital Programme into three sections;

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

Historically, much of the Council’s programme has been funded from capital receipts and grants. However, the Council’s ability to generate significant capital receipts is almost exhausted. Although the Council will wherever possible seek to identify assets for sale and other sources of funding such as specific grants and revenue contributions, the Council may need to use prudential borrowing to finance more of the programme going forward. In particular, the 21st Century Schools Band B programme is likely to be funded through Prudential Borrowing.

The Capital Strategy has been updated and is presented separately on the agenda. The Asset Management Plan will be updated later in the year to support the current and emerging longer term Council priorities.

The information in this report refers to Council Fund (CF) programme only, not the housing programme which is funded from the Housing Revenue Account and which is reported separately on this agenda.

RECOMMENDATIONS	
1	To consider and approve the allocations and schemes in Table 4 (paragraph 1.04.1) for the Statutory/Regulatory and Retained Assets sections of the Council Fund Capital Programme 2019/20 - 2021/22.
2	To consider and approve the schemes included in Table 5 (paragraph 1.05.1) for the Investment section of the Council Fund Capital Programme 2019/20 - 2021/22.
3	To note that the shortfall in funding of schemes in 2019/20 and 2020/21 in Table 6 (paragraph 1.06.1) at this point in the approval process is flexible. Options including a combination of future capital receipts, alternative grants (if available), prudential borrowing or the re-phasing of schemes will be considered during 2019/20, and included in future capital programme reports.
4	To consider and approve the schemes included in Table 7 (paragraph 1.07.4) for the specifically funded section of the Council Fund Capital Programme which will be funded in part through Prudential Borrowing.

REPORT DETAILS

1.00	DEVELOPING THE CAPITAL PROGRAMME 2019/20 – 2021/22
1.01	The Council's capital programme encompasses investing significant resources in assets for the long term to enable the delivery of high quality, value for money public services. Assets include buildings (such as schools, care homes and day centres, infrastructure (such as highways, IT networks, and household recycling centres), and assets not owned by the Council (such as works to improve and adapt private sector homes). The proposed capital investments outlined within this report are closely aligned to Portfolio service business plans and the Council Plan. The Council has limited capital resources from Welsh Government to support Council priorities, needs and liabilities. The Council has the powers to fund Capital schemes by borrowing, however, this is temporary and ultimately the cost and repayment of any borrowing is charged to the Council's revenue budget. Schemes funded by borrowing are carefully considered due to the long term impacts on the Council's revenue budget. The first half of this report covers parts of the capital programme where the Council invests in local infrastructure, facilities and assets, which will be funded from general capital resources (General Capital Grant, Unhypothecated Supported Borrowing and Capital Receipts). Regional programmes such as the Growth Vision for North Wales which will draw on national funds, and the HRA Capital Programme which is separate and includes the Welsh Housing Quality Standard (WHQS) work programme and Social Housing and Regeneration Programme (SHARP), supplement the Council funded capital programme. The second half of the report covers parts of the Capital Programme funded specifically which includes specific grants as far as information is available at the time of writing, and borrowing. This includes the 21st Century Schools Programme, delivered in partnership between the Council and Welsh Government and loans to NEW Homes the Council's subsidiary to build new affordable homes.
1.02 1.02.1	**General Capital Programme 2018/19 – 2020/21 Update** The Council's Capital Strategy divides the Capital Programme into three parts as follows. 1. **Statutory / Regulatory section** – 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 and any works required to keep buildings open by meeting Health and Safety requirements. 2. **Retained Assets section** – to ensure service and business continuity. This includes schemes that enhance and improve retained assets and infrastructure to deliver services and meets significant need identified by service plans or through condition surveys etc.

	3. **Investment section** – to fund costs incurred when remodelling and investing in services. This includes new schemes arising from Portfolio business plans, the Council Plan, other relevant and emerging plans, and other strategies or emerging Council priorities approved through a selection process based on the provision of a business case.
1.02.2	Table 1 below summarises the Council funded Capital Programme for 2018/19 – 2020/21:

Table 1

ESTIMATED FUNDING 2018/19 - 2020/21

	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Expenditure				
Statutory / Regulatory Section	2.450	2.350	2.350	7.150
Retained Assets Section	3.288	3.175	3.977	10.440
Investment Section	4.068	7.642	2.088	13.798
	9.806	**13.167**	**8.415**	**31.388**
Funding				
Un-hypothecated Supported Borrowing (USB) [1]	4.051	4.051	4.051	12.153
General Capital Grant (GCG) [1]	2.465	2.465	2.465	7.395
Capital Receipts Available (As at Month 9 2017/18)	3.624	0.000	0.000	3.624
Total Funding	**10.140**	**6.516**	**6.516**	**23.172**
Surplus / (Shortfall)	**0.334**	**(6.651)**	**(1.899)**	**(8.216)**

1 As per 18/19 Final Settlement

1.02.3	Table 1 shows that when the Capital Programme 2018/19 – 2020/21 was set in February 2018, there was an overall shortfall in funding of £8.216m, though 2018/19 schemes were fully funded. The shortfall in funding of schemes in 2019/20 and 2020/21 at that point in the approval process was kept flexible and this was explained in the report to Council at that time. Options included a combination of future capital receipts, alternative grants, prudential borrowing or scheme phasing over several years which would be considered during 2018/19.
1.02.4	On 20th November, 2018 the First Minister wrote to all local authorities in Wales to announce a package of additional funding in a number of areas. One of these was the allocation of an additional £100m of capital funding across Wales in the form of additional General Capital Grant over 3 years from 2018/19 to 2020/21.

1.02.5	Progress on addressing the shortfall in Table 1 has been reported regularly to Cabinet and Corporate Resources Overview and Scrutiny Committee (CROSC) during 2018/19. During the year an additional £0.500m was allocated for costs incurred in the scheme relocating services from County Hall, Mold to Ty Dewi Sant, Ewloe. Good progress has also been made in generating capital receipts during the year bringing the total estimated shortfall in funding at period 9 in 2018/19 to £1.428m as is summarised in Table 2 below:

Table 2

ESTIMATED FUNDING 2018/19 - 2020/21

	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Funding				
Un-hypothecated Supported Borrowing (USB) [1]	4.051	4.094	4.094	12.239
General Capital Grant (GCG) [1]	2.465	2.492	2.492	7.449
Additional General Capital Grant (GCG) [2]	2.281	1.383	0.922	4.586
Capital Receipts Available (As at Month 9)	3.624	2.562	0.000	6.186
Total Funding	**12.421**	**10.531**	**7.508**	**30.460**
Expenditure				
Total Capital Programme 2018/19 - 2020/21	9.806	13.167	8.415	31.388
Additional Allocation - Ty Dewi Sant	0.500	0.000	0.000	0.500
	10.306	**13.167**	**8.415**	**31.888**
Surplus / (Shortfall)	**2.115**	**(2.636)**	**(0.907)**	**(1.428)**

1 As per 18/19 & 19/20 Final Settlements
2 As per WG November 2018

1.02.6	The Council has developed a prudent policy of allocating its own capital receipts to fund capital projects only when receipts are actually received rather than when it is anticipated the receipt will be received, and this position continues to be the case. Table 2 shows that good progress has been made to address shortfall in funding over the 3 year period to 2020/21, albeit that the additional funding from WG has had the greatest impact. The only capital receipts included in the total funding available in Table 2 are those that have been received to date. That is prior year's receipts, and 2018/19 receipts (to date, as at the month 9 capital monitoring report 2018/19) which are unspent to date. There remains a shortfall in funding of £1.428m over the 3 year period to 2020/21.

	In recent years, much of the Council's programme has been funded from capital receipts. However, the Council's ability to generate significant capital receipts is getting harder and is almost exhausted. Although the Council will wherever possible seek to identify assets for sale (as appropriate) to fund the Capital Programme. The current projection is for capital receipts in the region of £2.3m over the period. There is risk relating to these due to their size and complexity. The timing of these receipts are also subject to market forces outside of the Council's control. In line with current policy no allowance has been made for these receipts in considering the Council's capital funding position. Given the current position in setting the Capital Programme for the next 3 years 2019/20 – 2021/22 minimal new schemes are proposed for inclusion as should other sources of funding not materialise the Council will need to use prudential borrowing to finance the remainder of the programme going forward.
1.03	**Projected General Funding Available 2019/20 - 2021/22**
1.03.1	Table 3 below shows the general capital funding currently projected to be available to fund the capital programme over the next 3 years (2019/20 - 2021/22), including the additional allocations referred to in 1.02.4 above. **<u>Table 3</u>**

ESTIMATED AVAILABLE FUNDING 2019/20 - 2021/22

	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Funding (Excluding Specific Funding)				
Un-hypothecated Supported Borrowing (USB) [1]	4.094	4.094	4.094	12.282
General Capital Grant (GCG) [1]	2.492	2.492	2.492	7.476
Additional General Capital Grant (GCG) [2]	1.383	0.922	0.000	2.305
Capital Receipts Available	2.562	0.000	0.000	2.562
Surplus B/Fwd from 2018/19	2.115	0.000	0.000	2.115
Total	**12.646**	**7.508**	**6.586**	**26.740**

1 As per 19/20 Final Settlement
2 As per WG November 2018

1.03.2	Table 3 above assumes that the Un-hypothecated Supported Borrowing allocation and the General Capital Grant received from Welsh Government (WG) in the years 2020/21 to 2021/22 remains the same as included in the information provided in the 2019/20 final Financial Settlement for Welsh local government. Compared with the 2018/19 final Financial Settlement the Un-hypothecated Supported Borrowing allocation has increased by £0.043m and General Capital Grant by £0.027m, a total increase of £0.070m per annum. This excludes the additional allocation announced in November.

	The table includes the additional General Capital Grant agreed by WG in the 2019/20 Financial Settlement. Whilst the amount for 2019/20 has been agreed by WG, the amount for 2020/21 remains an estimate. Also included are the additional capital receipts which the Council had received by month 9 2018/19, and the projected surplus on funding carried forward from 2018/19.
1.03.3	The figures in Table 3 relate to the Council Fund only with the HRA Capital Programme being reported separately on this agenda.
	General Capital Programme 2019/20 – 2021/22
1.04	**Statutory / Regulatory and Retained Asset Allocations – 2019/20 – 2021/22**
1.04.1	Table 4 shows the proposed allocations for the period 2019/20 - 2021/22 for the Statutory / Regulatory and Retained Asset sections of the Capital Programme, including two new schemes explained in paragraphs 1.04.10 – 1.04.13

Table 4

PROPOSED ALLOCATIONS 2019/20 - 2021/22

	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Statutory / Regulatory Section				
Equalities Act - Individual pupils	0.250	0.250	0.250	0.750
Disabled Facilities Grants	1.700	1.700	1.700	5.100
School building works	0.100	0.100	0.100	0.300
Corporate property works	0.300	0.300	0.300	0.900
Total Statutory / Regulatory	**2.350**	**2.350**	**2.350**	**7.050**
Retained Assets Section				
School building works	1.400	1.400	1.400	4.200
Corporate property works	0.300	0.300	0.300	0.900
Highways asset management plan	0.600	0.600	0.600	1.800
Playareas	0.200	0.200	0.000	0.400
Synthetic sports pitches	0.000	0.272	0.000	0.272
ICT - Cyber Security	0.055	0.145	0.000	0.200
ICT - Equipment at Datacentres	0.020	0.180	0.000	0.200
ICT - Storage Technologies	0.200	0.600	0.000	0.800
ICT - Server Technology	0.150	0.030	0.000	0.180
ICT - Schools Digital Delivery of Curriculum	0.526	0.000	0.000	0.526
ICT - Laptop/PC relacement Scheme	0.106	0.000	0.000	0.106
Headroom	0.250	0.250	0.250	0.750
Total Retained Assets Section	**3.807**	**3.977**	**2.550**	**10.334**

1.04.2	The information in table 4 in relation to the new and previously approved schemes is explained in more detail in paragraphs 1.04.3 to 1.04.14 below.
1.04.3	<u>Equalities Act – Individual pupils</u> An annual allocation to adapt and modify schools for children who have disabilities to support and create increasingly inclusive school environments. These works help the Council to meet its obligations under disability legislation, and reduce the potential costs and disruption associated with transporting pupils to alternative sites. No changes are proposed for 2019/20 to 2021/22.
1.04.4	<u>Disabled Facilities Grants</u> An annual allocation to improve and adapt private sector homes comprising: • 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 No changes are proposed for 2019/20 to 2021/22.
1.04.5	<u>School building work</u> 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. • 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. £0.100m per annum. • Works to upgrade ventilation systems at school kitchens which are failing building regulations and gas safety legislation and are at risk of closure. £0.200m per annum. • Fire Inspection Works at schools which are the responsibility of the Local Authority and have been identified during statutory fire risk assessments. £0.200m per annum. No changes are proposed for 2019/20 to 2021/22.
1.04.6	<u>Corporate property works</u> 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, including managing risks from legionella, fire safety, asbestos, accessibility and health and safety. No changes are proposed for 2019/20 to 2021/22.
1.04.7	<u>Highways Asset Management Plan (HAMP)</u> An annual allocation of £0.600m 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. Welsh Government (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 (£0.230m in 2016/17 and £1.427m in 2017/18). See paragraph 1.10 for more detail in regard to the position on the potential development of the HAMP, but no changes are proposed for 2019/20 to 2021/22 at this stage.
1.04.8	<u>Play areas and Synthetic sports pitches</u> An annual allocation of £0.200m to fund the most urgent requirements to replace play equipment that has reached the end of its useful life at play areas, as well as upgrades to play areas. No changes are proposed for 2019/20 to 2020/21. The scheme originally allocated funding for 3 years which ends in 2020/21, so no funding is included in 2021/22. Condition surveys are undertaken of all synthetic sports pitches. The pitch at Elfed High School, Buckley will require resurfacing in 2020/21.
1.04.9	<u>IT Infrastructure</u> Various schemes required to maintain service and business continuity; • ICT Cyber Security - Replacement of equipment including Firewalls and e-mail scanning technology which protect the Council's IT systems from Cyber Attack and allows the Council to maintain its public sector network accreditation (a requirement for interaction with the Department of Work and Pensions for Housing Benefit). • ICT Equipment at Datacentres - Replacement of equipment including High Volume Air Conditioning units, batteries that ensure the power supply to data centres is not interrupted, equipment that monitors the conditions in the datacentres and alerts if there are issues and networking equipment to the datacentres.

	• ICT Storage Technologies - Increase storage capacity to cope with increasing demand of the organisation, whilst also investing in complimentary technologies to SharePoint software to ensure data is stored in the most efficient way and is compliant with General Data Protection Regulation. • ICT Server Technologies - Replacement of server infrastructure to support Citrix applications, SQL databases and Exchange and Skype systems. Business case explains the risks of not replacing as a degradation of service, key business systems operating slowly or even failing to run completely. No changes are proposed for 2019/20 to 2020/21. The work in relation to this funding is anticipated to end in 2020/21, so no funding is included in 2021/22.
1.04.10	<u>Supporting digital delivery of the school curriculum</u> To prepare for changes being introduced in assessing the literacy and numeracy of pupils online there is a need to upgrade IT infrastructure across schools. Failure to invest in this scheme could potentially lead to learners not developing the appropriate skills to engage in the digital world. The scheme includes: • Developing connectivity in schools at a cost of £0.276m in 2019/20, with a further £0.130 being included in the 2018/19 programme funded from the headroom budget. The expenditure will lever in £0.120m benefit by WG agreeing to increase connectivity capacity. • Increasing schools' wireless capacity at a cost of £0.250m in 2019/20.
1.04.11	The benefits and costs of the schemes are as follows. Direct benefits - Supports the Digital Business and Community theme of the ICT digital strategy - Enables schools to engage with personalised assessments, online services, and fully integrate and develop digital competency framework - Provide capacity to cope with the increasing demand for online services - The connectivity will provide equity across the schools sector ensuring all schools benefit - Will address findings of a WG report into wireless capacity in Flintshire schools Direct costs - For Connectivity, if required borrowing costs (£0.061m in 2019/20 rising to £0.066m in 2024/25) - For Wireless upgrade, if required borrowing costs (£0.056m in 2019/20 rising to £0.059m in 2024/25) - For Wireless upgrade, revenue costs of £0.039m mainly due to changes in licence fees

	Indirect benefits - Levers in £0.120m WG investment in relation to school connectivity limits - Helps to deliver an equitable, fully integrated and supported competency curriculum for Flintshire learners - Likely to improve standing with Estyn inspectors
1.04.12	<u>Laptop/PC replacement scheme</u> There is a need to replace old laptops unable and too old to deliver the required level of service and/or support the latest operating systems and security software. If these are not replaced then there are risks that cyber security may potentially be breached and could threaten the public sector network accreditation, and that service delivery will be impaired due to officers being unable to utilise systems effectively. Windows 7 will cease to be supported after January 2020. The amount to be included in the programme is £0.106m.
1.04.13	The benefits and costs of the laptop/PC replacement scheme are: Direct benefits - Maintains cyber security - All laptop/PCs will support Windows 10, ensuring that the operating systems are up to date and secure Direct costs - If required, borrowing costs (£0.024m in 2019/20 rising to £025m in 2024/25) Indirect benefits - Facilitates agile working which underpins the Council's strategy on office location - Improves the performance of devices enabling officers to use systems more efficiently. -
1.04.14	<u>'Headroom'</u> '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 (£0.250m per annum). 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. No changes are proposed for 2019/20 to 2020/21.
1.05 1.05.1	**Investment Section of the Capital Programme 2019/20 – 2021/22** Table 5 below shows the proposed schemes for the period 2019/20 - 2021/22 for the Investment section of the Capital Programme. Details are provided in paragraphs 1.05.2 to 1.05.6

Table 5

PROPOSED INVESTMENT SCHEMES 2019/20 - 2021/22

	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Investment Section				
Previously Approved				
School extension and remodelling				
Castell Alun High School - Hope	4.000	0.207	0.000	4.207
Glan Aber Primary - Bagillt	0.241	0.000	0.000	0.241
Marleyfield Residential Home - Buckley	1.001	1.381	0.000	2.382
County Hall Demolition	1.900	0.000	0.000	1.900
Theatr Clwyd Redevelopment	0.500	0.500	0.000	1.000
	7.642	**2.088**	**0.000**	**9.730**
New Schemes for Approval				
	0.000	0.000	0.000	0.000
	0.000	**0.000**	**0.000**	**0.000**
Total Investment Section	**7.642**	**2.088**	**0.000**	**9.730**

1.05.2 Castell Alun High School - Hope

This scheme brings the school building up to current standards providing facilities that are fit for purpose and suitable for delivering the future curriculum, helping reduce the risk of a poor Estyn inspection. The school is being 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 which are nearing the end of their economic working life (and will need replacing at significant cost), help increase capacity to meet current and future demand and create specialist teaching accommodation.

1.05.3 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 so classes are being taught in the hall, resulting in the school being unable to deliver aspects of the PE curriculum, and running the risk of a poor Estyn inspection. The scheme converts the existing hall to provide two suitable teaching spaces, with circulation; the construction of a new hall at the appropriate size for the number of pupils on roll; and minor extensions to three classrooms to provide appropriate size and shape, more suitable for curriculum delivery. The scheme is supported by an Infant Class Size Grant of £1.3m.

1.05.4	<u>Extension to Residential Care Home, Marleyfield – Buckley</u> Following a comprehensive review of the residential care market in Flintshire the Council approved a capital scheme to extend Marleyfield House in Buckley by an additional 32 beds to bring total provision up to 64 beds. The new facility is being developed through a pooled budget arrangement with BCUHB to provide additional services, beds and multi-disciplinary support in a community setting. This provides permanent residential beds, as well as beds which prevent hospital admissions, expedites hospital discharges and allows appropriate assessment to reduce care packages to support people in the long term. The Council is working with WG as the scheme is partly funded by ICF grant. To date a full feasibility study has been completed, and work continues to complete the detailed design and development plans in order for a full planning application to be submitted in Spring 2019. At this point in the project costs as well as grant funding from WG will be confirmed. Until formal approval is received from WG the costs of works undertaken remains a risk that the Council takes. The scheme's target completion date is Spring 2021. There is a revenue pressure of an estimated £150k associated with this project which will result in the year the facility becomes operational. This pressure would have occurred in any case as demand grows and residential beds from the private sector would need to be paid for.
1.05.5	<u>Office Rationalisation – County Hall partial demolition</u> The current accommodation within the Mold campus office block is inefficient. Two out of the four accommodation blocks are empty with staff consolidating into phases one and two, however the buildings are still generating significant running costs. Work is underway to plan the demolition of the empty accommodation at County Hall. There is a second stage proposal currently under early development which would see a masterplan being developed for the whole of the Mold County Hall campus. The business case for the reduction of the scale of County Hall through partial demolition has already been made and approved.
1.05.6	<u>Theatr Clwyd Redevelopment</u> The Theatr Clwyd building is nearing the end of its life and needs updating to ensure it is safe for public and employment use. Funding from the Arts Council of Wales has been used to complete a feasibility study into the potential for future capital development. The outcome of the feasibility study indicated that the main two theatres work extremely well and are the right size for audiences however the infrastructure supporting the building is in need of replacement and without this the Theatr is not sustainable.

	Detailed design and development works are taking place to build on and develop further the feasibility study funded from £0.330m which was included in the 2018/19 capital programme. This will be carried forward if necessary. A decision by all partners would then need to be taken to proceed with the project. Should the project not go ahead then the Council's share of the design development above at £0.330m cannot be capitalised and would be a charge to the Council's revenue account.
1.06	**Summary (Generally funded) Capital Programme 2019/20 – 2021/22**
1.06.1	Table 6 below summarises the generally funded Capital Programme and available funding, including the two new schemes.

Table 6

SUMMARY (GENERALLY FUNDED) CAPITAL PROGRAMME 2019/20 - 2021/22

	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Statutory / Regulatory Section	2.350	2.350	2.350	7.050
Retained Assets Section	3.807	3.977	2.550	10.334
Investment Section	7.642	2.088	0.000	9.730
Total (All Sections)	**13.799**	**8.415**	**4.900**	**27.114**
Estimated available general funding [1]	12.646	7.508	6.586	26.740
Total	**12.646**	**7.508**	**6.586**	**26.740**
Surplus / (Shortfall)	**(1.153)**	**(0.907)**	**1.686**	**(0.374)**

1 As per 19/20 Final Settlement

1.06.2 Table 6 shows that there is an overall shortfall in projected funding of £0.374m over the 3 year period. There is an estimated shortfall of £1.153m in 2019/20.

As stated earlier in the report, the current projection is for capital receipts in the region of £2.3m over the period. There is risk relating to these due to their size and complexity. The timing of these receipts are also subject to market forces outside of the Council's control. In line with current policy no allowance has been made for these receipts in funding the deficit above.

Options to fund the shortfall include a combination of future capital receipts, alternative grants, and scheme phasing as the expenditure profile of large complex projects such as those included in the investment section of the programme could change. Every effort will be made to ensure that other sources of funding are utilised to fund the programme.

Ultimately should other sources of funding not materialise the Council will need to use prudential borrowing to finance the shortfall. This could be short term during 2019/20 and 2020/21 as there is a potential surplus in 2021/22 of £1.686m, or if necessary long term to fund the overall shortfall.

1.07	**Specific Grants and Borrowing**
1.07.1	**21st Century Schools Band B**

WG has approved the Council's in principle submission for 21st Century Schools Band B. The programme is to be funded from specific grant from WG at an agreed intervention rate, with the Council's contribution to be funded by prudential borrowing. The WG intervention rate for funding the 21st Century Band B programme has increased from 50% to 65% for schools and 75% for Pupil Referral Units (PRUs)

The total estimated cost of the programme is £85.420m. Each of the projects is subject to individual approval to ensure that each meets the Council's continuing priorities and is affordable in the context of the Council's MTFS.

During 2018/19 Cabinet has approved two 21st Century Band B schemes for inclusion within the Capital Programme, those at Connah's Quay High School and Queensferry CP/Plas Derwen PRU. The respective estimated costs of these two schemes are outlined in the table below:

Band B	Total Cost	WG funded	Council funded
	£m	£m	£m
Connah's Quay HS	4.300	2.795	1.505
QueenSferry CP / Plas Derwen PRU	8.000	5.700	2.300
Total	12.300	8.495	3.805

The Connah's Quay High School scheme commenced in 2018/19, and is anticipated to be complete during 2021/22. Queensferry CP/Plas Derwen PRU will commence in 2019/20 and is anticipated to be complete in 2022/23.

The benefits and costs of the school improvement programme scheme are:

Direct Benefits
- Enabling 50%-75% external investment in schools
- Reduction in backlog maintenance costs (£0.014m Queensferry CP, £0.901m Connah's Quay High School)
- Reduction in fixed costs associated with buildings and leadership focuses investment on learners
- Reduction in split site arrangements in provision of PRU to improve efficiency, and reduce risk by increasing options to improve pupil outcomes
- For Connah's Quay High School, increases capacity to meet target for pupil numbers
- For Connah's Quay High School, improves car parking issues, reducing associated risks

Direct Costs
- Part of bigger development programme in two bands, Band A £64.2m and Band B £85.4m

	• Estimated revenue borrowing costs associated (interest and minimum revenue provision) with each scheme are as follows:

Band B	Year 1	Year 50	Average over 50 years
	£m	£m	£m
Connah's Quay HS	0.063	0.092	0.075
Queenferry CP / Plas Derwen PRU	0.096	0.141	0.115
Total	0.159	0.233	0.190

Indirect Benefits

- Improving learner outcomes by ensuring that school buildings are effective in creating the conditions for learners to succeed.
- Alignment with the Council's School Modernisation Strategy to ensure schools are fit for purpose
- A more secure school estate
- A school estate with reduced vandalism
- Upgrading ICT provision and enabling new methods of curriculum delivery
- Provision of appropriate capacity of school network

1.07.2	The impact of the inclusion of these two schemes in the programme adds substantial borrowing costs as identified in paragraph 1.07.1. The profile of spend and grant receipt in the case of these schemes means that the additional revenue costs will not fully impact until 2020/21 and no addition to the revenue budget will therefore be required in 2019/20. Approval of these schemes has an estimated impact of increasing the pressure on the revenue budget in 2020/21 by £0.159m.
1.07.3	**SHARP – Loans to NEW Homes for Affordable Homes** Further to the first 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) Cabinet has approved additional loans to NEW Homes up to a maximum of £10m for inclusion within the Capital Programme, to fund new affordable housing schemes. The loans are classed under accounting regulations as capital expenditure and therefore included within the Capital Programme. The Council funds the schemes by borrowing, which is fully repaid from loan repayments made by NEW Homes. Work has begun on the schemes, and funds will be drawn down from the Council as they progress. The building of council houses for social rents forms part of the HRA activities and will be included within the HRA Capital Programme.
1.07.4	Details of schemes specifically funded by specific grant and borrowing is shown in Table 7 below: **<u>Table 7</u>**

	SPECIFICALLY FUNDED SCHEMES 2019/20 - 2021/22

	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Specifically Funded Schemes				
21st Century Schools - Band A	0.492	0.000	0.000	0.492
21st Century Schools - Band B	3.460	5.365	2.825	11.650
SHARP - Loans to NEW Homes for Affordable Homes	10.000	0.000	0.000	10.000
Total Schemes	**13.952**	**5.365**	**2.825**	**22.142**
Funding				
Specific Capital Grants	3.156	3.394	1.805	8.355
Unsupported (Prudential) Borrowing	10.796	1.971	1.020	13.787
Total Schemes	**13.952**	**5.365**	**2.825**	**22.142**

1.07.5	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 7 above. As details become available they will be reported to Members via the quarterly 2019/20 Capital Programme monitoring reports.
1.07.6	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 Council Plan.
1.08	**Summary Total Council Fund Capital Programme 2019/20 - 2021/22**
1.08.1	Table 9 summarises the total proposals for the 2019/20 - 2021/22 Capital Programme.

Table 9

SUMMARY CAPITAL PROGRAMME 2019/20 - 2021/22

	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Expenditure				
Statutory / Regulatory Section	2.350	2.350	2.350	7.050
Retained Assets Section	3.807	3.977	2.550	10.334
Investment Section	7.642	2.088	0.000	9.730
Specific Section	13.952	5.365	2.825	22.142
Total Programme (All Sections)	**27.751**	**13.780**	**7.725**	**49.256**
Funding				
General Funding [1]	12.646	7.508	6.586	26.740
Grant Funding	3.156	3.394	1.805	8.355
Unsupported (Prudential) Borrowing	10.796	1.971	1.020	13.787
Total Projected Funding	**26.598**	**12.873**	**9.411**	**48.882**
Surplus / (Shortfall)	**(1.153)**	**(0.907)**	**1.686**	**(0.374)**

1 As per 19/20 Final Settlement

Potential future schemes

1.09 **Growth Deal Bid**

The *Growth Vision for the Economy of North Wales* was adopted by partner organisations across the region in 2016. This has led to the development of a Growth Deal Bid which was submitted to both the UK and Welsh Governments at the end of November 2017.

A Growth Bid is a formal proposal for Government investment and the conferment of devolved powers. Bidding regions are required to have a legal, resilient and accountable governance model for the planning and implementation of their strategy. Regions are expected to be prepared to invest in their own strategies, alongside Government(s), in capital allocations, sharing in capital borrowing, the use of land and assets, and in resourcing professional and project capacity. They are also expected to seek private sector support for their proposals, enabling and leveraging private sector investment as part of the Bid package. Each bid has negotiated objectives and targets.

In October 2018 Cabinet considered and endorsed a Proposition Document which sets out the programmes and projects to be considered in a growth deal, moving forward towards agreeing a deal with the Welsh and UK governments.

	Until Flintshire has final details of the Growth Deal, to be negotiated with the Governments, and the capital grant payments arrangements to finance the Deal, we will not know the number and the combined cost of the approved projects. The combined cost of the approved projects, and how they are to be phased over a period of years, will have a bearing on the contributions to the borrowing costs Flintshire may be expected to bear. For further information please see the report 'A Growth Deal for the Economy of North Wales Proposition Document to Cabinet on 23rd October 2018 on the Council's website.
1.10	All capital schemes need to be considered in the context of the position of the Council's MTFS. All schemes which require prudential borrowing to fund them add revenue pressures in the form of interest charges and charges to the Minimum Revenue Provision (MRP). During 2018/19 a number of schemes have been identified which have been considered for inclusion in the capital programme but which have not been included to date. It is likely that these will be resubmitted for inclusion in the capital programme if the revenue position in future years allows. The following schemes are under consideration for inclusion in future years: • An increase to the Highways Asset Management Plan (HAMP). The core capital programme includes £0.600m per annum for the HAMP. In 2018/19 this has been supplemented by additional WG grant. It has been estimated that the investment required to maintain current network performance is £2.7m per annum, an increase of £2.1m per annum. Welsh Government has recently announced additional Public Highways Refurbishment Grant 2018-21 to Flintshire of £0.959m in 2018/19, and in 2019/20, with funding for 2020/21 to be confirmed in due course. • A Highways Subsidence Scheme, prioritising sites in need of immediate remedial work, at a cost of £0.150m per annum. • In relation to the Digital Strategy, Cabinet approved the Digital Customer plan for implementing key elements of the Digital Strategy. A 3 year programme plan of the projects required to increase the number and range of services available digitally has been prepared and will be reported to Cabinet in due course. The capital costs of purchasing new software will be calculated on a project by project basis at the time each project is ready to proceed in order to accurately capture not only the technical requirements for the software but also the costs prevailing at the time.
1.11	**21st Century Schools Band B** Paragraph 1.07.1 includes details of the two projects from the overall submission to WG for 21st Century Schools Band B. Of the remaining schemes the impact of the Saltney Area Review is estimated to cost £25m. At present this is included in principle in the Mutual

	Investment Model funding envelope, and therefore the costs of this scheme will bear directly on the revenue budget. The annual revenue charge through MIM will include elements which cover capital costs of the works as well as charges designed to cover the cost of maintaining the building to a high standard. WG intervention rates on MIM are currently agreed at 75%. In the light of recent increases to the intervention rates on traditionally funded 21st Century Band B projects the model is under review. Until the Council has clarity on the funding position and the costs chargeable, it is unable to satisfy itself whether the MIM scheme represents best value. The 21st Century Schools Band B programme is due to end by 2024/25. As each of the remaining schemes is proposed for approval, a decision will need to be made taking into account its affordability in the context of the position on the MTFS. The Flintshire funding element of the 21st Century Schools Band B programme will need to be funded from prudential borrowing.
1.12	**Additional school funding** As a result of the Cabinet decision not to proceed with the amalgamation of Brynford and Lixwm Primary Schools which would have drawn down investment via the 21st Century Schools Band B Programme, Brynford Primary School has significant suitability issues that will need to be addressed by other means and this is currently being explored.
1.13	**Impact on the MTFS of potential future schemes**
1.13.1	The estimated revenue impact of the known potential future schemes is shown below for information. If Council approve all these schemes then the impact on the revenue budget in total is estimated to be between £0.774m and £1.127m.

Scheme	Impact in first full year £m	Impact in final full year £m	Average full year impact £m
HAMP	0.098	0.138	0.116
Highways subsidence	0.007	0.010	0.008
21st Century Schools Band B	0.669	0.979	0.800
Total	**0.774**	**1.127**	**0.924**

1.14	**Changes to CIPFA's Codes of Practice - Prudential Code for Capital Finance in Local Authorities 2017 and Treasury Management Code 2017**
1.14.1	CIPFA published new editions of the Prudential Code for Capital Finance and the Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance in late December 2017 which complement each other.

1.14.2	The 2017 edition of the Prudential Code for Capital Finance has expanded objectives and includes a requirement for Councils to look at capital expenditure and investment plans in the light of overall organisational strategy and resources, and ensure that decisions are being made with sufficient regard to the long term financing implications and potential risks to the Council. The Code introduces the requirement for a capital strategy which sets out the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Its intention is to give a high level overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability, linking the Capital Strategy with the Treasury Management Strategy.
1.14.3	The Council considers that it prudently assesses the long-term context of capital expenditure and any non-treasury management investment decisions, and their associated risks and rewards, on future financial sustainability.
1.14.4	The Council already had an integrated Capital Strategy and Asset Management Plan, and the Capital Strategy section has been updated in line with recent guidance from CIPFA and is considered separately on this agenda. The Asset Management Plan will be updated later in the year, reflecting the current and emerging longer term Council priorities and the needs of our new or readopted service business models. Longer-term planning will put the Council in a stronger position to attract national funds of differing types, from capital grant to borrowing approvals, to support its priorities in areas such as economic development infrastructure, transport, education, housing and new service models.

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 which will bear on the MTFS as new pressures. Assuming the shortfall is as estimated (£0.374m), and that the asset life of schemes is 50 years the pressures on the revenue budget are shown in the table below. These pressures will not bear on the MTFS during 2019/20, but rather in future years, depending on the timings of the expenditure.

	Pressure in Year 1	Pressure in Year 50	Average Annual Pressure
	£m	£m	£m
Shortfall in Council Funding (£0.374m)	0.020	0.020	0.020
Connah's Quay HS	0.063	0.092	0.075
Quensferry CP/Plas Derwent PRU	0.096	0.141	0.115
Total	0.179	0.253	0.210

Paragraph 1.13.1 shows the impacts of potential future schemes.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	The proposed Capital Programme is being referred to the Corporate Resources Overview and Scrutiny Committee for comment at its meeting on 14th February 2019 with their comments being fed back to Cabinet verbally before being discussed at County Council in February 2019.

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. As it seeks approval for its capital programme, the Council is required to produce indicators assessing the affordability, prudence and sustainability of the capital plans. These are called the Prudential Indicators and are included in the Capital Strategy report.

5.00	**APPENDICES**
5.01	None

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	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 **Non-current Asset** - A resource controlled (but not necessarily owned) by the Council, from which economic benefits or service potential are expected to flow to the Council 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 ots capital investment needs **Prudential Indicators** - Required by the **Prudential Code**, these take the form of limits, estimates or actual figures used to support the local decision making process for capital investment **Unsupported Prudential Borrowing** - Borrowing administered under the **Prudential Code**, whereby authorities can set their own policies on acceptable levels and types of borrowing. The Prudential Framework allows authorities to take out loans in response to overall cash flow forecasts and other factors provided they can show that the borrowing is to meet planned capital expenditure in the current year or the next three years.

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FLINTSHIRE COUNTY COUNCIL

Date of Meeting	Tuesday, 19th February 2019
Report Subject	Capital Strategy including Prudential Indicators 2019/20 to 2021/22
Report Author	Corporate Finance Manager

EXECUTIVE SUMMARY

This report presents the updated Capital Strategy 2019/20 – 2021/22 for approval.

The Strategy will be considered by the Corporate Resources Overview and Scrutiny Committee on 14th February 2019 where Members will have the opportunity to offer comments and feedback. This feedback will be taken into account by Cabinet when it meets prior to Council.

Cabinet will consider the detailed report, included at Appendix A, and the feedback from Corporate Resources Overview and Scrutiny Committee, at their meeting on 14th February 2019 and their recommendations will be reported at the meeting.

RECOMMENDATIONS	
1	Council approves the Capital Strategy 2019/20 – 2021/22.
2	Council approves:- • The Prudential Indicators for 2019/20 - 2021/22 as detailed within Tables 1, and 4 – 7 inclusive of the Capital Strategy reported to Cabinet. • 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 (Table 6 of the Capital Strategy reported to Cabinet).

REPORT DETAILS

1.00	**CAPITAL STRATEGY 2019/20 - 2021/22**
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 19th February 2019: Capital Strategy including Prudential Indicators 2019/20 to 2021/22.

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, 19th February 2019
Report Subject	Capital Strategy including Prudential Indicators 2019/20 to 2021/22
Cabinet Member	Leader and Cabinet Member for Finance
Report Author	Corporate Finance Manager
Type of Report	Strategic

EXECUTIVE SUMMARY

This report updates the Council's Capital Strategy and seeks Cabinets recommendation to Council.

Previously the Capital Strategy had been combined with the Asset Management Plan, it is now considered more appropriate to separate the two documents, following changes made by CIPFA to two of its Codes of Practice. A refreshed version of the Asset Management Plan will be prepared for consideration by Members later on in 2019.

The report explains the need for the Strategy, its key aims, and the content of each of its sections.

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). The Capital Strategy includes details of the Council's Prudential Indicators for 2019/20 – 2021/22.

RECOMMENDATIONS	
1	Cabinet approves and recommends the Capital Strategy to County Council.
2	Cabinet approve and recommends to Council:-

	• The Prudential Indicators for 2019/20 - 2021/22 as detailed within Tables 1, and 4 – 7 inclusive of the Capital Strategy. • 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 (Table 6 of the Capital Strategy).

REPORT DETAILS

1.00	**CAPITAL STRATEGY 2019 – 2022**
1.01	In February 2016 Cabinet approved a combined Capital Strategy and Asset Management Plan. This recognised the significant and valuable resource which the Council's assets (valued at £742m in the 2017/18 Balance Sheet represent), defined the way in which the Council intended to manage its Asset portfolio, alongside a strategy for developing its capital programme.
1.02	The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the Code), requires that the Council has in place a Capital Strategy (the Strategy). The guidance to the Code defines the specific requirements of the Strategy. This requirement is best met by separating the Strategy from the Asset Management Plan. This report updates the Strategy for Council's consideration. An updated version of the Asset Management Plan will be prepared for members' consideration later on in 2019.
1.03	The key aims of the Strategy are to explain the ways in which the capital programme is developed and funded, the potential impact it has on the Council's Medium Term Financial Strategy (MTFS) and the way in which it relates to the Council's Treasury Management Strategy. The Strategy is an overarching document and refers to other documents such as the Capital Programme, the Treasury Management Strategy and the MRP Policy. The Strategy is split into a number of sections as described below. The Strategy is enclosed as Appendix 1.
1.04	**Capital Expenditure** This section defines Capital Expenditure and that there is some limited local discretion in the definition as reflected in the Council's accounting policies.
1.05	**Resources** This section explains the way in which the capital programme is funded. The Council has a number of funding sources but these sources are limited and in some cases, particularly capital receipts, diminishing. Some of those sources, particularly prudential borrowing, add pressure to the Council's MTFS.

1.06	**Prioritisation of Capital Expenditure** This section explains the way in which the capital programme is divided into three sections and how decisions are made as to which schemes to include in each section in each year.
1.07	**Governance** This section explains the governance arrangements in place in the development and monitoring of the capital programme.
1.08	**Capital Expenditure Plans** This section refers to the Council's capital expenditure plans as agreed in its capital programme. It covers: - Capital expenditure plans - The way in which those plans are expected to be financed - Minimum Revenue Provision - Estimates of the Capital Financing Requirement, a measure of unfinanced expenditure
1.09	**Treasury Management** This section covers the way in which the Strategy relates to the Council's treasury management activity. It covers: - The Council's Borrowing Strategy - The relationship between the Council's debt portfolio and its Capital Financing Requirement - The Authorised Limit and Operational Debt Limits for borrowing, ensuring the limits on the Council's exposure to debt are set - The Council's Investment Strategy - Treasury Management governance.
1.10	**Commercial activities** This section reports that the Council has limited commercial activity, having a limited portfolio of investment properties (agricultural properties and industrial units).
1.11	**Liabilities** This section explains the liabilities which the Council has, in particular the deficit on its pension fund, and links with the Council's Statement of Accounts.
1.12	**Revenue budget implications** This section shows the impact of the capital financing costs on the revenue stream of the Council's budget.
1.13	**Knowledge and skills** This section details the skills of officers involved in developing and managing the capital programme and treasury management activity, and

	explains that the Council makes use of external advisers to assist with this activity.
1.14	**Prudential Indicators** The Authority is required by the Code to develop and monitor Prudential Indicators. These are contained within the various sections of the Strategy, and are indicated as such.

2.00	**RESOURCE IMPLICATIONS**
2.01	Implications for assets and financial implications are set out within the report.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	Arlingclose, the Council's Treasury Management advisers have been consulted on the preparation of the Strategy.
3.02	The updated Capital Strategy is being referred to the Corporate Resources Overview and Scrutiny Committee for comment at its meeting on 14^{th} February 2019 with their comments being fed back to Cabinet verbally before being discussed at County Council in February 2019.

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. The purpose of the Capital Strategy includes setting a clear framework within which such decisions can be made mitigating the risks involved.

5.00	**APPENDICES**
5.01	Appendix 1 – Capital Strategy

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	**Contact Officer:** Gary Ferguson – Corporate Finance Manager **Telephone:** 01352 702271 **E-mail:** gary.ferguson@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 **Non-current Asset** - A resource controlled (but not necessarily owned) by the Council, from which economic benefits or service potential are expected to flow to the Council 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 **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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Appendix 1

CAPITAL STRATEGY

2019/20 TO 2021/22

CONTENTS

CAPITAL STRATEGY REPORT 2019/20

1. INTRODUCTION

The Council approved a combined Capital Strategy and Asset Management Plan in February 2016.

The creation and approval of a capital strategy is now a requirement of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code).

The code requires the Council to set Prudential Indicators in relation to its capital programme. This document includes those Prudential Indicators and these are included in tables 1, 4 - 7 clearly marked as such.

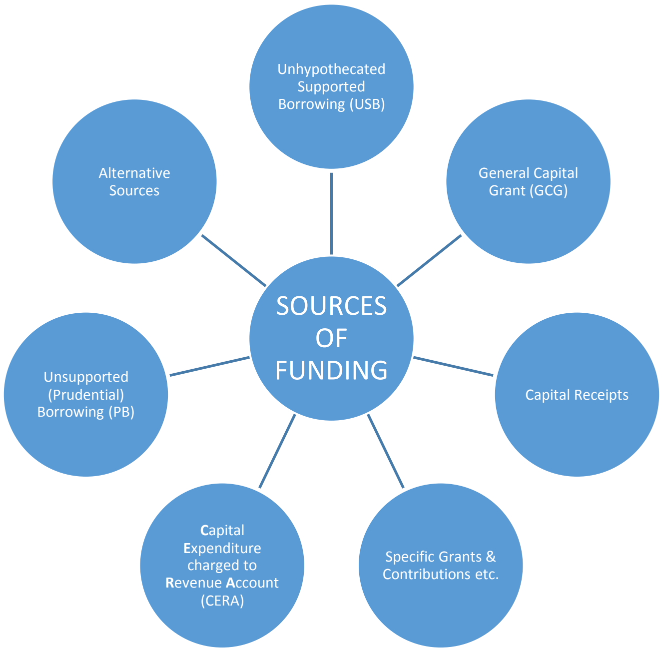
This document updates the capital strategy sections approved by Council in February 2016. It gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. The Asset Management Plan will be updated later in 2019.

2. CAPITAL EXPENDITURE

Capital expenditure occurs when the Council spends money on assets, such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, as assets costing below £20k are not capitalised and are charged to revenue in year. Details of the Council's policy on capitalisation may be found in the Accounting Policy section of the Council's Statement of Accounts.

3. RESOURCES

The sources of funding available to the Council are described below:



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

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

General Capital Grant (GCG)

This is the annual capital grant from Welsh Government. The Council decides how this funding is spent.

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

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

The Housing Revenue Account (HRA) equivalent is known as the Major Repairs Allowance (MRA).

Capital Receipts

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

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

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

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

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

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

Specific Grants and Contributions etc.

Specific Grants

These are grant allocations received from a range of sponsoring bodies including Welsh Government, Lottery, etc. for associated specific programmes and projects with limited local discretion on how the funding is spent. Often the terms and conditions of such funding will require unused funding to be returned, and can require the Council to match fund. In times where capital resources are declining the Council will seek to maximise such funding streams, subject to the initiative/scheme reflecting both the third party's agenda and the Council's priorities.

Specific Contributions

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

Specific Capital Loans

Increasingly as Welsh Government's funding comes under pressure, capital funding that was previously issued as a specific capital grant is converted into a repayable loan, Examples include the Home Improvement Loans fund, and Vibrant and Viable Places funding. Grant funding will always be preferable to loan funding as it does not require repayment, however loan funding does have benefits. Its use to date has been to provide recyclable loan funding for regeneration purposes. The benefit is that rather than being used to fund a single project, the funding can be recycled and used to fund a number of projects over the term of the loan.

Capital Loans are also available, and have been used, from other sources such as Salix in relation to energy saving projects.

As with grants the Council will seek to maximise such developments that are in line with its priorities, whilst carefully considering the additional administrative burden in issuing and collecting loans, and the risk it carries from loan defaults.

Local Government Borrowing Initiative (LGBI)

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 used to part fund the Welsh Government element of the 21st Century Schools programme – 'Band A'.

Capital Expenditure charged to Revenue Account (CERA)

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

Unsupported Prudential Borrowing (commonly referred to as Prudential Borrowing)

The Prudential Code for Capital Finance in Local Authorities supports local authorities in determining their programmes for capital investment in assets (we are required by regulation to follow its requirements). The Prudential Code gives Councils discretion to undertake borrowing to fund capital projects with the full cost of borrowing funded from future council revenue resources subject to the Council demonstrating, within a clear framework, that the capital investment plans are affordable, prudent and sustainable. A range of prudential indicators must be produced and approved demonstrating the impact of the programme. The option for funding additional capital developments is one which is funded from within existing revenue budgets or from generating additional and ongoing income streams, there is no support from any external funding and is a major constraint on its use as any scheme funded by prudential borrowing will add to the forecast budget deficit in the MTFS.

To date limited use has been made of the option following cautious and prudent consideration of long term impacts. This approach will continue to be used with schemes that have a clear financial benefit such as 'invest to save', 'spend to earn', and those that generate returns over and above the costs of debt. The focus will be to fund schemes that are the Council's priorities, attract third party funding and generate revenue benefits in future financial years in the form of revenue savings, income generation or increasing Council Tax yield. In addition, prudential borrowing will be used to fund the Council element of 21st Century Schools – 'Band B' and the HRA SHARP and WHQS schemes.

Alternative Sources

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

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

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

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

To date the Council has made very limited use of alternative funding options listed above. In future all options along with any new initiatives will be explored and used carefully. Capital schemes funded from alternative sources are likely to increase the Council's debt liability therefore use will be restricted and considered in the same way as prudential borrowing.

4. PRIORITISATION OF CAPITAL EXPENDITURE

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

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

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

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

Funding of schemes will be allocated as shown below:

Statutory / Regulatory Programme	Retained Asset Programme	Investment Programme

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

Capital Programmes will be set every year covering a timeframe of the next 3 financial years on a rolling basis, reflecting that capital schemes don't match financial years and span more than 1 financial year. Schemes starting in that first financial year will be approved along with any costs and funding required in the subsequent 2 financial years. Schemes starting later than the first financial year will be given indicative support to enable services to plan, but will ultimately require formal approval through the process of approving the subsequent years' capital programme.

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

The development of the capital programme will be considered in the context of its impact on the Council's MTFS and in particular the added pressure the capital programme may bring to the revenue budget.

5. GOVERNANCE

Planning for the Capital Programme is determined in parallel with service and revenue budget planning process within the framework of the MTFS.

New investment capital schemes will be rigorously appraised through submission of full business cases which will include schemes funded by grants or contributions from 3rd parties. Large schemes which are programmes in their own right will be subject to gateway reviews at stages during the programme, for example 21st Century Schools and SHARP. This ensures that the evidence and the case for change when the scheme was initially approved is still valid, and that lessons learned from early stages can be applied to future stages.

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

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

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

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

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

Capital expenditure plans

The Council's planned capital expenditure for the period 2018/19 to 2021/22 is summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Council Fund	27.751	13.780	7.725
Housing Revenue Account	34.208	30.387	20.579
Total	**61.959**	**44.167**	**28.304**

The Council's Capital Programme is approved by Council in February of each year, and details can be found on the Council's website.

The Council is planning a number of significant investments during the period of this strategy. In particular, it is investing substantially in its schools in conjunction with Welsh Government through the 21st Century Schools programme; is extending its residential care home at Marleyfield in Buckley; is in the process of rationalising its use of office accommodation by transferring staff out of County Hall, primarily to refurbished offices in Ewloe; and has plans, in conjunction with its partners, to redevelop Theatr Clwyd. More detail is available in the Capital Programme 2019/20 – 2021/22 report.

The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately. The Council has plans to invest significantly in housing assets over the period of the strategy, including the building of an estimated 208 new homes as part of the Strategic Housing and Regeneration Programme (SHARP), as well as bringing its stock into line with the Wales Quality Housing Standard.

In addition, part of SHARP is to build new homes for rent at intermediate rent levels (between social housing rents and market rents). This is achieved by making capital loans to the Council's wholly owned subsidiary, North East Wales Homes (NEW Homes) to build affordable homes.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing etc.). The planned financing of the above expenditure is as follows, broken down into the sources detailed above in 'Resources':

Table 2: Capital Financing in £ millions

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Council Fund			
External Sources			
USB	4.094	4.094	4.094
GCG	3.875	3.414	2.492
Specific Grants/Contrib's/Loans	3.156	3.394	1.805
Own Resources			
Capital Receipts	4.677	0.000	0.000
CERA	0.000	0.000	0.000
Debt			
Prudential Borrowing	10.796	1.971	1.020
Sub Total - Council Fund	**26.598**	**12.873**	**9.411**

Housing Revenue Account			
External Sources			
MRA	5.065	5.065	5.065
Specific Grants/Contrib's/Loans	1.100		
Own Resources			
Capital Receipts	0.375	1.227	
CERA	13.442	13.953	13.903
Othe contns	0.810	0.275	0.275
Debt			
Prudential Borrowing	13.416	9.867	1.336
Sub Total - HRA	**34.208**	**30.387**	**20.579**
TOTAL	**60.806**	**43.260**	**29.990**

Debt is only a temporary source of finance, as any loans or leases must be repaid. Local Authorities are required each year under Regulations, to set aside some of their revenue resources as provision for the repayment of debt. The annual charge to the revenue account for repaying debt is known as the Minimum Revenue Provision (MRP). Planned MRP is as follows:

Table 3: Minimum Revenue Provision in £ millions

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Council Fund	4.011	4.263	4.375
Housing Revenue Account	2.577	2.794	2.935

Local Authorities are required to set a policy for MRP each financial year. The Council's sets its annual MRP policy in February each year and is available on its website.

Alternatively, capital receipts may be used to repay debt by applying capital receipts to the Capital Financing Requirement (CFR).

The Council's cumulative outstanding amount of capital expenditure financed by debt is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and any capital receipts used to repay debt. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Council Fund	225.106	226.908	227.647
Housing Revenue Account	139.696	146.769	145.170
Total	**364.802**	**373.677**	**372.817**

6. TREASURY MANAGEMENT

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs as they fall due, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due mainly to decisions taken in the past, the Council currently (31st December 2018) has £272m long term borrowing at an average interest rate of 4.79%, and £45m short term borrowing at an average interest rate at 0.84%. It also had £23m treasury investments at an average interest rate of 0.67%.

Borrowing strategy: The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0% to 3.0%).

Projected levels of the Council's total outstanding debt (which comprises borrowing and leases) are shown below, compared with the capital financing requirement (see above).

Table 5: Prudential Indicator: Gross Debt & the Capital Financing Requirement in £ millions

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Debt (Incl Leases)	333.455	347.281	351.053
Capital Financing Requirement	364.802	373.677	372.817

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from Table 5, the Council expects to comply with this in the medium term.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 6: Prudential Indicators: Authorised Limit & Operational Boundary for external debt in £m

	2019/20 Limit	2020/21 Limit	2021/22 Limit
Authorised Limit - Borrowing	380	390	390
Authorised Limit - Other long term liabilities	35	35	35
Authorised Limit - Total External Debt	415	425	425
Operational Boundary - Borrowing	360	370	370
Operational Boundary - Other long term liabilities	20	20	20
Operational Boundary - Total External Debt	380	390	390

Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Corporate Finance Manager and staff, who must act in line with the Treasury Management Strategy approved annually by the Council in February. Quarterly reports on treasury management activity are presented to the Audit Committee. The Audit Committee is responsible for scrutinising treasury management decisions.

The Council sets a Treasury Management Policy Statement, an annual Treasury Management Strategy and Treasury Management Schedules and Practices which contain further details on the Council's borrowing strategy, investment strategy and treasury management governance which are available on its website.

7. COMMERCIAL ACTIVITIES

The Council has a portfolio of investment properties, in the form of agricultural property and industrial units. Although these are classified as investment properties, they are legacy assets and the council is managing down its agricultural portfolio and is reviewing its position in regard to industrial units.

8. LIABILITIES

In addition to debt of £272m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £349m). It has also set aside £1m to cover the risks associated with the aftercare of former landfill sites, and £2.4m as a provision against bad debts.

The Council is also at risk of having to pay for any additional works necessary at landfill sites, payments in respect of historic insurance and abuse claims, and costs involved in some employment tribunal cases, but has not set aside any funds because of a lack of certainty in estimating the size and timing of the these liabilities.

Governance: Decisions on incurring new discretional liabilities are taken by Chief Officers in consultation with the Corporate Finance Manager. The risk of liabilities crystallising and requiring payment is monitored by corporate finance and reported as required to Cabinet.

Further details on liabilities and guarantees are in the contingent liability section in note 32 of the Council's 2017/18 Statement of Accounts available on its website.

9. REVENUE BUDGET IMPLICATIONS

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Revenue Support Grant, Council Tax and business rates (NNDR) for the Council Fund, and the HRA equivalent is the amount to be met from WG grants and rent payers.

Table 7: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Council Fund	4.58%	4.68%	4.79%
HRA	23.32%	24.42%	24.62%

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Corporate Finance Manager is satisfied that the proposed capital programme is prudent, affordable and sustainable because the impact of the existing capital programme on the

MTFS has been considered, and the revenue implications of future capital schemes are included when considering the approval of the capital budget. .

Other revenue implications of capital expenditure are included in business cases and are factored into the MTFS.

10. KNOWLEDGE AND SKILLS

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Corporate Finance Manager is a qualified accountant with significant experience. The Council pays for junior staff to study towards relevant professional qualifications, including CIPFA and AAT.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

FLINTSHIRE COUNTY COUNCIL

Date of Meeting	Tuesday 19 February 2019
Report Subject	Housing Revenue Account (HRA) Budget 2019/20, HRA Business Plan Narrative & Capital Programme 2019/20
Report Author	Chief Executive, Chief Officer (Housing and Assets) and Corporate Finance Manager

EXECUTIVE SUMMARY

The final proposals for the HRA Revenue and Capital budget for the 2019/20 financial year, including proposed rent increases were considered by Cabinet on 19 February 2019 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 19 February 2019.

REPORT DETAILS

1.00	**EXPLAINING THE HRA REVENUE BUDGET AND CAPITAL PROGRAMME 2019/20**
1.01	As set out in the report to Cabinet 19 February 2019.

2.00	**RESOURCE IMPLICATIONS**
2.01	As set out in the report to Cabinet 19 February 2019.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	As set out in the report to Cabinet 19 February 2019.

4.00	**RISK MANAGEMENT**
4.01	As set out in the report to Cabinet 19 February 2019.

5.00	**APPENDICES**
5.01	Appendix 1 – Report to Cabinet 19 February 2019

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	None. **Contact Officer:** Neal Cockerton, Chief Officer, Housing and Assets **Telephone:** 01352 702500 **E-mail:** neal.cockerton@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	As set out in the report to Cabinet 19 February 2019.

CYNGOR Sir y Fflint Flintshire COUNTY COUNCIL

CABINET

Date of Meeting	Tuesday, 19th February 2019
Report Subject	Housing Revenue Account (HRA) Budget 2019/20, HRA Business Plan & Capital Programme 2019/20
Cabinet Member	Leader of the Council and Cabinet Member for Finance Deputy Leader of the Council and Cabinet Member for Housing
Report Author	Chief Officer (Housing & Assets) Corporate Finance Manager
Type of Report	Strategic

EXECUTIVE SUMMARY

The purpose of this report is to present for approval the draft Housing Revenue Account (HRA) Budget for 2019/20, HRA Business Plan Narrative and the summary HRA 30 year Financial Business Plan.

RECOMMENDATIONS	
1	Approve and recommend to Council the HRA budget and Business Plan for financial year 2019/20 as set out in the attached.
2	Approve the proposed rent increase of up to 2.4% (plus up to £2).
3	Approve a garage rent increase of £1 per week and a garage plot rent increase of £0.20 per week.
4	Approve the proposed HRA Capital programme for 2019/20 as set out in Appendix C.

REPORT DETAILS

1.00	**BACKGROUND**
	Considerations
1.01	The HRA is required to produce a 30 year business plan. The strategic context for this year's HRA budget setting and business plan 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, based on the delivery of high quality services; • Setting a balanced budget with minimum general un-earmarked reserves of 3% of expenditure; • Continued drive to ensure all service costs are efficient and that value for money can be achieved; • Achieving WHQS by 2020 and providing adequate ongoing capital to maintain WHQS levels. • Maximisation of revenue efficiencies to minimise the borrowing required to meet WHQS by 2020; • Delivery of new build Council housing • Ongoing transition of rents to target.
	Prudential Borrowing
1.02	On the 29th October 2018, the Welsh Government Minister for Housing & Regeneration wrote to all Local Housing Authorities to confirm that the decision to lift the cap on local authority HRA borrowing will now also apply in Wales.
1.03	Work is currently underway through legal colleagues to terminate the Voluntary Agreements under which each authority exited the former Housing Revenue Account Subsidy scheme. The draft business plan proposals do not breach the existing debt cap during 2019/20.
	Current Borrowing
1.04	The levels of HRA prudential borrowing on WHQS and new builds at 31st March 2019 are anticipated to be as follows: **Purpose** — **£m** WHQS — 16.7 New builds — 14.3 **Total** — **31.0** This excludes a Vibrant & Viable Places (VVP) loan of £0.850m which supported the former Dairy Site new build housing scheme.

1.05	The current prudential borrowing assumptions for **2019/20** are:- **Purpose** — **£m** WHQS — 4.2 New Builds — 9.3 **Total** — **13.5** In the event the borrowing cap isn't lifted during 2019/20 (because of delays in removing the voluntary agreements), start on site dates for future new builds may need to be held back in the business plan.
1.06	Prudential borrowing interest rates have been included in the business plan at 4.3% per annum. The HRA currently benefits from any non-recurring savings generated by the single debt pool arrangement it holds with the Council Fund.
	Rents
1.07	Each year, the Minister with responsibility for housing makes a decision on the level of increase to be applied to the Welsh Government's Policy for Social Housing Rents (Rent Policy).
1.08	The existing policy (CPI + 1.5% + up to £2 per week) expires on 31st March 2019 and the outcome of the Affordable Housing Supply Review will provide details of the future policy.
1.09	In 2019/20 a one year interim policy will apply. The Minister has agreed the following:- *1. The annual uplift will be set at **CPI only** i.e. 2.4%.* *2. The maximum amount a social landlord can increase an individual tenant's weekly rent is **2.4%.** For the avoidance of doubt, **the discretion to apply "up to £2 per week" has been removed for those social landlords whose average weekly rent is within or above their Target Rent Band.*** *3. Where a social landlord's average weekly rent is below their Target Rent Band and is required under the Rent Policy to be within the Target Rent Band, **the maximum amount they can increase an individual tenant's weekly rent is 2.4% + £2.*** *4. This decision will apply for one year only (2019-20) while we are awaiting the outcome of the Affordable Housing Supply Review.*
1.10	The following assumptions have been made for rent loss relating to empty properties (voids) and bad debts. The percentage allowance for void rent loss has been increased from 1.41% to 1.75%. The financial impact of this change is approximately £0.119m (when compared to the 2018/19 business plan).

	The percentage allowance for bad debts increases from 1.75% to 2.00% during 2019/20 as per the 2018/19 business plan. This change provides for the increase in bad debts that have arisen since the introduction of Universal Credit.
	Garage Rents
1.11	Garage rents are currently charged at £7.61 per week and garage plots £1.20 per week. An increase of £1 per week is proposed for garages and £0.20 for garage plots.
	Capital Programme
1.12	£22.9m has been built into the WHQS and Asset investment programme for 2019/20. This includes provision for internal work streams, external enveloping works, environmental programmes, fire risks and Disability Discrimination Act (DDA) works, asbestos, off gas, energy efficiency works and strategic acquisition. 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. An additional allocation of £0.500m has been included in the WHQS programme for external enveloping works and £0.275m has been set aside to reinvest the monies generated by Solar PV into energy efficiency across the housing stock. In addition, £11.3m has been budgeted in 2019/20 for Council housing building schemes. This includes estimated rollover from 2018/19 following slippage on batch 3 schemes. The £34m capital programme will be funded by:- **WHQS & Asset Investment Funding** — **£m** Prudential Borrowing — 4.162 Revenue Contribution (CERA) — 13.442 Major Repairs Allowance — 5.065 Solar PV Feed in Tariff — 0.275 **Total** — **22.944** **New Build Funding** — **£m** Prudential Borrowing — 9.254 Innovative Housing Programme Grant — 1.100 Capital Receipts — 0.375 Commuted Sums — 0.535 **Total** — **11.264**
	Inflation
1.13	Price inflation has been included in the business plan at October CPI - 2.4%

	Non-standard inflation has been included for the following:- Gas 15% Electricity 11.8% Materials & Subcontractors 3% Capital 3% As more local authorities and RSLs begin to build, labour and materials become more expensive. BREXIT may also create its own inflationary pressures.
	Abolition of the Right to Buy and Associated Rights (Wales) Act
1.14	Right to Buy was temporarily suspended in Flintshire on 21st February 2017 for a period of 5 years. Right to Buy will now be abolished in Wales on 26th January 2019 for existing properties, one year after Royal Assent. To encourage investment in new homes, the rights ended for homes that are new to the social housing stock and therefore had no existing tenants two months after Royal Assent on 24th March 2018.
1.15	Attached to this report for Informal Cabinet consideration: - • Appendix A – HRA Business Plan Narrative • Appendix B – 30 Year HRA Financial Business Plan Summary • Appendix C – HRA Capital Programme 2019/20

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 2019.
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 was discussed with the Tenants Federation at their January 2019 meeting.
3.02	The draft HRA business plan and recommendations set out above were supported by Community & Enterprise Scrutiny Committee on the 23rd January 2019.
3.03	Detailed consultation has been undertaken with tenants and elected members to inform the preparation of the WHQS investment programme.
3.04	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 (with the exception of SHARP properties). 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.
4.05	The potential impact of BREXIT on interest rates and inflation has been mitigated by increasing the estimated assumptions included in the business plan.

5.00	APPENDICES
5.01	Appendix A – HRA Business Plan Narrative Appendix B – 30 Year HRA Financial Business Plan Summary Appendix C – HRA Capital Programme 2019/20

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	None. **Contact Officer:** Neal Cockerton, Chief Officer (Housing & Assets) **Telephone:** 01352 702500 **E-mail:** neal.cockerton@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	**Financial Year:** the period of 12 months commencing on 1 April 2019. **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. **Affordable Housing Grant:** Welsh Government revenue grant paid to local authorities to fund up to 58% of borrowing costs of new build developments.

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Flintshire Housing Revenue Account

Annual Business Plan & 30 Year Financial Forecasts

2019 - 2020

Contents

Foreword

We are pleased to present our latest Annual Business Plan for 2019/20 and 30 year financial forecasts for the Housing Revenue Account. The plan includes our key priorities for delivery for the forthcoming year as well as our progress against our action plan to date. We believe we are making good progress to deliver an efficient and effective service for our tenants but also accept that we can always improve, which is why we are looking to undertake a Customer Survey this year so we can better understand where we need to focus our resources to deliver the excellent service our tenants expect.

The Council continues to value the principle that a good quality home is at the heart of individual and community well-being and is committed to enabling the provision of appropriate and affordable homes, particularly for those in the greatest need.

Some of our successes to date include the delivery of 100 new Council homes through our Strategic Housing and Regeneration Programme (SHARP). The whole SHARP new build scheme will deliver 500 new social and affordable homes by 2020 whilst providing new jobs and training opportunities for local people, as well as much needed new homes for local people.

In addition, we have exceeded our delivery targets for the Welsh Housing Quality Standards (WHQS), improving our stock and providing quality homes for our residents, through the installation of new kitchens, bathrooms and rooves, and improving the local environment. We are on schedule to complete the WHQS programme by 2020.

This annual business plan sets out our priorities for the forthcoming year and provides the basis for the lifetime of the plan including: growing the housing stock by a minimum 1,000 over the lifetime of the plan; maintaining, sustaining and building on the improvements delivered through WHQS investment; and to be in the top quartile for performance and quality of service delivery in Wales.

Cllr Bernie Attridge
Deputy Leader and Cabinet Member for Housing

Neal Cockerton
Chief Officer for Housing and Assets

Executive Summary

This Annual Business Plan sets out Flintshire County Council's annual review and our financial 30 year plan for the Housing Revenue Account (HRA). The narrative provides an overview of our current position, outlining our achievements, as well as setting out our action plan to deliver continuous improvements in our services. The business plan also sets out our financial forecast for the next 30 years.

The Flintshire HRA housing service aims to: Ensure its residents have access to appropriate and affordable homes, through ensuring the supply of affordable and quality council housing of all types.

The HRA service currently manages a portfolio of 7,248 properties (end of December 2018).

One of our priorities continues to be to grow our housing stock by a minimum of 1,000 additional homes over the lifetime of the plan. This will be achieved through new build and strategic acquisitions, and is intended to meet the emerging and changing needs of our population and the challenges we face through increased numbers of people on the housing register and a shrinking private sector rental market. The scale, type and tenure of housing delivery will be led and informed by the intelligence of demand and the profile of those on our housing register, Single Access Route to Housing (SARTH), as well as importantly through the County's new Housing Strategy and Action Plan (2019-2024), which identifies the current and emerging housing needs. We are progressing with our strategic acquisition programme, where we have purchased five previous right to buy properties to meet a specific need, and our new build programme has delivered a further 24 new build properties through SHARP in 2018/19.

A further priority has been to maintain, sustain and build on the improvements delivered through the WHQS programme, particularly to improve the energy efficiency of our homes. We aim to continue to improve our asset base, while developing an understanding of the issues of our existing range of improvement offers and installation lifecycles. As part of this process we intend to refresh our housing stock survey to provide a clearer, more comprehensive understanding of our housing stock and enable us to prioritise activity. This has been delayed this year but will be a priority for 2019/20 as this will assist in informing the delivery of the ongoing cyclical maintenance programmes.

The service is committed to the continuous improvement of its overall performance, particularly in relation to service delivery, and while this business plan identifies some significant performance improvements, the longer term objective and priority is be in the top quartile for performance and quality of service delivery. To achieve this we recognise the need to ensure that intelligence is being gathered in a way which can be effectively and efficiently interrogated and analysed to inform methods of delivery, robust reporting and benchmarking. Work has been underway through this year to utilise Information Technology solutions to improve services including the implementation of Mobysoft software to assist in reducing rent arrears; Personal Digital Assistant (PDA) Total Mobile Solution, which is in the process of being developed ready for implementation, and will assist in ensuring effective services to tenants and that value for money is achieved in other areas of the service including repairs, maintenance and Capital programmes.

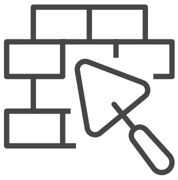
Our Housing and Neighbourhood Management Teams are now working on dedicated 'patch' areas, delivering improved customer service across Flintshire; and we have been working in partnership with other teams in the Council to provide support for our tenants who are facing financial issues and who are ,as a result, in arrears with their rent. This proactive approach has provided early support for our tenants, assisting them in resolving their financial issues and where possible preventing them being evicted from their home. Our priority this year will be to develop a better understanding of our tenants needs and we are looking to undertake a survey, the results of which, will focus on and inform our priorities for future years.

Other strategic priorities for our services in 2019/20 include further work on understanding our stock and analysis of its best use, this will include:

- an update of the Sheltered Housing Review to include more analysis of sites;
- the development of a new voids policy; and
- an update of our Strategic Acquisition policy to ensure its relevance to current needs.

Summary of Achievements 2017-2019

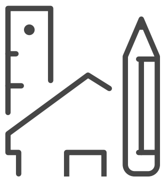
We have built 100 new Council homes over two years



We are building a further 75 new Council homes this year

We have supported 39 apprenticeships through WHQS and SHARP

We have let 882 Flintshire Council homes

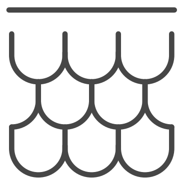


Flintshire Council manages 7,248 properties

We continue to achieve 95% customer satisfaction for the WHQS programme

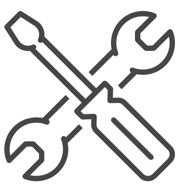
7,000 WHQS compliant kitchens delivered

6,000 WHQS compliant bathrooms delivered



4,985 WHQS compliant roofs and associated components delivered

All urgent repairs were responded to within 3 days of being reported



We continue to achieve an average of 99.83% gas maintenance

Flintshire's Housing Service
The Context

Flintshire County Council's housing service sits within the wider context of the Council Plan and the Well-being and Future Generations Act.

3.1 The Council Plan (2017 – 2023) Strategic Priorities

Flintshire County Council has identified housing as a key strategic priority as set out in the Council Plan for 2017 - 2023, ensuring its residents have access to:

- Appropriate and affordable homes, through ensuring the supply of affordable and quality council housing of all tenures; and
- Modern, efficient and adapted homes, through ensuring the supply of affordable and quality housing of all tenures.

The Council's aim is to:

- Prevent homelessness
- Meet the diverse housing and accommodation needs of the local population
- Develop more opportunities for people to access affordable rent and low cost home ownership
- Build the maximum number of Council houses possible as part of the housing supply solution
- Meet the Welsh Government target for all social housing to be brought up to the Welsh Housing Quality Standard (WHQS).

In order to achieve the aims and priorities:

- We need to be able to access grant funding to support new build affordable and social housing;
- There needs to be sufficient resources to fulfil the duties of the Wales Housing Act;
- Revised capital limits on borrowing for councils to build new houses;
- Maintaining of the funding of Major Repairs Allowance (MRA) so that the Council can meet the WHQS by 2020; and
- Maintaining the current rent policy so that the Council can achieve WHQS by 2020.

3.2 The Well-being of Future Generations (Wales) Act 2015

The seven well-being goals identified in the Act can be considered as aspirations for housing delivery as identified in the More Better report by Dr Ed Green:

A globally responsible Wales	Setting higher standards – reduced carbon footprints and energy-positive communities
A prosperous Wales	Developing an integrated all-Wales supply chain using local resources and a sustainable economy
A resilient Wales	Future proofing with long term flexibility, adaptability, ecological value and climate resilience
A healthier Wales	Reduced pressure on the health service through homes that promote physical and mental wellbeing
A more equal Wales	Eliminating household poverty by delivering affordable housing for all
A Wales of cohesive communities	Stronger neighbourhoods that support co-housing, self-build and cohesive communities
A Wales of thriving culture and language	Promoting diversity through Wales' unique cultural heritage, context and landscape

Flintshire's Housing Service
The Context

3.3 Welfare Reform

Welfare reform has meant that Universal Credit (UC) has been rolled out in Flintshire, resulting in a cap on income from benefit which families and individuals can receive; ending housing benefit and direct payment to landlords; and limiting the amount of housing benefit for working age tenants.

A significant risk to the Business Plan is the collection of rent income as the tenant's income reduces or when they are expected to take ownership and manage budgets directly. During 2018/19 and as a result of the roll out of Universal Credit, the Council's Housing Service has experienced an increase in rent arrears, partly due to delays in the initial UC payments to tenants.

3.4 Housing Strategy

The Flintshire Housing Strategy and Action Plan 2019-2024 has been developed and identifies three priorities:

- Priority 1: Increase supply to provide the right type of homes in the right location:
- Priority 2: Provide support to ensure people live and remain in the right type of home;
- Priority 3: Improve the quality and sustainability of our homes.

3.5 Housing need and supply

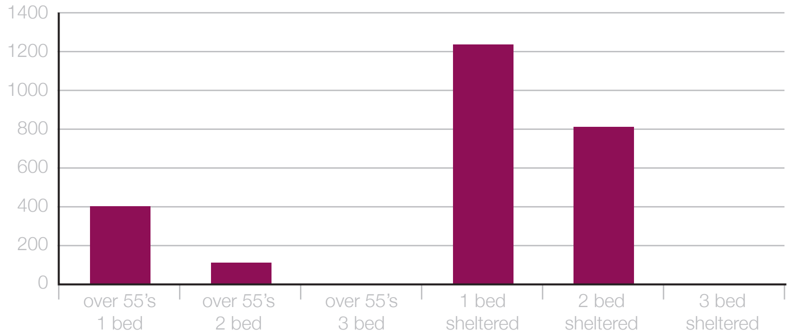
The demand for housing comes from all sections of our society including the under 35s; the 'squeezed middle' who can't afford to buy but are not eligible for social rented properties; and also the over 65's. Changing demographics, economic growth and changes in Government policies, such as Welfare Reform, all have an impact on Flintshire and its housing market.

The design and location of some Council properties has resulted in low demand which, from a financial perspective, incurs costs for the council through rent loss. However, the demand for social housing exceeds the available supply, reducing risk to the HRA of not being able to allocate their properties. However, the issue is availability of the right type of social housing to meet the needs of those on the housing waiting list, in particular single households.

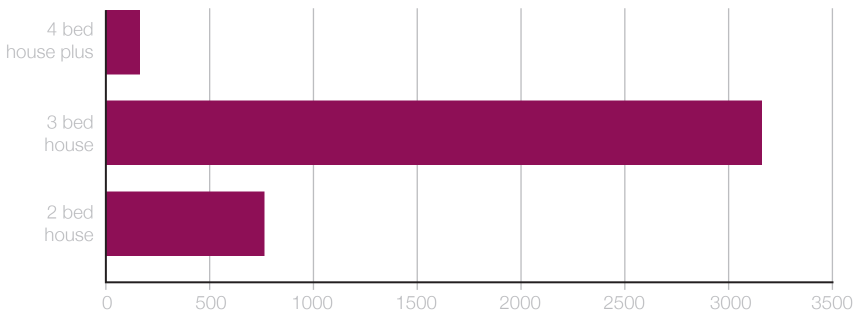
Critically, going forward, up to date and accurate intelligence will help to inform how the supply can meet the demand and reduce the financial risk of rent loss. Initial analysis of the current waiting list, which has increased over the last 12 months, shows significant demand for smaller one bed accommodation to meet the housing requirements of single people and couples.

Breakdown of Flintshire County Council HRA Housing Stock (Jan 2019)

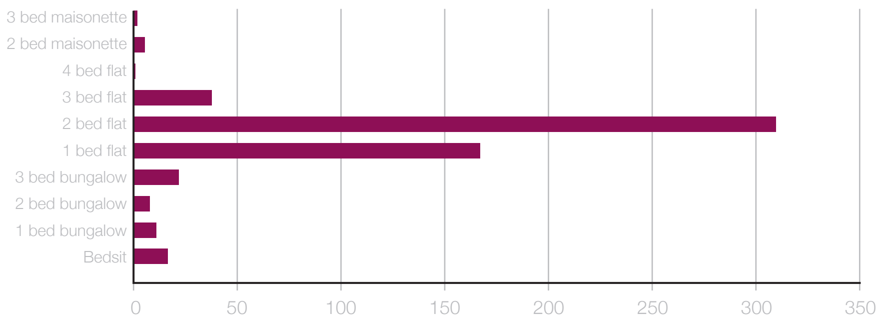
Over 55s / Sheltered Housing



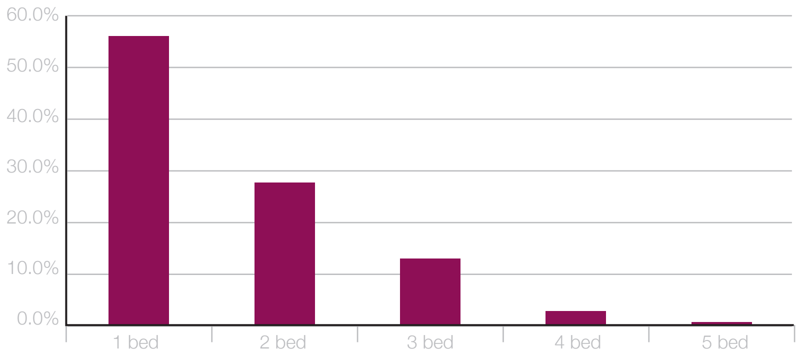
General needs houses



General needs flats and bungalows



Demand on housing register by number of bedrooms (December 2018)



As at December 2018 there are 1,500 households registered on the Single Access Register to Housing (SARTH). The Council is aware that the current stock will not meet the demands of smaller one bedroom households, so building our understanding of the short to medium term demand for general needs, the Council is taking a strategic approach to meeting this demand through a combination of new build; strategic acquisitions; and realigning existing stock.

Flintshire Housing Services
Key Priorities 2019/20

4.1 Strategic priorities

Older persons –sheltered accommodation
Over a year ago a desk based analysis was carried out on the council's sheltered housing stock. This included pulling together information on void loss, demand, property size and location. It is proposed that an in-depth Officer review is undertaken in 2019, the scope of which will include:

Stage 1: A scheme by scheme review to ascertain:
- Analysis of property types and current use;
- Void rates - developing detailed understanding of reasons for turnover;
- Developing a series of options for individual schemes with the aim of reducing void rates and ensuring best use of stock;
- Produce recommendations for the Council to adopt on a scheme by scheme basis.

Stage 2: Assess best use of the stock where there are issues identified as stage 1:
- The review of those properties should identify the best use of the stock including whether they should be general needs or consider if they could be used to assist with delayed transfer from care / hospital and reduce costs to the Council.
- Consider whether it would be efficient to invest capital expenditure to make them fit for purpose for the future, for example:
- Installation of Stair Lifts might be a cost effective solution to avoid the need for tenants in upper flats to move to a more accessible property.
- Technology and training to enable internet shopping and other local deliveries, may be useful in supporting those who live in rural areas.
- Consider whether bedsit accommodation can best meet changing housing demand and expectations including the reduced demand from older people for this type of accommodation, and an increased demand for single person accommodation.

Underpinning both stages of the review, we will need to ensure we are being efficient in the use of our stock, and that it provides a series of recommendations for Cabinet to consider within the context of best use of the stock and its changing demand profiles.

Condition of stock
We aim to continue to improve our asset base, while developing an understanding of the issues of our existing range of improvement offers and installation or component lifecycles. As part of this process we intend to refresh our housing stock survey to provide a clearer, more comprehensive understanding of our housing stock so as to enable us to prioritise activity in a more targeted way. This has been delayed this year but will be a priority for 2019/20 as this will assist in informing the delivery of the ongoing cyclical maintenance programmes.

Flintshire Housing Services
Key Priorities 2019/20

Customer Involvement

Previously the HRA developed a Customer Involvement Strategy and Action Plan to underpin the delivery of the Housing Service to ensure full customer involvement in all that it delivers, as such:

The aim of the strategy and action plan (2018-2021) is to support the involvement of our customers in the development of effective, efficient and quality housing services.

The strategy sets out our commitment to involve our customers in a meaningful and effective way identifying its key aims as:

- Ensure that customers are provided with a range of involvement opportunities.
- Provide customers with training and development opportunities to support their involvement.
- Ensure that customer involvement is considered a mainstream feature in all our service delivery activities.
- Encourage mutual trust, respect and partnership between customers and Flintshire County Council's Housing Service to ensure we have effective customer feedback.
- Work in partnership with other agencies and organisations to improve the communities of our customers.

To underpin these aims we are focusing on engaging and supporting (through training and information) our tenants by;

- Providing more opportunities for tenants to engage, particularly through the development of local arrangements.
- Helping tenants to resolve issues that affect them and help us ensure that we retain high levels of satisfaction in the quality of our services we deliver.
- Improving and extending the range of communication options to ensure our tenants are informed, engaged and have the opportunity to challenge.
- Developing training programmes which encourage participation and involvement in the development of resilient communities.

The action plan will be reviewed on a quarterly basis which will act as a challenge back to ask if we have achieved what we said we would do and to gauge what impact these actions are having on the delivery of services to our tenants. A review of progress will be published in our housing news and published on our website. In addition the HRA will produce an annual impact assessment report which sets out how customers and clients have shaped and influenced the way we work.

Customer satisfaction

The overall service performance identifies areas of positive service delivery as well as areas for improvement, including capturing customer feedback, compliments and complaints, particularly in relation to the allocation and move in element of the service. Progress has been made on implementing the following actions but work will continue this year.

- Sourcing an independent company to undertake follow-up satisfaction surveys based on service delivered through regular surveys;
- Joining up the IT and delivering a digital solution using apps to capture feedback – this may require some up front work with tenants to ensure they use the service but it aligns with the Council's digitalisation strategy going forward;
- Reviewing resource management and ensuring ***we get it right first time***;
- Undertake the STAR annual survey to benchmark customer satisfaction; and
- Use Housemark and APSE to benchmark our performance and customer satisfaction.

Stores

The service has secured a contract with Travis Perkins to provide stock through bulk supply and has been closely monitored this year. The contract enables the HRA to ensure best value for the top 500 stock items through a transparent process where the HRA can benchmark and challenge prices through reviewing the high spend and high volume products and test the market when needed.

Flintshire Housing Services
Key Priorities 2019/20

Fleet Review

A new corporate contract to supply fleet is being secured through EFS, the service required has been defined and established together with targeted efficiencies including mileage and fuel. Vehicles will be tracked and reports produced for Team Leaders on mileage, fuel consumption and driving behaviours, providing a 'demand plan' for the usage of the vehicles and, through constant review, will enable management of the impact of the costs of the fleet.

4.2 New build programme (SHARP)

The following table provides an overview of the delivery of new Council homes to date in Flintshire.

Site	Property type	Number of Units
Custom House, Connah's Quay	2 Bed House	8
	3 Bed House	4
Total units delivered 2016/17		**12**
The Walks, Flint	1Bed Apartment	4
	2 Bed Apartment	2
	2 Bed House	18
	3 Bed House	6
Redhall, Connah's Quay	2 Bed House	5
Maes y Meillion and Heol Y Goron, Leeswood	2 Bed apartments	4
	2 Bed bungalows	4
	2 Bed House	2
Ysgol Delyn, Mold	3 Bed House	3
	2 Bed House	10
	3 Bed House	6
Total units delivered 2017/18		**64**
Melrose, Shotton	1 Bed Apartment	2
	2 Bed Apartment	2
	2 Bed House	5
The Dairy, Connah's Quay	2 Bed House	3
	3 Bed House	3
Total units delivered 2018/19		**15**

The following schemes at Llys Dewi, Nant y Gro, Dobshill and Maes Gwern have been approved by Cabinet and work will continue during 2019/20.

Site	Number of Units
Llys Dewi, Penyffordd	37
Nant y Gro, Gronant	23
Dobshill	15
Maes Gwern, Mold	4
Total	**79**

Flintshire Housing Services Key Priorities 2019/20

The Council is currently in the process of undertaking detailed site feasibility works on a number of additional sites for inclusion in the next tranche for development. These sites will be presented for Council approval during 2019.

4.3 Capital Programme - WHQS

The HRA has a 6 year rolling programme of works, which commenced in 2015/16, and is let to selected contractors. The work is arranged geographically, each district receiving a programme of work every year. The Council resources assigned to delivering WHQS are approximately 30 members of staff within the Capital Works Team, and other team members have been identified to help facilitate delivery, such as System Auditors, Tenant Liaison Officers, Surveyors, Inspectors and Modern Apprentices.

The programme internals includes kitchens, bathrooms and central heating, while the envelope works includes roofing, windows and doors. The following are the compliance guidance on installation:

- Electrical installations brought up to WHQS standards when renewed at the end of their economic life.
- Timber fascia's renewed with uPVC at the end of their economic life, unless forming part of wider project such as whole house approach.
- Timber doors renewed with uPVC at the end of their economic life, unless forming part of wider project such as whole house approach.
- Timber windows renewed with uPVC at the end of their economic life, unless forming part of wider project such as whole house approach.
- Kitchens that are over 15 years old are renewed as part of this approach. When renewed, kitchens will be upgraded to meet all requirements of the WHQS.
- Bathrooms without showers are upgraded when the current bathroom reaches the end of its economic life; or as part of a Capital Works Internal project; or 'Major Void' works.

More broadly, Flintshire County Council has been successful with a bid for energy efficiency funding for delivery in future years and has been awarded £2.7 million from the Affordable Warmth Solutions (National Grid) Warm Homes Fund to install central heating systems and energy efficiency measures in up to 500 properties across Flintshire and to provide broader energy and health assistance across North Wales over the next three years.

Table A: Performance targets WHQS

Year		Internal work Target	Envelope Target
1	2015/16	1,457	317
2	2016/17	1,398	209
3	2017/18	1,488	658
4	2018/19	389	860
5	2019/20	Acceptable fails	1,187
6	2020/21	Acceptable fails	969

To successfully deliver Year 5 of the Capital Works Programme, the HRA is in the process of comparing various framework providers to ascertain which would be best suited for the individual work streams. We will be reviewing each of the Framework Provider's:

- costs;
- the sub-contractors on their lists; and
- references for past projects.

From this exercise we will be able to tender and procure the best suited contractors to assist us to deliver this element of the WHQS Capital Programme with the aim of delivering efficiencies against costs and resource requirements.

Flintshire Housing Services
Key Priorities 2019/20

Customer satisfaction
WHQS are currently achieving an average of 95% customer satisfaction. Each contractor is scored from 10 questions, which maps the tenant's journey through the upgrade works and scores key elements which allows us to identify any weaknesses or risks and to action accordingly. The tenant satisfaction survey is completed by the Council's Tenant Liaison Officers in a face-to-face informal interview, asking for honest feedback that can help the team and service to improve. Some tenants prefer to complete the survey in their own time and can return it via Free Post or can have it collected. This important part of the process enables the team to gather key performance data that is used to correctly measure the contractors' customer focus onsite.

Asset Compliance
(i) Fire Safety
The HRA own and manage three purpose-built high rise blocks, designated as sheltered housing with stay put/ stay safe policy in the event of a fire. The three high rise blocks have been recently refurbished externally and we are proceeding with the internal works following our Fire Risk Assessment (FRA) plans. The external envelope was insulated with a Thermoshell Rock System which was a rock mineral wool slab directly fixed to the substrate, and as a result no BRE testing was required. The windows and roof covering were also renewed.

The three high rise blocks have also benefited from a retro-fit Sprinkler System to all flats, plant rooms and common areas with the exception of the single stair case. We have completed a number of Fire Risk Assessments to the high rise blocks and are in the process of continuing to apply the same method to all of our low and mid-rise blocks.

(ii) Asbestos
We maintain compliance under the duty to manage Asbestos Regulations. We have reviewed our approach to information management and have implemented a new system with regards to surveying 100% of properties before any works commence to a Flintshire Standard Scope.

(iii) Legionella
The HRA have completed a number of Legionella Assessments with the process continuing until all risks have been captured across the housing stock. We have developed a monitoring regime in line with current regulations and from this all actions that are identified are programmed and addressed within stipulated time frames.

(iv) Radon
The HRA have recently developed a draft proposal that will identify risk associated to radon and will develop an action plan of remedial work to reduce the risks to an acceptable level.

Flintshire Housing Services
Key Priorities 2019/20

4.4 Housing and Neighbourhood Management

The service provides a strategic and important link to addressing tenants' vulnerability through a proactive approach with other internal teams such as the Income Team and Supporting People; as well as with key partners including Housing Associations. This ensures a joined up approach with maximum impact, whilst delivering an effective approach efficiently. As part of the approach to addressing vulnerability, the Council has produced a policy to focus the approach with the following objectives:

- To identify tenants who require support in the management of their tenancy.
- To encourage and promote partnerships and multi-agency working with both internal and external agencies in assessing and meeting the support needs of tenants.
- To enable tenants to reduce instances of breached tenancies and subsequent court actions.
- To provide practical assistance and financial advice to tenants who need this service.
- To attempt to prevent tenancy failure and resulting homelessness.

By having an approach that recognises the needs of vulnerable people and provides the necessary levels of support this will enable tenants to be more able to meet their tenancy obligations. As a result, tenancies will be more sustainable and the instances of anti-social behaviour will be reduced. All tenancies are managed and operated within the framework of the Council's Tenancy Management Policy.

Service delivery

The Housing Management Service has been the subject of a review in the previous year, resulting with a restructure of the delivery teams. The service is now be delivered through the following teams: Neighbourhood team; New Customer team; Community Safety team; and Customer Engagement team, the roles are set out below. The teams are fully operational, with the six 'patch areas' established and local action plans in place.

(i) Neighbourhood Team

The proposal includes the addition of a new post focused on tenancy sustainment and inclusion. There are seven Neighbourhood Housing Officers within the structure and, to support the further integration of housing and asset management, it is proposed that the designated neighbourhood areas are aligned to the six new patch areas of:

- Buckley
- Connahs Quay and Shotton
- Deeside and Saltney
- Flint
- Holywell
- Mold

Each Officer will be designated to one of the new six patch areas, with the seventh Neighbourhood Officer being used to provide additional floating support in areas that require intensive management intervention and support. They will also be used to provide flexibility and cover to help build the resilience of the team.

The designated neighbourhood areas are an increase from the current Neighbourhood Officers patch size, however, this is a reflection of the change in the functions and the creation of a new customer team who will be responsible for the allocations and lettings. The role of the Neighbourhood Officer will be more focused on providing a visible and accessible tenancy and estate management service. This includes dealing with low level anti-social behaviour cases with the specialist community safety team taking responsibility for high level and complex ASB cases.

Flintshire Housing Services
Key Priorities 2019/20

Neighbourhood Officers will be expected to work in an agile and flexible way providing a responsive and mobile service, which is visible and accessible to customers. This will include regular estate walkabouts, tenancy profile visits, new tenant visits along with other initiatives to develop a more detailed knowledge of the portfolio of homes including stock profile, resident's needs and wider community issues. Neighbourhood Officers will then use this customer insight and data to tailor services and develop effective neighbourhood plans to target resources and drive forward improvements.
The Caretaker/ Janitor role has been reviewed creating a handyperson service. This role will be used to support some of the Council more vulnerable customers, helping them to maintain their tenancy. The handyperson's service will also help support local community initiatives and projects helping to maintain clean, green and safe neighbourhoods.

(ii) New Customer Team

There are four New Customer Housing Officers within the team who will be designated to one of the new patch areas and they will also be responsible for covering each other's areas. Discussion will need to take place to ensure an even distribution of voids across the Officers. There are approximately 700 voids per year across the stock, which equates to 175 voids per annum per new Customer Housing Officer. When broken down further this would be approximately 14 voids per month equating to three each week.

The new customer team will be responsible for ensuring the effective and efficient allocation for the letting of void properties and ensuring that pre-tenancy assessments are carried out and support identified to help minimise tenancy failures. They will work closely with Housing Solutions and the Voids team to ensure a seamless delivery of the service working to ensure that empty properties are re-let in the most efficient and effective way. This will include adopting innovative and dynamic approaches to marketing and allocating vacant homes. The new customers team will also lead on marketing the Council 'available to let' homes on the website.

A new Tenancy Sustainment Officer is to be appointed to provide initial support to more vulnerable customers to help support them set up their new home and sustain their tenancy. This support will be for an initial period, during which time referrals will be made to the relevant support services. It is anticipated that by offering a seamless transition of support it will help to reduce the number of tenancy failures.

(iii) Tenancy Enforcement Team

The three Community Housing Officers will each be designated to two of the six new district areas and will be responsible for dealing with high level and complex anti-social behaviour cases including any legal action. They will be responsible for overseeing the management of cases and assisting with performance reporting. As well as being responsible for using a wide range of tools to prevent and tackle tenancy breeches including adopting a multiagency approach. The team will be the lead contacts for Community Safety Partnership Meetings.

(iv) Customer Engagement

This role focuses on financial and digital inclusion as well as supporting and promoting employment related initiatives.

Flintshire Housing Services
Key Priorities 2019/20

4.5 Repairs and Maintenance

The service delivers all responsive repairs and maintenance, with a team of 110 operatives, across the HRA stock. The service provided includes:

- Gas servicing, including for NEW Homes;
- Electrical checks in line with legislative requirements;
- Cyclical maintenance including monthly lighting checks and fire alarm testing;
- Emergency 24 hours call out service;

The priorities for the service are:

- to improve the efficiency of the service through improved resource management;
- to support other areas of the service to become more efficient (i.e. void turn arounds); and
- to become more effective through new ways of working.

Service delivery

The service has recently undertaken a value for money review, identifying and subsequently achieving efficiencies, and will continue to work within a Value For Money (VFM) framework, embedding the principles of economy, effectiveness and efficiency, whilst maintaining a good quality of service. The review included an appraisal of contractors spend resulting in reduced costs and contractors being used for one off works or major works only.

There have been a number of improvements across a range of areas of the service including:

- reducing the void time and speeding up the turn around, resulting in reduced rent loss for the service. This is achieved through operatives reporting any issues prior to the property becoming empty and completing any external work once the tenants have moved in.
- In addition, the service provides a repairs and maintenance service for NEW Homes and the Council's private rented temporary accommodation through a Service Level Agreement (SLA).
- Successful delivery of the in-house gas service team, which received a positive audit inspection in 2018.

Looking forward, the team is proactively planning for the legislative changes such as the new regulations for electrical installations and checks, and installation of carbon monoxide monitors, with the aim of positively managing any potential impact on the service.

Performance and standards

The headline response times for repairs are being exceeded as set out below.

Repair	Target	Performance achieved
Emergency Urgent Routine	Emergency Urgent Routine	2 hours 3 days 14 days

Flintshire Housing Services
Key Priorities 2019/20

4.6 Voids delivery

(i) Void inspections

The voids inspection service was reviewed to refocus the resource utilisation and the time it took for the inspection, ensuring a quicker inspection turn around. Subsequently, two skilled / trades employees were seconded to solely undertake the void inspections, significantly improving the performance of the service.

(ii) Void clearance

The HRA has now sub-contracted clearance to a social enterprise 'Flintshire Refurbs', who employ two of the Council's tenants for a year, providing employability skills and basic skills training whilst assisting them into further employment at the end of the contract.

(iii) Major and minor works

The existing contractor framework for major works on voids is currently under a value for money review looking at overall and comparative costs, and as a consequence of significant increase in the costs and the quality of the work, the team is to retender for framework contractors.

All of the minor works and some of the major is completed by the in-house team, including bathrooms and kitchens, where this is deemed to be efficient.

4.7 Aids and Adaptations

The service has developed an Aids and Adaptations Policy which is a cross service policy and aims to align delivery across the Council. The purpose of the policy is to:

'Support council tenants to be supported to obtain the best solutions for themselves and their carers as quickly as possible ensuring a fair and timely system for all. This may involve carrying out adaptations or being supported to look at alternative solutions to meet people's needs'.

The HRA will consider and adapt to the principles of the:

- Housing and Regeneration Act 1996
- Human Rights Act 1998
- Equality Act 2010
- Social Services and Wellbeing Act (Wales) 2014
- Enable adaptations scheme 2016 whilst meeting its financial and overarching duties to all its citizens.

The HRA has a dedicated annual budget for aids and adaptations of £1.015m, which funds minor adaptations up to £1,000 (which is under review) and major adaptations up to £36,000 as per Welsh Government guidelines. The adaptations are delivered by a dedicated team of skilled trades people and an in-house Surveyor. Where the work is specialised or major then contractors are used to expedite speedy delivery.

In addition, the Council works in partnership with its RSL partners and Social Services to capture and address the demand for specialist housing through the Specialist Housing Group, which is deemed as good practice by Welsh Government. The demand is met through both existing stock and the necessary DFG; an acquisition of a property which can be adapted by our partner RSLs; or through including a specifically designed and built property as part of the new build programme. This approach has resulted in people being housed in suitably adapted property over the last 12 months.

Resource & Financial Requirement

5.1 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.

The existing policy (CPI + 1.5% + up to £2 per week) expires on 31st March 2019 and the outcome of the Affordable Housing Supply Review will provide details of the future policy.

In 2019/20 a one year interim policy will apply.

1. *The annual uplift will be set at CPI only i.e. 2.4%.*

2. *The maximum amount a social landlord can increase an individual tenant's weekly rent is **2.4%**. For the avoidance of doubt, **the discretion to apply "up to £2 per week" has been removed for those social landlords whose average weekly rent is within or above their Target Rent Band.***

3. *Where a social landlord's average weekly rent is below their Target Rent Band and is required under the Rent Policy to be within the Target Rent Band, **the maximum amount they can increase an individual tenant's weekly rent is 2.4% + £2**.*

4. *This decision will apply for one year only (2019-20) while we are awaiting the outcome of the Affordable Housing Supply Review.*

The rent policy sets out the total target rent band for each landlord. The council's average target rent for 2019/20 is £97.56. On 1st April 2019 the council's average rent will be £93.78. The council's current average target rent is below the target rent band and the council has the discretion to apply up to £2 per week for tenants whose weekly rent sits below target.

For the purposes of the business plan a 2.4% plus up to £2 a week increase in rents has been included.

Anticipated Rental (including voids rent loss) and other income for the three year period 2019/20, 2020/21 and 2021/22 are shown in the table below:

Year	Net Rental Income	Other Income	Total Income
2019 – 2020	£34.688m	£ 1.572m	£ 36.260m
2020 – 2021	£35.654m	£ 1.760m	£ 37.414m
2021 – 2022	£36.584m	£ 1.781m	£ 38.365m

Rent Charges		2019/2020				
		£'s			No.	
Property Type	No. of Properties	Target Rent	Average Transitional Rent	Variance	Equal to/above Target Rent	Below Target Rent
G1Bedsit	22	70.32	70.32	0.00	22	0
G1bungalow	12	87.44	84.33	-3.11	2	10
G1Flat	161	79.11	78.96	-0.15	156	5
G1House	2	87.44	70.91	-16.53	0	2
G2Bungalow	3	97.15	92.46	-4.69	0	3
G2Flat	303	87.90	87.67	-0.23	285	18
G2House	705	97.15	94.06	-3.09	290	415
G2Maisonette	9	87.90	88.78	0.89	9	0
G3Bungalow	4	106.87	106.61	-0.26	3	1
G3Flat	38	96.69	95.34	-1.35	24	14
G3Maisonette	1	96.69	96.69	0.00	1	0
G3House	3,112	106.87	100.56	-6.30	736	2,376
G4House	130	116.58	107.80	-8.78	24	106
G5House	5	126.30	116.61	-9.69	2	3
G6House	5	126.30	119.27	-7.03	2	3
GNB1Apartment	6	79.11	83.06	3.96	6	0
GNB2Apartment	8	87.90	92.55	4.65	8	0
GNB2House	52	97.15	100.70	3.55	32	20
GNB3House	21	106.87	109.00	2.14	11	10
GNB2Bungalow	4	97.15	100.21	3.06	1	3
M1Mini Group Bungalow	299	87.44	85.28	-2.15	166	133
M1Mini Group Flat	116	79.11	79.16	0.05	116	0
M2Mini Group Bungalow	94	97.15	94.43	-2.72	55	39
M2Mini Group Flat	23	87.90	87.90	0.00	23	0
M3Mini Group Bungalow	1	106.87	106.87	0.00	1	0
S1Sheltered Bedsit	64	70.32	70.32	0.00	64	0
S1Sheltered Bungalow	850	87.44	85.91	-1.53	499	351
S1Sheltered Flat	322	79.11	79.13	0.02	322	0
S1Sheltered House	1	87.44	87.44	0.00	1	0
S2Sheltered Bungalow	510	97.15	92.86	-4.29	140	370
S2Sheltered Flat	305	87.90	87.90	0.00	305	0
S2Sheltered House	1	97.15	90.48	-6.67	0	1
S2Wardens Bungalow	2	97.15	97.15	0.00	2	0
S2Wardens Flat	4	87.90	87.90	0.00	4	0
S2Wardens House	1	97.15	95.33	-1.82	0	1
S3Sheltered Bungalow	2	106.87	106.35	-0.51	1	1
S3Wardens Bungalow	16	106.87	105.97	-0.90	12	4
S3Wardens Flat	1	96.69	96.69	0.00	1	0
S3Wardens House	20	106.87	102.40	-4.46	6	14
S4Wardens Flat	1	105.48	105.48	0.00	1	0
SO3Shared ownership houses	12	85.49	85.49	0.00	12	0
Total	**7,248**	**97.56**	**93.78**	**-3.78**	**3,345**	**3,903**

Note

G = General Need GNB = General Needs New Build
S = Sheltered M = Mini Group (over 55s with no warden service)
SO = Shared Ownership
The number equates to the number of bedrooms the property has for example a G3house is a general need 3 bed house.

Resource & Financial Requirement

The chart shows the transitional rents chargeable to Flintshire tenants under the new rents policy from 2019/20 and how they compare to target rents. The average rent chargeable for 2019/20 is £93.78 some £3.78 below the weekly target rent under the interim policy. On 1st April 2019 it is estimate that 46% of tenancies will be at target rent.

5.2 Empty Properties
Void rent loss is currently at 1.75% of rental income. The business plan has been adjusted to assume this level of void rent loss in future years.

5.3 Service Charges
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.

Flintshire is implementing service charges on a phased basis for existing/ongoing tenancies. Since April 2015 all new tenants have paid for services. A tenant consultation will take place in 2019/20 to review services and discuss implementation of future revised charges.

With the exception of services provided for the benefit of individuals, the service charges outlined above are all currently 'housing benefit eligible'.

5.4 Garage Rents
Garage rents are currently charged at £7.61 per week. We are proposing an increase of £1 per week. Garage plots are currently £1.20 per week. We are proposing a 20p increase per week.

5.5 Proposed financial changes to the 2019/20 business plan
The table below lists the proposed changes to the funding of the 2019/20 business plan. This includes additional funding and any efficiencies identified since last year.

Efficiencies / Use of One Off Funding

No.	Section	Description	Recurring/ Non-recurring	2019/20 £m	Narrative
1	Borrowing Costs	Reduction in borrowing interest rate/costs	Non-recurring	(0.628)	This is a change to the projected interest costs because the SHARP Batch 3 schemes will commence later than planned and differ in numbers from the assumptions included in the current business plan.
2	Borrowing Costs	Reduction in MRP	Non-recurring	(0.254)	This is a change to the projected 19/20 debt repayment because the level of borrowing is not expected to be as high on the 31st March 2019 as the 18/19 business plan assumed.
3	Capital Programme Funding	Prudential Borrowing	Non-recurring	(1.430)	The increase in prudential borrowing will fund the additional WHQS expenditure of £0.5m (see below) and contribute £0.9m towards the Innovative Housing Programme SHARP scheme at Garden City.
4	Capital Programme Funding	Use of capital receipts from Right to Buy sales and sale of land	Non-recurring	(0.375)	Capital receipts of £0.375m will be used to support SHARP schemes.
5	Capital Programme Funding	Use of commuted sums	Non-recurring	(0.535)	Commuted sums of £0.535m will be used to support SHARP schemes.
6	Capital Programme Funding	Innovative Housing Programme Grant	Non-recurring	(1.100)	Grant monies will support the scheme at Garden City
7	Capital Programme Funding	Solar PV Feed In Tariff	Recurring	(0.275)	Income generated by Solar PV contracts
8	Revenue Grant Income	Affordable Housing Grant	Recurring	(0.194)	Grant monies to support borrowing costs relating to SHARP
9	Management & Support	Health & Safety Vacant Post	Non-recurring	(0.052)	This post was established in 2016. A non-recurring efficiency is included for 2019/20 and the permanent outcome will be incorporated as part of the Housing & Assets restructure.
10	Management & Support	Prog Manager Welfare Reform Vancant Post	Non-recurring	(0.012)	The current post-holder is seconded to Welsh Government.
11	Management & Support	Support Recharges	Recurring	(0.032)	This budget existed to pay for employee related costs (training, mileage, expenses etc.) for staff whose salary costs are split between the HRA, New Homes and the Council Fund. For example, Finance, IT, Community Based Accommodation Support Services. The demand for this budget has diminished over the last few years and the budget can now contribute towards the additional Support Service recharge (see below).
12	Management & Support	SHARP Site Investigation Fees	Recurring	(0.028)	A budget of £0.047m was set aside in 2016 for non staffing costs relating to SHARP (e.g. legal advice, consultants, site investigation fees which cant be capitalised). The budget has been reduced to £0.020m to cover any advice required in the future.
13	Management & Support	Buildings Insurance	Recurring	(0.035)	There has been a reduction in the cost of the FCC buildings insurance premium.
14	Management & Support	Finance SLA	Recurring	(0.027)	As part of the Finance restructure, the number of Finance staff providing support to the HRA, SHARP and NEW Homes has reduced from 5.3ftes to 4.5ftes (3.6 x ftes funded by the HRA and 0.9 x ftes funded by NEW Homes). This is in addition to savings released in previous years.
15	Repairs & Maintenance	Capitalisation of DFG posts	Recurring	(0.061)	The majority of the Disabled Facilities Grant posts are capitalised with the exception of 1x Bricklayer and 1x Labourer. It is proposed to capitalise the whole team to be consistent with accounting treatment.
16	Repairs & Maintenance	Fleet Reduction	Recurring	(0.060)	Fleet recharges have reduced during 2018/19 because an element of the management costs have been apportioned across a wider range of services than in previous years.
		Total Revisions to HRA Funding		**(5.100)**	

The table below lists the proposed revisions to HRA expenditure and any pressures which have arisen since last year. The overall balance making a contribution towards reserves of £0.158m.

Investment Decisions / Cost Pressures

No.	Section	Description	Recurring/ Non-recurring	2019/20 £m	Narrative
1	Rents	Impact of revised rent policy decision & revised SHARP rent projections	Part-recurring	0.736	This amount reflects the approximate impact of the revised rent policy and SHARP rent projections. This pressure will have been partially offset by increases in rents following turnover of tenants.
2	Rents	Increased voids percentage (days void)	Recurring	0.112	This relates to the rent lost during void periods including hard to let properties and sensitive lets. The decision to complete WHQS works as properties become void also increases the number of days each property is empty and results in additional rent loss.
3	Other Income	Service Charges	Non-Recurring	0.068	This pressure reflects the difference between the anticipated service charge income for 19/20 and the revised proposal to keep service charges at the same level during 2019/20.
4	Other Income	Increased garage voids/demolition	Recurring	0.021	This relates to garage rent lost because garages are either unoccupied or are due to be demolished.
5	Capital Programme	Increased WHQS Allocation	Two Years	0.500	This increase covers the additional costs of envelope works.
6	Capital Programme	Energy Efficiency Works	Recurring	0.275	Using Solar PV Feed in Tariff.
7	Capital Programme	SHARP Programme	Non-Recurring	0.930	This covers the additional HRA investment in the Garden City Scheme. £1.1m will be grant funded (Innovative Housing Programme).
8	Capital Programme	Affordable Housing Grant	Non-recurring	1.243	£1.243m capital funding was previously included in the business plan for 2019/20. This grant will now be paid to the Council as revenue funding spread over 28 years to assist with borrowing costs.
9	Employee Costs	Salary Costs / Pay Award	Recurring	0.298	The pay award for 2018/19 and 2019/20 was approved after the budget for 2018/19 had been set. This pressure covers the element of the award above standard inflation and estimated changes to pay legislation (e.g. living wage, pension contributions, national insurance contributions).
10	Non Standard Inflation	Price Inflation	Recurring	0.475	Additional budget has been built in to cover estimated increases on gas, electricity, materials and subcontractor costs (including the capital programme). The standard inflation rate has also increased from 2% to 2.4% (October CPI)
11	Management & Support	Feasibility (Regeneration works)	Non-recurring	0.100	This provision is to cover the costs of any feasibility works in advance of any regeneration projects.
12	Management & Support	Support Service Recharges	Recurring	0.158	This pressure reflects the increase in the allocation of corporate overheads to the HRA.
13	Repairs & Maintenance	2 Inspectors and Travel Costs	Recurring	0.025	This pressure covers the additional salary, travel etc. costs incurred when replacing one Plumber and one Plasterer with two Inspectors. This will make the current arrangements permanent.
		Total revisions to HRA Expenditure		**4.941**	
		Budgeted contribution to reserves		(0.158)	

Resource & Financial Requirement

5.6 Staff and associated costs

The business plan includes 221.84 established Positions (FTE) within the Housing Revenue Account (including the WHQS Capital Works Team) in 2019/20.

5.7 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 168.5. The revenue budget for 2019/20 is £8.530m (£1,177 per tenancy).

5.8 Estate Management

Estate Management includes Rents, Anti-Social Behaviour, Tenant participation and Tenancy management services. Total FTE's assumed in the plan are 33.36. The planned budget is £1.722m.

5.9 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. The planned budget is £1.465m.

5.10 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 11.98. The planned budget is £2.563m.

5.11 Capital Financing

Financial Year	New Build Programme	WHQS	Regeneration	Total Borrowing Costs	Closing HRA Debt
2019 – 2020	£9.254m	£4.162m		£8.380m	£139.453m
2020 – 2021	£9.867m			£8.982m	£146.531m
2021 – 2022	£1.336m		£3.000m	£9.391m	£147.849m

Welsh Government have now lifted the borrowing cap of £143.934m agreed as part of the original self-financing agreement introduced in April 2015. Work is currently underway, through legal colleagues, to terminate the Voluntary Agreement under which each authority exited the former Housing Revenue Account Subsidy scheme. The draft business plan proposals do not breach the existing debt cap during 2019/20.

The capital programme for 2019/20 is £34.208m of which £21.586m is allocated to achieving the Welsh Housing Quality Standard, £1.083m to DFGs, £0.275m to Energy Efficiency and £11.264m to new builds.

Monitoring and Evaluation

Risk management plans have been developed for the WHQS programme and the SHARP new build programme, which are regularly monitored by the Housing and Regeneration programme board; the Scrutiny committee and the Council's Cabinet.

The risk register below for the overall HRA is updated and monitored monthly at the Housing and Regeneration Programme Board.

Ref	Description/Issue	Risk	Mitigation Act (MA) / Response Plan (RP)
1	MRA funding certainty - MRA is included within the HRA 30 year Business Plan at £5.0m per annum	MRA funding is only guaranteed year on year the risk is that MRA funding is not received	Ensure delivery of WHQS programme Fully complete Welsh Government MRA returns on a quarterly basis Lobby Welsh Government on need for MRA to continue 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 is not delivered to target Major supplier issues Contractor performance or contractor viability issues Loss of key staff Recruitment to delivery team Significant stock condition issues Tenant satisfaction falls	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 Stock Condition Survey in place Monitor and review at HRA Programme Board
3	Delivering the New Build programme by 2020	Mobilisation Phase of the Programme does not achieve the completion of the first phase of development in Flint by April 2016 Unsuitable sites selected for development and / or planning permission not granted Reputational risk through poor communication of Programme objectives progress and outcomes	Integration of the Programme with the development of the Local Development Plan (LDP) and the housing strategy 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 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 income particularly in light of ongoing Welfare Reforms	Poverty issues Increase in rent arrears Tenancy sustainment issues	Effective tenancy management Creative use of DHP Consideration to resource for tenancy sustainment Monitor and review at HRA Programme Board

Monitoring and Evaluation

Ref	Description/Issue	Risk	Mitigation Act (MA) / Response Plan (RP)
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
8	Emerging changes in the priorities for the carbon based economy	Potential impact on the investment planning for the longer term	To be determined

Action Plan
Key Actions for 2019/20

The following actions will support the delivery of the priorities set out in this business plan:
1. Grow the housing stock by a minimum of 1,000 over the lifetime of the plan;
2. Maintain, sustain and build on the improvements delivered through WHQS investment; and
3. To be in the top quartile for performance and quality of service delivery.

The table below sets out the high level actions for 2019/20 to enable the delivery of the HRA within the framework of the priorities set out above, and also reflect the individual detailed service plans.

	Action	Detail	Progress	Timeframe	Responsible /lead time
1	Inform and influence the wider Council's housing strategy development.	Develop a robust and intelligence led strategic framework to inform the delivery of new build, acquisitions and services.	Draft Housing Strategy for 2019-2024 complete	March 2019	Housing Strategy
		To undertake strategic acquisitions to support local regeneration or other local priorities including meeting short/medium term demand	Five properties have been purchased under the strategic acquisition / right to buy back scheme. They are currently undergoing the void maintenance works to enable them to be let in accordance with the demand from SARTH register.	Ongoing	Business Performance Team Manager
2	To deliver community benefits as part of the WHQS and SHARP programme	To develop a framework to identify and agree the community benefits to be delivered	In the process of being developed – subject to procurement rules.	Ongoing	Regeneration Manager
		To establish a process, in line with the Council wide strategy, to measure and capture community benefits			
3	Develop and inform the energy efficiency strategy	Review and update the HRA response to the energy efficiency and sustainability agenda in relation to new build and current stock.	Awaiting results of the refreshed stock condition survey	September 2019	Capital Works Team Manager
		Develop an investment and VFM approach to energy efficiency post WHQS	Review of all of the Energy Performance Certificates (EPC's) and the procurement of further EPC's to enable the Council to complete an in depth review of all Council properties falling under the SAP 65 threshold. Complete an action plan to address those properties below SAP65 detailing the level of investment needed to bring each property up to WHQS Standard. From this a post 2020 delivery plan can be considered in line with WG requirements (decarbonisation) to acceptable levels.	Ongoing	Capital Works Team Manager / Operations Manager

Action Plan

Key Actions for 2019/20

Action		Detail	Progress	Timeframe	Responsible /lead time
4	Develop and introduce a value for money framework	Achieve year on year efficiencies through a cost benefit approach	Delivery of the new Management structure	March 2020	All Managers
5	Improve efficiencies on major and minor works	Undertake a value for money review on the comparative costs on retender	There is a tender to review the Schedule of Rates for void works that is currently with Procurement. The retender may give options to utilize additional sub-contractors and attain value for money. To be review in six months.	September 2019	Operation Managers
6	Improved IT capability for reporting including Open Housing and KPIs	Update the servers to enable the productivity module to be opened in Open Housing so individual work output can be monitored.	Awaiting new Management structure	September 2019	IT services
		Join up the IT and deliver a digital solution using apps to capture customer feedback – this may require some up front work with tenants to ensure they use the service but it aligns with the Council's digitalisation strategy going forward.	Awaiting new Management Structure	September 2019	Housing Manager /Project Manager
		Introduce software system to identify rent patterns	Mobysoft software is being acquired	September 2019	Income Services
7	Improved understanding of asset base	Undertake/ update the stock condition survey	Tender delayed due to resource requirements and in house PDA total mobile solution. Once completed Stock Survey information can be imported directly into the Housing Asset Management System (Open Housing).	September 2019	Capital Works Team Manager
		Maintain stock data and asset register	As above	Ongoing	Capital Works Team Manager
		Review and assess the potential to realign existing housing stock to meet changing demands on the stock	As above	Ongoing	Capital Works Team Manager
		Develop a register of stock that has existing aids and adaptations which can be identified at re-let for most appropriate letting, to achieve better efficiency of existing stock.	The maintenance inspectors for voids are capturing any historical adaptations that have been undertaken. This information will be available.	September 2019	Operations Manager

Action Plan
Key Actions for 2019/20

	Action	Detail	Progress	Timeframe	Responsible /lead time
8	To implement the Customer Involvement Strategy and Action Plan	Improved understanding of customer satisfaction and involvement through a range of tenant support including: • Providing more opportunities for tenants to engage particularly through the development of local arrangements. • Helping tenants to resolve issues that affect them and help us ensure that tenant retain satisfaction in the quality of our services. • Improving and extending the range of communication options to ensure our tenants are informed, engaged and have the opportunity to challenge. • Developing training programmes which encourage participation and encourages their involvement in the development of resilient communities.		Ongoing	Housing Manager
9	Preventative work with vulnerable tenants to address rent arrears in conjunction with the Income Team	Working across internal teams including the Income Team, Benefit Team; Housing Solutions; Housing Options and Housing Management, develop appropriate actions around the following areas: 1. Lettings arrangements and tenancy allocation to vulnerable tenants. 2. Early identification of arrears. 3. Initial contact to tenants experiencing financial difficulties. 4. Direct contact with tenants. 5. Arrangements in place to support tenants experiencing financial difficulties.	12 month pilot running to look at reducing the number of rent arrears in Council properties. The Housing Intervention Team consists of 4 officers (2 income officers and 2 Accommodation Support Officers) who will target low level rent arrears below £600. This early intervention is intended to prevent evictions and higher rent arrears. Next stage is to produce an evaluation for the HRA to establish cost effectiveness.	September 2019	Housing Manager /Income Services /Housing Options Income Manager and Housing Strategy

Action Plan
Key Actions for 2019/20

Action		Detail	Progress	Timeframe	Responsible /lead time
10	Proactive Neighbourhood Management	Regular meetings with other landlords and key partners, including the Police, as part of the implementation of a proactive Neighbourhood Management plan.	In progress	Ongoing	Housing Manager
11	Customer satisfaction	Source an independent company to undertake follow-up satisfaction surveys based on service delivered through regular surveys	Delayed due management changes	September 2019	Service Manager
		Review resource management with the aim of ensuring we get it right first time, particularly in relation to the Call Centre.	The Operations Manager meets with the Call Centre as they provide the service for the R&M team. DP working with Travis Perkins to ensure electronic trading is implemented and van stock replenishment ensures correct materials to complete the job on first visit.	Ongoing monitoring of implementation of service	Business Performance Team Manager / Customer Services
		Implement customer satisfaction process for voids and aids and adaptations	Customer satisfaction has been implemented in the disabled adaptation team. There is to be a review of the void policy/ procedure and customer satisfaction will form part of the review. The satisfaction survey will need to capture the complete customer journey from allocation of a property to start of tenancy.	Completed September 2019	Operations Manager
		Undertake the STAR annual survey to benchmark customer satisfaction	Delayed due to management changes	September 2019	Service Manager /All Managers
		Use Housemark and APSE to benchmark our performance and levels of customer satisfaction.	Performance is currently being reported on both Housemark and APSE, there is not a full year of customer satisfaction data yet.	Ongoing	Business Performance Team Manager
12	To deliver 50 new homes per annum up to 2020 to meet the demand of the social housing register	Ensure the delivery of new build adds value through addressing the pressures for certain housing types by basing development plans on intelligence.	64 Council homes were delivered in 2017/18; a further 24 in 2018/19; and a further 75 are planned for 2019/20. Plans for additional sites are being progressed.	Ongoing	Housing Programmes Service Manager
		Undertake a review and update of the Flintshire House Standards	Specification for all new build properties was signed off in November 2018	Completed	Housing Programmes Service Manager

Action Plan
Key Actions for 2019/20

Action		Detail	Progress	Timeframe	Responsible /lead time
13	To deliver WHQS targets within year and within budget by 2020	Undertake a review of contractors to deliver the fourth year of the programme to achieve efficiencies against costs and resource requirements	All tenders complete. Review of all costs also completed and tenders procured more efficiently. 2019 mop up programme (acceptable fails) due to be tendered in January 2019 and all documentation completed including cabinet report which was further agreed in Q3 2018. Further cost reviews ongoing.	Completed June 2019 Ongoing	Capital Works Team Manager
14	To implement the new patch structure	Develop local action plans across the County	Completed. Housing Officers are delivering improved customer service and customer involvement at local level. More effective partnership working.	Completed	Housing Manager
15	Implement the Asset Plan	Develop a work programme for the boiler repairs; smoke detectors; carbon monoxide and electrical safety to inform budget requirements.	Central Heating Boiler Programme will be completed once the PDA total mobile solution is implemented and the stock survey data uploaded. This will generate the Central Heating Programme automatically. Any boilers that do not reach their desired lifecycle (15 years) will be reviewed with regards to performance and renewed individually through e-repairs and maintenance service.	September 2019	Operations Manager / Capital Works Team Manager
16	Reduce void periods	Increase reporting of issues prior to property becoming empty	Current performance targets are being achieved for work days in maintenance. However there are concerns relating to garden clearance costs. A pre-termination process to review this part of the service for improvement.	March 2019 September 2019	Operations Manager
17	Aids and Adaptations Policy	Develop and consult on the policy to provide a framework for undertaking aids and adaptations to Council stock	There is a current policy and procedure for this part of the service.	March 2019	Operations Manager

APPENDIX B

Flintshire County Council - HRA 30 Year Financial Business Plan Summary

Yr	Financial Year	Income: Net Rent Income	Income: Other Income	Income: Total Income	Expenditure: Estate Mgmnt	Expenditure: Landlord Services	Expenditure: Repairs & Maint	Expenditure: Mgmnt & Support	Expenditure: Debt Charges	Expenditure: Total Expenses
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1	2019.20	(34,688)	(1,572)	(36,259)	1,722	1,465	8,530	2,563	8,380	22,660
2	2020.21	(35,654)	(1,760)	(37,414)	1,765	1,470	8,703	2,691	8,982	23,611
3	2021.22	(36,584)	(1,781)	(38,365)	1,806	1,505	9,019	2,754	9,391	24,475
4	2022.23	(37,580)	(1,802)	(39,381)	1,845	1,541	9,315	2,819	9,419	24,940
5	2023.24	(39,188)	(1,823)	(41,011)	1,889	1,578	9,474	2,883	9,421	25,244
6	2024.25	(39,268)	(1,845)	(41,113)	1,926	1,610	9,663	2,941	9,423	25,563
7	2025.26	(40,088)	(1,879)	(41,967)	1,965	1,642	9,856	2,999	9,303	25,766
8	2026.27	(40,144)	(1,891)	(42,035)	2,004	1,675	10,054	3,059	9,122	25,914
9	2027.28	(40,963)	(1,914)	(42,877)	2,044	1,708	10,255	3,121	8,944	26,072
10	2028.29	(41,783)	(1,938)	(43,721)	2,085	1,743	10,460	3,183	8,770	26,240
11	2029.30	(42,619)	(1,963)	(44,581)	2,127	1,777	10,669	3,247	8,599	26,419
12	2030.31	(43,471)	(1,988)	(45,459)	2,169	1,813	10,882	3,312	8,431	26,608
13	2031.32	(45,193)	(2,026)	(47,219)	2,213	1,849	11,100	3,378	8,267	26,806
14	2032.33	(45,227)	(2,040)	(47,267)	2,257	1,886	11,322	3,445	8,105	27,016
15	2033.34	(46,132)	(2,067)	(48,198)	2,302	1,924	11,548	3,514	7,947	27,235
16	2034.35	(47,054)	(2,094)	(49,148)	2,348	1,962	11,779	3,584	7,791	27,466
17	2035.36	(47,996)	(2,122)	(50,117)	2,395	2,002	12,015	3,656	7,639	27,706
18	2036.37	(48,955)	(2,150)	(51,106)	2,443	2,042	12,255	3,729	7,489	27,958
19	2037.38	(50,895)	(2,194)	(53,089)	2,492	2,082	12,500	3,804	7,342	28,220
20	2038.39	(50,933)	(2,210)	(53,143)	2,542	2,124	12,750	3,880	7,197	28,494
21	2039.40	(51,952)	(2,240)	(54,192)	2,593	2,167	13,005	3,958	7,056	28,778
22	2040.41	(52,991)	(2,271)	(55,262)	2,644	2,210	13,266	4,037	6,917	29,074
23	2041.42	(54,051)	(2,303)	(56,354)	2,697	2,254	13,531	4,117	6,781	29,380
24	2042.43	(55,132)	(2,336)	(57,467)	2,751	2,299	13,801	4,200	6,647	29,699
25	2043.44	(57,316)	(2,385)	(59,701)	2,806	2,345	14,078	4,284	6,515	30,028
26	2044.45	(57,359)	(2,403)	(59,762)	2,862	2,392	14,359	4,369	6,386	30,370
27	2045.46	(58,506)	(2,438)	(60,944)	2,920	2,440	14,646	4,457	6,260	30,723
28	2046.47	(59,676)	(2,473)	(62,150)	2,978	2,489	14,939	4,546	6,136	31,088
29	2047.48	(60,870)	(2,315)	(63,185)	3,038	2,539	15,238	4,637	6,014	31,465
30	2048.49	(62,087)	(2,353)	(64,440)	3,098	2,589	15,543	4,730	5,894	31,854

Yr	Financial Year	Net Operating Balance: Net Operating Expenditure	Net Operating Balance: Balance B/F	Net Operating Balance: CERA	Net Operating Balance: Balance C/F
		£'000	£'000	£'000	£'000
1	2019.20	(13,600)	(1,165)	13,442	(1,323)
2	2020.21	(13,803)	(1,323)	13,953	(1,173)
3	2021.22	(13,890)	(1,173)	13,903	(1,160)
4	2022.23	(14,441)	(1,160)	14,236	(1,366)
5	2023.24	(15,767)	(1,366)	15,642	(1,491)
6	2024.25	(15,550)	(1,491)	15,464	(1,577)
7	2025.26	(16,201)	(1,577)	16,292	(1,487)
8	2026.27	(16,121)	(1,487)	16,128	(1,480)
9	2027.28	(16,805)	(1,480)	16,969	(1,316)
10	2028.29	(17,481)	(1,316)	16,958	(1,838)
11	2029.30	(18,163)	(1,838)	18,282	(1,719)
12	2030.31	(18,851)	(1,719)	18,625	(1,946)
13	2031.32	(20,413)	(1,946)	20,567	(1,792)
14	2032.33	(20,251)	(1,792)	20,302	(1,742)
15	2033.34	(20,963)	(1,742)	20,840	(1,865)
16	2034.35	(21,683)	(1,865)	21,730	(1,817)
17	2035.36	(22,411)	(1,817)	22,667	(1,561)
18	2036.37	(23,148)	(1,561)	23,151	(1,558)
19	2037.38	(24,868)	(1,558)	24,560	(1,866)
20	2038.39	(24,649)	(1,866)	24,472	(2,043)
21	2039.40	(25,414)	(2,043)	25,386	(2,071)
22	2040.41	(26,189)	(2,071)	25,850	(2,410)
23	2041.42	(26,973)	(2,410)	27,197	(2,186)
24	2042.43	(27,769)	(2,186)	28,123	(1,832)
25	2043.44	(29,673)	(1,832)	29,556	(1,949)
26	2044.45	(29,393)	(1,949)	29,494	(1,848)
27	2045.46	(30,221)	(1,848)	29,981	(2,088)
28	2046.47	(31,062)	(2,088)	30,957	(2,193)
29	2047.48	(31,721)	(2,193)	31,417	(2,497)
30	2048.49	(32,586)	(2,497)	32,887	(2,196)

Yr	Financial Year	Available Capital Funding: CERA	MRA	Prudential Borrowing	Capital Receipts	IHP Grant	Commuted Sums	VVP Loan	Energy Feed in Tariff	Total Capital Funding
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1	2019.20	13,442	5,065	13,416	375	1,100	535		275	34,208
2	2020.21	13,953	5,065	9,867	1,227				275	30,387
3	2021.22	13,903	5,065	1,336					275	20,579
4	2022.23	14,236	5,065	-					275	19,576
5	2023.24	15,642	5,065	-					275	20,982
6	2024.25	15,464	5,065	-					275	20,804
7	2025.26	16,292	5,065	-					275	21,632
8	2026.27	16,128	5,065	-					275	21,468
9	2027.28	16,969	5,065	-					275	22,309
10	2028.29	16,958	5,065	-					275	22,298
11	2029.30	18,282	5,065	-					275	23,622
12	2030.31	18,625	5,065	-					275	23,965
13	2031.32	20,567	5,065	-					275	25,907
14	2032.33	20,302	5,065	-					275	25,642
15	2033.34	20,840	5,065	-					275	26,180
16	2034.35	21,730	5,065	-					275	27,070
17	2035.36	22,667	5,065	-					275	28,007
18	2036.37	23,151	5,065	-					275	28,491
19	2037.38	24,560	5,065	-					275	29,900
20	2038.39	24,472	5,065	-					275	29,812
21	2039.40	25,386	5,065	-					275	30,726
22	2040.41	25,850	5,065	-					275	31,190
23	2041.42	27,197	5,065	-					275	32,537
24	2042.43	28,123	5,065	-					275	33,463
25	2043.44	29,556	5,065	-					275	34,896
26	2044.45	29,494	5,065	-					275	34,834
27	2045.46	29,981	5,065	-					275	35,321
28	2046.47	30,957	5,065	-					275	36,297
29	2047.48	31,417	5,065	-					275	36,757
30	2048.49	32,887	5,065	-					275	38,227

Yr	Financial Year	Capital Programme: WHQS Capital Programme	DFG	Strategic Acquisition	SHARP Replacement	Energy Efficiency	Regeneration	SHARP Developments	Total Capital Programme
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1	2019.20	21,586	1,082		0	275		11,264	34,208
2	2020.21	17,914	1,104		0	275		11,094	30,387
3	2021.22	15,142	1,126	500	0	275	2,200	1,336	20,579
4	2022.23	15,452	1,149	500	0	275	2,200	0	19,576
5	2023.24	14,536	1,172	500	0	275	4,500	0	20,982
6	2024.25	14,834	1,195	500	0	275	4,000	0	20,804
7	2025.26	15,138	1,219	500	0	275	4,500	0	21,632
8	2026.27	15,448	1,243		2	275	4,500	0	21,468
9	2027.28	15,757	1,268		9	275	5,000	0	22,309
10	2028.29	14,715	1,293		14	275	6,000	0	22,298
11	2029.30	15,009	1,319		18	275	7,000	0	23,622
12	2030.31	15,310	1,346		34	275	7,000	0	23,965
13	2031.32	16,702	1,373		57	275	7,500	0	25,907
14	2032.33	17,036	1,400		80	275	6,000	850	25,642
15	2033.34	17,377	1,428		100	275	7,000	0	26,180
16	2034.35	17,724	1,457		114	275	7,500	0	27,070
17	2035.36	18,079	1,486		167	275	8,000	0	28,007
18	2036.37	17,471	1,516		229	275	9,000	0	28,491
19	2037.38	17,821	1,546		258	275	10,000	0	29,900
20	2038.39	18,177	1,577		283	275	9,500	0	29,812
21	2039.40	18,541	1,608		302	275	10,000	0	30,726
22	2040.41	18,911	1,640		363	275	10,000	0	31,190
23	2041.42	18,659	1,673		430	275	11,500	0	32,537
24	2042.43	19,032	1,707		449	275	12,000	0	33,463
25	2043.44	19,413	1,741		467	275	13,000	0	34,896
26	2044.45	19,801	1,776		482	275	12,500	0	34,834
27	2045.46	20,219	1,811		516	275	12,500	0	35,321
28	2046.47	20,623	1,847		551	275	13,000	0	36,297
29	2047.48	21,036	1,884		562	275	13,000	0	36,757
30	2048.49	21,457	1,922		573	275	14,000	0	38,227

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HRA Capital Programme 2019/20

HRA Capital Programme	
WHQS	**£'m**
CATCH UP REPAIRS / MAJOR WORKS	
Urgent Capital Works	0.519
IMPROVEMENTS / COMMUNAL WORKS	
Fire Risk Assessments Work	0.520
General DDA Work	0.052
IMPROVEMENTS / ACCELERATED WORKS	
Asbestos Survey and Removal (Ongoing Programme)	0.624
Off Gas Programme	0.364
Welfare Reform / Adaptations	0.104
PROGRAMMED WORK STREAMS	
Internal Works	1.638
Envelope Works	12.282
External Works, Paths, Fences	0.494
Environmental Works - General	1.976
Capitalised Salaries	1.193
WHQS Acceptable Fails	1.040
Empty Properties	0.780
Total WHQS	**21.586**
Non WHQS	
Disabled Facilty Grants (DFG) - Mandatory/ Minor Adaps	1.082
Energy Efficiency	0.275
Total Non - WHQS	**1.357**
SHARP Programme	
Batch 1 & 2 Retentions	0.207
Batch 3 Commitments	7.087
Batch 4 Estimates	3.970
Total SHARP Programme	**11.264**
Total Capital Spend	**34.208**

CYNGOR Sir y Fflint Flintshire COUNTY COUNCIL

FLINTSHIRE COUNTY COUNCIL

Date of Meeting	Tuesday, 19th February 2019
Report Subject	Minimum Revenue Provision - 2019/20 Policy
Report Author	Corporate Finance Manager

EXECUTIVE SUMMARY

This report seeks Council approval in setting the annual policy for prudent Minimum Revenue Provision for the repayment of debt.

Cabinet will consider the detailed report from the Corporate Finance Manager in respect of setting a Minimum Revenue Provision Policy for 2019/20, included at Appendix 1, at their meeting on 19th February 2019 and their recommendations will be reported at the meeting.

RECOMMENDATIONS	
1	Members approve for Council Fund (CF):- • Option 3 (Asset Life Method) be used for the calculation of the MRP in financial year 2019/20 for the balance of outstanding capital expenditure funded from supported borrowing fixed as at 31st March 2017. The calculation will be the 'annuity' method over 49 years. • Option 3 (Asset Life Method) be used for the calculation of the MRP in 2019/20 for all capital expenditure funded from supported borrowing from 1st April 2016 onwards. The calculation will be the 'annuity' 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 2019/20 for all capital expenditure funded from unsupported (prudential) borrowing or credit arrangements.

2	Members approve for Housing Revenue Account (HRA):- • Option 2 (Capital Financing Requirement Method) be used for the calculation of the HRA's MRP in 2019/20 for all capital expenditure funded by debt.
3	Members approve 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. 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 19th February, 2019 - Minimum Revenue Provision - 2019/20 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 19th February 2019
Report Subject	Minimum Revenue Provision – 2019/20 Policy
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Corporate Finance Manager
Type of Report	Strategic

EXECUTIVE SUMMARY

Local Authorities are required each year 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 2018/19 officers critically reviewed the Council's 2017/18 MRP policy following a recommendation made in an independent peer review of the Council's financial position and recommended that changes be made to parts of the policy. A detailed report was considered and approved by Council in March 2018 outlining the review and the recommended changes. This followed changes made to the 2016/17 MRP policy as part of the budget strategy for 2017/18.

Local Authorities are required to set a policy for each financial year and this report recommends that the 2019/20 MRP policy remains the same as that of 2018/19, following two back to back reviews and is presented to Members as part of the suite of 2019/20 budget setting reports being considered by Cabinet and Council during February 2019.

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 2019/20 for the balance of outstanding capital expenditure funded from supported borrowing fixed as at 31st March 2017. The calculation will be the 'annuity' method over 49 years. • Option 3 (Asset Life Method) be used for the calculation of the MRP in 2019/20 for all capital expenditure funded from supported borrowing from 1st April 2016 onwards. The calculation will be the 'annuity' 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 2019/20 for all capital expenditure funded from unsupported (prudential) borrowing or credit arrangements. The calculation will be the 'annuity' method over an appropriate number of years, dependent on the period of time that the capital expenditure is likely to generate benefits.
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 2019/20 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. 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 or general 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 a 'prudent' policy is.
	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 … … ... Year 50 = £0.125m
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 options to calculate 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	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 Capital Strategy 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.
1.15	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. MRP would continue to be made at £0.750m per annum regardless of the treasury decision made.

2.00	**RESOURCE IMPLICATIONS**
2.01	The 2019/20 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 2017/18 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 considered by Council as part of setting the 2018/19 budget in March 2018.

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 equally in real terms 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 equally to current tax payers.

5.00	**APPENDICES**
5.01	None

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Council Fund Budget 2018/19 report to Council 1st March 2018 **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.

FLINTSHIRE COUNTY COUNCIL

Date of Meeting	Tuesday 19th February 2018
Report Subject	Treasury Management Strategy 2019/20 & Treasury Management Policy Statement, Practices and Schedules 2019/20 – 2021/22
Report Author	Corporate Finance Manager

EXECUTIVE SUMMARY

The report presents the Treasury Management Strategy 2019/20 for approval in conjunction with:

- Treasury Management Policy Statement 2019/20 – 2021/22
- Treasury Management Practices & Schedules 2019/20 – 2021/22

Audit Committee will review and consider the Strategy, Policy, Practices and Schedules at their meeting on 15th February 2019 and any feedback will be reported to Cabinet at their meeting on 19th February.

Cabinet will consider the detailed report from the Corporate Finance Manager with regard to setting the 2019/20 Treasury Management Strategy, included at Appendix A, at their meeting on 19th February 2019 and their recommendations will be reported at the meeting.

RECOMMENDATIONS	
1	Members approve the: • Treasury Management Strategy 2019/20 • Treasury Management Policy Statement 2019/20 – 2021/22 • Treasury Management Practices & Schedules 2019/20 – 2021/22

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
1.04	In preparation for approving the 2019/20 Treasury Management Strategy training for all Members was held on 29th January 2019. The workshop presented by Arlingclose, the Council's Treasury Management advisors covered a detailed introduction to Treasury Management in Local Authorities, including the regulatory framework and the role of the elected Member in scrutinising the Treasury Management function. The training included an in depth presentation on investments and borrowing.
1.05	As required by the Council's Financial Procedure Rules, the Strategy was reviewed by Audit Committee on 15th February 2019 and Cabinet on 19th February 2019. Any feedback raised by Audit Committee will be reported to Cabinet at their meeting. Cabinet's recommendations will be reported to this meeting.

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 2019/20 & Treasury Management Policy Statement, Practices and Schedules 2019/20 – 2021/22

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

APPENDIX A

CYNGOR Sir y Fflint Flintshire COUNTY COUNCIL

CABINET

Date of Meeting	Tuesday 19th February 2019
Report Subject	Treasury Management Strategy 2019/20 & Treasury Management Policy Statement, Practices and Schedules 2019/20 – 2021/22
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Corporate Finance Manager
Type of Report	Strategic

EXECUTIVE SUMMARY

The report presents the draft Treasury Management Strategy 2019/20 for approval and recommendation to Council in conjunction with:

- Draft Treasury Management Policy Statement 2019/20 – 2021/22
- Draft Treasury Management Practices & Schedules 2019/20 – 2021/22

RECOMMENDATIONS	
1	Cabinet approves and recommends to Council the: • Draft Treasury Management Strategy 2019/20 • Draft Treasury Management Policy Statement 2019/20 – 2021/22 • Draft Treasury Management Practices & Schedules 2019/20 – 2021/22

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.
1.05	In preparation for approving the 2019/20 Treasury Management Strategy training for all Members was held on 29th January 2019. The workshop presented by Arlingclose, the Council's Treasury Management advisors covered a detailed introduction to Treasury Management in Local Authorities, including the regulatory framework and the role of the elected Member in scrutinising the Treasury Management function. The training included an in depth presentation on investments and borrowing.
	<u>CONSIDERATIONS</u>
	2019/20 Treasury Management Policy Statement, Strategy and Practices
1.06	The previous Treasury Management Policy Statement was approved by Council in February 2016 and covered the 3 year period from 2016/17 to 2018/19. The updated Treasury Management Policy 2019-2022 is attached at Appendix 2. This document defines the Council's treasury management activities, sets out the Council's criteria to measure the effectiveness of treasury management activities and includes the Council's high level policies for borrowing and investments. Once approved the document will only be reported to Members during its lifetime in the event of any significant changes. The document has not changed significantly from the 2016/17 version.
1.07	Similarly 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. The updated TMPs for 2019/20 are attached as Appendix 3. The TMPs and schedules state how treasury management policies and objectives will be achieved and give specific details of the systems and routines employed and the records to be maintained including:- • TMP 1 Treasury risk management • TMP 2 Performance measurement • TMP 3 Decision-making and analysis • TMP 4 Approved instruments, methods and techniques • TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements • TMP 6 Reporting requirements and management information arrangements • TMP 7 Budgeting, accounting and audit arrangements • TMP 8 Cash and cash flow management

	• TMP 9 Money laundering • TMP 10 Staff training and qualifications • TMP 11 Use of external service providers • TMP 12 Corporate governance Some minor changes have been made to bring the practices and schedules in line with the draft 2019/20 strategy.
	Treasury Management Strategy 2019/20
1.08	The 2019/20 Treasury Management Strategy is attached at Appendix 1 for review and discussion. The Strategy is updated and reported annually to Members in accordance with the CIPFA Code of Practice (2017 edition) 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.
1.09	The 2019/20 Strategy has not changed significantly from that of the 2018/19 Strategy. Matters that merit the attention of Members are summarised below:- • Section 2 – Economic context, provided by Arlingclose, the Council's treasury management advisor, and highlights that the major external influence on the strategy continues to be negotiating the UK's exit from the European Union and agreeing future trading arrangements. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. Arlingclose forecasts 2 more interest rate rises of 0.25% during 2019 to take official UK interest rates to 1.25%. • Section 4 – Local context. This section summarises the anticipated treasury position in 2019/20. Activity in 2019/20, as it has in previous years will focus more on borrowing and less on investing; as the Council's requirement to borrow is forecast to grow due to a planned increase in capital expenditure, and there is less surplus cash to invest as services plan to spend reserves. • Section 5 – Investment Strategy. This section is largely a continuation of the Council's 2018/19 strategy, the aim being 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. • Section 6 - Borrowing Strategy. Again, this section is largely a continuation of the 2018/19 strategy. The Council continues to forecast a significant long term borrowing requirement. The required amounts

	need 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.
	Changes to CIPFA's Codes of Practice - Treasury Management Code 2017 and Prudential Code for Capital Finance in Local Authorities 2017
1.10	CIPFA published new editions of the Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance and the Prudential Code for Capital Finance in late December 2017 which complement each other.
1.11	The 2017 edition of the Prudential Code for Capital Finance has expanded objectives and includes a requirement for authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources, and ensure that decisions are being made with sufficient regard to the long term financing implications and potential risks to the authority. The code introduces the requirement for a Capital Strategy, with the intention to give a high level overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability. This means that the Capital Strategy is linked with the Treasury Management Strategy.
1.12	The Council already has a Capital Strategy and Asset Management Plan in place and considers that it prudently assesses the long-term context of capital expenditure and any non-treasury investment decisions, and their associated risks and rewards on future financial sustainability. An updated version of the Council's Capital Strategy, which will meet the requirements of the revised code, will be considered by Council in February, and a revised Asset Management Plan will be developed and reported to Cabinet in the summer. Appropriate risk management frameworks and reporting mechanisms will also need to be further developed and refined in consultation with Chief Officers and Members.
1.13	In the 2017 edition of the Treasury Management Code the definition of 'investments' has been widened to include all financial assets as well as non-financial assets held primarily for financial returns such as investment property. All investments will require appropriate investment management and risk management framework, including investments which are not managed as part of traditional treasury management. A new section within the Treasury Management Practices and Schedules has been added to cover investments made for reasons other than treasury management activity. Examples of these include loans supporting service outcomes, investment in subsidiaries and investment property portfolios. Officers have reviewed the Council's assets and have concluded that in general the Council's primary purpose in holding assets is not for financial gain. An exception to this are its farms and industrial units. This reflects the critical judgement the Council makes in its accounts that these are classified as investment properties.

	However, these assets are in effect legacy assets, and the Council has made an informed decision to reduce its agricultural estate and review the use of its industrial units. The spirit of the code is to focus on a more active portfolio of investment assets with a higher risk profile than the investment properties the Council owns. It is not considered certain that the Council requires the additional frameworks which the code requires, and therefore to expend resource creating them is not seen as an effective use of resources. This will be revisited in the context of the outcome of the review into industrial units.
1.14	As required by the Council's Financial Procedure Rules, the Strategy was reviewed by Audit Committee on 15th February 2019 and will also be reported to Council on 19th February 2019. Any issues raised by Audit Committee will be reported to this meeting.

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	1. Draft Treasury Management Strategy 2019/20 2. Draft Treasury Management Policy 2019/20 - 2021/22 3. Draft Treasury Management Practices and Schedules 2019/20 – 2021/22

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.

MiFID II (Markets in Financial Instruments Directive): EU legislation that regulates firms who provide services to clients linked to 'financial instruments'. As a result of MiFID II, from 3rd January 2018 local authorities will be treated as retail clients but can “opt up” to professional client status, providing that they meet certain qualitative and quantitative criteria.

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.

Appendix 1

CYNGOR
Sir y Fflint
Flintshire
COUNTY COUNCIL

FLINTSHIRE COUNTY COUNCIL

TREASURY MANAGEMENT STRATEGY

2019/20

CONTENTS

Treasury Management Strategy Report 2019/20

The Council is recommended to:

- **adopt CIPFA's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code)**
- **approve the Treasury Management Strategy for 2019/20**
- **approve the Treasury Management Indicators for 2019/20**

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.

The Institute published a revised version of the CIPFA Code in November 2017. The Council is requested to formally adopt the Treasury Management in the Public Services: Code of Practice 2017 Edition.

In addition, the Welsh Government (WG) issues guidance on local authority investments 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, (December 2018).

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20.

UK Consumer Price Inflation (CPI) for October was up 2.4% year/year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the Bank of England in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

While US growth has slowed over 2018, the economy continues to perform robustly. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the current 2%-2.25% in September. Markets continue to expect one more rate rise in December, but expectations are fading that the further hikes previously expected in 2019 will materialise as concerns over trade wars drag on economic activity.

Credit outlook: The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ring-fencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ring-fenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ring-fenced banks generally being better rated than their non ring-fenced counterparts.

The Bank of England released its latest report on bank stress testing, illustrating that all entities included in the analysis were deemed to have passed the test once the levels of capital and potential mitigating actions presumed to be taken by management were factored in. The Bank of England did not require any bank to raise additional capital.

European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

Interest rate forecast: Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. Whilst assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity *(at the time of writing this commentary in mid-December).* As such, the risks to the interest rate forecast are considered firmly to the downside.

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

Table 1: Interest rate forecast

	Bank Rate	3 month Money Market Rate	12 month Money Market Rate	20 year Gilt rate	50 year Gilt rate
Q1 2019	0.75	0.90	1.15	2.00	1.90
Q2 2019	0.75	0.95	1.25	2.10	1.95
Q3 2019	1.00	1.10	1.35	2.20	2.00
Q4 2019	1.00	1.30	1.50	2.20	2.00
Q1 2020	1.25	1.40	1.70	2.20	2.00
Q2 2020	1.25	1.40	1.60	2.20	2.00
Q3 2020	1.25	1.40	1.50	2.20	2.00
Q4 2020	1.25	1.35	1.40	2.20	2.00
Q1 2021	1.25	1.35	1.35	2.20	2.00
Q2 2021	1.25	1.35	1.35	2.20	2.00
Q3 2021	1.25	1.35	1.35	2.20	2.00
Q4 2021	1.25	1.35	1.35	2.20	2.00

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.80%, and that new long-term loans will be borrowed at an average rate of 2.925%.

3.0 Current Treasury Portfolio

The Council's treasury portfolio as at 31st December 2018 was as follows:

Table 2: Current Treasury Portfolio

	Principal £m	Interest rate %
Investments:		
Call accounts	2.0	0.75%
Money market funds	4.6	0.72%
Short-term deposits	16.0	0.64%
Long-term deposits	0.0	
Total Investments	**22.6**	**0.67%**
Borrowing:		
Short-term loans	45.0	0.84%
Long-term PWLB loans (fixed)	238.3	5.06%
Long-term PWLB loans (variable)	10.0	0.87%
Long-term market loans (LOBOs)	18.95	4.53%
Other Government loans	4.03	0.00%
Total Borrowing	**316.28**	**4.23%**
Net Borrowing	**293.68**	

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

	31.3.18	31.3.19	31.3.20	31.3.21	31.3.22

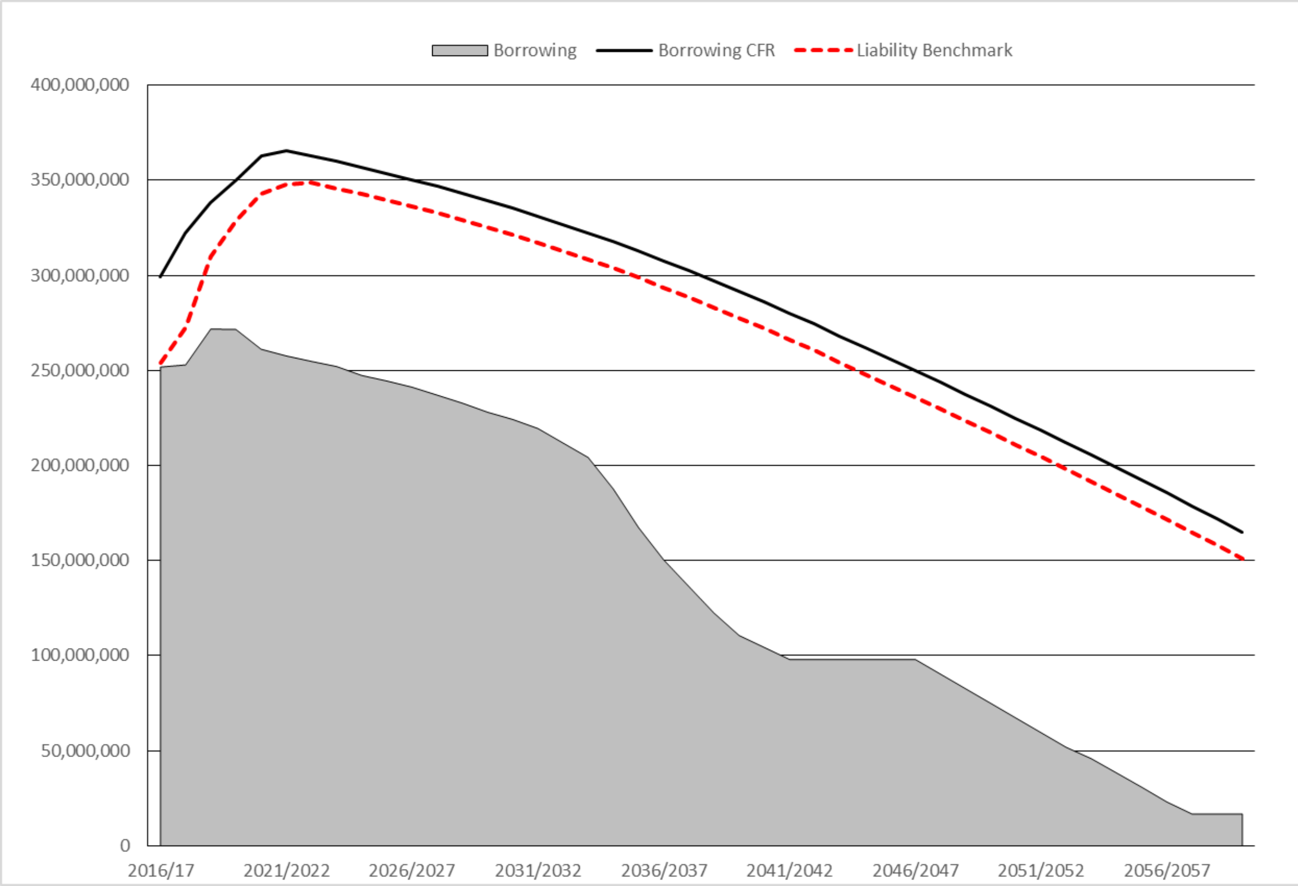
	Actual £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
Council Fund Capital Financing Requirement (Borrowing only)	198	209	221	223	224
Housing Revenue Account Capital Financing Requirement (Borrowing only)	124	129	139	147	145
Capital Financing Requirement (Borrowing only)	**322**	**338**	**360**	**370**	**369**
Less: Current ST borrowing Less: Current LT borrowing	-52 -253	-272	-272	-261	-258
Funding Required	**17**	**66**	**88**	**109**	**111**
Less: Usable reserves	-49	-33	-27	-27	-25
Adj: Working capital	-1	4	5	7	7
Investments / New borrowing (called the Liability Benchmark)	**33**	**-37**	**-66**	**-89**	**-93**

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 2018/19, this is linked with the capital programme (examples of schemes funded by borrowing include 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 2018/19 as funding earmarked for specific purposes falls due for payment and the Council uses un-earmarked reserves to balance the budget. The combination of the increase in capital expenditure and a reduction in reserves, results in a sustained requirement for new borrowing over the medium term.

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 2019/20, the same as in previous years is to ensure that any new borrowing undertaken does not exceed the liability benchmark and cause the council to borrow more than it needs.

Table 4: Liability Benchmark - Flintshire County Council (January 2019)



Budget implications

The budget for investment income in 2019/20 is £80k, based on an average investment portfolio of £10m at an average interest rate of 0.8%. The total budget for loan interest paid in 2019/20 is £13.9m, based on a debt portfolio of £328.3m at an average interest rate of 4.46%. This will be apportioned between the Council Fund and the HRA. If levels of investments, borrowing and interest rates differ from those forecast, performance against budget will be correspondingly different.

Please note that development of the Capital Programme 2019/20 – 2021/22 is well underway, however has yet to be considered by Members. The figures included within section 4 therefore are prudent estimates based on the information available in early January 2019.

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 £12.7m and £42.8m.

Both the CIPFA Code and the WG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Strategy

Given the increasing risk and very low returns from short-term unsecured bank investments, the Council continues its aim to diversify into more secure and/or higher yielding asset classes during 2019/20 so far as cash liquidity requirements allow. This is especially the case if any medium to longer-term investments are made. As at December 2018 a minority proportion of the Authority's surplus cash is currently invested in short-term unsecured bank deposits and money market funds.

Investment criteria and limits

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

Table 5: Investment criteria and limits

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

<table>
<tr><th>Minimum Credit Rating</th><th>Banks Unsecured</th><th>Banks Secured</th><th>Government</th><th>Corporates</th><th>Registered Providers</th></tr>
<tr><td>UK Government</td><td colspan="2"></td><td>£ Unlimited
50 years</td><td colspan="2"></td></tr>
<tr><td>AAA</td><td rowspan="2">£2m
5 years</td><td rowspan="2">£3m
5 years</td><td rowspan="2">£3m
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>£3m
4 years</td><td>£3m
15 years</td><td>£2m
4 years</td></tr>
<tr><td>AA-</td><td>£2m
3 years</td><td>£3m
3 years</td><td>£3m
10 years</td><td>£2m
3 years</td></tr>
<tr><td>A+</td><td>£2m
2 years</td><td>£3m
2 years</td><td rowspan="3">£3m
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>£3m
1 year</td><td>£2m
1 year</td></tr>
<tr><td>A-</td><td>£2m
6 months</td><td>£3m
6 months</td><td>£2m
6 months</td></tr>
<tr><td>Pooled Funds</td><td colspan="5">£3m per fund</td></tr>
<tr><td>BBB-</td><td colspan="5">The Council is restricted to overnight deposits in its’ own current account bank where the banks lowest credit rating is BBB+, BBB or BBB- (or equivalent)</td></tr>
<tr><td>Unrated Local Authorities</td><td colspan="2"></td><td>£3m
2 years</td><td colspan="2"></td></tr>
<tr><td>Unrated Other</td><td colspan="5">The Council may invest in any other unrated organisation, subject to:
• 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)</td></tr>
</table>

<u>Credit Rating</u>

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

<u>Banks Unsecured</u>

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB 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 generally a lower risk of insolvency, although they are not zero risk. 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 and registered social landlords formerly known as housing associations. These bodies are tightly regulated by the Welsh Government. As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled Funds

Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. 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.

Operational bank accounts

The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and therefore, the Council will aim to keep balances as low as practically possible. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

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 Fitch, Moody's or Standard & Poor's 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, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise 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	£4m
Total invested in pooled funds	£20m
Total investments without credit ratings or below A- (except UK Government and UK local authorities)	£5m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£1m
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.

Negative Interest Rates

If the UK enters into a recession in 2019/20, 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 would 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.

Business models

Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore these investments will continue to be accounted for at amortised cost.

6.0 Borrowing Strategy

The Council currently holds £271.3m of long-term loans, as part of its strategy for funding previous years' capital programmes, which includes £17.5m of new long-term borrowing undertaken in December 2018. The balance sheet forecast in section 4 shows that the Council expects to undertake new borrowing during the remainder of 2018/19 and 2019/20.

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 continue to be monitored throughout 2019/20 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 2019/20 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 2019/20, 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 to cover unexpected cash flow shortages.

Sources of borrowing

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

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

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 2019/20, 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

As at 31st December 2018, the Authority held £45m of short term (temporary) loans with an average rate of 0.84%.

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 2019/20

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, 2018.

- Effect any borrowing that maybe required in 2019/20 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.

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 Markets in Financial Instruments Directive

The Authority has opted up to professional client with its providers of financial services, including advisers, banks, and brokers, allowing it access to a range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Corporate Finance Manager believes this to be the most appropriate status.

10.0 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:

	2019/20	2020/21	2021/22
Upper limit on fixed interest rate exposures	£370m	£383m	£386m
Upper limit on variable interest rate exposures	£100m	£100m	£100m

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%	20%
12 months and within 24 months	0%	20%
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:

	2019/20	2020/21	2021/22
Limit on total principal invested beyond year end	£4m	£4m	£4m

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 Strategy report. However they are repeated here for completeness.

	2019/20	2020/21	2021/22
Operational boundary – borrowing	£360m	£370m	£370m
Operational boundary – other long-term liabilities	£20m	£20m	£20m
Operational boundary – TOTAL	£380m	£390m	£390m
Authorised limit – borrowing	£380m	£390m	£390m
Authorised limit – other long-term liabilities	£35m	£35m	£35m
Authorised limit – TOTAL	£415m	£425m	£425m

11.0 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 £405 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.

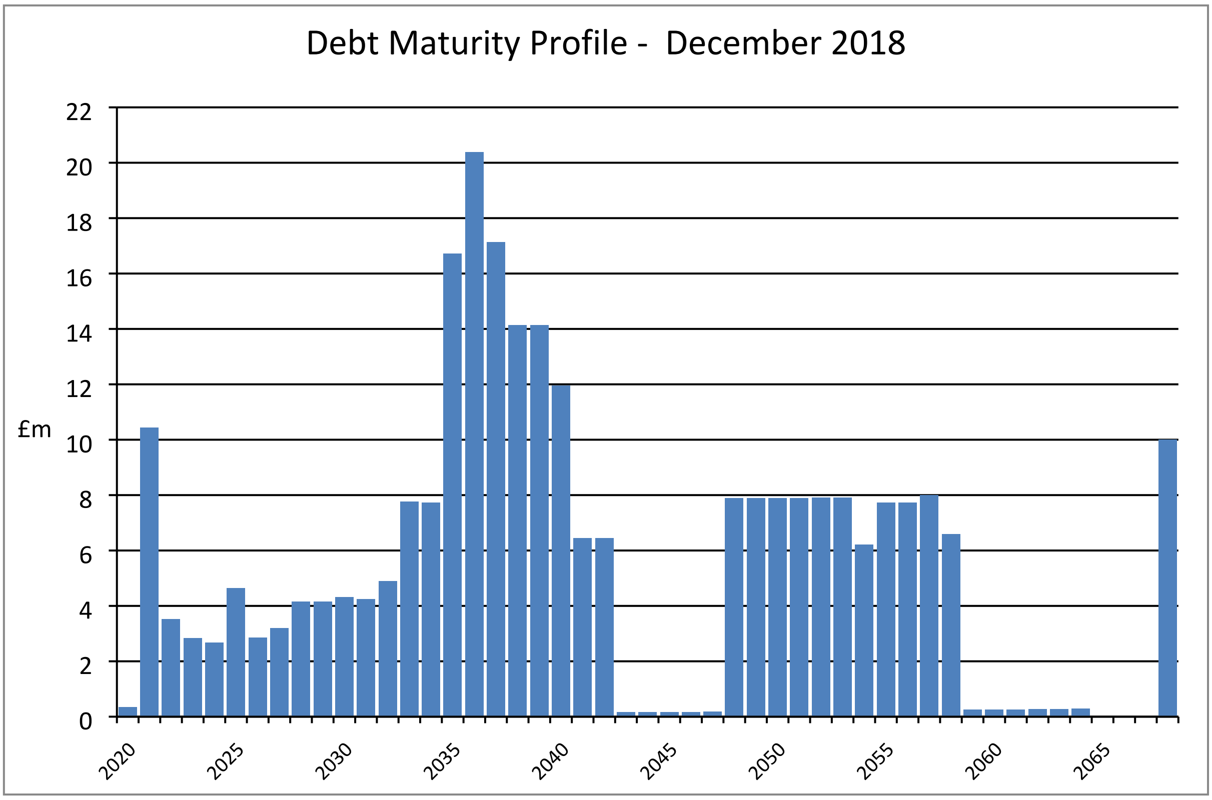
Other Options Considered

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	Impact on risk

	expenditure	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


Debt Maturity Profile - December 2018
£m
22
20
18
16
14
12
10
8
6
4
2
0
2020
2025
2030
2035
2040
2045
2050
2055
2060
2065

APPENDIX 2

FLINTSHIRE COUNTY COUNCIL

DRAFT TREASURY MANAGEMENT POLICY STATEMENT

2019 - 2022

1.0 TREASURY MANAGEMENT POLICY STATEMENT

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

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

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

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

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

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

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

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

1.8 The Council has adopted the 2017 edition of the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice and its required clauses in section 2 below.

2.0 CLAUSES FORMALLY ADOPTED

CIPFA recommends that all public service organisations adopt, as part of their formal policy documents the following four clauses.

2.01 The Council will create and maintain, as the cornerstones for effective treasury management:

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments will not result in the Council materially deviating from the Code's key principles.

2.02 The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

2.03 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 Chief Finance Officer, who will act in accordance with the Council's policy statement,TMPs and, CIPFA's Standard of Professional Practice on Treasury Management.

2.04 The Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

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DRAFT

TREASURY MANAGEMENT PRACTICES

Part 1: Main Principles

2019 - 2022

Flintshire County Council

TREASURY MANAGEMENT PRACTICES

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

TMP1 TREASURY RISK MANAGEMENT

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly it will ensure that robust due diligence procedures cover all external investments.

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

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

[1] Credit and counterparty risk management

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

[2] Liquidity risk management

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

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

[3] Interest rate risk management

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

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

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

[4] Exchange rate risk management

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

[5] Inflation risk management

The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole Council's inflation exposures.

[6] Refinancing risk management

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

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

[7] Legal and regulatory risk management

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

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

[8] Fraud, error and corruption, and contingency management

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

[9] Market risk management

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

TMP2 PERFORMANCE MEASUREMENT

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

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

TMP3 DECISION-MAKING AND ANALYSIS

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

TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

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

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

The Council has reviewed its classification with financial institutions under MIFID II and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

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

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

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

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

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

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

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

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

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

As a minimum:

The County Council will receive:

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

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

Treasury management indicators will be reported in the strategy report. The present arrangements and the form of these reports are detailed in the schedule to this document.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

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

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

TMP8 CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Chief Finance Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Chief Finance Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 [2] liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

TMP9 MONEY LAUNDERING

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

TMP10 STAFF TRAINING AND QUALIFICATIONS

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

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

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

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

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

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

TMP12 CORPORATE GOVERNANCE

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

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

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APPENDIX 3

DRAFT

TREASURY MANAGEMENT PRACTICES

Part 2: Schedules

2019 - 2022

Flintshire County Council

TREASURY MANAGEMENT PRACTICES - SCHEDULES

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

TMP1 RISK MANAGEMENT

1 Credit & Counterparty Policies

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

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

Minimum	Banks	Banks	Government	Corporates	Registered

<table>
<tr><th>Credit Rating</th><th>Unsecured</th><th>Secured</th><th></th><th></th><th>Providers</th></tr>
<tr><td>UK Government</td><td colspan="2"></td><td>£ Unlimited
50 years</td><td colspan="2"></td></tr>
<tr><td>AAA</td><td rowspan="2">£2m
5 years</td><td rowspan="2">£3m
5 years</td><td rowspan="2">£3m
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>£3m
4 years</td><td>£3m
15 years</td><td>£2m
4 years</td></tr>
<tr><td>AA-</td><td>£2m
3 years</td><td>£3m
3 years</td><td>£3m
10 years</td><td>£2m
3 years</td></tr>
<tr><td>A+</td><td>£2m
2 years</td><td>£3m
2 years</td><td rowspan="3">£3m
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>£3m
1 year</td><td>£2m
1 year</td></tr>
<tr><td>A-</td><td>£2m
6 months</td><td>£3m
6 months</td><td>£2m
6 months</td></tr>
<tr><td>Pooled Funds</td><td colspan="5">£3m per fund</td></tr>
<tr><td>BBB-</td><td colspan="5">The Council is restricted to overnight deposits in its’ own current account bank where the banks lowest credit rating is BBB+, BBB or BBB- (or equivalent)</td></tr>
<tr><td>Unrated Local Authorities</td><td colspan="2"></td><td>£3m
2 years</td><td colspan="2"></td></tr>
<tr><td>Unrated Other</td><td colspan="5">The Council may invest in any other unrated organisation, subject to:
• 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)</td></tr>
</table>

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

<u>Banks Unsecured</u>

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

<u>Banks Secured</u>

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.

<u>Government</u>

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, an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

<u>Corporates</u>

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.

<u>Registered Providers</u>

Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords formerly known as housing associations. These bodies are tightly regulated by the Welsh Government. As providers of public services, they retain the likelihood of receiving government support if needed.

<u>Pooled Funds</u>

Shares or units 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.

Operational bank accounts

The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and therefore, the Council will aim to keep balances as low as practically possible. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

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.

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.

Non-Specified Investment Limits

	Cash Limit
Total long-term investments	£4m
Total invested in pooled funds	£20m
Total investments without credit ratings or below A- (except UK Government and UK local authorities)	£5m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£1m
Total non-specified investments	£30m

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

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

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

   - Ratings from Fitch, Moody's or Standard & Poor's are updated monthly by the Council's treasury management adviser; however, they will provide immediate notification of any changes which affect Flintshire County Council counterparties. If a counterparty no longer meets the investment criteria, no further investments will be made with that counterparty and consideration will be given to recalling the monies. If a counterparty is being reviewed for a possible downgrade outside the criteria no more investments will be made.

   - The Council's treasury management adviser will also inform the Chief Finance Officer of any other market information that they have (e.g. Credit Default Swap prices, news reports and opinion, balance sheet analysis in the absence of credit ratings) which may require credit ratings to be overridden and no further investment to be made with that counterparty.

1.2 Liquidity

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

   - The Council manages its cash balances on a daily basis, dependent upon cash flow demands. The objective is to achieve a zero cash balance each day unless it is uneconomic to do so (e.g. it may cost more to send an investment to a counterparty and recall the next day than to keep the funds in the account overnight to cover the following days payments). Otherwise, a zero balance will be achieved as far as possible by means of temporary investments, borrowing or use of call accounts. Temporary investments are cash flow driven with the objective of ensuring that future temporary borrowing is minimised.

2. Details of:

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

1.3 Interest Rate

1. Details of approved interest rate exposure limits -

- The upper limit on fixed interest rate exposures is £370 million.
- The upper limit on variable interest rate exposures is £100 million.

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

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

1.4 Exchange Rate

Approved criteria for managing changes in exchange rate levels -

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

1.5 Inflation

Guidelines for managing changes to inflation rate levels

- This is monitored in conjunction with the Council’s treasury advisers through monthly economic updates.

1.6 Refinancing

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

    - To manage the Council's debt maturity profile i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing.

2. Projected capital investment requirements.

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

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

    - This is part of the ongoing budget monitoring process

4. Policy where the Council provides financial guarantees to third parties.

    - These are recorded and regularly reassessed as to the probability they will be called upon.

1.7 Legal & Regulatory

References to relevant statutes and regulations

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

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

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

    Hard copies are available in Technical Accountancy.

1.8 Fraud, error and corruption, and contingency management

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

    - These are documented in the Treasury Management Operational Guidelines.

2. Emergency and contingency planning arrangements

    - This process is currently being documented.

3. Fraud, Error & Corruption.

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

1.9 Market Value of Investments

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

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

TMP 2 PERFORMANCE MEASUREMENT

2.1 Performance Measurement

1. In the annual Treasury Management Outturn Report, investment and borrowing rates are analysed against the budget and previous year's data.

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

2.2 Value for Money

Frequency for reviewing and tendering for the following services:

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

2.3 Methods to be employed for measuring the performance of the Council's

Treasury Management activities

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

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

TMP 3 DECISION-MAKING AND ANALYSIS

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

1. Records to be kept:

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

2. Processes to be pursued:

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

3. Issues to be addressed:

   - In respect of every decision made the Council will:

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

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

     a. Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.
     b. Consider the merits and demerits of alternative forms of funding,

including funding from revenue, leasing and private partnerships.

c. Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

d. Consider the ongoing revenue liabilities created, and the implications for the Council's future plans and budgets.

- In respect of investment decisions, the Council will:

  a. Consider the optimum period, in the light of cash flow availability and prevailing market conditions.

  b. Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital.

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

- Borrowing

  a. Are funds available in call accounts?

  b. Arrange temporary borrowing through a broker for the shortest period of time at the lowest rate of interest available.

- Investing

  a. Establish funds available to be invested

  b. Establish a maturity date using cash flow and the Council's treasury adviser's monthly investment strategy

  c. Using the Ratings spreadsheet –
  Headroom available with each counterparty

  d. Check the credit ratings and other market information available for the chosen counterparty.

  e. Use a broker to find the highest rate of interest for the requirements above

  f. If after the above, funds still cannot be placed and call accounts and Money Market Funds are full, then invest with DMO.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 Approved activities of the Treasury Management operation

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

The approved activities are:

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

4.2 Approved Instruments for Borrowing

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

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

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

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

4.3 Approved Instruments for Investments

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

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

- Reverse Repurchase Agreements
- Commercial Papers

4.4 Approved Techniques

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

4.5 Approved methods and sources of raising capital finance

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

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

Off Balance Sheet
Deferred Purchase

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

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

4.6 Register of Financial Institutions who have approved the Council as "professional clients" under the provisions of MiFID II

Financial Institution:	Relationship with the Council:
Arlingclose Limited	Treasury Management Advisors
Martin Brokers Ltd	Broker
Tradition (UK) Ltd	Broker
ICAP plc	Broker

Tullet Prebon (UK) Ltd	Broker
BGC Partners	Broker
King & Shaxson Limited	Broker & Custodians
Institutional Cash Distributors (ICD)	Money Market Funds
Federated Investors (UK) LLP	Money Market Funds
Aberdeen/Standard Life	Money Market Funds
Insight Investment	Money Market Funds
Coventry Building Society	Building Society

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

5.1 Limits to Responsibilities/Discretion at Committee/Cabinet levels

1. **County Council**

The Council is responsible for:-

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

2. **Cabinet**

The Cabinet is responsible for:

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

3. **Audit Committee**

The Audit Committee is responsible for –

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

5.2 Principles and practices concerning segregation of duties

Procedure	Regular	Trained in Absence
Cash Balances	Accounting Technician	Accounting Technician/Technical Accountant
Dealing and Limit Calculations	Accounting Technician	Accounting Technician/Technical Accountant
Logotech	Accounting Technician	Accounting Technician/Technical Accountant
Dealing Check	Accounting Technician	Accounting Technician/Technical Accountant/Accountancy Assistant
Dealing Authorisation	7 Authorised Bank Signatories - Corporate Finance Manager, 6 Finance Managers)	
Funds Transfer Operators	Finance Assistant	3 Accounting Technicians/Technical Accountant
Funds Transfer Approval	7 Accountants	
Bankline System Administrators	Accountant (Systems)	Accounting Technician

5.3 Statement of duties/responsibilities of each Treasury post

1. Chief Finance Officer

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

2. Finance Manager - Technical Accounting

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

3. Technical Accountant

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

4. Accounting Technician

- Execution of transactions.
- Adhere to agreed policies and practices on a day-to-day basis.
- Maintain relationships with counterparties and external service providers.
- Draft reports for Audit Committee, Cabinet and Council.
- Produce cash flow projections and monitor performance.
- Report on the performance of the treasury management function.

5. Other Officers

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

5.4 Dealing Limits

As outlined in 1 - Credit and Counterparty Policies

5.5 List of Approved Brokers

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

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

5.6 Policy on Brokers' Services

Reviewed annually.

5.7 Policy on taping conversations

No conversations are currently taped

5.8 Direct Dealing Practices

This is undertaken as and when required to maximise investment return

5.9 Settlement transmission procedures

Standard Settlement Instructions

5.10 Documentation Requirements

- Flintshire CC Treasury Management Policy Statement.
- Flintshire CC Treasury Management Annual Strategy.
- Flintshire CC Treasury Management Annual Outturn Report.
- Treasury Management Health checks.
- Loans and Treasury Management System Manual (LOGOTECH).
- Cash Flow Statement (LOGOTECH).
- Money Market Dealing Form.
- Loans Outstanding Form / Limit Calculations.
- List of Brokers and Telephone Numbers.
- Approved Counterparties (Regular update from TM Advisers).
- Outstanding and Matured Investments/Borrowing File.
- Previous TM Consultants Correspondence Files.
- Arlingclose Consultancy Services Correspondence File (TM Advisers).
- Treasury Management Operational Guidelines.
- Treasury Management (Long Term Borrowing) Operational Guidelines.

5.11 Arrangements concerning the management of third-party funds.

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

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

TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 Annual Treasury Management Strategy Statement

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

Committee for approval before the commencement of each financial year.

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

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

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

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

6.2 Prudential Code for Capital Finance

1. In accordance with legislation, the Council is required to approve key indicators and limits for the Prudential Code for Capital Finance. These are listed below and reported in the Prudential Indicators Report.

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

The following are within the Treasury Management Code.

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

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

Cabinet before submission to County Council for approval.

6.3 Annual Investment Strategy

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

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

6.4 Annual Report on Treasury Management Activity

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

- a comprehensive picture for the financial year of all treasury policies, plans, activities and results
- transactions executed and their revenue (current) effects
- report on risk implications of decisions taken and transactions executed
- monitoring of compliance with approved policy, practices and statutory / regulatory requirements
- monitoring of compliance with powers delegated to officers
- degree of compliance with the original strategy and explanation of deviations
- explanation of future impact of decisions taken on the Council
- measurements of performance
- report on compliance with CIPFA Code recommendations

The report will be subject to review by the Audit Committee

6.5 Mid-Year Review

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

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

The report will be subject to review by the Audit Committee

6.6 Management Information Reports

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

6.7 Presentation of Reports

As a minimum:

The County Council will receive:

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

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

Treasury Management Indicators will be reported in the strategy.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 Statutory/ Regulatory Requirements

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

7.2 Accounting Practices and Standards

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

7.3 Budget Monitoring

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

TMP 8 CASH AND CASH FLOW MANAGEMENT

8.1 Arrangements for preparing/submitting cash flow statements

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

8.2 Content and frequency of cash flow budgets

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

8.3 Listing of sources of information

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

External –

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

Internal –

- Payroll
- Pensions
- Council Tax
- Creditors

8.4 Bank statement procedures

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

8.5 Procedures for banking of funds

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

8.6 Cash Flow Management

Arrangements as detailed in section 3.1.4

8.7 Debtors and Creditors

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

TMP 9 MONEY LAUNDERING

9.1 Procedures for establishing identity/authenticity of Lenders

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

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

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

TMP 10 STAFF TRAINING AND QUALIFICATIONS

10.1 Details of approved training courses

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

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

10.2 Records of training received by Treasury staff

All training is recorded on a departmental database.

10.3 Approved qualifications for Treasury staff

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

10.4 Training of Members

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

10.5 Statement of Professional Practice (SOPP)

1. Where the Chief Finance Officer is a member of CIPFA, there is a professional need for the Chief Finance Officer to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.
2. Other staff involved in treasury management activities who are members of

CIPFA must also comply with the SOPP.

TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

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

1. Banking services:

- National Westminster Bank Plc
- Contract commenced January 2015 to run for 3 years, then extended for a further 12 months
- Cost of core service - £38,000 p.a.
- Payments due on an ongoing basis throughout the year

2. Money-broking services:

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

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

3. Treasury Consultant services:

- Arlingclose Consultancy Services
- Contract commenced 1st September 2016 for 3 years, with the option to extend for a further 2 years.
- Cost of service - £11,000 plus VAT per annum
- Payments due annually

11.2 Procedures and frequency for tendering services

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

TMP 12 CORPORATE GOVERNANCE

12.1 List of documents to be made available for public inspection
12.1.1 Treasury Management Policy Statement
12.1.2 Treasury Management Strategy
12.1.3 Treasury Management Practices
12.1.4 Treasury Management Mid-Year Report
12.1.5 Treasury Management Annual Outturn Report
<u>APPENDIX A</u>

Definition of Ratings

Fitch Long Term

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

  The modifiers “+” & “-‘’ may be appended to any of the ratings above to denote a relative status within major categories.

Moody’s Long Term

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

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

Standard & Poor’s Long Term

- **AAA** - An obligor rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
- **AA** - An obligor rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
- **A** - An obligor rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than

obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

- **BBB** - An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

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