APPENDIX 1

FLINTSHIRE COUNTY COUNCIL

REPORT TO: CABINET

DATE: 19 FEBRUARY

REPORT BY: HEAD OF FINANCE

SUBJECT: PRUDENTIAL INDICATORS 2013/14 TO 2015/16

1.00 PURPOSE OF REPORT

1.01 To present proposals for setting a range of prudential indicators in accordance with the Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2.00 BACKGROUND

2.01 The Prudential Code has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice to support local authorities in determining their programmes for capital investment in fixed assets. Local authorities are required by Regulation to have regard to the Prudential Code when carrying out duties under Part 1 of the Local Government Act 2003.

2.02 The framework established by the Prudential Code is intended to support local strategic planning, local asset management planning and robust option appraisal. The objectives of the Code are to ensure, within a clear framework, that the capital investments plans of local authorities are **affordable, prudent and sustainable**, and that treasury management decisions are taken in accordance with good professional practice.

2.03 The Prudential Code sets out the indicators that must be used, and the factors that must be taken into account in preparing such.

3.00 CONSIDERATIONS

3.01 The prudential indicators required by the Prudential Code are designed to support and record local decision making; they are not designed to be comparative performance indicators – the use of them in this way would likely to be misleading and counter productive. They are considered in parallel with the treasury management indicators required by the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, as reported elsewhere on this agenda.

3.02 The Prudential Code recognises that in making capital investment decisions, and in reviewing the prudential indicators, the Council must have regard to the following:

- Service objectives, e.g. strategic planning for the authority

- Stewardship of assets, e.g. asset management planning

- Value for money, e.g. option appraisal
- Affordability, e.g. implications for Council Tax and Council housing rents
- Prudence and sustainability, e.g. implications for external borrowing
- Practicality, e.g. achievability of the forward plan

The Code does not specify how the Council should have regard to these factors, but instead concentrates on the means by which it demonstrates that the proposals are affordable, prudent and sustainable.

3.03 Affordability is the ultimate constraint on the amount that a local authority can spend or borrow. In practice, when making a decision to invest in a capital asset, the authority must do more than simply determine whether it can afford the immediate cost. In order to ensure long term affordability, decisions have to be prudent, and in the long term sustainable. Borrowing has to be prudent because, since future interest rates and revenue streams are uncertain, it must involve an element of risk. Furthermore, if the Council is unable to deliver its capital programme, or to afford the cost of running and maintaining the new facilities, the chosen level of capital investment will not be sustainable in the long term. Prudence and affordability are related concepts.

3.04 The Prudential Code specifies that prudential indicators are required to be calculated for the forthcoming financial year and two subsequent financial years, this process links in with the Medium Term Financial Plan.

3.05 Based on those resources currently allocated (including specific grants, but excluding any rephasing of expenditure from 2012/13 to future years), the estimates of capital expenditure to be incurred in 2013/14 (and the following two years), are as indicated in the table below; unsupported (prudential) borrowing of £26.49m has been assumed in the three year period for Council Fund purposes. This is in line with the capital programme proposals recommended to commence in 2012/13 in the Council Fund Capital Programme 2013/14 to 2022/23 report which is included elsewhere on this agenda.

CAPITAL EXPENDITURE			
	2013/14	**2014/15**	**2015/16**
	Estimate	**Estimate**	**Estimate**
	£m	**£m**	**£m**
Council Fund	29.908	27.540	53.406
Housing Revenue Account	10.992	11.592	10.395
Total	**40.900**	**39.132**	**63.801**

The capital expenditure totals essentially provide the base financial data from which all other indicators follow.

Prudential Indicators for Affordability

3.06 Estimates of the ratio of financing costs to net revenue stream for 2013/14 based on those expenditure assumptions outlined in the Council Fund and Housing Revenue budget report (both included elsewhere on this agenda), are as included in the table below; these indicators of affordability address the revenue implications of the Council's financial strategy.

RATIO OF FINANCING COSTS TO NET REVENUE STREAM			
	2013/14	**2014/15**	**2015/16**
	Estimate	**Estimate**	**Estimate**
	%	**%**	**%**
Council Fund	5.489	5.491	6.153
Housing Revenue Account	7.535	6.940	6.145

The Council Fund net revenue stream is the amount to be met from Welsh Government (WG) grants and local taxpayers, and the HRA equivalent is the amount to be met from WG grants and from Rent payers. The Council Fund ratio reflects an increasing burden of total external interest being borne by the Council Fund due to the continuing reduction in HRA debt outstanding as a percentage of an increasing level of revenue stream income. The estimate of financing costs includes the current commitments and the proposals included in the capital programme report. The HRA as calculated, reflects a reducing financing cost attributable to the continuing reduction in HRA debt outstanding as a percentage of an increasing level of revenue stream income.

3.07 The Prudential code requires that the estimate of the incremental impact of capital investment decisions as proposed in the capital budget report for the period 2013/14 to 2015/16, over and above capital investment decisions that have previously been taken by the Council are reported in terms of their impact on Band D Council Tax and Housing Rents, and are shown in the table below:

ESTIMATE OF INCREMENTAL IMPACT OF CAPITAL INVESTMENT			
	2013/4	**2014/15**	**2015/16**
	Estimate	**Estimate**	**Estimate**
	£	**£**	**£**
Band D Council Tax	5.14	8.28	23.38
Average Weekly Housing Rents	Nil	Nil	Nil

The incremental impact of capital investment on the Council Tax reflects the inclusion of annual unsupported (prudential) borrowing charges included in the revenue budget report totals included elsewhere on this agenda.

Whilst the impact of capital investments decision is nominally shown in terms of impact on Council Tax levels, the actual levels of Council Tax increase each year will be in accordance with the Council's policy of 3% to 3.5% as set out in the Medium Term Financial Strategy. Detailed medium term financial planning will identify efficiencies to enable investment to take place whilst maintaining Council Tax levels as agreed.

Prudential Indicators for Prudence

3.08 Estimates of the capital financing requirement, as described in section 3.09 below, for 2013/14 are:

CAPITAL FINANCING REQUIREMENT			
	2013/14	**2014/15**	**2015/16**
	Estimate	**Estimate**	**Estimate**
	£m	**£m**	**£m**
Council Fund	158.454	162.347	172.275
Housing Revenue Account	25.449	24.941	24.442
Total	**183.903**	**187.288**	**196.717**

3.09 The capital financing requirement measures the authority's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements. In accordance with best professional practice, Flintshire County Council does not associate debt with particular items or type of expenditure. The authority has an integrated treasury management strategy and has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. Flintshire County Council has, at any point in time, a number of cash flows both positive and negative, and manages its treasury position in terms of its debt and investments in accordance with its approved treasury management policy and strategy. The Treasury Management Policy Statement 2013 – 2016 and the Treasury Management Strategy 2013/14 appear elsewhere on this agenda following consideration by the Audit Committee in January 2013. 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 authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements.

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

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

In November 2012 CIPFA issued an amendment to the Prudential Code changing the indicator from net debt (total borrowing and other long-term liabilities less any investments held) to gross debt. Following reflection that comparing the capital financing requirement to the net position i.e., net of investments, could potentially mask a position where an authority had borrowed other than for a capital purpose and then subsequently invested the surplus funds.

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

Prudential Indicators for External Debt and Treasury Management

3.11 In respect of its external debt, it is recommended that the Council approves the following authorised limits for its total external debt gross of any investment for the next three financial years. These limits separately identify borrowing from other long term liabilities such as finance leases. The Council is asked to approve these limits and to delegate authority to the Head of Finance, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the Council at its meeting following the change.

AUTHORISED LIMIT FOR EXTERNAL DEBT			
	2013/14	**2014/15**	**2015/16**
	Estimate	**Estimate**	**Estimate**
	£m	**£m**	**£m**
All Borrowing (Capital/Revenue)	202.600	218.000	253.100
Other Long Term Liabilities	15.600	16.600	17.600
Total	**218.200**	**234.600**	**270.700**

The authorised limits are consistent with the authority's current commitments, existing plans and the proposals in the capital programme report, and with its approved Treasury Management Strategy 2013/14. They are based on the estimate of most likely, prudent position with, sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes.

3.12 The Council is also asked to approve the following operational boundary for external debt for the same period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects directly the estimate of the most likely, prudent provision, without the additional headroom included in the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in year monitoring. Within the operational boundary, figures borrowing and other long term liabilities are separately identified. The Council is also asked to delegate authority to the Head of Finance, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the authorised limit. Any such changes will be reported to the Council at its next meeting following the change.

OPERATIONAL BOUNDARY FOR EXTERNAL DEBT			
	2013/14	**2014/15**	**2015/16**
	Estimate	**Estimate**	**Estimate**
	£m	**£m**	**£m**
All Borrowing (Capital/Revenue)	182.600	198.000	233.100
Other Long Term Liabilities	15.600	16.600	17.600
Total	**198.200**	**214.600**	**250.700**

The figure for all borrowing has increased in line with the assumption made in 3.05 that for Council Fund purposes there is a requirement to borrow £26.49m through unsupported (prudential) borrowing over the three year period. In addition, the figure for other long term liabilities has increased from prior years due to the value of those finance leases associated with the redevelopment of Deeside Leisure Centre and the Jade Jones Pavilion Flint.

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

The Council is asked to note that the authorised limit determined in 2013/14 (see section 3.11 above) will be the statutory limit determined under section 3 (1) of the Local Government Act 2003.

3.14 The prudential indicator in respect of treasury management is confirmation that the Council has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (as reported elsewhere on this agenda). The aim of this indicator is to ensure that treasury management is led by a clear integrated forward treasury management strategy.

4.00 RECOMMENDATIONS

4.01 That Members approve and recommend to County Council on 1st March 2013:

a) the prudential indicators as detailed in Section 3 of the report

- Capital expenditure (3.05)
- Ratio of financing costs to net revenue stream (3.06)
- Incremental impact of capital investment decisions on the council tax (3.07)
- Incremental impact of capital investment decisions on housing rents (3.07)
- Capital financing requirement (3.08)
- Gross debt and the capital financing requirement (3.10)
- Authorised limit for external debt (3.11, 3.13)
- Operational boundary for external debt (3.12)
- Adoption of the CIPFA Treasury Management in the Public Services: Code of Practice ad Cross-Sectoral Guidance Notes (3.14)

b) delegated authority for the Head of Finance to effect movements between the separately agreed limits within the authorised limit for external debt and the operational boundary for external debt (3.11, 3.12)

5.00 FINANCIAL IMPLICATIONS

5.01 As set out in the report.

6.00 ANTI-POVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report.

10.00 CONSULTATION REQUIRED

10.01 None

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 None

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: Various Welsh Government and CIPFA papers

Contact Officer: Liz Thomas
Finance Manager – Strategy & Technical
Telephone: 01352 702289
E.mail: liz.thomas@flintshire.gov.uk