

## **FLINTSHIRE COUNTY COUNCIL**

**REPORT TO:**           **CABINET**

**DATE:**               **TUESDAY, 14 JULY 2015**

**REPORT BY:**       **CORPORATE FINANCE MANAGER**

**SUBJECT:**           **PRUDENTIAL INDICATORS - ACTUAL 2014/15**

### **1.00    PURPOSE OF REPORT**

1.01    To provide Members with 2014/15 (actual) Prudential Indicator (PI) figures as required under the Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

### **2.00    BACKGROUND**

2.01    The background to this item is provided in the report to Cabinet 17<sup>th</sup> February 2015 (subject: Prudential Indicators 2015/16 to 2017/18). 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 investments in fixed assets. Local authorities are required by Regulation to have regard to the Prudential Code when carrying out their 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 proper option appraisal. The objectives of the Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice; the 2014/15 capital programme was prepared on this basis – affordable in terms of implications for Council Tax and housing rents, prudent and sustainable in terms of implications for external borrowing.

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     General**

3.01.1 Actual (2014/15) PI's have now been calculated in respect of the following:

- Capital expenditure
- Ratio of financing costs to net revenue stream
- Incremental impact of capital investment
- Capital Financing Requirement
- Authorised Limit for External Debt

### **3.02     Housing Revenue Account (HRA) – Introduction of Self Financing**

3.02.1 As detailed in Section 3.02 of the report of 17<sup>th</sup> February 2015, the introduction of Self Financing necessitated a one-off capital payment to Welsh Government. At budget setting time this was estimated to be c£92m (See 3.02.5 of the above report).

3.02.2 The arrangements for the exit of the negative subsidy system changed following the Council setting its budget, resulting in a lower payment of c£79m being made. For Members information the 2015/16 estimates reported in February have been updated to reflect this change.

3.02.3 Both the original and revised estimates are shown in the tables below where appropriate.

### **3.03     Capital expenditure**

3.03.1 The PI's for capital expenditure are based on the Council's capital programme (that takes into account the Council's asset management and capital investment strategies), and are supplemented (for capital accounting purposes) by the value of finance leases held. The capital expenditure totals are the starting point for the calculation of the PI's and essentially provide the base financial data from which all other indicators follow.

3.03.2 Prior year (2013/14) actuals and 2014/15 estimate totals are included for information purposes, together with forward totals for 2015/16 (revised as necessary).

3.03.3 Actual 2014/15 capital expenditure for the Council Fund and the Housing Revenue Account (HRA) is £40.372m as shown in the table below.

CAPITAL EXPENDITURE					
	2013/14	2014/15	2014/15	2015/16 Estimate	
	Actual	Estimate	Actual	Original	Revised
	£m	£m	£m	£m	£m
Council Fund	25.101	20.970	28.378	50.359	50.359
Housing Revenue Account	12.874	12.381	11.994	113.620	100.259
<b>Total</b>	<b>37.975</b>	<b>33.351</b>	<b>40.372</b>	<b>163.979</b>	<b>150.618</b>

3.03.4 Capital expenditure and related funding issues are part of the agenda for meetings of the Assets Programme Board (Formerly Corporate Asset Management Group (CAMG)). Detailed analysis and commentary regarding 2014/15 actual expenditure is provided in the capital outturn report which is also on this agenda.

### 3.04 Ratio of financing costs to net revenue stream

3.04.1 The actual ratio of financing costs to net revenue stream for 2014/15 is as follows:

RATIO OF FINANCING COSTS TO NET REVENUE STREAM					
	2013/14	2014/15	2014/15	2015/16 Estimate	
	Actual	Estimate	Actual	Original	Revised
	%	%	%	%	%
Council Fund	5.7%	6.0%	5.8%	5.7%	5.7%
Housing Revenue Account	6.4%	6.8%	5.9%	20.1%	19.1%

3.04.2 The HRA ratio (2015/16 estimate), calculated in accordance with the Prudential Code, reflects the increase in financing costs attributable to the settlement payment required to exit the HRA negative subsidy system. The ratio does not include the revenue savings as a result of no longer paying negative subsidy which outweigh the increase in finance costs.

### 3.05 Incremental impact of capital investment

3.05.1 The incremental impact of capital investment on the Council Tax reflects planned unsupported (prudential) borrowing charges. During 2014/15 £0.684m of charges were incurred. The table below indicates that the impact of this would be a £11.08p increase in Council Tax levels, however these charges are funded from savings elsewhere within the Council Fund and so the actual effect on Council Tax levels was nil in 2014/15.

ESTIMATED INCREMENTAL IMPACT OF CAPITAL INVESTMENT				
	2013/14	2014/15	2014/15	2015/16
	Actual	Estimate	Actual	Estimate
	£	£	£	£
Council Fund	12.14	11.86	11.08	9.41
Housing Revenue Account	n/a	n/a	n/a	n/a

3.05.2 Whilst the 2015/16 HRA capital expenditure total includes c£79m that is to be financed via Unsupported (Prudential) Borrowing, the revenue savings as a result of no longer paying negative subsidy outweighs the increase in finance costs as a result of the capital expenditure, meaning that these investment decisions haven't had an increasing impact on rent levels.

### 3.06 Capital Financing Requirement

3.06.1 The actual (average) capital financing requirement for 2014/15 is £189.388m, being the measure of the Council's underlying need to finance capital expenditure by borrowing or other long term liabilities during the year. The HRA debt outstanding total (2015/16 estimate) has increased as a result of the subsidy buyout as referred in section 3.02. above and is evidenced in the table below:

CAPITAL FINANCING REQUIREMENT					
	2013/14	2014/15	2014/15	2015/16 Estimate	
	Actual	Estimate	Actual	Original	Revised
	£m	£m	£m	£m	£m
Council Fund	160.305	166.707	164.993	181.758	181.758
Housing Revenue Account	25.373	24.701	24.395	119.308	112.721
<b>Total</b>	<b>185.677</b>	<b>191.407</b>	<b>189.388</b>	<b>301.067</b>	<b>294.480</b>

### **3.07 Authorised Limit for External Debt**

3.07.1 Actual external debt for 2014/15 was £179.173m, with separately identified limits for borrowing and other long term liabilities such as finance leases:-

<b>AUTHORISED LIMIT FOR EXTERNAL DEBT</b>					
	<b>2013/14</b>	<b>2014/15</b>	<b>2014/15</b>	<b>2014/15</b>	<b>2015/16</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Revised</b>	<b>Actual</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
All Borrowing (Cap/Rev)	172.113	257.300	303.100	172.113	324.100
Other Long Term Liabilities	7.552	22.100	20.100	7.060	20.100
<b>Total</b>	<b>179.665</b>	<b>279.400</b>	<b>323.200</b>	<b>179.173</b>	<b>344.200</b>

### **4.00 RECOMMENDATIONS**

4.01 Cabinet is requested to note and approve the report.

### **5.00 FINANCIAL IMPLICATIONS**

5.01 None; the financial information provided is retrospective.

### **6.00 ANTI POVERTY IMPACT**

6.01 None.

### **7.00 ENVIRONMENTAL IMPACT**

7.01 None.

### **8.00 EQUALITIES IMPACT**

8.01 None.

### **9.00 PERSONNEL IMPLICATIONS**

9.01 None.

### **10.00 CONSULTATION REQUIRED**

10.01 None.

### **11.00 CONSULTATION UNDERTAKEN**

11.01 None.

**12.00 APPENDICES**

12.01 None.

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985**  
**BACKGROUND DOCUMENTS**

Final Accounts working papers 2014/15  
Various Welsh Government and CIPFA papers

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