

## CABINET

<b>Date of Meeting</b>	Tuesday, 17 <sup>th</sup> July 2018
<b>Report Subject</b>	Prudential Indicators - Actuals 2017/18
<b>Cabinet Member</b>	Leader of the Council and Cabinet Member for Finance
<b>Report Author</b>	Corporate Finance Manager
<b>Type of Report</b>	Operational

### EXECUTIVE SUMMARY

Under the Prudential Code for Capital Finance in Local Authorities (the Prudential Code), as updated in 2017, authorities are required to set a range of Prudential Indicators. This report provides details of the Council's actual Prudential Indicators for 2017/18 compared with the estimates set:-

- Prudential Indicators for Prudence
- Prudential Indicators for Affordability

### RECOMMENDATIONS

1	That members note and approve the report.
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## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE PRUDENTIAL INDICATORS</b>
1.01	<b>Background</b>  The background to this item is provided in the reports to Cabinet on 18th July 2017, Prudential Indicators Actuals 2016/17, and to Cabinet on 14th February 2017, Prudential Indicators 2017/18 - 2019/20.
1.02	The Prudential Code has been developed by the Chartered Institute of Public Finance & Accountancy (CIPFA) as a professional code of practice to support local authorities in determining their programmes for capital investment in fixed assets. Local authorities are required by Regulation to have regard to the Prudential Code when carrying out duties under Part 1 of the Local Government Act 2003.
1.03	The framework established by the Prudential Code is intended to support local strategic planning, local asset management planning and robust option appraisal. The objectives of the Code are to ensure, within a clear framework, that the capital investment plans of local authorities are <b>affordable, prudent and sustainable</b> , and that treasury management decisions are taken in accordance with good professional practice.
1.04	The Prudential Code sets out the indicators that must be used, and the factors that must be taken into account in preparing them.
1.05	<b>Changes to CIPFA's Codes of Practice 2017</b>  CIPFA published new editions of the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance in late December 2017 which complement each other.
1.06	Changes to the revised Codes which impact on the Prudential Indicators are minimal. The main difference being that there is no longer a need to include an indicator for the Estimated Impact of Capital Decisions on Council Tax and Rent levels. All changes within the 2017 Code which impact on Prudential Indicators below have therefore been made.
1.07	Actual Prudential Indicators for 2017/18 have now been calculated in respect of the following:- <ul style="list-style-type: none"><li>• Estimates of Capital expenditure</li><li>• Estimates of Capital Financing Requirement</li><li>• Authorised Limit</li><li>• Estimates of Financing Costs to Net Revenue Stream</li></ul> The Code does not specify how the Council should have regard to these

	factors, but instead concentrates on the means by which it demonstrates that the proposals are affordable, prudent and sustainable.																																			
1.08	<p><b><u>Prudential Indicators for Prudence</u></b></p> <p><b>Estimates of Capital Expenditure</b></p> <p>The Prudential Indicators 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 Prudential Indicators and essentially provide the base financial data from which all other indicators follow.</p>																																			
1.09	<p>Actual 2017/18 capital expenditure for the Council Fund and the Housing Revenue Account (HRA) is £57.381m as shown in Table 1 below. Actual expenditure for 2016/17, and the 2017/18 and 2018/19 estimates are included for information.</p> <p><b>Table 1</b></p> <table border="1"> <thead> <tr> <th colspan="5"><b>ESTIMATES OF CAPITAL EXPENDITURE</b></th> </tr> <tr> <th></th> <th><b>2016/17</b></th> <th><b>2017/18</b></th> <th><b>2017/18</b></th> <th><b>2018/19</b></th> </tr> <tr> <th></th> <th><b>Actual</b></th> <th><b>Estimate</b></th> <th><b>Actual</b></th> <th><b>Estimate</b></th> </tr> <tr> <th></th> <th><b>£m</b></th> <th><b>£m</b></th> <th><b>£m</b></th> <th><b>£m</b></th> </tr> </thead> <tbody> <tr> <td>Council Fund</td> <td>33.582</td> <td>19.435</td> <td>27.609</td> <td>23.773</td> </tr> <tr> <td>Housing Revenue Account</td> <td>29.911</td> <td>27.744</td> <td>29.772</td> <td>36.496</td> </tr> <tr> <td><b>Total</b></td> <td><b>63.493</b></td> <td><b>47.179</b></td> <td><b>57.381</b></td> <td><b>60.269</b></td> </tr> </tbody> </table>	<b>ESTIMATES OF CAPITAL EXPENDITURE</b>						<b>2016/17</b>	<b>2017/18</b>	<b>2017/18</b>	<b>2018/19</b>		<b>Actual</b>	<b>Estimate</b>	<b>Actual</b>	<b>Estimate</b>		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	Council Fund	33.582	19.435	27.609	23.773	Housing Revenue Account	29.911	27.744	29.772	36.496	<b>Total</b>	<b>63.493</b>	<b>47.179</b>	<b>57.381</b>	<b>60.269</b>
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1.10	Detailed analysis and commentary regarding 2017/18 outturn is provided in the Capital Programme Monitoring 2017/18 (Outturn) report elsewhere on this agenda.																																			
1.11	<p><b>Estimates of Capital Financing Requirement</b></p> <p>The actual (average) capital financing requirement for 2017/18 is £316.424m as shown in Table 2 below. This is the measure of the Council's underlying need to finance capital expenditure by borrowing or other long term liabilities. Increased capital expenditure and the reduced MRP charge during 2017/18 mean that this is slightly higher than estimated.</p> <p><b>Table 2</b></p>																																			

<b>ESTIMATES OF CAPITAL FINANCING REQUIREMENT</b>				
	<b>2016/17</b>	<b>2017/18</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Actual</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Council Fund	183.338	190.118	197.056	207.034
Housing Revenue Account	109.473	120.711	119.368	134.600
<b>Total</b>	<b>292.811</b>	<b>310.829</b>	<b>316.424</b>	<b>341.634</b>

1.12

**Authorised Limit**

Actual external debt for 2017/18 was £303.203m, with separately identified limits for borrowing and other long term liabilities such as finance leases, as shown in Table 3 below. It is compared with the authorised limit for borrowing, which allows headroom to absorb unforeseen unfunded expenditure. As can be seen, the actual position is well within the limit.

**Table 3**

<b>AUTHORISED LIMIT FOR EXTERNAL DEBT</b>				
	<b>2016/17</b>	<b>2017/18</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Actual</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
All Borrowing	285.500	340.000	297.772	353.000
Other Long Term Liabilities	5.800	35.000	5.431	20.000
<b>Total</b>	<b>291.300</b>	<b>375.000</b>	<b>303.203</b>	<b>373.000</b>

1.13

**Prudential Indicators for Affordability**

**Ratio of Financing Costs to Net Revenue Stream**

The actual ratio of financing costs to net revenue stream for 2017/18 are as indicated in Table 4 below.

**Table 4**

RATIO OF FINANCING COSTS TO NET REVENUE STREAM				
	2016/17	2017/18	2017/18	2018/19
	Actual	Estimate	Actual	Estimate
	%	%	%	%
Council Fund	4.8%	5.1%	4.5%	5.2%
Housing Revenue Account	22.7%	25.2%	21.6%	25.0%

1.14 The lower than estimated ratios are as a result of the reduction in the Minimum Revenue Provision in 2017/18. This is after the change of policy agreed by Council at its meeting on 1<sup>st</sup> March 2018.

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	There are no resource implications as a result of this report.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	No consultation is required or carried out.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	Decisions made which involve the Council's assets and its Capital Programme often have very large and long term financial implications which carry a variety of risks. This report assesses the affordability, prudence and sustainability of the capital plans to manage those associated risks.

<b>5.00</b>	<b>APPENDICES</b>
5.01	None.

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>Various Welsh Government papers.</p> <p><b>Contact Officer:</b> Paul Vaughan – Interim Finance Manager, Technical Accountancy  <b>Telephone:</b> (01352) 702289  <b>E-mail:</b> <a href="mailto:paul.vaughan@flintshire.gov.uk">paul.vaughan@flintshire.gov.uk</a></p>

7.00	<b>GLOSSARY OF TERMS</b>
7.01	<p><b>Capital Expenditure</b> - Expenditure on the acquisition of <b>Non-current Assets</b> or expenditure that extends the life or value of an existing asset.</p> <p><b>Council Fund</b> - The fund to which all the Council's revenue and capital expenditure is charged.</p> <p><b>Financing</b> - The process of allocating resources to meet the cost of capital expenditure, which can be done on a project, asset or whole programme basis. This contrasts with making the invoice payments relating to capital expenditure, which should be managed within the authority's overall treasury management policy.</p> <p><b>Housing Revenue Account</b> - The fund to which all the Council's revenue and capital expenditure relating to its housing stock is charged.</p> <p><b>Prudential Code</b> - 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.</p> <p><b>Prudential Indicators</b> - Required by the <b>Prudential Code</b>, these take the form of limits, estimates or actual figures used to support the local decision making process for capital investment.</p> <p><b>Unsupported Prudential Borrowing</b> - Borrowing administered under the <b>Prudential Code</b>, 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.</p>