Police and Crime Commissioner for Surrey – Decision Making Record

Report Title: Prudential Indicators & Annual Minimum Revenue Statement 2014/15
Decision number: 054/2014
Author and Job Role: Ian Perkin, Chief Finance Officer, Office of the PCC
Protective Marking: Part One/Unrestricted

Purpose of Report

The PCC is required to set a number of statutory treasury management and cash flow limits before the beginning of each financial year. This report presents the target prudential indicators for 2014/15 required by the CIPFA Prudential Code for Capital Finance, together with the required Statement of Minimum Revenue Provision (MRP) for 2014/15.

Summary

Prudential Indicators

The Prudential Code provides a framework to enable local authorities to self-regulate their capital expenditure and borrowing plans by setting a range of prescribed estimates and limits (the Prudential Indicators) to ensure affordability, prudence and sustainability. It also requires authorities to ensure that all treasury management practices are in accordance with good practice.

The approved capital and revenue budgets for 2014/15 have been incorporated into the prudential indicators attached.

The Force is required to both monitor its net external borrowing against the Capital Financing Requirement to ensure that it is only borrowing for capital purposes in the short term and also to ensure that its actual external debt does not exceed pre-determined borrowing limits – the Operational Boundary and the Authorised Limit. Currently the PCC has no external debt, and all these Prudential Indicators have been prudently set taking into account planned borrowing and estimated short term cash flow requirements.

All treasury management decisions are taken in accordance with professional good practice as recommended by the Code of Practice for Treasury Management. Investments are carried out by Surrey County Council in accordance with both the Force's approved Treasury Management Policy and Practices, and the annual Treasury Management Strategy.

Statement of Minimum Revenue Provision

Each year an authority must calculate a statutory minimum amount – its MRP – which is set aside on an annual basis as a provision to redeem debt. Regulations require that an annual statement on the policies adopted for making MRP must be submitted to the PCC for consideration before the start of the financial year to which the statement refers.

A summary of the impact of the MRP regulations is provided in the main body of this paper, together with the required Statement of Minimum Revenue Provision for 2014/15.

Main Report

1. Prudential Indicators - Statutory Requirements

Compliance with the Prudential Code is a requirement under Part 1 of the Local Government Act, 2003.

1.1 Consideration must be given to the affordability of capital investments for all the years in which they will impact on the finances. To be affordable decisions must be both prudent and sustainable in the long term. The impact of the Capital programme is set out in Appendix 1.

2. The Prudential Indicators

2.1 The indicators are grouped into 5 categories:

- Affordability
- Prudence
- Capital Expenditure
- External Debt
- Treasury Management

2.2 Each group is briefly discussed below. The indicators must be viewed as a whole (what the code refers to as a "coherent entity"), not as individual indicators, and must be considered as an integral part of the annual strategic financial plan.

2.3 The indicators set must be in accordance with the definitions specified in the CIPFA Prudential Code.

2.4 Tables of the indicators showing the actual figures (where appropriate) for 2012/13, estimates for 2013/14 and annual targets for the period 2014/15 to 2016/17 are shown at appendices 1-5.

3. Prudential Indicator – Affordability (appendix 1)

3.1 The measure of affordability is determined by a judgement about acceptable Council Tax levels.

3.2 There are 2 prudential indicators of affordability:

- the ratio of financing costs to net revenue stream for forthcoming and subsequent 2 financial years and actual at year end (affordability indicator 1).

• the incremental impact of capital investment decisions on the council tax precept for the forthcoming and subsequent 2 financial years (affordability indicator 2).

3.3 The ratio that assesses the incremental impact on the council tax will enable an authority to consider the impact of different capital investment options, assuming that all other variables within the revenue budget remain constant.

3.4 The ratio of financing costs to net revenue stream is positive when an authority becomes a net borrower. The numbers are very small because interest payable on borrowing represents a very small proportion of our net revenue stream. The percentage is decreasing because there is no future planned borrowing for capital purposes, and interest received on investments is continuing to remain low.

4. Prudential Indicator – Prudence (appendix 2)

4.1 An authority must ensure that net external borrowing does not, except in the short term, exceed the total capital financing requirement in the preceding year, plus the estimates of any additional capital financing requirement for the current and next 2 financial years.

4.2 This indicator ensures that, over the medium term, net borrowing is for capital purposes only and is referred to as the net borrowing and the capital financing requirement (the prudence indicator). It measures the authority's underlying need to finance its capital expenditure by external borrowing.

4.3 The PCC currently has no external borrowing and has not anticipated the need to borrow.

- **5. Prudential Indicator - Capital Expenditure (appendix 3)**

5.1 There are 2 basic prudential indicators associated with capital expenditure:

• total capital expenditure (capital expenditure indicator 1) for the forthcoming and subsequent 2 financial years (and beyond if necessary) and actual capital expenditure incurred as at year end

• capital financing requirement (capital expenditure indicator 2) for the forthcoming and subsequent 2 financial years and actual capital financing requirement as at year end

5.2 In order to calculate these indicators, the PCC must consider all of the financing options available. Such estimates will not commit the PCC to a particular method of financing. The Chief Finance Officer will determine the actual financing of capital expenditure if and when required.

6. Prudential Indicator - External Debt (appendix 4)

6.1 There are 3 prudential indicators for external debt.

- Authorised Limit for external debt for forthcoming and subsequent 2 financial years, which separately identifies borrowing from other long term liabilities (external debt indicator 1). The authorised limit for external debt is a statutory limit determined under Section 3(1) of the Local Government Act 2003.

- Operational Boundary for external debt for forthcoming and subsequent 2 financial years (external debt indicator 2).

- Actual External Debt as at year end (external debt indicator 3).

6.2 Both the authorised limit and the operational boundary for external debt should be consistent with the PCC's capital expenditure and financing plans, and its treasury management policy.

6.3 The operational boundary provides sufficient latitude to fund the current 3-year capital programme externally in the event that any anticipated capital receipts or capital grants that have not yet been confirmed or committed are not received.

6.4 The authorised limit has been set to provide for a figure 10% in excess of the Operational Boundary for borrowing to meet any potential cashflow fluctuations.

7. Prudential Indicator - Treasury Management (appendix 5A)

7.1 Treasury Management must be carried out in accordance with good professional practice and the Prudential Code specifies that a local authority must adopt the CIPFA Code of Practice for Treasury Management in the Public Services (treasury management indicator 1).

7.2 The PCC is required to set three further Treasury Management Indicators which previously fell within the scope of the Prudential Code. More information about these indicators can be found in section 10 of this report and appendix 5B.

• 8. Annual Statement of Minimum Revenue Provision (appendix 6)

8.1 Having considered planned levels of borrowing, the PCC also needs to consider the cost of repaying this debt. Each year an authority is required to calculate a statutory minimum amount which it is required to set aside on an annual basis as a provision to redeem debt – the Minimum Revenue Provision (MRP). For the purposes of this paper, debt is defined as capital expenditure financed by either borrowing or credit arrangements such as finance leases.

8.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2008 – SI No. 2008/414 provide statutory guidance to which the PCC is legally obliged to "have regard" when calculating the MRP. This guidance requires the PCC to "calculate an amount of MRP which it considers to be prudent".

8.3 The recommended options and MRP calculations are shown in appendix 6, the approach adopted has been to minimise the impact of MRP on the Comprehensive Income and Expenditure Statement.

9. Treasury Management (appendix 5B)

9.1 Compliance with the Code of Practice in Treasury Management is a requirement under The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. The key aim of the revised Code is to ensure that authorities have in place comprehensive policies and practices for the effective management and control of their treasury management activities, including the effective management and control of risk.

9.2 An authority should ensure that security and liquidity are always given priority over yield when investing funds.

9.3 Local authority treasury management activities are also prescribed by statute. Under the Local Government Act 2003 an authority "may borrow or invest for any purpose relevant to its functions" but "is required to determine and keep under review how much money it can afford to borrow".

9.4 The Treasury Management Indicators are:

- Interest Rate Exposures Indicator - upper limits on its exposure to the effects of changes in interest rates for both fixed and variable rate borrowing for the forthcoming and subsequent 2 financial years. Where there is any doubt about whether a rate is fixed or variable, it should be treated as variable (treasury management indicator 2).

- Maturity Structure of Borrowing Indicator - Authorities must also set upper and lower limits for the maturity structure of borrowing for the forthcoming financial year analysed over the following periods:

- under 12 months
- 12 months and within 24 months
- 24 months and within 5 years
- 5 years and within 10 years
- 10 years and above.

This structure is expressed as a percentage for each period, with the sum totalling 100% of external borrowing (treasury management indicator 3).

- Total Principal Sums Invested For Periods Longer Than 364 days Indicator - (treasury management indicator 4) The purpose of this indicator is to contain the PCC's exposure to potential losses arising from early redemption of principal sums invested for longer periods.

9.5 Appendix 5b shows the calculation of these indicators. As the PCC has not entered into any external debt, the proposed indicators allow for the maximum flexibility of type and period of exposure. This will be reviewed in consultation with the PCC's treasury management provider if and when borrowing becomes necessary.

Equalities Implications – There are no equality implications arising from this report.

Risk – The following risks arise from this report:

- If the PCC does not adopt Prudential Indicators in line with the CIPFA Prudential Code for Capital Finance there is a risk of censure from the auditors and reputational damage as a consequence.
- If the PCC does not produce a Statement of Minimum Revenue Provision for 2014/15 in line with Government regulations there is a risk of breaching statutory requirements. There is also a risk of censure from the auditors and reputational damage as a consequence.

Human Rights - There are no human rights implications arising from this report.

Recommendations

That the PCC approves:-

1. the Prudential Indicators,
2. the Statement of Minimum Revenue Provision for 2014/15,

Police and Crime Commissioner Approval

I approve the recommendation(s):

Signature:

Date: 08/04/2014

All decisions must be added to the decision register.

Attachments:
Appendix 1 – Prudential Indicator - Affordability
Appendix 2 – Prudential Indicators - Prudence
Appendix 3 – Prudential indicator – Capital Expenditure
Appendix 4 – Prudential Indicator – External Debt
Appendix 5 – Prudential Indicator – Treasury Management
Appendix 6 - Annual Statement of Minimum Revenue Provision 2013/14

Areas of consideration

Consultation
This paper has been discussed with the Surrey Police Force Head of Finance and the OPCC Treasurer

Financial implications
The financial implications are explained in the report.

Legal
No direct legal implications.

Risks
The Police & Crime Commissioner would bear a financial and reputational risk if the Prudential Indicators were not complied with.

Equality and diversity
No direct implications

Risks to human rights
No direct risks to human rights

Prudential Code - 2013/14 — Appendix 1

Prudential Indicators For Affordability

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Future Year Targets			Comments
			2012/13	2013/14	2014/15	2015/16	2016/17	
1	**Ratio of financing costs to net revenue stream**	Financing costs / net revenue stream * 100%	0.29%	0.29%	0.29%	0.28%	0.28%	Interest payable on borrowing represents a very small proportion of our net revenue stream, which is why these percentages are very low.
2	**Estimate of the incremental impact of capital investment decisions on the council tax precept**	(i) Forecast total budgetary requirements for the authority based on no change to the existing capital programme *less* (ii) Forecast total budgetary requirement for the authority with the changes to the capital programme included in the calculation. (iii) Take the difference between (i) and (ii) and calculate the addition or reduction to Council Tax that would result			-£0.03	-£0.03	-£0.03	There is no requirement to borrow for the current capital programme. Therefore, the impact of capital investment on the council tax is reducing as the principal is repaid.

Prudential Code - 2013/14 **Appendix 2**

Prudential Indicators For Prudence

No.	Indicator	Definition		Last Year's Actual	This Year's Estimate	Future Year Targets			Comments
				2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	
1	**Net borrowing and the capital financing requirement**	An authority must ensure that net external borrowing does not, except in the short term, exceed the capital financing requirement in the preceding year plus the estimates of any capital financing requirement for the current and next 2 financial years.		✓	✓	✓	✓	✓	Under the current Medium term Financial Plan it is not necessary to finance any capital expenditure from borrowing.

	2012/13	2013/14	2014/15	2015/16	2016/17	
Investments	-£8,537	-£13,286	-£19,774	-£24,136	-£21,832	(a)
External borrowing	£0	£0	£0	£0	£0	(b)
Net external borrowing requirement/investment(-)	**-£8,537**	**-£13,286**	**-£19,774**	**-£24,136**	**-£21,832**	(a) + (b)
Capital Financing Requirement to be monitored against existing borrowing.	**£13,676**	**£12,971**	**£12,278**	**£11,598**	**£10,930**	
Is net external borrowing > total capital financing requirement?	NO	NO	NO	NO	NO	
Management action required	None	None	None	None	None	

Prudential Code - 2013/14 **Appendix 3**

Prudential Indicators For Capital Expenditure

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Future Year Targets			Comments
			2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	
1	**Total Capital Expenditure**	Total capital expenditure incurred	8,249	17,367	5,050	5,050	5,050	As per the Capital Programme.
2	**Capital Financing Requirement**	Fixed assets, deferred charges, revaluation reserve, capital adjustment account plus government grants deferred (plus, for future years, future capital expenditure less usable capital receipts, grants, contributions etc.)	13,676	12,971	12,278	11,598	10,930	The figures increase as the amount of the capital programme funded by borrowing increases, it reduces as the principal is repaid.

Prudential Code - 2013/14

Appendix 4

Prudential Indicators For External Debt

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Future Year Targets			Comments
			2012/13	2013/14	2014/15	2015/16	2016/17	
			£000	£000	£000	£000	£000	
1	**Authorised Limit**	Authorised limit for external debt = authorised limit for borrowing + authorised limit for other long term liabilities			17,574	14,857	14,034	Equals the operational boundary for external borrowing plus a provision of 10% to meet any potential cash flow fluctuations.
2	**Operational Boundary**	Operational boundary for external debt = operational boundary for borrowing + operational boundary for other long term liabilities			16,147	13,506	12,758	The operational boundary provides sufficient latitude to borrow externally to fund the entire capital programme in the event that none of the anticipated capital grants or capital receipts are received.
3	**Actual External Debt**	Actual external debt = actual borrowing + actual other long term liabilities as at 31st March each year.	1,879	1,879				These figures represent the long term liability for a single property lease.

Prudential Code - 2013/14

Prudential Indicators For Treasury Management

Appendix 5A

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Future Years Targets			Comments
			2012/13	2013/14	2014/15	2015/16	2016/17	
1	**Treasury Management**	The authority must adopt the CIPFA Code of Practice For Treasury Management in the Public Services	YES	YES	YES	YES	YES	

CIPFA Code of Practice on Treasury Management - 2012/13 **Appendix 5B**

Treasury Management Indicators

<table>
<tr><th rowspan="2">No.</th><th rowspan="2">Indicator</th><th rowspan="2">Definition</th><th colspan="2">Last Year's Actual</th><th colspan="2">This Year's Estimate</th><th colspan="6">Future Years Targets</th><th rowspan="2">Comments</th></tr>
<tr><th colspan="2">2012/13</th><th colspan="2">2013/14</th><th colspan="2">2014/15</th><th colspan="2">2015/16</th><th colspan="2">2016/17</th></tr>
<tr><td>2a</td><td>Upper Limit On Variable Interest Rate Exposure</td><td>Variable interest rate exposure = interest payable on variable rate borrowing less interest receivable on variable rate investments</td><td colspan="2">0% - 100%</td><td colspan="2">0% - 100%</td><td colspan="2">0% - 100%</td><td colspan="2">0% - 100%</td><td colspan="2">0% - 100%</td><td rowspan="2">The use of variable or fixed rate loans will be decided in consultation with the PCC's Treasury Management provider (SCC) as the need arises.</td></tr>
<tr><td>2b</td><td>Upper Limit On Fixed Interest Rate Exposure</td><td>Fixed interest rate exposure = interest payable on fixed rate borrowing less interest receivable on fixed rate investments</td><td colspan="2">0% - 100%</td><td colspan="2">0% - 100%</td><td colspan="2">0% - 100%</td><td colspan="2">0% - 100%</td><td colspan="2">0% - 100%</td></tr>
<tr><td></td><td>Projected interest payable on borrowing (£000s)</td><td></td><td colspan="2">£0</td><td colspan="2">£0</td><td colspan="2">£0</td><td colspan="2">£0</td><td colspan="2">£0</td><td rowspan="2">It is assumed that internal resources will be used before borrowing externally.</td></tr>
<tr><td></td><td>Projected interest receivable on investments (£000s)</td><td></td><td colspan="2">-£95</td><td colspan="2">-£101</td><td colspan="2">-£101</td><td colspan="2">-£103</td><td colspan="2">-£104</td></tr>
<tr><td>3</td><td>Maturity Structure of Borrowing</td><td colspan="11">Amount of projected fixed rate borrowing that is maturing in each period/Total projected fixed rate borrowing at the start of the period * 100%</td><td rowspan="7"></td></tr>
<tr><td colspan="2" rowspan="6"></td><td></td><td>Lower</td><td>Upper</td><td>Lower</td><td>Upper</td><td>Lower</td><td>Upper</td><td>Lower</td><td>Upper</td><td>Lower</td><td>Upper</td></tr>
<tr><td>Under 12 months</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td></tr>
<tr><td>12 months and within 24 months</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td></tr>
<tr><td>24 months and within 5 years</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td></tr>
<tr><td>5 years and within 10 years</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td></tr>
<tr><td>10 years and above</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td></tr>
<tr><td>4</td><td>Principal Sums Invested For Periods Longer Than 364 days (£000's)</td><td>Total principal sums invested to final maturities beyond the period end</td><td colspan="2">£0</td><td colspan="2">£0</td><td colspan="2">£0</td><td colspan="2">£0</td><td colspan="2">£0</td><td>The Treasury Management strategy allows for longer term investment, however at this time all investments are limited to a maximum period of 364 days.</td></tr>
</table>

Appendix 6

Annual Statement of Minimum Revenue Provision – 2013/14

A. TOTAL MRP 2013/14 – 2016/17

Total MRP payments for the period 2013/14 – 2016/17, incorporating both borrowing incurred prior to 1st April 2008 and planned borrowing arising from 2010/11 & 2011/12 programmes are shown in the table below. There is no planned borrowing arising from capital programmes for the next 3 years.

Table 1	2013/14	2014/15	2015/16	2016/17
	Outturn	Outturn	Outturn	Outturn
	£000’s	£000’s	£000’s	£000’s
MRP using Option 1	308	296	284	273
MRP using Option 3	416	416	416	416
Total Minimum Revenue Provision	724	712	700	689

B. MRP Relating to Borrowing to Finance Capital Expenditure Incurred Before 1st April 2008

As at 31st March 2013, PCC had £8.2m of internal borrowing outstanding which relates to capital borrowing undertaken prior to the introduction of the Prudential Code in 2004/05.

It is recommended that Option 1 is used to calculate MRP in relation to this debt.

The MRP payments relating to this debt are:-

Table 2	2013/14	2014/15	2015/16	2016/17
	Outturn	Estimate	Estimate	Estimate
	£000’s	£000’s	£000’s	£000’s
Capital borrowing incurred prior to 1/4/08	8,156	7,848	7,552	7,268
Minimum Revenue Provision (MRP)	308	296	284	273

C. MRP - Planned Self-Financed Borrowing relating to 2010/11 & 2011/12

The Force has incurred self-financed borrowing of £5.9m (£0.4m in 2010/11 and £5.5m in 2011/12) to fund the capital programme. The MRP relating to this debt has been calculated using Option 3 (charging MRP over the life of the asset).

The MRP payments relating to this debt are:-

Table 3	2013/14	2014/15	2015/16	2016/17
	Outturn	Estimate	Estimate	Estimate
	£000’s	£000’s	£000’s	£000’s
Outstanding Self-Financed Borrowing	5,516	5,100	4,683	4,267
MRP	416	416	416	416