To: **The Police and Crime Commissioner for Surrey**

Date: **30th March 2015**

By: **Ian Perkin, Chief Finance Officer to the Police and Crime Commissioner for Surrey**

Title: **Prudential Indicators and Annual Minimum Revenue Statement 2015/16**

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 prudential indicators for 2015/16 required by the CIPFA Prudential Code for Capital Finance, together with the required Statement of Minimum Revenue Provision (MRP) for 2015/16.

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 2015/16 have been incorporated into the prudential indicators attached.

The PCC is required to monitor 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 external debt does not exceed pre-determined borrowing limits.

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 PCC's approved Treasury Management Policy and Practices, and the annual Treasury Management Strategy.

Statement of Minimum Revenue Provision
Each year the PCC must approve a statutory minimum amount which is set aside on an annual basis as a provision to redeem debt.

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 2015/16.

Recommendations
That the PCC approves:-

1. the Prudential Indicators,
2. the Statement of Minimum Revenue Provision for 2015/16

1. The Prudential Indicators

1.1 The indicators are grouped into 5 categories:

- Affordability (appendix 1)
- Prudence (appendix 2)
- Capital Expenditure (appendix 3)
- External Debt (appendix 4)
- Treasury Management (appendix 5)

2. Prudential Indicator – Affordability (appendix 1)

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

2.2 There are 2 prudential indicators of affordability:

- the ratio of financing costs to net revenue stream (affordability indicator 1).
- the incremental impact of capital investment decisions on the council tax precept (affordability indicator 2).

2.3 The ratio that assesses the incremental impact on the council tax enables the PCC to consider the impact of different capital investment options.

2.4 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 the net revenue stream. The percentage is decreasing because there is no future planned borrowing for capital purposes, and interest received on investments continues to remain low.

3. Prudential Indicator – Prudence (appendix 2)

3.1 The PCC 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.

3.2 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.

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

4. Prudential Indicator - Capital Expenditure (appendix 3)

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

- total capital expenditure (capital expenditure indicator 1)
- capital financing requirement (capital expenditure indicator 2)

4.2 In order to calculate these indicators, all financing options available have been considered. 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.

5. **<u>Prudential Indicator - External Debt</u> (appendix 4)**

5.1 There are 3 prudential indicators for external debt.

- Authorised Limit for external debt, which separately identifies borrowing from other long term liabilities (external debt indicator 1).

- Operational Boundary for external debt (external debt indicator 2).

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

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

5.3 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.

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

6. **<u>Prudential Indicator - Treasury Management</u> (appendix 5A)**

6.1 This indicator shows that Treasury Management is being carried out in accordance with good professional practice. 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).

6.2 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 indictors can be found in Section 7 and appendix 5B.

7. **<u>Treasury Management</u> (appendix 5B)**

7.1 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.

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

7.3 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".

7.4 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.

7.5 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.

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.

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 2015/16 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.

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 2015/16

Prudential Code - 2015/16 — Appendix 1

Prudential Indicators For Affordability

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Future Year Targets			Comments
			2013/14	2014/15	2015/16	2016/17	2017/18	
1	**Ratio of financing costs to net revenue stream**	Financing costs / net revenue stream * 100%	0.29%	0.29%	0.26%	0.25%	0.25%	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			-£0.02	-£0.02	-£0.02	There is no requirement to borrow for the current capital programme. Therefore, the capital investment has minimal impact on the council tax.

Prudential Code - 2015/16

Appendix 2

Prudential Indicators For Prudence

No.	Indicator	Definition		Last Year's Actual	This Year's Estimate	Future Year Targets			Comments
				2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	
1	**Net borrowing and the capital financing requirement**	The PCC 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 2015/16 to 2017/18 capital programmes from borrowing.

Investments	-£26,483	-£24,968	-£29,550	-£27,327	-£24,405	(a)
External borrowing	£0	£0	£0	£0	£0	(b)
Net external borrowing requirement/investment(-)	**-£26,483**	**-£24,968**	**-£29,550**	**-£27,327**	**-£24,405**	(a) + (b)
Capital Financing Requirement to be monitored against existing borrowing.	**£12,948**	**£12,235**	**£11,535**	**£10,845**	**£10,167**	
Is net external borrowing > total capital financing requirement?	NO	NO	NO	NO	NO	
Management action required	None	None	None	None	None	

Prudential Code - 2015/16

Appendix 3

Prudential Indicators For Capital Expenditure

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Future Year Targets			Comments
			2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	
1	**Total Capital Expenditure**	Total capital expenditure incurred	13,434	7,113	7,292	7,139	6,361	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.)	12,948	12,235	11,535	10,845	10,167	The figures are reducing as previous borrowing is being repaid.

Prudential Code - 2015/16

Appendix 4

Prudential Indicators For External Debt

No.	Indicator	Definition	Last Year's Actual 2013/14 £000	This Year's Estimate 2014/15 £000	Future Year Targets 2015/16 £000	2016/17 £000	2017/18 £000	Comments
1	**Authorised Limit**	Authorised limit for external debt = authorised limit for borrowing + authorised limit for other long term liabilities			16,936	14,223	12,302	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			15,567	12,930	11,184	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 - 2015/16

Prudential Indicators For Treasury Management

Appendix 5A

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Future Years Targets			Comments
			2013/14	2014/15	2015/16	2016/17	2017/18	
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 - 2015/16 **Appendix 5B**

Treasury Management Indicators

No.	Indicator	Definition	Last Year's Actual 2013/14	This Year's Estimate 2014/15	Future Years Targets 2015/16	2016/17	2017/18	Comments
2a	**Upper Limit On Variable Interest Rate Exposure**	Variable interest rate exposure = interest payable on variable rate borrowing less interest receivable on variable rate investments	0% - 100%	0% - 100%	0% - 100%	0% - 100%	0% - 100%	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.
2b	**Upper Limit On Fixed Interest Rate Exposure**	Fixed interest rate exposure = interest payable on fixed rate borrowing less interest receivable on fixed rate investments	0% - 100%	0% - 100%	0% - 100%	0% - 100%	0% - 100%	
	Projected interest payable on borrowing (£000s)		£0	£0	£0	£0	£0	It is assumed that internal resources will be used before borrowing externally.
	Projected interest receivable on investments (£000s)		-£95	-£123	-£167	-£168	-£170	
3	**Maturity Structure of Borrowing**	Amount of projected fixed rate borrowing that is maturing in each period/Total projected fixed rate borrowing at the start of the period * 100%						
4	**Principal Sums Invested For Periods Longer Than 364 days (£000's)**	Total principal sums invested to final maturities beyond the period end	£0	£0	£0	£0	£0	The Treasury Management strategy allows for longer term investment, however at this time all investments are limited to a maximum period of 364 days.

	2013/14 Lower	2013/14 Upper	2014/15 Lower	2014/15 Upper	2015/16 Lower	2015/16 Upper	2016/17 Lower	2016/17 Upper	2017/18 Lower	2017/18 Upper
Under 12 months	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%
12 months and within 24 months	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%
24 months and within 5 years	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%
5 years and within 10 years	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%
10 years and above	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%

Appendix 6

ANNUAL STATEMENT OF MINIMUM REVENUE PROVISION – 2015/16

A. TOTAL MRP 2014/15 – 2017/18

Total MRP payments for the period 2014/15 – 2017/18, incorporating both borrowing incurred prior to 1st April 2008 and planned borrowing arising from 2010/11 & 2011/12 programmes are shown in the tables below. There is no planned borrowing arising from capital programmes for the next 3 years.

Table 1	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	Outturn	**Estimate**	**Estimate**	**Estimate**
	£000's	**£000's**	**£000's**	**£000's**
MRP using Option 1	296	284	273	262
MRP using Option 3	416	416	416	416
Total Minimum Revenue Provision	**712**	**700**	**689**	**678**

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

As at 31st March 2014, the PCC had £7.9m of internal borrowing outstanding which relates to capital borrowing undertaken prior to the introduction of the Prudential Code in 2004/05.

Option 1 is used to calculate MRP in relation to this debt, this is calculated in accordance with the former 2003 regulations.

The MRP payments relating to this debt are:-

Table 2	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	Outturn	**Estimate**	**Estimate**	**Estimate**
	£000's	**£000's**	**£000's**	**£000's**
Capital borrowing incurred prior to 1/4/08	7857	7561	7277	7004
Minimum Revenue Provision (MRP)	296	284	273	262

C. MRP - Planned Self-Financed Borrowing relating to incurred After 1st April 2008

As at 31st March 2014, the PCC had £5.1m of internal borrowing outstanding After 1st April 2008. The MRP relating to this debt has been calculated using Option 3 (charging MRP over the life of the asset on a straight line basis).

The MRP payments relating to this debt are:-

Table 3	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	Outturn	**Estimate**	**Estimate**	**Estimate**
	£000's	**£000's**	**£000's**	**£000's**
Outstanding Self-Financed Borrowing	5100	4684	4268	3852
MRP	416	416	416	416