



## Prudential Indicators and Annual Minimum Revenue Provision Statement

Required for:	OPCC
Security Classification:	Official
Handling information if required:	n/a
Suitable for publication:	Yes
Title:	<b>Prudential Indicators and Annual Minimum Revenue Provision Statement 2021/22</b>
Version:	1
Purpose:	To present prudential indicators and MRP statement to the PCC for approval
ACPO / Strategic Lead:	PCC CFO
National Decision Model compliance:	Yes
Date created:	31 March 2021
Date to be reviewed:	

AUTHOR:	
Name:	Kelvin Menon
Job Title:	PCC Treasurer
Telephone number:	01486 631943
Email address:	Kelvin.Menon@surrey.pnn.police.uk



### What are the Policing Principles?

Accountability	<input checked="" type="checkbox"/>	Fairness	<input checked="" type="checkbox"/>	Honesty	<input checked="" type="checkbox"/>
Integrity	<input checked="" type="checkbox"/>	Leadership	<input checked="" type="checkbox"/>	Objectivity	<input checked="" type="checkbox"/>
Openness	<input checked="" type="checkbox"/>	Respect	<input checked="" type="checkbox"/>	Selflessness	<input checked="" type="checkbox"/>

**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 2021/22 required by the CIPFA Prudential Code for Capital Finance, together with the required Statement of Minimum Revenue Provision (MRP) for 2021/22.

**Summary****Prudential Indicators**

The provisional capital and revenue budgets for 2021/22 have been incorporated into the prudential indicators attached.

Assuming the capital programme is spent in the year it has been profiled, there will be a requirement to borrow resources during 2021/22 and thereafter. These indicators have been set on the assumption that any borrowing will be from external resources from 2021/22 which will increase the MRP cost as well as associated financing costs.

**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 2021/22.

**Recommendations**

That the PCC approves:-

1. the Prudential Indicators,
2. the Statement of Minimum Revenue Provision for 2021/22.

**1. Prudential Indicator – Affordability (appendix 1)**

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

- 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).

1.2 Indicator 1 - The numbers are small because interest payable on borrowing represents a small proportion of the net revenue stream. The increase from 0.43% in 2020/21 to 0.67% in 2021/22 is because of the predicted borrowing to meet the planned capital programme and the percentages drop slightly in 2022/23 to 0.65% and to 0.64% in 2023/24 due repayments against the borrowing.

1.3 Indicator 2 - This ratio assesses the incremental impact of borrowing on council tax, which illustrates the effect of the planned borrowing for the Estate Strategy in 2021/22 which then reduces as borrowing is being repaid with little change on MRP and interest costs .

**2. Prudential Indicator – Prudence (appendix 2)**

2.1 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 and ensures that net borrowing is for capital purposes only.

2.2 The PCC undertook external borrowing towards the end of 2018/19 in order to purchase land for the new HQ in Leatherhead. There is further external borrowing planned in 2021/22 of £8.0m and £2.7m in 2022/23 to fund the proposed capital programme.

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

3.1 The 2 basic prudential indicators associated with capital expenditure are:

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

3.2 In order to calculate these indicators, it has been assumed that external borrowing will be used. Such estimates do not commit the PCC to a particular method of financing.

3.3 The Capital Financing Requirement (CFR) reduces by the MRP contribution and repayment of principal on borrowing and increases due to planned borrowing.

**4. Prudential Indicator - External Debt (appendix 4)**

4.1 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.

4.2 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.

4.3 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.

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

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

**6. Treasury Management (appendix 5B)**

6.1 The PCC should ensure that security and liquidity are always given priority over yield when investing funds.

6.2 Appendix 5b shows the calculation of the Treasury Management indicators:

- Interest Rate Exposures Indicator
- Maturity Structure of Borrowing Indicator
- Total Principal sums Invested for Periods Longer than 364 Days Indicator

As the PCC plans to further borrowing in 2021/22 and 2022/23 this appendix illustrates the cost of such borrowing. 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.

**7. Annual Statement of Minimum Revenue Provision (appendix 6)**

7.1 Having considered planned levels of borrowing, the PCC also needs to consider the cost of repaying this debt. Each year the PCC is required to calculate a statutory minimum amount which 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.

7.2 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.

**8. Annual Statement of Minimum Revenue Provision (appendix 7)**

8.1 This table sets out to show compliance with the Prudential Indicators set for 2020/21. Only those indicators where boundaries are set are shown. All of the indicators have been complied with for 2020/21.

---

**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 2020/21 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 2021/22

Appendix 7 – Compliance with 2020/21 Prudential Indicators

Prudential CodePrudential Indicators For Affordability

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Future Year Targets			Comments
			2019/20	2020/21	2021/22	2022/23	2023/24	
1	<b>Ratio of financing costs to net revenue stream</b>	Financing costs / net revenue stream * 100%	0.55%	0.43%	0.67%	0.65%	0.64%	The figures are positive when the PCC is a net borrower. The numbers are small because the provision to pay internal borrowing (MRP) represents a small proportion of our net revenue stream but are increasing due to interest costs on borrowing to fund the Capital Programme.
2	<b>Estimate of the incremental impact of capital investment decisions on the council tax precept</b>	(i) Forecast total budgetary requirements for the PCC based on no change to the existing capital programme <i>less</i> (ii) Forecast total budgetary requirement for the PCC 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			£1.68	£0.10	-£0.05	These figures are positive when the cost of borrowing increases due to funding the Capital Programme.

Prudential CodePrudential Indicators For Prudence

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Future Year Targets			Comments
			2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	
1	<b>Borrowing and the capital financing requirement</b>	An authority must ensure that 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.	✓	✓	✓	✓	✓	There is a requirement for further borrowing to support the Capital Programme from 2021/22 and 2022/23
		Investments	-12,408	-17,004	-14,239	-7,845	-5,714	(a)
		External borrowing	0	3,364	8,027	2,700	-3,350	(b)
		<b>Gross external borrowing requirement/investment(-)</b>	<b>-12,408</b>	<b>-13,640</b>	<b>-6,212</b>	<b>-5,145</b>	<b>-9,064</b>	(a) + (b)
		<b>Capital Financing Requirement to be monitored against existing borrowing.</b>	<b>26,878</b>	<b>29,172</b>	<b>35,449</b>	<b>36,390</b>	<b>31,288</b>	
		<b>Is net external borrowing &gt; total capital financing requirement?</b>	NO	NO	NO	NO	NO	
		<b>Management action required</b>	None	None	None	None	None	

Prudential CodePrudential Indicators For Capital Expenditure

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Estimated Future Year Targets			Comments
			2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	
1	<b>Total Capital Expenditure</b>	Total capital expenditure incurred	9,408	11,507	19,277	8,971	7,267	As per the Capital Programme
2	<b>Capital Financing Requirement</b>	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.)	26,878	29,172	35,449	36,390	31,288	The figures are increasing to support the capital programme by borrowing.

Prudential CodePrudential Indicators For External Debt

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Future Year Targets			Comments
			2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	
1	<b>Authorised Limit</b>	Authorised limit for external debt = authorised limit for borrowing + authorised limit for other long term liabilities		39,369	52,606	47,299	37,859	Equals the operational boundary for external borrowing plus a provision of 10% to meet any potential cash flow fluctuations.
2	<b>Operational Boundary</b>	Operational boundary for external debt = operational boundary for borrowing + operational boundary for other long term liabilities		35,790	47,824	42,999	34,417	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	<b>Actual External Debt</b>	Actual external debt = actual borrowing + actual other long term liabilities as at 31st March each year.	15,084	14,593				

**Prudential Code****Prudential Indicators For Treasury Management****Appendix 5A**

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate				Comments
			2019/20	2020/21	2021/22	2022/23	2023/24	
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****Appendix 5B****Treasury Management Indicators**

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Future Years Targets			Comments			
			2019/20	2020/21	2021/22	2022/23	2023/24				
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	£514	£555	£535				
	Projected interest receivable on investments (£000s)			-£39	-£14	-£8	-£29				
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%									
			Low er	Upper	Low er	Upper	Low er	Upper	Low er	Upper	
	Under 12 months		0%	100%	0%	100%	0%	100%	0%	100%	
	12 months and w ithin 24 months		0%	100%	0%	100%	0%	100%	0%	100%	
	24 months and w ithin 5 years		0%	100%	0%	100%	0%	100%	0%	100%	
	5 years and w ithin 10 years		0%	100%	0%	100%	0%	100%	0%	100%	
	10 years and above		0%	100%	0%	100%	0%	100%	0%	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	£0			The Treasury Management strategy allow s for longer term investment, how ever at this time all investments are limited to a maximum period of 364 days.

## Appendix 6

**ANNUAL STATEMENT OF MINIMUM REVENUE PROVISION – 2020/21****A. TOTAL MRP 2020/21 – 2023/24**

Total MRP payments for the period 2018/19 – 2021/22, incorporating borrowing incurred prior to 1<sup>st</sup> April 2008 (option 1), along with actual and planned borrowing post 2008 (option 3), the different methods are described below.

Table 1	2020/21 Outturn £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's
MRP using Option 1	177	170	164	157
MRP using Option 3	193	587	512	512
Estate Strategy Borrowing using Option 3	700	700	993	1083
Total Minimum Revenue Provision	1070	1750	1759	1752

**B. MRP Relating to Borrowing to Finance Capital Expenditure Incurred Before 1<sup>st</sup> April 2008**

As at 31<sup>st</sup> March 2020, the PCC had £4.5m 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	2020/21 Outturn £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's
Capital borrowing incurred prior to 1/4/08	4,546	4,375	4,212	4,055
Minimum Revenue Provision (MRP)	177	170	164	157

**C. MRP - Planned Self-Financed Borrowing relating to incurred After 1<sup>st</sup> April 2008**

As at 31<sup>st</sup> March 2019, the PCC had £2.2m of internal borrowing outstanding incurred after 1<sup>st</sup> 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 table below reflects the borrowing in 2018/19 to finance the purchase of the new HQ at Leatherhead and there is further planned borrowing for the Estate Strategy in 2021/22 and 2022/23 which impacts on MRP expenditure in 2021/22.

The MRP payments relating to this debt are:-

Table 3	2020/21 Outturn £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's
Outstanding Self-Financed Borrowing	7,347	6,556	5,840	5,127
Additional Borrowing	22,152	24,331	23,720	23,109
MRP	893	1,580	1,595	1,595

**Appendix 7****Compliance with the 2020/21 Prudential Indicators**

Category	Indicator	Definition	2020/21 Indicator set	2020/21 Actual	Indicator satisfied?	Notes
<b>Prudence</b>	Borrowing and the Capital Financing Requirement	Borrowing must not exceed the Capital Financing Requirement (CFR) in the current year	Net borrowing CFR	-£13.640m £29.172m	Yes	Net borrowing less than CFR
<b>External Debt</b>	Authorised Limit	Authorised Limit for External Debt	£39.618m	£14.543m	Yes	Borrowing is less than limit
<b>Operational Boundary</b>	Level of debt required for the capital program	Must not be exceeded against level set	£36.016m	£14.593m	Yes	Borrowing is less than limit
<b>Treasury</b>	Upper Limit on Variable Rate exposure	Proportion of investments at variable rate	0% to 100%	0% to 100%	Yes	No specific limit set in order to provide flexibility for investments
<b>Treasury</b>	Upper Limit on Fixed Interest Exposure	Proportion of Investments at fixed rate	0% to 100%	0% to 100%	Yes	No specific limit set in order to provide flexibility for investments
<b>Treasury</b>	Principle sums invested for more than 364 days	Maximum that can be invested for more than 364 days	0%	0%	Yes	No investments made lasting longer than 364 days
<b>Treasury</b>	Maturity Structure of Borrowing	Limits on maturity of loans	0% to 100%	0% to 100%	Yes	No limits set so as to allow flexibility re borrowing decisions to achieve best value

*Note: Only those Indicators which require limits to be set are shown in the above table. A full set of Indicators are shown in the Appendix B*