Prudential Indicators for the Metropolitan Police Authority

Affordability Indicators

1. Estimate of capital financing costs compared to net revenue stream.

2003/04 Actual	2004/05 Estimate	2005/06 Estimate	2006/07 Estimate	200708 Estimate
0.01%	**0.17%**	**0.28%**	**0.37%**	**0.48%**

The estimates of financing costs include the proposals in the budget report, 2004/05 capital starts for the Step Change Programme and show external interest net of investment income. The indicators have assumed the authority adopts the budget submissions in the present report.

This indicator compares the total principal and net interest payments on external debt to the overall revenue spending of the authority. The Authority's external borrowing is considered low comparatively to other authorities and there is a high level of investment income, but this indicator is still important because if the level of borrowing were to increase significantly an important factor in determining the existing and future levels of debt is the level of financial support from government. The continuation of government support to existing debt commitments is therefore crucial in understanding the affordability, prudence and sustainability of its borrowing. It is anticipated that similar support as at present will occur.

2. Estimated Incremental impact of capital investment decisions on the council tax.

2005/06 Estimate	2006/07 Estimate	2007/08 Estimate
£3.15	**£2.91**	**£2.98**

This indicator shows the actual impact of capital investment decisions on the Council Tax (Band D). The indicator is calculated by comparing the cost of the capital programme including proposed new starts, against the cost of the capital programme assuming no new starts. The council tax costs reflect debt charges on unsupported borrowing, loss of interest on capital receipts used to finance new investment decisions, debt charges on new investment reflecting the proportion of precept to budget requirement (reflecting the general non-government grant supported spending).

Prudence Indicator

3. Net borrowing and the capital financing requirement.

CIPFA's Prudential Code includes the following as a key indicator of prudence:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the authority should ensure that net external borrowing does not, except in the short term, exceed the total of Capital Financing

Requirement in the preceding year plus the estimates of any additional Capital Financing requirement for the current and next two financial years"

Net borrowing and the capital financing requirement
The Treasurer reports that the authority had no difficulty meeting this requirement in 2004/5, nor are there any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Capital Expenditure Indicators

4. Capital Expenditure

2003/04 Actual £000	2004/05 Estimate £000	2005/06 Estimate £000	2006/07 Estimate £000	2007/08 Estimate £000
165,253	**210,619**	**136,829**	**86,163**	**80,526**

This indicator states the total capital spend covering all capital expenditure and not just that financed by borrowing.

5. Capital financing requirement.

2003/04 Actual £000	2004/05 Estimate £000	2005/06 Estimate £000	2006/07 Estimate £000	2007/08 Estimate £000
186,419	**238,015**	**272,693**	**298,449**	**320,255**

The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. The Authority does not associate borrowing with particular items or types of expenditure. The authority has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The authority has at any point in time, a number of cashflows (both positive and negative) and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy. In day-to-day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the Capital Financing Requirement reflects the authority's underlying need to borrow for a capital purpose.

External Debt Indicators

6. Authorised Limit for External Debt

	2004/05 Estimate £000	2005/06 Estimate £000	2006/07 Estimate £000	2007/08 Estimate £000
Borrowing	156,409	133,484	114,584	87,955
Other long term liabilities	-	-	-	-
Total	**156,409**	**133,484**	**114,584**	**87,955**

This is the maximum amount that the authority allows itself to borrow in each year. The Treasurer reports that these Authorised Limits are consistent with the authority's current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of the most likely, prudent but not worst-case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure and estimates of cashflow requirements.

7. Operational Boundary for External Debt.

	2004/05 Estimate £000	**2005/06 Estimate £000**	**2006/07 Estimate £000**	**2007/08 Estimate £000**
Borrowing	136,008	115,987	99,555	84,981
Other long term liabilities	-	-	-	-
Total	**136,008**	**115,987**	**99,555**	**84,981**

The proposed Operational Boundary for external debt is based on the same estimates as the Authorised Limit but reflects directly the estimate of the most likely, prudent, but not worst case scenario, without the additional headroom included within the Authorised Limit to allow for example for unusual cash movements and equates to the maximum of external debt projected by this estimate.

8. Actual External Debt

Actual External Debt
2003/04 Actual £000
104,466

Treasury Management Indicators

9. Net Outstanding Principal – Limits in interest rate exposure.

Limits in interest rate exposure calculated with reference to net outstanding principal sums			
	2004/05 Estimate	**2005/06 Estimate**	**2006/07 Estimate**
Upper limit on fixed interest rate exposures	**95%**	**95%**	**95%**
Upper limit on variable interest rate exposures	**30%**	**30%**	**30%**

This indicator reflects the requirement specified under the Code, however the outstanding principal payable and receivable from external loans and investments is exceedingly weighted towards investment: £104.5 million external borrowing and £366 million investment in 2003/04. Both of these balances will gradually reduce, to about £90 million and £250 million respectively by 2005/06. It is therefore proposed that for operational treasury management purposes two discretionary indicators are approved as follows:

10. Gross Outstanding Borrowing.

Limits in interest rate exposure calculated with reference to net outstanding borrowing sums			
	2004/05 Estimate	**2005/06 Estimate**	**2006/07 Estimate**
Upper limit on fixed interest rate exposures	**100%**	**100%**	**100%**
Upper limit on variable interest rate exposures	**15%**	**15%**	**15%**

11. Gross Outstanding Investment.

Limits in interest rate exposure calculated with reference to outstanding investment sums			
	2004/05 Estimate	**2005/06 Estimate**	**2006/07 Estimate**
Upper limit on fixed interest rate exposures	**90%**	**95%**	**95%**
Upper limit on variable interest rate exposures	**40%**	**40%**	**40%**

12. Maturity Structure of Borrowing – Upper and Lower Limits

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate		
	Upper Limit	Lower Limit
Under 12 months	**20%**	**0%**
12 months and within 24 months	**20%**	**0%**
24 months and within 5 years	**45%**	**0%**
5 years and within 10 years	**35%**	**0%**
10 years and above	**35%**	**0%**

13. Principal sums invested for periods longer than 364 days.

There are currently no proposals for the authority to invest sums for longer than 364 days. However, the authority may wish to consider some limited longer-term investment in future years and a ceiling of £30 million is proposed

14. The MPA has adopted the CIPFA Code of Practice for Treasury Management in Public Services.