Appendix 3

Prudential Indicators for the Metropolitan Police Authority

Affordability Indicators

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

2006/07 Estimate	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate
0.47%	0.52%	0.28%	0.30%

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 comparative 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 our borrowing policy. It is anticipated that similar support as at present will occur. This indicator assumes the authority adopts the budget submissions in the present report.

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

2006/07 Estimate	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate
£0.70	(£0.06)	£0.07	£0.00

This indicator shows the actual impact of capital investment decisions on the Council Tax. The indicator is calculated by comparing the cost of the capital programme including proposed increased investment, against the cost of the capital programme assuming no change to the previously approved programme. The council tax cost reflects debt charges on unsupported borrowing, loss of interest on capital receipts used to finance new investment decisions, debt charges on new investment decisions involving supported borrowing reflecting the proportion of precept to budget requirement (reflecting the general non-government grant supported element of investment 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 2005//06. The capital financing requirement at the start of 2005/06 was £214.739m. Capital expenditure of £96.744m was nominally financed through borrowing during the course of the year with the actual debt as at 31.03.2006 being £70.838m. No difficulties are envisaged for the present (2006/07) or future years. This view takes into account current commitments, existing plans, and the proposals in the budget report.

Capital Expenditure Indicators

4. Capital Expenditure

2005/06 Actual £000	**2006/07 Estimate £000**	**2007/08 Estimate £000**	**2008/09 Estimate £000**	**2009/10 Estimate £000**
231,780	233,988	180,702	176,051	178,480

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

5. Capital financing requirement (at start of financial year)

2005/06 Actual £000	**2006/07 Estimate £000**	**2007/08 Estimate £000**	**2008/09 Estimate £000**	**2009/10 Estimate £000**
214,741	303,212	381,548	426,470	456,750

The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. The Authority chooses not to 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

	2006/07 Revised £000	2007/08 Estimate £000	2008/09 Estimate £000	2009/10 Estimate £000
Borrowing	186,500	159,285	104,395	88,675
Other long term liabilities	-	-	-	-
Total	**186,500**	**159,285**	**104,395**	**88,675**

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. They are also consistent 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 sufficient flexibility 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.

	2006/07 Revised £000	2007/08 Estimate £000	2008/09 Estimate £000	2009/10 Estimate £000
Borrowing	162,174	138,509	90,778	77,109
Other long term liabilities				
Total	**162,174**	**138,509**	**90,778**	**77,109**

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 (at start of financial year)

Actual External Debt

2005/06 Actual £000	2006/07 Forecast Actual £000
85,838	70,838

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

	2006/07 Estimate	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate
Upper limit on fixed interest rate exposures	95%	95%	95%	95%
Upper limit on variable interest rate exposures	30%	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.

10. Gross Outstanding Borrowing.

Limits in interest rate exposure calculated with reference to net outstanding borrowing sums

	2006/07 Estimate	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate
Upper limit on fixed interest rate exposures	100%	100%	100%	100%
Upper limit on variable interest rate exposures	15%	15%	15%	15%

11. Gross Outstanding Investment.

Limits in interest rate exposure calculated with reference to outstanding investment sums

	2006/07 Estimate	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate
Upper limit on fixed interest rate exposures	**100%**	**100%**	**100%**	**100%**
Upper limit on variable interest rate exposures	**40%**	**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	**30%**	**0%**
12 months and within 24 months	**30%**	**0%**
24 months and within 5 years	**30%**	**0%**
5 years and within 10 years	**40%**	**0%**
10 years and above	**55%**	**0%**

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

The Authority will consider the investment of sums for longer than 364 days but a ceiling of £40 million presently operates. This was agreed by the MPA Full Authority on 30 March 2006.

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