Appendix 6

Prudential Indicators for the Metropolitan Police Authority

It is recognised that the underlying demand for capital investment cannot be satisfied at the present time due to financial restraints. These Prudential Indicators have been calculated on the basis of the level of funding shown as available to support capital expenditure for the period 2010/11 to 2016/17.

The level of capital receipts to be secured through the disposal of redundant and obsolete property is severely depleted at the present time due to the downturn in the property market. Once this situation changes it will be possible to carry out detailed work on Service demands to ensure the best match with strategic objectives can be achieved. Proposals for increasing capacity in provisioning departments can also be assessed.

The affordability of the programme in terms of its impact on the MTFP will be closely scrutinised. The programme requirements for 2010/11 and beyond should, therefore, be regarded as indicative at this stage. Further refinement of investment needs will be undertaken to align the longer-term plans of the Service to available resources. The prudential indicators will have to be reviewed in light of any changes made.

Annual Statement of Minimum Revenue Provision

For 2010/11 the Authority will make a minimum revenue provision in accordance with:-

(a) the capital financing requirement method for any borrowing undertaken prior to 2009/10, and for all borrowing undertaken since that date supported through the revenue grants settlement: and

(b) the depreciation method for unsupported borrowing undertaken in 2009/10 as permitted by the flexibilities provided under the Prudential Code.

This is the same policy as adopted by the Authority for 2009/10 and at the present time it is not expected to change for future years.

Affordability Indicators

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

2009/10 Estimate	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
0.56%	0.62%	0.71%	0.78%	0.85%	0.91%	0.98%	1.09%

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. The authority has a history of utilising internal resources i.e. reserves to negate the need to go to the financial market and take out external loans. This practice is known as 'internal borrowing'. With reserves being heavily utilised during the downturn in the property market in order that investment levels can be maintained, external borrowing is predicted to commence during 2009/10. This is reflected in an increase over financial years in the estimate of capital financing costs compared to net revenue stream. The increased level of borrowing financing the capital expenditure programme also contributes to this.

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

2009/10 Estimate	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
£0.54	£1.45	£0.28	£1.10	£1.10	£1.10	£1.10	£1.10

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"

Capital Expenditure Indicators

4. Capital Expenditure

2008/09 Actual £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
297,571	214,042	259,197	156,343	153,882	131,842	125,442	118,442	118,442

This indicator states the total capital spend covering all capital expenditure, not just that financed by borrowing. These figures include the assumptions of expenditure being incurred for Counter Terrorism and the 2012 Olympic and Paralympic Games, which we are currently expecting to be funded from specific grants provided by central Government.

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

2008/09 Actual £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
491,501	528,642	599,284	626,890	643,148	658,481	672,891	686,384	699,968

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

	2009/10 Original £000	2009/10 Revised £000	2010/11 Estimate £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
Borrowing	228,205	228,205	318,150	370,650	412,650	454,651	496,651	538,651	580,651
Other Long Term Liabilities	-	-	-	-	-	-	-	-	-
Total	228,205	228,205	318,150	370,650	412,650	454,651	496,651	538,651	580,651

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.

The above figures reflect the understanding that from 2008/09 onwards the borrowing needs of the Authority will be matched by the negotiation of external loans. Figures are calculated on a cumulative basis taking account of PWLB repayment schedules.

7. Operational Boundary for External Debt.

	2009/10 Original £000	2009/10 Revised £000	2010/11 Estimate £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
Borrowing	**217,338**	**217,338**	**303,000**	**353,000**	**393,000**	**433,001**	**473,001**	**513,001**	**553,000**
Other Long Term Liabilities	-	-	-	-	-	-	-	-	-
Total	**217,338**	**217,338**	**303,000**	**353,000**	**393,000**	**433,001**	**473,001**	**513,001**	**553,000**

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.

The concluding paragraph as noted above for the authorised limit for external debt also applies in respect of the operational boundary for external debt.

8. Actual External Debt (at start of financial year 2009/10)

Actual External Debt
1 April 2009 Actual £000
47,338

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.

	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate

Upper limit on fixed interest rate exposures	**95%**	**95%**	**95%**	**95%**	**95%**	**95%**	**95%**	**95%**
Upper limit on variable rate exposures	**30%**	**30%**	**30%**	**30%**	**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.

	2009/10 Estimate	**2010/11 Estimate**	**2011/12 Estimate**	**2012/13 Estimate**	**2013/14 Estimate**	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**
Upper limit on fixed interest rate exposures	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Upper limit on variable rate exposures	**15%**	**15%**	**15%**	**15%**	**15%**	**15%**	**15%**	**15%**

11. Gross Outstanding Investment.

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

	2009/10 Estimate	**2010/11 Estimate**	**2011/12 Estimate**	**2012/13 Estimate**	**2013/14 Estimate**	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**
Upper limit on fixed interest rate exposures	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Upper limit on variable rate exposures	**40%**	**40%**	**40%**	**40%**	**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	**70**	**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 £40m 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.