Appendix 5

Prudential Indicators for the Metropolitan Police Authority

The MPS recognises the need to carry out more detailed work on the Service demands and anticipated projects costs for 2009/10 and beyond. This work will be carried out during 2008/09 to ensure the best match with strategic objectives is achieved and the proposals for increasing capacity in providing departments can be assessed. The affordability of the programme in terms of its impact on the MTFP will also need to be determined in more detail. The programme requirements for 2009/10 and beyond should, therefore, be regarded as indicative at this stage and further refinement of investment needs will be undertaken to align longer term plans to available resources. Therefore the prudential indicators will also have to be reviewed in light of the changes. It is anticipated the indicators will show a more positive position.

Affordability Indicators

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

2007/08 Estimate	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
0.22%	0.23%	0.23%	0.24%	0.26%	0.28%	0.31%	0.33%

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.

2007/08 Estimate	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
(£0.29)	(£0.21)	£0.12	£1.71	£2.19	£2.14	£2.14	£2.14

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

2006/07 Actual £000	2007/08 Estimate £000	2008/09 Estimate £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
154,479	179,832	241,081	299,462	225,205	165,188	156,938	156,938	156,938

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 Olympics and Paralympic Games, which we are currently assuming is funded.

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

2006/07 Actual £000	2007/08 Estimate £000	2008/09 Estimate £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
340,886	370,348	395,534	412,581	433,492	453,566	472,838	491,388	509,099

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

	2007/08 Original £000	2007/08 Revised £000	2008/09 Estimate £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
Borrowing	159,285	122,819	104,395	91,667	87,902	84,031	83,108	82,221	81,371
Other Long Term Liabilities	-	-	-	-	-	-	-	-	-
Total	159,285	122,819	100,653	88,517	84,997	84,035	83,112	82,226	81,375

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.

	2007/08 Original £000	2007/08 Revised £000	2008/09 Estimate £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
Borrowing	138,509	106,800	90,778	79,710	76,436	73,070	72,268	71,497	70,757
Other Long Term Liabilities	-	-	-	-	-	-	-	-	-
Total	138,509	106,800	87,524	76,972*	73,911	73,074	72,271	71,500	70,760

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 2007/08)

Actual External Debt
1 April 2007 Actual £000
57,338

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.

	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 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.

	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 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.

	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 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.