Appendix 2

Prudential Indicators for the Metropolitan Police Authority
Including the Annual Statement of Minimum Revenue Provision

It is recognised that the underlying demand for capital investment cannot be satisfied due to present 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 2011/12 to 2017/18.

The level of capital receipts to be secured through the disposal of redundant and obsolete property is depleted due to the depressed nature of the property market. If this situation changes it will be possible to review Service demands to ensure the best match with strategic objectives can be achieved. Proposals for increasing capacity in provisioning departments can also be re-assessed.

The affordability of the capital programme in terms of its impact on the MTFP will be closely scrutinised. Investment needs will be kept under constant review to align the longer-term plans of the Service to available resources. The prudential indicators will have to be adjusted in light of any changes made.

Long-term liabilities for the Authority have had to be revised as a result of the requirement to bring (a) Private Finance Initiative schemes onto the balance sheet before the end of the 2009/10 financial year; and (b) assets subject to finance leases onto the balance sheet before the end of the 2010/11 financial year. These are technical accounting changes to ensure compliance with International Financial Reporting Standards (IFRS).

Annual Statement of Minimum Revenue Provision

For 2010/11 & 2011/12 the Authority will make a minimum revenue provision in accordance with:-

(a) the capital financing requirement method for any borrowing undertaken prior to 2008/09, and for all borrowing undertaken since that date supported through the revenue grant settlement: and

(b) the depreciation method for unsupported borrowing undertaken in 2008/09 and subsequent years as permitted by the flexibilities provided under the Prudential Code.

This is the same policy as adopted by the Authority for 2008/09 and 2009/10 and it is not expected to change for future years.

In accordance with The Chartered Institute of Public Finance and Accountancy (CIPFA) Statement of Recommended Practice (SORP) for 2010/11, and other related guidance, minimum revenue provision in respect of (a) Private Finance Initiative schemes; and (b) assets subject to finance leases, both of which are now recorded as long term liabilities, is made by recognition of an element of the annual unitary charge as repayment of principal.

Affordability Indicators

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

2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
1.30%	1.65%	1.95%	2.10%	2.30%	2.50%	2.69%	2.88%

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 (a) to ensure that expenditure levels can be maintained as a result of the Government's CSR; and (b) to maintain investment levels during the downturn in the property market, external borrowing is predicted to rise significantly during 2010/11 and following years. This is reflected in an increase over financial years in the estimate of capital financing costs compared to net revenue stream.

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

2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
£1.42	£0.78	£0.52	£1.65	£1.74	£1.74	£1.74	£1.74

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 (a) debt charges on unsupported borrowing; (b) loss of interest on capital receipts used to finance new investment; and (c) debt charges on new investment decisions involving supported borrowing (the general non-government grant supported element of investment spending). The proposed use of borrowing to meet the shortfall in capital grant resulting from the Government's CSR is reflected in the increased incremental impact on the council tax.

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

2009/10 Actual £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	2017/18 Estimate £000
186,298	276,328	177,172	134,644	128,425	127,625	118,800	118,800	118,800

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 London 2012 Olympic and Paralympic Games, currently expected to be funded from specific grants provided by central Government.

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

2009/10 Actual £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	2017/18 Estimate £000
520,450	610,550	653,463	683,822	711,961	737,885	761,603	783,120	802,445

The capital financing requirement as shown above measures the Authority's underlying need to borrow for a capital investment purpose and does not, at the present time, take account of long liabilities relating to PFI arrangements or assets subject to finance leases. The Authority chooses not to have a direct association between borrowing and 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 investment purpose.

External Debt Indicators

6. Authorised Limit for External Debt

	2010/11 Original £000	2010/11 Revised £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	2017/18 Estimate £000
Borrowing	318,150	305,325	389,175	424,088	456,447	486,260	513,536	538,281	560,504
Long Term Liabilities									
PFI	112,268	112,268	109,080	105,673	102,031	98,138	93,976	89,526	84.768
Fin Leases	6,315	6,315	6,233	6,142	6,042	5,931	5,809	5,675	5,527
Total	436,733	423,908	504,488	535,903	564,520	590,329	613,321	633,482	650,799

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 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 2011/12 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.

	2010/11 Original £000	2010/11 Revised £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	2017/18 Estimate £000
Borrowing	303,000	265,500	338,413	368,772	396,911	422,835	446,553	468,070	487,395
Long Term Liabilities									
PFI	112,268	112,268	109,080	105,673	102,031	98,138	93,976	89,526	84,768
Fin Leases	6,315	6,315	6,233	6,142	6,042	5,931	5,809	5,675	5,527
Total	421,583	384,083	453,726	480,587	504,984	526,904	546,338	563,271	577,690

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 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 2010/11)

Actual External Debt
1 April 2010 Actual £000
121,950

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.

	2010/11 Estimate	**2011/12 Estimate**	**2012/13 Estimate**	**2013/14 Estimate**	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 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.

	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Upper limit on fixed interest rate exposures	100%	100%	100%	100%	100%	100%	100%	100%
Upper limit on variable rate exposures	30%	30%	30%	30%	30%	30%	30%	30%

11. Gross Outstanding Investment.

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

	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Upper limit on fixed interest rate exposures	100%	100%	100%	100%	100%	100%	100%	100%
Upper limit on variable rate exposures	100%	100%	100%	100%	100%	100%	100%	100%

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.

	Lower Limit %	Upper Limit %
Under 12 months	0	15
12 months and within 24 months	0	15
24 months and within 5 years	0	30
5 years and within 10 years	0	40
10 years and within 20 years	0	50
20 years and within 30 years	0	50
30 years and above	0	50

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

The Authority will not consider the investment of sums for longer than 364 days.

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