

REPORT OF THE CHIEF FINANCIAL OFFICER

PRUDENTIAL INDICATORS AND THE 5 YEAR CAPITAL PROGRAMME

1.0 Purpose of the Report

This report is intended to provide Members of the Finance and General Purposes Committee with an update in relation to the capital strategy, capital programme, prudential indicators and borrowing limits covering the period 2011/12 to 2015/16.

Recommendations

- 1.** Members are asked to recommend to the full Authority that the Minimum Revenue Provision Policy for 2012/13 is unaltered from the 2011/12 financial year.
- 2.** Members are asked to formally approve the capital strategy and 5 year capital programme, capital expenditure limits and borrowing levels along with associated capital financing requirement taking account of the relevant indicators of affordability.
- 3.** Members are asked to recommend that the Authority approve the prudential code indicators and borrowing limits which identical to those set for the current year.

2.0 Background

- 2.1** In advance of each financial year the Authority must set limits in relation to its borrowing activities. Such borrowing would encompass amounts required to fund its capital programme as well as more short-term cash-flow related borrowing needs. In reality, on a day to day basis the Authority's borrowing and investment activities are interlinked however this report focuses on the borrowing side only.
- 2.2** The Prudential Code was devised by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Authorities are required to have regard to the Code in setting borrowing limits under Part 1 of the Local Government Act 2003 in England and Wales. CIPFA undertook a review of the Code in early 2008 and issued a revised code in November 2009.
- 2.3** The system is designed to encourage Authorities that need, and can afford to borrow for capital investment to do so. The key requirement is that any capital investment and financing plans are prudent, affordable and sustainable. In setting or revising their prudential indicators the Authority is required to have regard to the following matters:

- Affordability e.g. implications for Council Tax
- Prudence and Sustainability e.g. implications for external borrowing
- Value for money e.g. option appraisal
- Stewardship of assets e.g. asset management planning
- Service objectives e.g. strategic planning for the Authority
- Practicality e.g. achievability of the forward plan

3.0 Annual Statement – Minimum Revenue Provision (MRP)

- 3.1 Under the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008, the Authority is required to set a minimum level of annual capital debt repayment. This is called the minimum revenue provision.
- 3.2 Under the Regulations, the Authority is required to set an amount of MRP which it considers to be prudent. Historically and under statute MRP had been set at 4% of outstanding capital debt. This is equivalent to 1/25th of the outstanding debt balance and this will equate to approximately £266K in the 2011/12 year.
- 3.3 In considering whether the arrangements are prudent, guidance has been issued and Authorities must have regard to this guidance. This is included in Annex A. The broad aim of prudent provision is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefit. Changes in MRP policy would affect the amounts charged to be financed to Council Tax each year. The recommended option complies with this guidance and has been acceptable to the Wales Audit Office in the past.

Recommendation

Members are asked to recommend to the full Authority that the MRP Policy for 2012/13 is unaltered from the 2011/12 financial year as follows:

ANNUAL MINIMUM REVENUE PROVISION (MRP) STATEMENT

The following policy has been set by the Authority in relation to MRP for 2012/13.

Supported Borrowing - Capital Financing Requirement Method

MRP is equal to 4% of the supported Capital Financing Requirement (CFR) at the end of the preceding financial year.

Prudential Borrowing - Depreciation Method

MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by prudential borrowing or unsupported credit arrangements.

(a) MRP will continue to be made annually until the cumulative amount of such provision is equal to the expenditure originally financed.

(b) On disposal of the asset, the amount of the capital receipt will not be taken to the revenue account and the authority will comply with the normal

requirements of the 2003 Act on the use of capital receipts.

(c) Where the percentage of the expenditure on the asset financed by prudential borrowing or unsupported credit arrangements is less than 100%, MRP will be equal to the same percentage of the provision required under depreciation accounting.

Finance Leases and PFI

In the case of finance leases and on balance-sheet PFI contracts, the MRP requirement will be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability.

4.0 The Proposed Capital Budget and Estimated Borrowing Requirement

- 4.1 The capital budget and financing arrangements have been updated to take account of the latest expenditure plans. This includes the re-profiling of a number of projects to take account of current timescales. The full details are shown in the Capital Strategy which is attached as Annex B to this report.
- 4.2 The proposed capital programme reflects available resources including the government grant reductions announced since the provisional settlement. The following table shows the scale of reductions in funding incorporated into the 2012 plan for the period 2011/12 to 2015/16 compared to the Programme approved in February last year (2011).

	£'000		
	Feb 11	Feb 12	Change
Schemes Unaltered	34,192	34,192	0
Reduced Spending 11-12 to 14-15			
Firearms Hubs / Training	2,650	165	-2,485
Strategic Command Centre	10,300	8,600	-1,700
Air Support Unit Pembrey	1,660	1,541	-119
Vehicles Reductions	7,370	7,240	-130
Project Costs / Business Change	375	300	-75
Planned Maintenance High Risk	680	680	0
System Replacement Storage	1,000	790	-210
Equipment Replacement Budget	1,130	1,101	-29
Mobile Data	2,658	2,358	-300
Capital Contingency	832	450	-382
	28,655	23,225	-5,430
Additional Spending 11-12 to 14-15			
VMU Roof Costs	170	185	15
Police Station Refurbishment	1,379	2,879	1,500
Enhanced Emergency Calls/Telephony	410	450	40
System upgrade–PEACE (HO funded)	0	30	30
Airwave Replacement Programme	2,867	3,052	185
ANPR	1,838	1,913	75
	6,664	8,509	1,845

Expenditure for 2015/16			
Vehicle Replacement Programme	0	750	750
Equipment / Airwave / ANPR	0	240	240
Police Station Refurbishment	0	500	500
Systems Replacement / Storage	0	210	210
Contingency	0	135	135
Project Costs / Business Change	0	75	75
Mobile Data (Grant Funded)	0	300	300
HQ Refurbishment / Bedrooms	1,438	1,518	80
Server / IT Replacement	1,205	1,285	80
	2,643	5,013	2,370
Total	72,154	70,939	-1,215

- 4.3 In total capital expenditure has been decreased by some £1.215 million compared to the strategy agreed in February 2011. This has enabled the Authority to reduce its prudential borrowing plans by £1.8 million over the period
- 4.4 The Capital Strategy outlined in Appendix A is contributing to the future delivery of cashable efficiencies in the following ways;
- ◆ A reduction in annual revenue contributions of £300K between 2011/12 and 2012/13
 - ◆ A reduction in planned maintenance and potential additional sale proceeds through a programme of potential buildings rationalisation as outlined in the estates strategy
 - ◆ Ensuring that planned building maintenance is prioritised on the basis of risk and statutory compliance
 - ◆ A target reduction of 10% in the number of vehicles
 - ◆ Centralisation of custody in Carmarthenshire
 - ◆ Through a controlled roll out of mobile data and continued investment in IT systems and ANPR technology to maintain productivity and performance levels
 - ◆ By prioritising energy consumption reduction / generation schemes
 - ◆ Ensuring that opportunities for collaboration and sharing of buildings continue to be explored
- 4.5 Critical to this plan is a prioritised update of the Strategic Estate with the focus on improving operational facilities at the main larger police stations. The plan includes provision for the implications of the Estates Review to cater for improvements in custody and accommodation facilities particularly in Carmarthenshire. It also incorporates a provision for a new station at Llandrindod Wells and for the completion of the Strategic Command Centre project, one of three in Wales, utilising Assembly Strategic Capital Investment Fund (SCIF) monies. This builds upon major developments already undertaken in recent years at Haverfordwest, Cardigan, Newtown, Brecon and Aberaeron.
- 4.6 Austerity measures and reductions in funding have necessitated a rigorous prioritisation of planned capitalised maintenance and repairs. Within the budget it has not been possible to fund the totality of the £5.1 million planned 10 year maintenance programme referred to in the estates strategy in full.

Minor Buildings work included in the programme focus on statutory compliance issues and addressing the highest risk maintenance issues only.

- 4.7 Chief Officers have set a target reduction in vehicles of 10% over coming years. The Force is developing a replacement programme around this and the cost implications are included in the forward capital plan. A modest recurring equipment budget is also included as part of the capital programme with the aim of reducing the impact of larger purchase requirements on revenue budgets.
- 4.8 The IT Strategy includes provision for the roll out of mobile data and ANPR capabilities. It also caters for the replacement of Force desktop IT and servers on a replacement basis rather than a scheduled basis thus ensuring that capital investment in IT contributes to meeting funding reductions.
- 4.9 In summary the Force plans to spend the following amounts.

Capital Expenditure Plans	2011/12	2012/13	2013/14	2014/15	2015/16	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Total Spending	5,132	9,758	8,875	3,818	2,370	29,953

- 4.10 Funding this level of capital spending will require additional borrowing of £7.7 million under the prudential code on top of the current borrowing level that is supported by Government of £0.52 million per annum over the period of the plan as illustrated in the table below. This is some £1.8million less than the borrowing limits agreed last year.

Capital Financing Plans	2011/12	2012/13	2013/14	2014/15	2015/16
	£'000	£'000	£'000	£'000	£'000
Total Spending	5,132	9,758	8,875	3,818	2,370
Revenue Contributions	933	638	387	233	225
Capital Grants	801	1,140	1,050	1,350	754
Capital Receipts	0	245	126	450	250
Current Capital Reserves	2,877	7,215	792	165	21
Total Financing (excluding borrowing)	4,611	9,238	2,355	2,198	1,250
Supported Borrowing	520	520	520	520	520
Prudential Borrowing	0	0	6,000	1,100	600

5.0 Borrowing for Capital Purposes

5.1 Estimates of Capital Financing Requirement at the Year end

- 5.1.1 The Capital Financing Requirement reflects the Authority's historic and future need to borrow for capital purposes. As of 31st March 2011, the Force had an opening Capital Financing Requirement of £6.912 million against total fixed assets recorded in the balance sheet of £66.4 million.

5.1.2 In relation to the Capital Expenditure plans outlined in Annex A, the Authority will need to borrow £10.3 million over the period 2011/12 to 2015/16. The Authority must also make annual repayments from its revenue budget for interest and a repayment of principal in accordance with the above policy. A forward estimate of the capital financing requirement is shown below.

Capital Financing Requirement and Revenue Charges	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	£'000	£'000	£'000	£'000	£'000	£'000
Opening Capital Financing Req. ex PFI	6,658	6,912	7,155	7,389	13,614	14,709
Less: Annual Minimum Revenue Repayment	-266	-276	-286	-296	-425	-451
Add New Borrowing	520	520	520	520	520	520
Total	0	0	0	6,000	1000	500
PFI Liability	2,700	2,700	2,700	2,700	2,700	2,700
Closing Capital Financing Req.	9,612	9,855	10,089	16,314	17,409	17,978

5.1.3 The Force must not exceed these estimates of Capital Financing Requirement over the medium term.

5.2 Capital Financing Charges

5.2.1 In order to assess whether borrowing at this level is sustainable, affordable and prudent over the period, a forward estimate of the revenue charges associated with the above levels of capital borrowing has been undertaken.

a) Actual current Ratio of debt financing cost to net revenue stream

Year	Financing Cost	Net Budget	% of Budget
	£'000	£'000	%
2010/11	557,556	93,333	0.6%

b) Estimates of Future Ratio of Financing Cost to Net Revenue Stream

Year	Financing Cost	Net Budget	% of Budget
	£	£'000	%
2011/12	558,823	97,337	0.6%
2012/13	558,864	95,698	0.6%
2013/14	809,657	97,131	0.8%
2014/15	964,088	97,763	1.0%
2015/16	971,943	99,186	1.0%

c) Estimates of the incremental Impact on Council Tax *

Year	Incremental Cost	Tax Base	Band D increase	Band D increase
	£'000		£	%
2011/12	1	208,439	0.01	0.0%
2012/13	0	209,819	0.00	0.0%
2013/14	251	210,868	1.19	0.5%
2014/15	154	211,923	0.73	0.3%
2015/16	8	212,982	0.04	0.0%

5.2.2 The figures above are based upon a 4.2% interest repayment on all new capital loans and repayment under the Authorities current MRP policy. Borrowing at the levels set out would increase MRP and interest charges by £413K from some £559K in 2011/12 to £972K in 2015/16.

5.2.3 The recurring revenue budget held by the Authority for the purposes of supporting capital expenditure in the 11/12 onwards is as follows:

	£'000	£'000	£'000	£'000	£'000
	2011/12	2012/13	2013/14	2014/15	2015/16
MRP and Interest	559	559	810	964	972
Annual Revenue Contribution to Capital	900	638	387	233	225
Total	1,459	1,197	1,197	1,197	1,197

5.2.4 In practice the Authority will meet the potential increases in charges by reducing the annual capital contribution to revenue hence there will be no additional charge on the council tax. As part of austerity budget reductions overall capital charges fall by £300K in cash terms over the period. It is considered that the capital expenditure and financing plans proposed above are prudent, affordable and sustainable.

RECOMMENDATION

Members are asked to formally approve the proposals set out in the attached Capital Strategy – Annex A with regard to capital expenditure and borrowing levels, along with associated limits for the capital financing requirement taking account of the relevant indicators of affordability and sustainability as set out above.

6.0 Prudential Indicators for External Debt.

6.1 The Requirement to set limits for external debt

6.1.1 The Authority is also required to set two other limits for external debt - the Authorised Limit and Operational Boundary. These limits encompass external long term liabilities and borrowing both for capital purposes and to finance short term revenue requirements arising in the future.

- a) The *Authorised Limit* separately identifies short term borrowing and other long-term liabilities. It is the Authorised Limit that represents the legal borrowing limit that the Authority must set as specified in Part 1 of the Local Government Act 2003. Guidance suggests that this limit should not be set so high that it could never be breached and that it should reflect a level of borrowing which, while not desired, could be afforded but may not be sustainable. An unanticipated revision to this limit would be a most exceptional event.
- b) The *Operational Boundary* represents a lower limit that is the focus of day-to-day treasury management activities. It is based upon the maximum external debt of the Authority according to probable – not simply possible – events. This limit is used for the purposes of monitoring

compliance with the Authorised Limit on a day to day basis and the Authority must be notified where external borrowing exceeds this limit.

6.2 Current Levels of External Debt

6.2.1 The Force's current external debt is limited to amounts borrowed from the Public Works Loan Board for capital schemes. As at 31st March 2011, debt outstanding with the PWLB totalled £3.066 million. The Force continues to get a grant contribution towards the costs of pre-1990 debt financing at 51% of the costs of the remaining notional interest payments and minimum revenue repayment.

6.2.2 The Force has not borrowed externally for revenue purposes other than through the bank overnight overdraft facility (of under £0.5 million) in the last 10 years. The current low level of interest rates makes borrowing externally more attractive at present despite the surprise 1% increase in PWLB rates announced as part of the provisional settlement are as shown below:

PWLB Borrowing (Maturity)			
Term	January 27th 2012 (%)	Minimum 2011-12 (%)	Average 2011-12 (%)
1 Year	1.28	0.19	1.51
4.5 to 5 Year	2.02	1.96	2.67
14.5 – 15 Yr	3.67	3.51	4.36
29.5 – 30Yr	4.14	3.98	4.74
49.5 – 50 Yr	4.15	3.98	4.72

7.0 Overall Limits on Borrowing

7.1 Setting the Authorised Limits and Operational Boundary

7.1.1 Based upon the capital programme and the current climate in relation to interest rates, it is proposed that Authorised Limit and Operational Boundary remain unchanged from present levels. Changes to accounting regulations have resulted in PFI schemes being included on the Authority balance sheet. The limits were amended to account of this change last year.

	Authorised Limit			Operational Boundary		
	Short Term Borrowing	Long Term Debt & Liabilities	Total	Short Term Borrowing	Long Term Debt & Liabilities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
2010/11	3,090	20,600	23,690	1,000	19,637	20,637
2011/12	3,183	20,600	23,738	1,000	19,637	20,637
2012/13	3,278	20,600	23,878	1,000	19,637	20,637
2013/14	3,377	20,600	23,977	1,000	19,637	20,637

7.1.2 These limits do provide the Authority with the option to borrow to fund capital projects or to restructure capital financing charges and contributions from revenue should circumstances make this favourable in the longer term. In

addition the limits provide scope for the Force to borrow up to £3.377million for short term revenue / cash flow reasons however the Authority would need to be informed if such short term borrowing exceeded £1million.

7.2 Upper Limits on exposure to fixed and variable Interest Rates on borrowing

7.2.1 The prudential code recommends that the Authority sets upper limits on its exposure to interest rate variations on debt. This has to be seen in the context of the general day to day requirement arising from Treasury Management to control exposure to interest rate fluctuation risk both in relation to investments and borrowing. It is proposed that the following limits are applied, with longer term borrowing being undertaken at fixed rates of interest and shorter term borrowing being allowed greater flexibility to take advantage of movements in variable rates of interest within the Borrowing Strategy outlined below.

Year	Upper Limit on Variable Rate Exposure	Upper Limit on Fixed Rate Exposure
	£'000	£'000
2010/11	3,090	20,600
2011/12	3,183	20,600
2012/13	3,278	20,600
2013/14	3,377	20,600

7.3 Upper and Lower limits on maturity structure of fixed rate borrowing

7.3.1 In relation to its debt, the prudential code also recommends that the Authority sets limits on the maturity structure of its fixed rate borrowing. The proposed limits are shown in the table below alongside the maturity structure of existing debt as at the 31st March 2011. These limits will help to maintain a smooth pattern in the proportion of debt maturity over time.

Loans Maturing In	Amount of Debt Outstanding as of 31st March 2011	Current % of Outstanding Debt	Upper Limit	Lower Limit
	£	%	%	%
Under 1 Year	103,000	3%	20	0
1-2 Years	112,000	4%	20	0
2-5 Years	396,000	13%	50	0
5-10 Years	953,000	31%	75	0
10+ Years	1,502,000	49%	90	25
Total Debt	3,066,000	100%		

8.0 Borrowing Strategy

8.1 It is anticipated that the Authority's borrowing needs will be met from the Public Works Loan Board and through the bank overnight overdraft facility. However, should lower rates be available from other sources such as Bonds or Stocks, then consideration will be given to borrowing from institutions supplying such financial instruments and re-scheduling of the PWLB debt.

8.2 In general terms, the Authority will not borrow in advance of need and will only do so if there is a clear financial case for doing so. Borrowing in this way

will only be undertaken to support the current capital programme or to replace future debt maturities. If the Authority does need to borrow, the general movement in interest rates, as well as projected future trends in rates will govern the decision as to the timing of the actual borrowing.

- 8.3 Decisions on funding often need to be taken quickly and as a result it would not always be practical to report in advance to the Authority. In such cases full details of the borrowing actually undertaken will be reported to the Authority as soon as possible thereafter, however the Force will ensure that the authorised limits are complied with.

RECOMMENDATION

Members of the Finance, Resources and Information Management Committee are asked to recommend that the Authority approve these prudential indicators and borrowing limits.

8.0 Impact Considerations

Implication	Impact Considered (Yes/No)	Impact Identified (paragraph reference)
Legal	Yes	Main Report
Financial	Yes	Main Report
Race and Equality	Yes	None
Human Rights	Yes	None
Environmental and Sustainability	Yes	None
Risk Analysis	Yes	Main Report
National Park Implications	Yes	None

9.0 Appendices

Annex A – Guidance issued by the Welsh Government on Minimum Revenue Provision

Annex B – Capital Strategy and Forward Capital Programme Spreadsheet

10.0 Background papers

Various Local Government Acts;
 Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008
 CIPFA: The Prudential Code for Capital Finance in Local Authorities; Fully Revised Guidance Notes for Practitioners 2007 and Revised Code 2009

11.0 Contact details

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