Buckinghamshire & Milton Keynes Fire Authority

MEETING	Executive Committee
DATE OF MEETING	5 February 2014
OFFICER	David Skinner, Director of Finance and Assets
LEAD MEMBER	Councillor Andy Dransfield
SUBJECT OF THE REPORT	**The Prudential Code, Prudential Indicators and Minimum Revenue Provision**
EXECUTIVE SUMMARY	This report is being presented as the prudential indicators (Appendices A and B) and minimum revenue provision policy statement (Appendix C) are required to be approved by the Fire Authority and to support the Medium Term Financial Plan. A review of the Balance Sheet indicates that the Authority is currently in an over-borrowed position. Due to prohibitive penalties the early repayment of borrowing is not an option. The Authority will therefore ensure that no additional borrowing is undertaken in the foreseeable future.
ACTION	Decision.
RECOMMENDATIONS	That the Authority be recommended to approve: 1. the prudential indicators; and 2. the minimum revenue provision policy statement.
RISK MANAGEMENT	The Prudential Code was established to ensure that capital investment plans are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. The indicators presented here demonstrate that the current plans for capital investment meet these criteria and present an acceptable level of risk to the Authority. Minimum revenue provision is a statutory charge to the General Fund, which ensures that an Authority has sufficient cash balances to repay borrowing upon maturity, reducing the refinancing risk. There are no direct staffing implications.

FINANCIAL IMPLICATIONS	The decision on the prudential indicators sets out the financial limits within which the Authority will operate in future years. The minimum revenue provision is a statutory charge against the General Fund, estimated at £310k for 2014/15.
LEGAL IMPLICATIONS	The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, SI 2003/3146 make provision for capital finance and accounts under the Local Government Act 2003 requiring the authority to have regard to the 'Prudential Code for Capital Finance in Local Authorities' when determining, under the Local Government 2003 Act, how much money it can afford to borrow; and require the Authority to determine for the current financial year an amount of minimum revenue provision which it considers to be prudent.
HEALTH AND SAFETY	No impact.
EQUALITY AND DIVERSITY	No impact.
USE OF RESOURCES	The impact of the Prudential Code will allow the Authority to make informed choices between revenue and capital financing of procured services, to encourage invest to save schemes and will only allow capital investment to proceed where the Authority can fund projects within prudential limits. Making sufficient minimum revenue provision ensures that when borrowing matures, cash is available to make the repayment. This ensures that the Authority does not need to borrow additional money to repay existing loans.
PROVENANCE SECTION **&** **BACKGROUND PAPERS**	The draft medium term financial plan 2014/15 – 2017/18 (final to be approved February 2014).
APPENDICES	Appendix A – Prudential Indicators Appendix B – Summary Table of Prudential Indicators Appendix C – Minimum Revenue Provision Policy Statement
TIME REQUIRED	10 minutes.
REPORT ORIGINATOR AND CONTACT	Mark Hemming mhemming@bucksfire.gov.uk 01296 744687

Appendix A – Prudential Indicators

1.0 Indicators for Affordability

1.1 The ratio of financing costs to net revenue stream

This indicator measures the percentage of the net revenue funding used to finance external debt. In spite of falling funding levels this indicator is projected to remain stable in the medium term. This is due to the reducing minimum revenue provision charge, repayment of borrowing and no new additional borrowing planned over the medium term:

Indicator	Actual 2012/13	Projected 2013/14	Estimate 2014/15	Estimate 2015/16	Estimate 2016/17
Ratio of financing costs to net revenue stream	2.0%	2.1%	2.1%	2.1%	1.9%

1.2 The incremental impact of capital investment decisions on the council tax

This indicator measures the impact of any additional (or reduction in) financing costs on the council tax. The amount is forecast to reduce as money is set aside to reduce the capital financing requirement annually and no future borrowing is planned over the medium term:

Indicator	Actual 2012/13	Projected 2013/14	Estimate 2014/15	Estimate 2015/16	Estimate 2016/17
The incremental impact of capital investment decisions on the council tax	£0.00	-£0.09	-£0.04	-£0.04	-£0.04

2.0 Indicators for Prudence

2.1 Gross borrowing and the capital financing requirement

The table below shows gross borrowing and the capital financing requirement (**CFR**). The Authority should ensure that gross borrowing does not, except in the short term, exceed the CFR. As can be seen, the gross borrowing exceeds the CFR for just one year. This is due to a minor timing difference between setting money aside to repay borrowing and the actual repayment date. Gross borrowing will remain at £8.265m for the majority of 2015/16, although £515k will be repaid in March 2016. A further £368k will be repaid in May 2016. The figures shown below indicate the maximum level of borrowing during the year (i.e. repayments will reduce the limit for the following year):

Indicator	Actual 2012/13	Projected 2013/14	Estimate 2014/15	Estimate 2015/16	Estimate 2016/17
Gross borrowing (£000)	8,265	8,265	8,265	8,265	7,750
Capital financing requirement (£000)	9,004	8,669	8,359	8,061	7,775

3.0 Indicators for Capital Expenditure

3.1 Capital expenditure

This indicator shows the expected level of capital expenditure for future years:

Indicator	Actual 2012/13	Projected 2013/14	Estimate 2014/15	Estimate 2015/16	Estimate 2016/17
Capital expenditure (£000)	1,558	930	4,068	1,479	1,357

3.2 Capital financing requirement (CFR)

The CFR reflects the Authority's underlying need to borrow. This figure is predicted to reduce in future years, as revenue is set aside each year to repay borrowing when it matures, and no additional borrowing is planned in the medium term. The CFR should be looked at in relation to gross borrowing, as detailed in Section 2.1:

Indicator	Actual 2012/13	Projected 2013/14	Estimate 2014/15	Estimate 2015/16	Estimate 2016/17
Capital financing requirement (underlying need to borrow for a capital purpose) (£000)	9,004	8,669	8,359	8,061	7,775

4.0 Indicators for External Debt

4.1 Authorised Limit

This is the maximum limit on borrowing and other long-term liabilities (currently limited to the finance lease at Gerrards Cross). This amount cannot be exceeded without approval from the Fire Authority:

Indicator	Actual 2012/13	Projected 2013/14	Estimate 2014/15	Estimate 2015/16	Estimate 2016/17
Authorised limit for borrowing (£000)	8,265	8,265	8,265	8,265	7,750
Authorised limit for other long-term liabilities (£000)	1,920	1,873	1,826	1,779	1,732
Authorised limit for external debt (£000)	10,185	10,138	10,091	10,044	9,482

4.2 Operational Boundary

This indicator shows the most likely estimate of debt for future years:

Indicator	Actual 2012/13	Projected 2013/14	Estimate 2014/15	Estimate 2015/16	Estimate 2016/17
Operational boundary for borrowing (£000)	8,265	8,265	8,265	8,265	7,750
Operational boundary for other long-term liabilities (£000)	1,920	1,873	1,826	1,779	1,732
Operational boundary for external debt (£000)	10,185	10,138	10,091	10,044	9,482

The actual external debt for the year ending 31 March 2013 was **£10.185m**.

5.0 Indicators for Treasury Management

5.1 Adoption of CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectorial Guidance Notes

The aim is to ensure that treasury management is led by a clear and integrated forward treasury management strategy, and a recognition of the pre-existing structure of the Authority's borrowing and investment portfolios. This guidance will be adopted for 2014/15.

5.2 Upper limit on fixed interest rate exposures

This indicator shows the Authority's upper limit of the net exposure to fixed interest rates. Currently all borrowing is at a fixed rate of interest:

Indicator	Actual 2012/13	Projected 2013/14	Estimate 2014/15	Estimate 2015/16	Estimate 2016/17
Upper limit on fixed interest rate exposures	100%	100%	100%	100%	100%

5.3 Upper limit on variable interest rate exposures

This indicator shows the Authority's upper limit of the net exposure to variable interest rates:

Indicator	Actual 2012/13	Projected 2013/14	Estimate 2014/15	Estimate 2015/16	Estimate 2016/17
Upper limit on variable interest rate exposures	20%	20%	20%	20%	20%

5.4 Maturity structure of fixed rate borrowing

This shows the repayment profile of fixed rate borrowing. All loans are repayable on maturity:

Indicator	Actual 2012/13	Projected 2013/14		Estimate 2014/15		Estimate 2015/16		Estimate 2016/17	
Maturity structure of fixed rate borrowings	Actual Maturity	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit
Under 12 months	0%	0%	0%	0%	6%	0%	5%	0%	0%
12 months and within 24 months	0%	0%	6%	0%	4%	0%	0%	0%	8%
24 months and within five years	11%	0%	12%	0%	7%	0%	8%	0%	0%
five years and within 10 years	15%	0%	20%	0%	20%	0%	21%	0%	22%
10 years and within 20 years	40%	0%	28%	0%	29%	0%	30%	0%	32%
20 years and within 30 years	0%	0%	0%	0%	0%	0%	0%	0%	0%
30 years and within 40 years	26%	0%	26%	0%	26%	0%	36%	0%	38%
40 years and above	8%	0%	8%	0%	8%	0%	0%	0%	0%

5.5 Total principal sums invested for periods longer than 364 days

The purpose of this indicator is for the Authority to contain its exposure to the possibility of loss that might arise as a result of its having to seek early repayment or redemption of principal sums invested. The Authority currently has no plans to invest for periods longer than 364 days. This will be kept under review in light of economic conditions and advice from treasury management advisors:

Indicator	Actual 2012/13	Projected 2013/14	Estimate 2014/15	Estimate 2015/16	Estimate 2016/17
Total principal sums invested for periods longer than 364 days (£000)	0	0	0	0	0

5.6 Credit Risk

The duration of any investment with a counterparty will be restricted as advised by our treasury management advisors. The advisors will base their assessment of credit risk based on credit ratings provided by the major agencies, as well as reviewing credit default swaps (a proxy measure for the markets perceived risk of default).

Appendix B – Summary Table of Prudential Indicators

For reference, the following table summarises the key indicators detailed in Appendix A in a single table:

	Indicator	Actual 2012/13	Projected 2013/14	Estimate 2014/15	Estimate 2015/16	Estimate 2016/17
Indicators for Affordability						
1.1	Ratio of financing costs to net revenue stream	2.0%	2.1%	2.1%	2.1%	1.9%
1.2	The incremental impact of capital investment decisions on the council tax	£0.00	-£0.09	-£0.04	-£0.04	-£0.04
Indicators for Prudence						
2.1	Gross borrowing (£000)	8,265	8,265	8,265	8,265	7,750
Indicators for Capital Expenditure						
3.1	Capital expenditure (£000)	1,558	930	4,068	1,479	1,357
3.2	Capital financing requirement (£000)	9,004	8,669	8,359	8,061	7,775
Indicators for External Debt						
4.1	Authorised limit for external debt (£000)	10,185	10,138	10,091	10,044	9,482
4.2	Operational boundary for external debt (£000)	10,185	10,138	10,091	10,044	9,482
Indicators for Treasury Management						
5.2	Upper limit on fixed interest rate exposures	100%	100%	100%	100%	100%
5.3	Upper limit on variable interest rate exposures	20%	20%	20%	20%	20%
5.5	Total principal sums invested for periods longer than 364 days (£000)	0	0	0	0	0

* The actual external debt for the year ending 31 March 2013 was £10.185m. The projected external debt for the year ending 31 March 2014 is £10.138m.

The following indicators are not shown above:

- 5.1 – the Authority has adopted CIPFA's Treasury Management Code for 2013/14
- 5.4 – details of the maturity structure of fixed rate borrowing (see Appendix A)
- 5.6 – narrative regarding credit risk (see Appendix A)

Appendix C – Minimum Revenue Provision (MRP) Policy Statement

The two methods for calculating prudent provision are set out below and were approved by members in 2008/09. Regulation 28 of the 2003 Regulations (as amended by regulation 4 of the 2008 Regulations) requires a local authority to calculate for the current financial year an amount of MRP which it considers to be prudent. The Secretary of State recommends that, for the purposes of regulation 4 the prudent amount of provision should be determined in accordance with one of four options, two of which were agreed by members in 2008/09 and are outlined below.

The broad aim of prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits (asset life).

(a) CFR Method

MRP is equal to 4% of the Capital Financing Requirement (CFR) at the end of the preceding financial years which, in the case of this Authority is currently projected at £129k for 2014/15. This is the method of calculation applied to all capital assets for all borrowing taken out prior to 31 March 2008.

(b) Asset Life Method

Since 1 April 2008, where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset, based on an equal instalment method. This amount is projected to be £181k for 2014/15.

Where assets have been purchased utilising Capital grants or Revenue Contributions no MRP calculation is required. Only assets purchased utilising borrowing require an MRP charge.

The asset life method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined by the Director of Finance and Assets & Treasurer, with regard to the statutory guidance and advice from professional valuers.