Report of the Chief Financial Officer for the Police, Fire and Crime Commissioner (PFCC) to the PFCC
25th February 2020

Status: For Decision

Treasury Management, Prudential Indicators, Investment Strategy and Capital Strategy

1. Purpose

To comply with the CIPFA Prudential Code of Practice, the PFCC is required to set a range of Prudential Indicators for the financial year 2020/21. The code states that Prudential Indicators for Treasury Management should be considered together with the Annual Investment Strategy for 2020/21. The content of this report addresses this requirement.

2. Recommendations

The PFCC is asked to:

2.1 Approve the Prudential Indicators, set out in 3.5, 3.6 and 3.7.

2.2 Approve the Annual Investment Strategy set out at Appendix A.

2.3 Note that future investments will be placed in line with the strategy in Appendix A.

2.4 Approve the Capital Strategy set out at Appendix B

3. Reasons

3.1 Prudential Indicators

The Prudential Code requires authorities (including the PFCC) to self regulate the affordability, prudence and sustainability of their capital expenditure and borrowing plans, by setting estimates and limits, and by publishing actuals, for a range of Prudential Indicators. It also requires them to ensure their Treasury Management Practices are in accordance with good practice.

3.2 The Code imposes on authorities clear governance procedures for setting and revising of Prudential Indicators, and describes the matters to which an authority will have regard when doing so. This is designed to deliver accountability in taking capital financing, borrowing and Treasury Management decisions. A fundamental provision of the Prudential Code is that over the medium term net borrowing will only be for a capital purpose.

3.3 Under the Code, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to the code. Under the code the PFCC is required to set a range of Prudential Indicators for the financial year 2020/21.

3.4 The code states that Prudential Indicators for Treasury Management should be considered together with the Annual Investment Strategy.

3.5 Affordability

The following indicators are required to assess the affordability of the capital investment plans. They provide an indication of the impact of the capital investment plans on overall PFCC finances. The PFCC is requested to approve the following:

3.5.1 Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital against the net budgetary requirement. In effect it is looking at how much of the revenue budget needs to be set aside for the funding of capital decisions and how sustainable this is going forward.

	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Financing Costs to Net Revenue Streams	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000
Minimum Revenue Provision (MRP)	369	481	731	731	731	982
Interest Payable on Borrowing	238	238	238	238	238	238
Interest Receivable	(35)	(35)	(35)	(35)	(35)	(35)
Financing Costs	**572**	**684**	**934**	**934**	**934**	**1,185**
Net Revenue Stream	**154,380**	**163,355**	**168,056**	**172,856**	**177,800**	**182,894**
Ratio %	0.4%	0.4%	0.6%	0.5%	0.5%	0.6%

The percentage of the net revenue stream needed to be set aside to fund financing costs is expected to remain very low across the MTFP and therefore shouldn't provide any long terms problems in terms of affordability and sustainability.

It is worth bearing in mind that a significant proportion of the Capital Expenditure is funded from revenue contributions to Capital. If future budgets can't accommodate these continued contributions then this would have a significant impact on either the ability of the organisation to continue with the investment plans and/or it would have to significantly increase planned levels of borrowing. This in turn would impact on this calculation and would ultimately increase the amount of the revenue budget that would need to be set aside to fund financing costs.

3.5.2 *Incremental Impact of Capital Investment Decisions on Band D Council Tax*

This indicator shows the incremental impact of the additional capital expenditure that is planned in the current programme on the Band D council tax.

Council Tax	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£	£
Band D Impact on Capital	0.24	0.30	0.55	0.00	0.00	0.53
Band D increase year on year	22.95	10.00	5.39	5.39	5.50	5.61
%age of Precept increase to fund additional Capital	1.0%	3.0%	10.3%	0.0%	0.0%	9.4%

The PFCC has approved a £10 increase in the Band D Precept for 2020/21. In notional terms 3% of this increase is expected to be needed to be set aside to fund increases in capital financing costs over the amount of funding that was set aside for Capital Purposes in 2019/20 however in reality savings are being delivered from elsewhere to fund this.

Now that Capital Reserves have predominantly been used then how Capital expenditure is funded going forward is going to extremely important as there is a direct impact now on the revenue budget for any decision to borrow beyond what it currently included within the current MTFP.

3.6 Prudence

The 'prudence' indicator generally looks at the level of borrowing needed to maintain the current plans of the organisation.

Capital Expenditure	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000
Capital Expenditure	6,067	9,471	7,657	7,502	7,942	3,800
Total Capital Expenditure	**6,067**	**9,471**	**7,657**	**7,502**	**7,942**	**3,800**
Funded By:						
Gross Borrowing	2,248	5,000	0	0	1,254	1,006
Leasing	0	0	0	0	0	0
%age of Expenditure funded by Borrowing	37.1%	52.8%	0.0%	0.0%	15.8%	26.5%

Based on the current plans, the forecast level of borrowing required across the current capital plan shouldn't provide too much concern and it is all affordable within current plans. It is important to recognise that borrowing beyond these levels will incur additional revenue costs and the organisation should think very carefully before doing this.

3.6.1 The PFCC's Borrowing Need (The Capital Financing Requirement)

The Capital Financing Requirement (CFR) measures the PFCC's underlying need to borrow for Capital purposes and ensures that borrowing is only undertaken to fund capital assets and not support revenue expenditure.

The PFCC is asked to approve the following CFR projections:

Capital Financing Requirement	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£001	£001	£001
Opening Capital Financing Requirement	**10,225**	**12,104**	**16,623**	**15,892**	**15,160**	**15,683**
Unsupported borrowing to fund Capital Expenditure	2,248	5,000	0	0	1,254	1,006
Total CFR Base on which MRP is calculated	**12,474**	**17,104**	**16,623**	**15,892**	**16,414**	**16,689**
MRP on Borrowing	(369)	(481)	(731)	(731)	(731)	(982)
Total CFR Base for borrowing purposes	**12,104**	**16,623**	**15,892**	**15,160**	**15,683**	**15,707**

The Borrowing (both Internal and External) included within the plans increases the Capital Financing Requirement (CFR). The PFCC is required to make a statutory charge to revenue for the repayment of debt (the Minimum Revenue Provision) and this reduces the CFR.

3.6.2 Limits to Borrowing Activity

Within the Prudential indicators there are a number of indicators to ensure that the PFCC operates its activities within well defined limits.

For the first of these the PFCC needs to ensure that its total borrowing net of any investments does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, to take advantage of market opportunities and to build in budget uncertainty.

Net Borrowing and the Capital Financing Requirement (CFR)	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000
Borrowing	6,000	11,000	11,000	11,000	11,000	11,000
Investments	(4,452)	(4,175)	(537)	2,729	(3,853)	(6,540)
Net Borrowing	**1,548**	**6,825**	**10,463**	**13,729**	**7,147**	**4,460**
Total CFR Base for borrowing purposes	**12,104**	**16,623**	**15,892**	**15,160**	**15,683**	**15,707**

The CFR, as set out above, across all 5 years is forecast to be in excess of both the Borrowing and the 'net borrowing' of the organisation and therefore the PFCC can be assured that any borrowing that is forecast to be taken out over the coming years would not be to support revenue expenditure.

3.6.3 A further two prudential indicators control or anticipate the overall level of borrowing. These are:

- The ***Authorised Limit*** which represents the limit beyond which borrowing is prohibited and needs to be set and revised by the PFCC, borrowing beyond this limit would be ultra vires.

- The ***Operational Boundary*** which is based on the probable external debt during the course of the year. It can include scope for borrowing for revenue purposes that may be required in the short term during the year, if for instance a large grant payment was delayed. However at this point no allowance for this has been made.

The PFCC is asked to approve the following limits:

Authorised Limit for External Debt	**2019/20** Estimate	**2020/21** Estimate	**2021/22** Estimate	**2022/23** Estimate	**2023/24** Estimate	**2024/25** Estimate
	£000	£000	£000	£000	£000	£000
Borrowing	6,000	11,000	11,000	11,000	11,000	11,000
Provision for Temporary Borrowing	3,000	3,300	3,300	3,300	3,300	3,300
	9,000	**14,300**	**14,300**	**14,300**	**14,300**	**14,300**

Operational Boundary for External Debt	**2019/20** Estimate	**2020/21** Estimate	**2021/22** Estimate	**2022/23** Estimate	**2023/24** Estimate	**2024/25** Estimate
	£000	£000	£000	£000	£000	£000
Borrowing	6,000	11,000	11,000	11,000	11,000	11,000
Provision for Temporary Borrowing	0	0	0	0	0	0
	6,000	**11,000**	**11,000**	**11,000**	**11,000**	**11,000**

3.7 <u>Treasury Management Indicators</u>

The purpose of these is to contain the activity of the Treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the PCC's overall financial position. The PCC is asked to approve the indicators below:

3.7.1 *<u>Upper Limits on Borrowing</u>*

This indicator identifies a maximum level of borrowing that can be made at Fixed and Variable interest rates.

Borrowing	**2019/20** Estimate	**2020/21** Estimate	**2021/22** Estimate	**2022/23** Estimate	**2023/24** Estimate
	%	%	%	%	%
Upper Limit on Fixed Interest Rate Exposures	100	100	100	100	100
Upper Limit of Variable Rate Exposures	50	50	50	50	50

This means 50%-100% of our borrowing will be at rates fixed until the loan is repayable, while no more than 50% will be at variable rates so liable to change at short notice.

3.7.2 *Upper Limits on Investments*

This indicator identifies a maximum level of investments that can be made at Fixed and Variable interest rates.

Investments	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	%	%	%	%	%
Upper Limit on Fixed Interest Rate Exposures	100	100	100	100	100
Upper Limit of Variable Rate Exposures	50	50	50	50	50

This means 50%-100% of our investments will be at rates fixed until the investment matures, while no more than 50% will be at variable rates so liable to change at short notice.

3.7.3 *Maturity Structure of Debt*

These gross limits are set to reduce the PFCC's exposure to large fixed rate sums falling due for re-financing within a short timeframe. Upper and lower limits are required which the PFCC is asked to approve.

Maturity Structure of Debt	2019/20		2020/21		2021/22		2022/23		2023/24	
	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0%	50%	0%	50%	0%	50%	0%	50%	0%	50%
Over 12 months and under 2 years	0%	50%	0%	50%	0%	50%	0%	50%	0%	50%
Over 2 years and under 5 years	0%	50%	0%	50%	0%	50%	0%	50%	0%	50%
Over 5 years and under 10 years	0%	75%	0%	75%	0%	75%	0%	75%	0%	75%
Over 10 years	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%

As the PFCC moves into a position of having external debt then it becomes important to consider the timeframes under which these loans are taken out, when they will be re-paid and how this aligns with other debt repayments to ensure that all loans don't fall due for repayment at the same time or require re-financing at the same time, when interest rates might be higher than long term averages.

3.7.4 *Upper Limit for Sums Invested for a Period of over 364 days*

This indicator sets a limit on the level of investments that can be made for more than 364 days. The PFCC does not provide approval to invest beyond a 1 year period and at this stage it is not currently proposed to change this proposal

3.8 Annual Investment Strategy
The proposed Annual Investment Strategy for 2020/2021 is attached at Appendix A.

3.9 Returns on Investments
While returns on investments are of secondary importance to the security of the sums invested, it is still important to consider the potential impact of approving the Investment Strategy put forward. The limited number of counterparties on our list previously has restricted the returns, in the form of interest receivable, which the PFCC could make. It is proposed within the Investment Strategy that fewer restrictions are put in place, but not at expense of taking unnecessary risks

3.10 Given the current low level of interest rates, the Bank of England Base rate is currently 0.75% and has been at 0.75% or below for 10 years, the impact will be relatively small. The budget set for interest receivable in 2020/21 is £35k.

3.11 Counterparty Limits
As per the strategy in Appendix A, limits for specified counterparties are:

- The maximum investment with any counterparty is £10 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £15 million.

3.12 For non-specified counterparties these are:

- The maximum investment with any counterparty is £7 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £10 million.

4. Implications

4.1 Finance

There are no financial implications arising from this report that is not included above.

4.2 Diversity & Equal Opportunities

There are no issues arising from this report to bring to the PFCC's attention.

4.3 Human Rights Act

There are no Human Rights Act implications arising from this report.

4.4 Sustainability

This report is part of the process to establish sustainable annual and medium term financial plans and maintain prudent financial management.

4.5 Risk

The investment strategy put forward today seeks to minimise the risks of the PFCC while ensuring that the cash balances of the PFCC are managed in line with proper practice and to ensure funds are available to make payments at the correct time.

5. Conclusions

5.1 To comply with the CIPFA Prudential Code of Practice the PCC is required to set a range of Prudential Indicators for the financial year 2020/21.

5.2 The CIPFA code does not set benchmark indicators. Each organisation must use its judgement when setting indicators.

5.3 Based on the indicators proposed above, the revenue budget, capital programme and associated financing are within prudent limits.

5.4 A prudent Investment Strategy has been put forward for approval that seeks to firstly secure the money being invested before secondly looking at rates of return.

Michael Porter
CFO for the PCC

APPENDIX A

Annual Investment Strategy
The Commissioner will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Commissioner's investment priorities are:

- the security of capital; and
- the liquidity of its investments.

The Commissioner will also aim to achieve the optimum return on investments commensurate with proper levels of security and liquidity. The Commissioner's risk appetite is low in order to give priority to security of investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Commissioner will not engage in such activity.

Investment instruments are identified as either 'Specified' or 'Non-Specified' Investments. The Commissioner's available instruments are listed in the paragraph below. Counterparty limits will be as set through the Treasury Management Practices.

Limits and Definition of Specified Investments
It is proposed that the Annual Investment Strategy for 2020/21 is based upon the use of the "specified" investments listed below:

- The investment is made with the UK Government or a Local Authority (as defined in the Local Government Act 2003).
- The investment is made with a Money Market Fund which, at the time the investment is made, has been awarded the highest credit rating, (AAA), by a credit rating agency.
- The investment is made with the PFCC's own bank.
- The investment is made with a Nationalised Bank or Building Society
- The investment is made with a Bank or Building Society that is part owned by the UK Government

Where officers become aware of a revision of a body's rating the body should be removed from the list of Specified Investments.

All Specified Investments must be denominated in sterling and must be one where the PFCC may require it to be repaid or redeemed within 12 months of the date on which the investment is made. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The maximum investment with any counterparty is £10 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £15 million.

Limits and Definition of Non-Specified Investments
These are any other type of investment (i.e. not defined as specified above).

All Non-Specified Investments must be denominated in sterling. The PFCC has determined that it will only use approved counterparties within the UK. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The maximum investment with any counterparty is £7 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £10 million.

This PCC applies the creditworthiness service provided by Capita Asset Services (Sector). This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the PCC to determine the suggested duration for investments. The PFCC will therefore use counterparties within the following durational bands:

Sector Colour Code	Current Investment period
Green	3 months
Red	6 months
Orange	12 months
Blue	12 months
Purple	12 months
Yellow	12 months

The Treasury Management Function takes cognisance of latest market information produced by the treasury advisors (Sector) to support decisions regarding maturity periods and counterparty limits

APPENDIX B

CAPITAL STRATEGY

INTRODUCTION

The Capital strategy is part of the Police, Fire and Crime Commissioner (PFCC)'s Corporate Planning Strategy. It provides a mechanism by which the capital investment and financing decisions can be aligned over the short, medium and long term.

The strategy sets the framework for all aspects of the PFCC's capital and investment expenditure. This includes planning, outcomes, prioritisation, management, funding and repayment. This strategy has direct links to the other plans of the PFCC such as the Estates Strategy and Digital/ICT Strategy and forms a key part of the Medium Term Financial Plan (MTFP) and the Treasury Management Policy. This strategy should be read in conjunction with the Treasury Management Policy and Annual Investment Strategy.

The operation of all of these strategies and plans is underpinned by the Code of Corporate Governance and aligns with the Financial Regulations and Standing Orders.

The strategy will be updated and approved annually by the PFCC.

OBJECTIVES

The key aims of the Capital Strategy are;

- To provide a clear set of objectives and a framework within statutory legislation that requires new capital expenditure to be evaluated to ensure that all new capital investment is targeted at meeting the priorities that the PFCC has set out in the Police, Fire and Crime Plan.
- Set out how the PFCC identifies, programmes and prioritises capital requirements and proposals.
- Consider the options available for funding of capital expenditure and how resources may be maximised to generate investment in the area and to determine an affordable and sustainable funding policy framework whilst minimising the revenue implications of such schemes.
- Identify the resources available for capital investment over the planning period of the MTFP.
- Establish effective arrangements for the management of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, value for money and security of investment.
- Deliver projects that focus on delivering the long term benefits of Policing as detailed in the Police, Fire and Crime Plan.

GOVERNANCE OF THE CAPITAL PROGRAMME

Governance processes are in place and follow Financial Regulations and Standing Orders to ensure that the resources are allocated optimally and deliver value for money.

The capital programme is determined from consultation with stakeholders and in parallel with the revenue budget planning process and the development of the MTFP. These processes include:

- The approval of the Capital Strategy, Capital Plan, Annual Investment Strategy and Treasury Management Policy by the PFCC.
- These policies, plans and strategies being published on the PFCC website as Decision Notices.
- Scrutiny of the Decision Notices by the Police and Crime Panel.

Any new capital project is subject to thorough evaluation which includes:

- A business case, resources and finance request submitted to the Change Board which includes the details of the scheme, estimated costs and income, staffing implications, benefits of change and other impacts. These will be appraised by the Board and recommendations made to the Executive Board as needed.
- Subject to the proposal being approved by the Executive Board, the business case will be reported to the PFCC and a decision notice signed and published by the PFCC as required.
- Quarterly monitoring reports will be submitted to the PFCC CFO and reported quarterly to the PFCC at the Executive Board. These reports will show spending to date and compare projected expenditure to approved budgets. The reports will identify the changes to the capital programme to reflect:
    - New resource allocations
    - Slippage in programme delivery
    - Programmes reduced or removed
    - Virements between schemes and programmes to maximise delivery
    - Revisions to spending profiles and funding to ensure ongoing revenue costs are minimised.

Depending on the size of the project, a programme board may be set up with the key stakeholders to manage and take the project forward and to identify any risks which may affect the project or the organisation. Any risks deemed high for the organisation will be taken to the Risk Board. All projects are required to follow contract standing order requirements and procurement processes.

CAPITAL PRIORITIES

The capital strategy recognises that the financial resources that are available to the PFCC are constrained by the current economic and political climate. The PFCC must therefore seek ways to ensure that investment decisions meet the objectives of the Police, Fire and Crime Plan and are within the limited resources available. The strategy is required to deliver policing in line with the PFCC's vision and the capital plan is built on the emerging themes arising from the Force's Estates, Digital/ICT and Fleet strategies.

The assets owned by the PCC are vital for the delivery of the Police, Fire and Crime Plan and the capital priorities are for sufficient funding to renew the asset base of the organisation, informed by condition deficiency surveys, 'fit for purpose' reviews, equipment replacement programmes, business continuity requirements and invest to save decisions.

FUNDING APPROACH

The PFCC's capital investment falls within and is required to comply with the 'Prudential Code for Capital Finance in Local Authorities 2017' (the Code). Under the Code, the PFCC has greater discretion over the funding of capital expenditure especially with the freedom to determine, within the regulatory framework of the Code, the level of borrowing they wish to undertake to deliver the capital plans and programme.

There are a range of potential funding sources which can be generated locally either by the PFCC or in partnership with others. The PFCC continues to seek new levels of investment to match against the capital programme and may include additional receipts from land sales, developer opportunities and joint funding opportunities.

This strategy which informs the MTFP is intended to maximise the financial resources available for investment in service provision and improvement within the framework of the MTFP whilst ensuring that each business case has a robust self-sustaining financial model that delivers on the wider outcome of the strategy.

The main sources of capital funding are:

1. Central government
    a. Specific grant allocations- grants are allocated in relation to specific programmes or projects and the PFCC will seek to maximise this to address priority needs in policing
    b. The PFCC will continue to bid for future resource allocations as they become available.
2. Internal Balances
    a. Interest rates over recent years have remained low and therefore external borrowing has been prudent but interest rates are likely to increase in future years. Internal borrowing can be used to support the capital programme when the financial position of the PCC allows for this.
3. Capital receipts

   a. Receipts that have been obtained from the sale of property, plant and equipment and are available only for the funding of capital schemes.
4. Reserves
   a. Any funding that has been allocated in a specific year but is not required until future years will be carried forward in an earmarked reserve. These reserves will vary from year to year depending upon the level of funding available and the timing of projects.
   b. Reserves can be created from most funding sources (Direct Revenue Funding, Grants, Receipts and Insurance receipts and reserves).
   c. Working with other public sector bodies and partners may bring additional opportunities for securing additional funding and this should be undertaken whenever possible.
5. Investment
   a. The PFCC will continue to work with the investors to utilise redundant assets and vacant land to bring them to a useful economic purpose. Capital receipts from the disposal of assets represent a finite source of funding and it is important that a planned and structured manner of disposals is created to support the priorities of the PFCC. Cash receipts from the disposal of surplus assets are to be used to fund new capital investment or to offset future debt or transitional costs.
   b. The PFCC will continue to work with other partners and agencies to consider projects that are mutually beneficial to the development of policing in North Yorkshire.
   c. Various mechanisms provide opportunities to enhance the PFCC's investment potential with support and contributions from other third parties and local strategic partners. They may range from commissioning/facilitating others to develop services in policing.
6. Revenue
   a. Capital expenditure may be funded directly from revenue (Direct Revenue Funding). In addition to specific revenue funds that have previously been set aside as earmarked reserves, capital expenditure may be funded by specific revenue budget provision.

BORROWING AND LEASING

Under the Prudential Code, the PFCC has discretion to undertake borrowing to fund capital projects with the full cost of the borrowing being funded from project returns or from revenue.

This discretion is subject to the PFCC complying with the Code's framework which requires any such borrowing to be prudent, affordable and sustainable. Prudential borrowing does provide an option for funding additional capital projects but this has to be funded each year from within the revenue budget or from generating additional ongoing longer term income streams.

The PFCC will test the Prudential Indicators annually as part of the MTFP process and report upon the progress when setting the future Prudential Indicators.

Given the pressure on the PFCC's revenue budget, prudent use has been made of this discretion in cases where there was clear financial benefit.

BALANCED PORTFOLIO APROACH

Resources will be allocated to programmes based upon asset values to manage the long term yield and revenue implications. Capital receipts will be focussed on those assets with a short term life span and the unsupported borrowing on long term assets. Surplus receipts will be assigned to finance the capital programme in the most economic way to ensure the minimum impact on the revenue budget in relation to the Minimum Revenue Provision (MRP) as informed by the MTFP.

All capital schemes need to reflect the full development purchase costs including property taxes and fees. Business cases will include all lifetime costs (both revenue and capital) and income proposals. Where necessary, specialist advice is to be taken, particularly around VAT and other taxes.

The capital programme will include financing detail and an appropriate cash flow.

Debt funding can range from short term cash flow support through to longer term funding linked to assets. Interest rates will be sought which are the best available and are required to reflect the appropriate legislation.

MINIMUM REVENUE PROVISION (MRP) POLICY

Minimum Revenue Provision (MRP) is the annual revenue provision that authorities which are not debt free, have to make in respect of their debts and credit liabilities. MRP aims to provide transparency as to the cost to the PCC of taking on new borrowing. The requirement to make MRP has existed since 1990.

Under the Local Authorities (Capital Financing and Accounting) (Amendment) (England) regulations 2007, the current arrangements for calculating MRP as specified in the 2003 regulations have been superseded. The 2007 regulations now place a duty on local authorities to make a MRP which is considered to be prudent, with the responsibility being placed on the PCC to approve the Annual MRP strategy.

The 2007 regulations require that an annual MRP strategy be adopted by the PCC prior to the start of the financial year to which it applies. The PCC can change the method of calculating the MRP on an annual basis in line with guidance. Once a method has been approved for a particular year, any assets purchased through borrowing that year must continue to have MRP charged in the same way.

For borrowing at 1 April 2008 and supported borrowing after this date, the regulatory method is to be applied. This is calculated at 4% of the total Capital Financing Requirement less Adjustment A. For unsupported borrowing after 1 April 2008, the depreciation method is applied. The MRP for each asset acquired through unsupported borrowing is calculated by taking the unsupported borrowing on the asset less the MRP already made against the asset less the residual value of the asset and then divided by the remaining useful life of the asset.