

PART ONE

To: **Surrey Police Authority**

Date: **6th February 2012**

By: **Ian Perkin, Treasurer of Surrey Police Authority**

Title: **Prudential Indicators 2012/13, Annual Minimum Revenue Statement 2012/13 and Annual Treasury Management Strategy 2012/13**

Purpose of Report

The purpose of this report is to present the target prudential indicators for 2012/13 required by the CIPFA Prudential Code for Capital Finance, together with the required Statement of Minimum Revenue Provision (MRP) for 2012/13.

The CIPFA Treasury Management Code of Practice requires the Authority to produce an annual Treasury Management strategy, which is also presented in this report.

The Prudential Indicators, the annual Minimum Revenue Statement and the annual Treasury Management Strategy must be approved by the Police Authority. This report has been considered by the Finance and Performance Panel and its recommendation is for approval.

Summary

Following the collapse of the Icelandic Banks, CIPFA revised the following Codes of Practice which the Authority must have regard to:-

- The Prudential Code for Capital Finance in Local Authorities, and
- Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes (referred to as the Code of Practice for Treasury Management throughout this paper).

Both documents emphasise the importance of the Authority having fully integrated capital planning and treasury management policies and processes. All the issues covered in this paper have been prepared in accordance with this revised guidance.

Prudential Indicators

The Prudential Code provides a framework to enable local authorities to self-regulate their capital expenditure and borrowing plans by setting a range of prescribed estimates and limits (the Prudential Indicators) to ensure affordability, prudence and sustainability. It also requires authorities to ensure that all treasury management practices are in accordance with good practice.

The Prudential Indicators should be interpreted as a coherent entity, because changes in any one indicator often impact on others. They must also be considered in conjunction with other annual strategic financial plans, such as the annual revenue and capital budgets. The effects that any alternative options in these budgets might have on the indicators must also be considered before approval is given to the final strategic plan.

The capital and revenue budgets for 2012/13 will be considered elsewhere on this agenda.

To summarise, the 2012/13 capital programme submitted is considered both affordable and prudent according to the prudential indicators. The cost of financing the capital programme as a percentage of the net revenue stream is relatively low and is decreasing because there is no future planned borrowing for capital purposes. The proposed capital programme for 2012/13 will increase band D Council tax by £0.47 in 2013/14 due to the revenue impact of schemes in the 2012/13 capital programme, this is a decrease of £0.74 from £1.21 reported in the February 2011 Prudential Indicator paper.

The Authority is required to both monitor its net external borrowing against the Capital Financing Requirement to ensure that it is only borrowing for capital purposes in the short term and also to ensure that its actual external debt does not exceed pre-determined borrowing limits – the Operational Boundary and the Authorised Limit. Currently the Authority has no external debt, and all these Prudential Indicators have been prudently set taking into account planned borrowing and estimated short term cash flow requirements.

All treasury management decisions are taken in accordance with professional good practice as recommended by the Code of Practice for Treasury Management. Investments are carried out by Surrey County Council in accordance with both the Authority's approved Treasury Management Policy and Practices, and the annual Treasury Management Strategy.

Statement of Minimum Revenue Provision

Each year an Authority must calculate a statutory minimum amount – its MRP – which is set aside on an annual basis as a provision to redeem debt. Regulations require that an annual statement on the policies adopted for making MRP must be submitted to the Police Authority for consideration before the start of the financial year to which the statement refers.

A summary of the impact of the MRP regulations is provided in the main body of this paper, together with the required Statement of Minimum Revenue Provision for 2012/13.

Annual Treasury Management Strategy

The current annual Treasury Management Strategy for 2010/11 to 2012/13 was agreed by the Police Authority on 28th January 2010. This report presents an updated plan for the period 2012/13 to 2014/15 as recommended by the CIPFA Code of Practice on Treasury Management.

This Code of Practice also requires the Authority to approve three Treasury Management Indicators which previously fell within the scope of the Prudential Code.

Recommendations

The report has been considered by the Finance & Performance Panel whose recommendation is that the Authority note the findings in this report and approve:-

1. the Prudential Indicators,
2. the Statement of Minimum Revenue Provision for 2012/13,
3. the annual 2012/13 Treasury Management Strategy which covers the period 2012/13 to 2014/15.

The content of these items is subject to the approval of the capital and revenue budgets included elsewhere on this agenda.

1. Prudential Indicators - Statutory Requirements

Compliance with the Prudential Code is a requirement under Part 1 of the Local Government Act, 2003. The Code does *not* include indicative limits or ratios. The Authority sets all such limits/ratios itself, subject to any controls under Section 4 of the Act.

- 1.1 The specified indicators are the minimum required. Whilst Authorities are encouraged to set prudential indicators over and above this minimum, no such indicators are recommended in this report.
- 1.2 Authorities must consider the affordability of capital investments for all the years in which they will impact on the finances. To be affordable decisions must be both prudent and sustainable in the long term. The impact of this programme is set out in Appendix 1. The Band D Council Tax will remain unchanged as Surrey Police has opted to freeze Council Tax for 2012/13. This includes £0.47 for the revenue impact of schemes in the 2012/13 capital programme.
- 1.3 Authorities must have an annual treasury management strategy, within which borrowing and investments are managed in accordance with best professional practice. Further detail on the 2012/13 Annual Treasury Management Strategy is provided in Sections 10 and 11 of this report.

2. The Prudential Indicators

- 2.1 The indicators are grouped into 5 categories:
 - Affordability
 - Prudence
 - Capital Expenditure
 - External Debt
 - Treasury Management
 - 2.2 Each group is briefly discussed below. The indicators must be viewed as a whole (what the code refers to as a “coherent entity”), not as individual indicators, and must be considered as an integral part of the annual strategic financial plan.
 - 2.3 The indicators set must be in accordance with the definitions specified in the CIPFA Prudential Code.
 - 2.4 Tables of the indicators showing the actual figures (where appropriate) for 2010/11, estimates for 2011/12 and annual targets for the period 2012/13 to 2014/15 are shown at appendices 1-5.
- ## **3. Prudential Indicator - Affordability**
- 3.1 The ultimate measure of affordability is determined by a judgement about acceptable Council Tax levels.
 - 3.2 There are 2 prudential indicators of affordability: (See appendix 1).

- the ratio of financing costs to net revenue stream for forthcoming and subsequent 2 financial years and actual at year end (affordability indicator 1).
 - the incremental impact of capital investment decisions on the council tax precept for the forthcoming and subsequent 2 financial years (affordability indicator 2).
- 3.3 The ratio that assesses the incremental impact on the Council Tax will enable the Authority to consider the impact of different capital investment options, assuming that all other variables within the revenue budget remain constant.
- 3.4 The ratio of financing costs to net revenue stream is positive when the Authority becomes a net borrower. The numbers are very small because interest payable on borrowing represents a very small proportion of our net revenue stream. The percentage is decreasing because there is no future planned borrowing for capital purposes, and interest received on investments is continuing to remain low. Whilst there is no plan to borrow externally in 2012/13 this depends upon the timing of the actual expenditure and level of internal resources available which is reliant upon the Operational Policing Review and the economic environment in relation to the value of property.

4. Prudential Indicator - Prudence

- 4.1 Authorities must ensure that net external borrowing does not, except in the short term, exceed the total capital financing requirement in the preceding year, plus the estimates of any additional capital financing requirement for the current and next 2 financial years.
- 4.2 This indicator ensures that, over the medium term, net borrowing is for capital purposes only and is referred to as the net borrowing and the capital financing requirement (the prudence indicator). It measures the Authority's underlying need to finance its capital expenditure by external borrowing.
- 4.3 The calculation of this indicator is shown at appendix 2. Surrey Police Authority currently has no external borrowing. We have not anticipated the need to borrow due to the current plan to sell police buildings under the Operational Policing Review to help fund the proposed capital programme as well as to offset cuts in government grants.

5. Prudential Indicator - Capital Expenditure

- 5.1 There are 2 basic prudential indicators associated with capital expenditure:

- total capital expenditure (capital expenditure indicator 1) for the forthcoming and subsequent 2 financial years (and beyond if necessary) and actual capital expenditure incurred as at year end
- capital financing requirement (capital expenditure indicator 2) for the forthcoming and subsequent 2 financial years and actual capital financing requirement as at year end

The calculation of these indicators is shown at appendix 3.

5.2 In order to calculate these indicators, the Authority must consider all of the financing options available. Such estimates will not commit an authority to a particular method of financing. The Head of Finance will determine the actual financing of capital expenditure.

6. Prudential Indicator - External Debt

6.1 There are 3 prudential indicators for external debt.

- Authorised Limit for external debt for forthcoming and subsequent 2 financial years, which separately identifies borrowing from other long term liabilities (external debt indicator 1). The authorised limit for external debt is a statutory limit determined under Section 3(1) of the Local Government Act 2003.
- Operational Boundary for external debt for forthcoming and subsequent 2 financial years (external debt indicator 2).
- Actual External Debt as at year end (external debt indicator 3).

6.2 Refer to appendix 4 for the calculations of these indicators.

6.3 Both the Authorised Limit and the Operational Boundary for external debt should be consistent with the Authority's capital expenditure and financing plans, and its treasury management policy.

6.4 The Operational Boundary provides sufficient latitude to fund the current 3-year capital programme externally in the event that any anticipated capital receipts or capital grants that have not yet been confirmed or committed are not received.

6.5 The Authorised Limit has been set to provide for a figure 10% in excess of the Operational Boundary for borrowing to meet any potential cashflow fluctuations.

7. Prudential Indicator - Treasury Management

7.1 Treasury Management must be carried out in accordance with good professional practice and the Prudential Code specifies that a local authority must adopt the CIPFA Code of Practice for Treasury Management in the Public Services (treasury management indicator 1). Appendix 5a shows this indicator.

7.2 The Authority is required to set three further Treasury Management Indicators which previously fell within the scope of the Prudential Code. More information about these indicators can be found in section 11 of this report, but it should be noted they are shown on Appendix 5b.

8. Statutory Requirements - Annual Statement of Minimum Revenue Provision

8.1 Having considered planned levels of borrowing, the Authority also needs to consider the cost of repaying this debt. Each year an authority is required to calculate a statutory minimum amount which it is required to set aside on an annual basis as a provision to redeem debt – the Minimum Revenue Provision (MRP). For the purposes of this paper, debt is defined as capital expenditure financed by either borrowing or credit arrangements such as finance leases.

8.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2008 – SI No. 2008/414 provide statutory guidance to which the Authority is legally obliged to “have regard” when calculating the MRP. This guidance requires the Authority to “*calculate an amount of MRP which it considers to be prudent*”.

8.3 The guidance proposes four options for making “prudent provision” of MRP. When considering which option to apply to calculate MRP, an authority will be required to differentiate between borrowing.

8.4 The underlying principle of “prudent provision” is that debt is repaid over a period reasonably commensurate with either:-

- the period implicit in the determination of the Revenue Support Grant in the case of SCE.
- the useful life of assets acquired by unsupported self financed borrowing.

8.5 A brief explanation of each option is provided at Appendix 6. However, other approaches which are not exemplified in the guidance are not ruled out.

8.6 Finance Leases

The statutory guidance requires that the MRP calculated for finance leases should equal the principal element of the lease payment by which the Balance Sheet liability is written down each year.

As at 31st March 2011, the Authority had 1 property lease and 2 equipment leases. The equipment leases are now fully paid this year.

8.7 Currently the full principal element of each finance lease is fully accounted for over the life of the asset, but the actual principal repayments are financed from a combination of MRP and Usable Capital

Receipts. It is recommended that the Authority continues to account for the principal repayments relating to finance leases on this basis.

9. Annual Statement of Minimum Revenue Provision

- 9.1 An annual statement on the policies adopted for making MRP must be prepared for submission to the Police Authority for consideration, before the start of the financial year to which the statement refers. This statement must indicate how the Authority intends to discharge its duty to make a prudent MRP in the forthcoming financial year, and include an assessment of the financial impact.

If it is proposed to vary the terms of the original MRP statement during the financial year, a revised statement must be submitted to the Police Authority.

- 9.2 An MRP Statement for 2012/13 is attached at Appendix 7. Included on this statement are updated estimates for 2011/12, together with estimates for the period 2012/13 to 2014/15 in order to be comparable with the Prudential Indicators presented earlier in this paper.

- 9.3 The statement has been prepared according to the requirements introduced in 2007/08, and the approach adopted has been to minimise the impact of MRP on the Comprehensive Income and Expenditure Statement.

As a result there will be no increase in forecast MRP relating to borrowing undertaken prior to 1st April 2008. Forecast MRP arising from self financed borrowing included within the first three years Capital Programme considered elsewhere on this agenda, reduces to £0.3m in 2013/14 due to the reduction in the level of planned borrowing compared to last year's estimates. Principal repayments relating to finance leases will continue to be financed from both MRP and Usable Capital Receipts.

- 9.4 The Authority is asked to approve the Statement.

10. Treasury Management – Statutory Requirements

- 10.1 Compliance with the Code of Practice in Treasury Management is a requirement under The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. The key aim of the revised Code is to ensure that authorities have in place comprehensive policies and practices for the effective management and control of their treasury management activities, including the effective management and control of risk.

- 10.2 Authorities should ensure that security and liquidity are always given priority over yield when investing funds.

10.3 Local authority treasury management activities are also prescribed by statute. Under the Local Government Act 2003 an authority “may borrow or invest for any purpose relevant to its functions” but “is required to determine and keep under review how much money it can afford to borrow”.

10.4 Further government guidance constrains the types of investments that may be made.

11. Annual Treasury Management Strategy 2012/13

11.1 The Code requires the Authority to approve an Annual Treasury Management Strategy, which outlines the proposed borrowing and investment strategies for the forthcoming three years. The strategy covers the period 2012/13 – 2014/15, and includes specific treasury management indicators which must be approved by the Authority.

11.2 The Prudential Indicators covered above in this report consider the affordability of capital expenditure decisions. The treasury management strategy considers the effective funding of these decisions.

11.3 Borrowing Strategy 2012/13 - 2014/15

Elsewhere on this agenda, the proposed 2012/13 Capital Programme is presented for the Authority’s consideration. The planned borrowing arising from this programme which is shown in more detail at Appendix 7 is summarised in the table below:-

	2010/11 Actual	2011/12 Forecast Outturn	2012/13 Estimate d	2013/14 Estimate d	2014/15 Estimated
	£000’s	£000’s	£000’s	£000’s	£000’s
Planned Borrowing	435	6,194	0	0	0

11.4 Surrey Police has no external debt and has not borrowed externally since 1996. With the current proposed capital programme it is unlikely that it will become necessary to borrow externally in the next three years as the Authority’s cash balances increase whilst implementing the Operational Policing Review. It should be noted that both the Prudential Indicators presented earlier in this paper, and reports elsewhere on this agenda assume that all borrowing will be internal in 2011/12.

11.5 This approach will utilise excess internal cash balances, and reduce the costs associated with external borrowing. It still remains that a decision needs to be taken on the minimum level of cash balances that the Authority needs to maintain to meet its normal day-to-day cash transactions. It is provisionally recommended that this balance is £5m, but further work needs to be completed to substantiate this estimate. An update will be presented to the Finance and Performance Panel in due course.

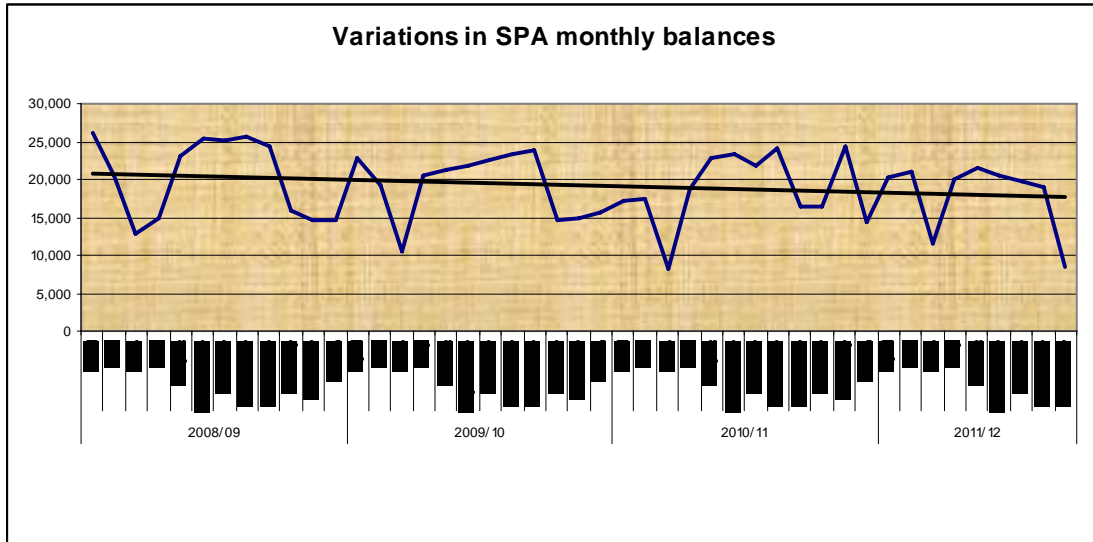
11.6 It is recommended that the Authority takes a cautious approach due to the current uncertainty over future interest rates. If it becomes necessary to borrow externally, the Head of Finance and Services will take the most appropriate form of borrowing depending on prevailing interest rates at the time.

11.7 The Authority is able to undertake temporary borrowing for cashflow purposes only, however none is expected to be required during 2012/13.

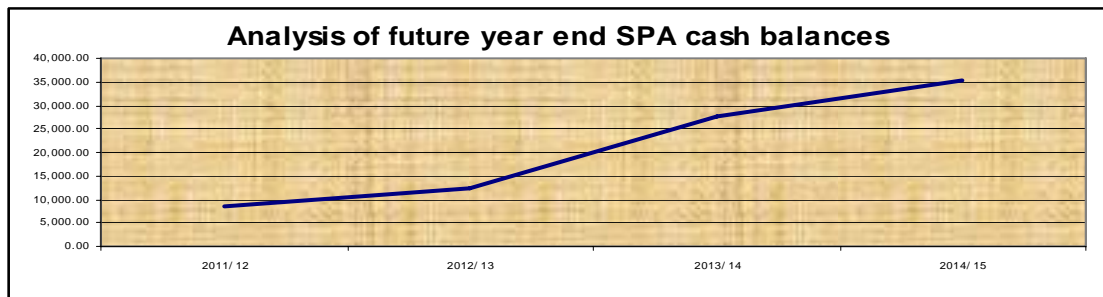
11.8 Investment Strategy 2012/13 – 2014/15

Balances available for investment fluctuate daily, influenced principally by large receipts, such as precept and grant income, and by large payments, such as payroll and creditor payments.

11.9 The graph below shows the actual month-end balances since April 2008 to December 2011 portraying a slight downward trend over the last four years.



The following graph shows forecast year end balances to March 2015 based upon the proposed revenue and capital budgets reported elsewhere on this agenda. The graph indicates that the balances will slowly increase over the next three years to a maximum of £35.5m at the end of 2014/15. The average balance for the period will be £21.1m.



11.10 Since it became independent of Surrey County Council (SCC) in 1994, Surrey Police has continued to use the services of the County Council's treasury management team, who invest the surplus cash balances on our behalf.

11.11 It is recommended that the Authority continue to adopt an identical investment strategy, to that of SCC which is set out in Appendix 8a. Appendix 8b sets out SCC's investment strategy for information purposes only. This strategy fully meets the requirements of the CIPFA Treasury Management Code and all government guidance and regulations. SCC has advised that its 2012/13 investment strategy will be identical to the 2011/12 strategy.

11.12 **Treasury Management Indicators**

The Authority is also required to set a further 3 indicators for Treasury Management:

- **Interest Rate Exposures Indicator** - upper limits on its exposure to the effects of changes in interest rates for both fixed and variable rate borrowing for the forthcoming and subsequent 2 financial years. Where there is any doubt about whether a rate is fixed or variable, it should be treated as variable (treasury management indicator 2).
- **Maturity Structure of Borrowing Indicator** - Authorities must also set upper and lower limits for the maturity structure of borrowing for the forthcoming financial year analysed over the following periods:
 - under 12 months
 - 12 months and within 24 months
 - 24 months and within 5 years
 - 5 years and within 10 years
 - 10 years and above.

This structure is expressed as a percentage for each period, with the sum totalling 100% of external borrowing (treasury management indicator 3).

- **Total Principal Sums Invested For Periods Longer Than 364 days Indicator** - (treasury management indicator 4) The purpose of this indicator is to contain the Authority's exposure to potential losses arising from early redemption of principal sums invested for longer periods.

11.13 Appendix 5b shows the calculation of these indicators. As the Authority has not yet entered into any external debt, the proposed indicators allow for the maximum flexibility of type and period of exposure. This will be

reviewed in consultation with the Authority's treasury management provider as and when borrowing becomes necessary.

11.14 We have included Surrey Police Authority's share of the funds at risk from the collapse of the Icelandic Banks in the cash balances in the report. This is because, at present, those funds continue to be shown by SCC as belonging to Surrey Police Authority and we have suffered no actual capital loss. We have not, however, received investment income due to us on those deposits and this has been reflected in the revenue outturn and budget.

Equalities Implications – There are no equality implications arising

Risk – The following risks arise from this report:

- If the Authority does not adopt Prudential Indicators in line with the CIPFA Prudential Code for Capital Finance there is a risk of censure from the auditors and reputational damage as a consequence.
- If the Authority does not produce an annual Treasury Management Strategy in line with the CIPFA Treasury Management Code of Practice there is a risk of censure from the auditors and reputational damage as a consequence.
- If the Authority does not produce a Statement of Minimum Revenue Provision for 2012/13 in line with Government regulations there is a risk of breaching statutory requirements. There is also a risk of censure from the auditors and reputational damage as a consequence.

Human Rights - There are no human rights implications arising.

Attachments:

Appendix 1 – Prudential Indicator - Affordability

Appendix 2 – Prudential Indicators - Prudence

Appendix 3 – Prudential indicator – Capital Expenditure

Appendix 4 – Prudential Indicator – External Debt

Appendix 5 – Prudential Indicator – Treasury Management

Appendix 6 – The Four Options For Calculating Minimum Revenue Provision

Appendix 7 - Annual Statement of Minimum Revenue Provision 2012/13

Appendix 8 – Investment Strategy 2012/13 – 2014/15

Background papers:

CIPFA: The Prudential Code – Fully Revised second Edition 2009
Local Government Act, 2003
Final Accounts 2010/11
Revenue and Capital Budget Papers 2012/13
Statement of Treasury Management Policies and Practices
Monthly Cashflow 2012/13 to 2014/15
Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (S.I. 2008/414)
DCLG – Guidance on Minimum Revenue Provision
Surrey County Council: Treasury Management Strategy 2010/11 – 2012/13
ODPM Guidance Notes: Local Government Investments, Guidance under Section 15(1)(a) of the Local Government Act 2003
CIPFA Treasury Management in Public Services – Code of Practice and Cross-Sectoral Guidance Notes – Fully Revised Second Addition 2009
CIPFA Treasury Management in the Public Services – Guidance Notes For Local Authorities Including Police Authorities and Fire Authorities – Fully Revised Third Edition 2009

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Prudential Indicators For Affordability

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Future Year Targets			Comments
			2010/11	2011/12	2012/13	2013/14	2014/15	
1	Ratio of financing costs to net revenue stream	Financing costs / net revenue stream * 100%	0.20%	0.12%	0.10%	-0.01%	-0.10%	The figures become positive when the Authority becomes a net borrower. The numbers are very small because interest payable on borrowing represents a very small proportion of our net revenue stream.
2	Estimate of the incremental impact of capital investment decisions on the council tax precept	(i) Forecast total budgetary requirements for the authority based on no change to the existing capital programme <i>less</i> (ii) Forecast total budgetary requirement for the authority with the changes to the capital programme included in the calculation. (iii) Take the difference between (i) and (ii) and calculate the addition or reduction to Council Tax that would result			£0.47	-£0.03	-£0.03	The figures increase as the revenue costs associated with the planned borrowing for the capital programme increase (MRP and interest payable). They will reduce as the principal is repaid.

Prudential Indicators For Prudence

No.	Indicator	Definition	Future Year Targets					Comments
			Last Year's Actual	This Year's Estimate	2012/13	2013/14	2014/15	
			2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	
1	Net borrowing and the capital financing requirement	An authority must ensure that net external borrowing does not, except in the short term, exceed the capital financing requirement in the preceding year plus the estimates of any capital financing requirement for the current and next 2 financial years.	✓	✓	✓	✓	✓	Under the Operational Policing Review it should not be necessary to finance 2012/13 to 2014/15 capital programmes from borrowing, but is dependant on the economic environment whether the planned income from OPR will materialise in full.

Investments	-£14,372	-£8,401	-£12,503	-£27,826	-£35,508	(a)
External borrowing	£0	£0	£0	£0	£0	(b)
Net external borrowing requirement/investment(-)	-£14,372	-£8,401	-£12,503	-£27,826	-£35,508	(a) + (b)

Capital Financing Requirement to be monitored against existing borrowing.	£9,366	£15,203	£14,613	£14,036	£13,473
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Is net external borrowing > total capital financing requirement?	NO	NO	NO	NO	NO
Management action required	None	None	None	None	None

Prudential Indicators For Capital Expenditure

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Future Year Targets			Comments
			2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	
1	Total Capital Expenditure	Total capital expenditure incurred	10,184	13,835	4,853	5,370	5,580	As per the Capital Programme.
2	Capital Financing Requirement	Fixed assets, deferred charges, revaluation reserve, capital adjustment account plus government grants deferred (plus, for future years, future capital expenditure less usable capital receipts, grants, contributions etc.)	9,366	15,203	14,613	14,036	13,473	The figures increase as the amount of the capital programme funded by borrowing increases; and it will reduce in the future as the principal is repaid.

Prudential Indicators For External Debt

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Future Year Targets			Comments
			2010/11	2011/12	2012/13	2013/14	2014/15	
			£000	£000	£000	£000	£000	
1	Authorised Limit	Authorised limit for external debt = authorised limit for borrowing + authorised limit for other long term liabilities			20,162	17,681	16,984	Equals the operational boundary for external borrowing plus a provision of 10% to meet any potential cash flow fluctuations.
2	Operational Boundary	Operational boundary for external debt = operational boundary for borrowing + operational boundary for other long term liabilities			18,490	16,074	15,440	The operational boundary provides sufficient latitude to borrow externally to fund the entire capital programme in the event that none of the anticipated capital grants or capital receipts are received.
3	Actual External Debt	Actual external debt = actual borrowing + actual other long term liabilities as at 31st March each year.	1,971	1,971				These figures represent the long term liabilities for one property leases and two equipment leases which have been classified as finance leases.

Prudential Code - 2012/13

Prudential Indicators For Treasury Management

Appendix 5A

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Future Years Targets			Comments
			2010/11	2011/12	2012/13	2013/14	2014/15	
1	Treasury Management	The authority must adopt the CIPFA Code of Practice For Treasury Management in the Public Services	YES	YES	YES	YES	YES	

Treasury Management Indicators

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Future Years Targets			Comments					
			2010/11	2011/12	2012/13	2013/14	2014/15						
2a	Upper Limit On Variable Interest Rate Exposure	Variable interest rate exposure = interest payable on variable rate borrowing less interest receivable on variable rate investments	0% - 100%	0% - 100%	0% - 100%	0% - 100%	0% - 100%	The use of variable or fixed rate loans will be decided in consultation with the Authority's Treasury Management provider (SCC) as the need arises.					
2b	Upper Limit On Fixed Interest Rate Exposure	Fixed interest rate exposure = interest payable on fixed rate borrowing less interest receivable on fixed rate investments	0% - 100%	0% - 100%	0% - 100%	0% - 100%	0% - 100%						
	Projected interest payable on borrowing (£000s)		£0	£0	£0	£0	£0	It is assumed that internal resources will be used before borrowing externally.					
	Projected interest receivable on investments (£000s)		-£192	-£128	-£396	-£590	-£775						
3	Maturity Structure of Borrowing	Amount of projected fixed rate borrowing that is maturing in each period/Total projected fixed rate borrowing at the start of the period * 100%											
			Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	
	Under 12 months	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%
	12 months and within 24 months	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%
	24 months and within 5 years	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%
	5 years and within 10 years	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%
	10 years and above	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%
4	Principal Sums Invested For Periods Longer Than 364 days (£000's)	Total principal sums invested to final maturities beyond the period end	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	The Treasury Management strategy allows for longer term investment, however at this time all investments are limited to a maximum period of 364 days.

The Four Options For Calculation of Minimum Revenue Provision

The guidance proposes four options for calculating MRP4 which are broadly explained below.

Option 1 – Regulatory Method

MRP is equal to the amount calculated in accordance with the former 2003 Regulations, as if they had not been revoked by the 2008 regulations.

Option 2 – Capital Financing Requirement Method

MRP is equal to 4% of the Capital Financing Requirement (as calculated in the Prudential Indicators) at the end of the preceding year.

Option 3 – Asset Life Method

If capital expenditure on an asset is financed wholly or partly by self-financed borrowing or credit arrangements (e.g. a finance lease), MRP may be determined by reference to the life of the asset. There are two main methods by which this can be achieved: the annuity method and the equal instalment method.

Option 4 – Depreciation Method

Once again if capital expenditure is financed wholly or partly by self-financed borrowing or credit arrangements, MRP may be determined as equal to the provision for depreciation made in accordance with standard accounting rules in respect of the asset, and any amount of impairment should be included. The MRP provision should continue until total provision made is equal to the original amount of debt.

Annual Statement of Minimum Revenue Provision – 2012/13
Planned Capital Borrowing 2012/13 – 2014/15

The proposed capital programme considered elsewhere on this agenda, does not include any planned borrowing over the next 3 years, which can be analysed as follows:-

	2011/12	2012/13	2013/14	2014/15	Total
	Outturn	Estimate	Estimate	Estimate	Estimate
	£000's	£000's	£000's	£000's	£000's
Planned Borrowing	6,194	-	-	-	-
Less Supported Capital Expenditure (SCE)		-	-	-	-
Self-Financed Borrowing	6,194	-	-	-	-

Note: Supported Capital Expenditure (SCE) has not been issued from 1st April 2011.

The MRP relating to the planned borrowing will be accounted for as set out in the paragraphs below.

A. MRP Relating to Borrowing to Finance Capital Expenditure Incurred Before 1st April 2008

As at 31st March 2011, SPA had £9.4m of borrowing outstanding which relates to capital borrowing undertaken prior to the introduction of the Prudential Code in 2004/05. Whilst this debt relates to internal borrowing, the Authority is still required to make an annual MRP.

It is recommended that option 1 is used to calculate MRP in relation to this debt.

The MRP payments relating to this debt are:-

Table 1	2011/12	2012/13	2013/14	2014/15
	Outturn	Estimate	Estimate	Estimate
	£000's	£000's	£000's	£000's
Capital borrowing incurred prior to 1/4/08	9,368	9,011	8,669	8,340
Minimum Revenue Provision	357	342	329	316

B. MRP Relating to Planned Self Financed Borrowing 2011/12 – 2014/15

The proposed capital programme considered elsewhere on this agenda, includes planned self financed borrowing of £6.2m over the next 3 years, and it is recommended that MRP relating to this debt is calculated using option 3.

The MRP payments relating to this debt are:-

Table 2	2011/12	2012/13	2013/14	2014/15
	Outturn	Estimate	Estimate	Estimate
	£000's	£000's	£000's	£000's
Self Financed Borrowing	6,194	-	-	-
Minimum Revenue Provision	-	248	248	248

The MRP relating to £1.9m of principal arising from a property lease and two equipment leases entered into during 2008/09, will be jointly financed from MRP and Usable Capital Receipts as follows:-

Table 3	2011/12	2012/13	2013/14	2014/15
	Outturn	Estimate	Estimate	Estimate
	£000's	£000's	£000's	£000's
Minimum Revenue Provision	3	70	-	-
Usable Capital Receipts	82	1,696	-	-
Total	85	1,766	-	-

Note: MRP figures shown in table 2 are inclusive of MRP figures shown in table 3.

C. Total MRP 2011/12 – 2014/15

Total MRP payments for the period 2011/12 – 2014/15, incorporating both principal repayments relating to finance leases, borrowing incurred prior to 1st April 2008 and planned borrowing arising from the 2011/12 capital programme are shown in the table below:

Table 4	2011/12	2012/13	2013/14	2014/15
	Outturn	Estimate	Estimate	Estimate
	£000's	£000's	£000's	£000's
MRP as per table 1	357	342	329	316
MRP as per table 2	-	248	248	248
Minimum Revenue Provision	357	590	577	564

Surrey Police Authority
Investment Strategy 2012/13 – 2014/15

1. The primary principle governing the Authority's investment criteria is the security of its investments, although the yield or return on the investment and liquidity are also key considerations. Therefore the Authority will ensure:
 - It has sufficient liquidity in its investments. For this purpose it will ensure that its funds are invested in accordance with SCC approved investment strategy set out in Appendix 8b.
 - It maintains a policy covering the types of investments it will invest in. The Authority will ensure that its funds are invested only in counterparties with adequate security that are on the SCC approved counterparty list.
 - It will ensure that SCC monitors the security of counterparties.
2. A full description of what constitutes a Specified or Unspecified Investment can be found in SCC's investment strategy.
3. Broadly Specified Investments are investments that:
 - Are denominated in sterling,
 - Have a high credit rating,
 - Are less than one year in length.
4. Non-specified investments are investments that:
 - Are in institutions that have no credit ratings or have ratings that do not qualify the institution for specified investment status,
 - Are in excess of one year,
 - Are investment instruments other than money market deposits.
5. In the normal course of the Authority's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.
6. The use of longer-term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. At the present time there is a current investment limit of no more than one year for all investments.

Surrey County Council Investment Strategy 2011/12

8. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment and liquidity are also key considerations. Therefore the Council will ensure:
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's Prudential Indicators covering the maximum principal sums invested.
 - It maintains both a policy covering the types of investments available and criteria for choosing counterparties with adequate security.
 - It monitors the security of counterparties.
9. To discharge the functions described in Para 8 the Head of Finance will continue to maintain a counterparty list in compliance with a set criteria and will revise the criteria and submit them to Council, via Audit and Governance Committee, for approval as necessary.
10. Specified Investments are investments that:
- Are denominated in sterling,
 - Have a high credit rating (where applicable),
 - Are less than one year in length.
11. Non-specified investments are investments that:
- Are in institutions that have no credit ratings or have ratings that do not qualify the institution for specified investment status,
 - Are in excess of one year,
 - Are investment instruments other than money market deposits.
12. In the normal course of the Council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.
13. The use of longer-term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. At the present time there is a current investment limit of no more than one year for all investments. However, there are three unspecified investments in the portfolio, being the deposits that the Council has with the failed Icelandic Banks.

Extracted from: Surrey County Council Audit and Governance Committee – 29/3/10
“Treasury Management Strategy 2010/11 and Update of Counterparty Limits For Investments”