

A Report by the Treasurer and Chief Constable
Revision of Prudential Indicators 2005-06 and 2006-07

1. Introduction

- 1.1 At its meeting on 15 February 2006, when approving the budget for 2006-07 and associated matters, including the revised position for 2005-06, the Authority approved a range of Prudential Indicators based upon this Authority's anticipated capital programme for the period to 2007-08, including the limits on borrowings which would apply during this period.
- 1.2 The position has now changed in that on the 24 February, the Authority (and Lancashire Police Authority) resolved to request the Home Secretary to merge the Authorities from 01 April 2007, subject to an acceptable outcome on a number of matters to be agreed prior to any Order being made.

2. Merger Grant Arrangements

- 1.3 As part of the merger process the Home Office has offered financial support by way of 'Pathfinder Grant' totalling £14m, made up of £1.7m revenue grant and £12.3m capital grant. However total start-up costs are put at £19.6m of which £11.4m is revenue and £8.2m is capital.
- 2.1 In summary there is a £5.6m funding gap to be met by the new Authority and a shortfall of £4.1m between the amount of revenue grant compared to revenue expenditure, overcompensated for by £4.1m in capital grant. Having examined the matter in advance of the decision to volunteer for merger, each of the Authority's Treasurers were and remain satisfied that the funding of their respective capital programmes can be restructured so that when taken together
- (a) the shortfall of £5.6m can be met by revenue resources released by additional borrowing and
 - (b) the mismatch of £4.1m between revenue and capital grant compared to revenue and capital expenditure can be ironed out in a similar way by borrowing, or alternatively by using the excess capital grant to meet the (then) current capital programme dependent on the timing of expenditure compared to the receipt of grant and so release an equivalent amount of revenue resources over the same period. For example Cumbria Police Authority currently budgets for a £1.5m annual contribution to its capital programme. It would be open to the new Authority to continue this provision but to apply this sum in meeting revenue set up costs and redeploying the excess capital grant in support of the capital programme.
- 2.2 The resolution to both of these problems centres on substituting borrowings for elements of funding within the existing capital programme(s) which were to be met directly from revenue contributions, or indirectly by the use of capital reserves originally sourced from revenue. The funding of Cumbria's capital programme can be re-profiled so as to release up to £5.8m in revenue resources matched by a similar increase in borrowings. The cost of the borrowings in interest terms will be broadly offset by the increase in investment income, since the revenue resources will still be in hand. There will be an increase of up to £72,000 in loan repayment costs for Cumbria in 2006-07. Cumbria can

achieve the release of up to £5.8m whilst Lancashire can achieve up to £7m, together totalling up to a maximum of £13m whereas the maximum requirement is approximately £10m and the more likely requirement is approximately £6m. Assuming a combined additional borrowing of £6m in the way described, this will increase annual loan servicing costs by the order of £500,000 pa - and which compares to net annual savings of £3.2m after meeting £4.1m of level 2 policing provision.

2.3 There will be close liaison between myself and the Chief Executive and Treasurer of Lancashire Police Authority to ensure that there is no greater borrowing than required and that the timing of borrowings are undertaken to best effect for the existing and new Authority.

2.4 To give effect to Cumbria' share of the suggested borrowings, it is necessary for the Authority to approve a revised funding profile of the capital programme for 2005-06 and 2006-07 (as set out in Appendix 1) and to approve revised Prudential Indicators (as set out in Appendix 2) to reflect the potential for the increased use of borrowings.

2.5 It must be stressed that at this stage neither Authority is being asked to approve any of the expenditure which will form the start-up costs of the new Authority in 2007 – this will fall to the Shadow / New Authority only when it has been properly constituted and empowered.

3. Recommendations

3.1 Members are recommended

- (i) to approve the revised funding profile for the 2005-06, 2006-07 capital programme as set out in Appendix 1 and
- (ii) to approve the revised Prudential Indicators as set out in Appendix 2

Douglas Thomas
Treasurer
16 March 2006

Michael Baxter
Chief Constable

Cumbria Police Authority

Capital Programme 2005 / 2006/ 2007/2008

Project Descriptions	Approved Programme £	Expenditure to 31-Mar-05 £	Approved Programme 05/06 £	Revised Programme 05/06/07 £	Spend to Jan 2006 £	Outturn 2005 / 2006 £	2006 / 07 £	2007 / 08 £	TOTAL COST £	Variance £
2005 / 2006 SCHEMES										
Vehicle Purchases 05/06			639,000.00	678,940.00	409,232.35	578,940.00	100,000.00	-	678,940.00	-
Vehicle Adaptions 05/06			129,000.00	158,595.00	116,719.99	138,595.00	20,000.00	-	158,595.00	-
Telephony			1,172,000.00	172,000.00	68,627.62	128,000.00	44,000.00	-	172,000.00	-
Share Point Portal			74,000.00	85,840.54	-	5,000.00	80,840.54	-	85,840.54	-
IT Replacements 05/06			526,000.00	564,270.00	-	-	564,270.00	-	564,270.00	-
Initial Police Learning and Development Programme			440,000.00	450,000.00	321,951.57	445,000.00	5,000.00	-	450,000.00	-
Information Management Programme										
Record Management System			1,755,000.00	2,591,000.00	25,148.39	85,000.00	1,879,500.00	626,500.00	2,591,000.00	-
Data Warehouse			85,000.00	85,000.00	-	-	85,000.00	-	85,000.00	-
IMPACT			-	899,000.00	184,186.07	570,000.00	329,000.00	-	899,000.00	-
New Schemes 2005 / 2006										
Photographic Equipment			-	19,175.00	19,175.00	19,175.00	-	-	19,175.00	-
Mobile Custody Suites			-	1,200,000.00	9,834.24	19,834.24	1,180,165.76	-	1,200,000.00	-
HQ Accomodation Adaptions			-	85,000.00	-	83,350.00	1,650.00	-	85,000.00	-
New Schemes To Be Approved for 2006 / 2007										
IT Replacements 06/07			-	526,000.00	-	-	526,000.00	-	526,000.00	-
Vehicle Replacements 06/07			-	785,000.00	-	-	785,000.00	-	785,000.00	-
LPT Laptops 06/07			-	40,000.00	-	-	40,000.00	-	40,000.00	-
Impact - Full Crisp			-	190,000.00	-	-	190,000.00	-	190,000.00	-
Impact - CoPIM			-	65,000.00	-	-	65,000.00	-	65,000.00	-
Sub Total			4,820,000.00	6,988,820.54	1,154,875.23	2,072,894.24	5,895,426.30	626,500.00	8,594,820.54	-
2004 / 2005 SCHEMES										
Vehicle Purchases 04/05	720,000.00	625,777.35	94,222.65	102,430.60	102,430.60	102,430.60	-	-	728,207.95	-
Vehicle Adaptions 04/05	271,693.00	153,531.72	118,161.28	22,710.81	22,710.81	22,710.81	-	-	176,242.53	-
Refurbishment Of Previous Chad Accommodation	167,000.00	149,616.20	17,383.80	2,989.85	2,212.69	2,989.85	-	-	146,626.35	-
NTU - Roof Repairs	78,000.00	71,984.60	6,015.40	1,644.63	1,638.63	1,644.63	-	-	73,629.23	-
Disability Discrimination Act Works	212,000.00	110.00	211,890.00	211,890.00	6,085.19	100,000.00	111,890.00	-	212,000.00	-
Museum conversion	55,263.13	55,263.13	-	40.00	514.25	40.00	-	-	55,303.13	-
IT Hardware Replacements 04/05	789,799.30	317,741.45	472,057.85	472,057.85	236,099.09	284,000.00	188,057.85	-	789,799.30	-
Generator Replacements	74,000.00	71,862.37	2,137.63	-	-	-	-	-	71,862.37	-
Whitehaven Training Room	41,006.71	41,006.71	-	1,193.75	1,193.75	1,193.75	-	-	42,200.46	-
Command and Control System Enhancements	105,000.00	-	105,000.00	0.00	0.00	-	-	-	0.00	-
Case and Custody	1,565,000.00	606,089.39	958,910.61	758,910.61	455,759.52	480,000.00	278,910.61	-	1,365,000.00	-
ANPR	164,000.00	-	164,000.00	264,000.00	71,018.16	264,000.00	-	-	264,000.00	-
Camera Scheme	132,469.16	123,469.16	9,000.00	9,000.00	9,000.00	9,000.00	-	-	132,469.16	-
PROMAT	86,000.00	-	86,000.00	86,000.00	69,954.17	86,000.00	-	-	86,000.00	-
Insurance Storm Damage	609,810.26	609,810.26	-	110,000.00	89,894.86	110,000.00	-	-	719,810.26	-
Vehicles - Storm Damage Insurance	122,805.00	96,329.34	26,475.66	22,138.50	22,138.50	22,138.50	-	-	118,467.84	-
Sub Total	5,193,846.56	2,922,591.68	2,271,254.88	2,059,026.90	1,086,224.84	1,480,168.44	578,858.46	-	4,981,618.58	-

Project Descriptions	Approved Programme £	Expenditure to 31-Mar-05 £	Approved Programme 05/06 £	Revised Programme 05/06/07 £	Spend to Jan 2006 £	Outturn 2005 / 2006 £	2006 / 07 £	2007 / 08 £	TOTAL COST £	Variance £
EARLIER SCHEMES										
OS / Property Roof	30,000.00	-	30,000.00	30,000.00	-	-	30,000.00	-	30,000.00	-
Windows XP system	1,323,000.00	254,430.43	1,068,569.57	1,068,569.57	277,691.63	405,757.30	442,000.00	220,812.27	1,323,000.00	-
National Management Information Systems	636,400.00	292,241.13	344,158.87	344,158.87	50,518.09	188,278.09	155,880.78	-	636,400.00	-
Airwave	3,820,817.00	363,405.69	3,457,411.31	3,450,060.76	692,038.37	773,749.76	1,671,311.00	1,005,000.00	3,813,466.45	-
Premises Improvement Fund 2003/2004	660,226.59	584,536.60	75,689.99	37,227.85	22,227.85	37,227.85	-	-	621,764.45	-
SICCS (DS 2000)	1,064,018.00	879,275.50	184,742.50	192,093.05	141,892.25	192,093.05	-	-	1,071,368.55	-
Action for justice Interview Suites	652,000.00	302,745.41	349,254.59	239,254.59	5,787.88	239,254.59	-	-	542,000.00	-
Communication Centre	2,227,000.00	2,210,942.63	16,057.37	947.35	947.35	947.35	-	-	2,211,889.98	-
PIF - Public Access	205,551.89	205,551.89	-	6,580.88	6,580.88	6,580.88	-	-	212,132.77	-
Bacs Payment System	15,000.00	-	15,000.00	15,000.00	7,213.00	7,213.00	7,787.00	-	15,000.00	-
SYNERGY	1,037,065.00	918,334.68	118,730.32	118,730.32	26,904.92	30,000.00	88,730.32	-	1,037,065.00	-
Intell System	100,000.00	56,103.64	43,896.36	-	-	-	-	-	56,103.64	-
Intranet	30,000.00	18,159.46	11,840.54	-	-	-	-	-	18,159.46	-
Security Info System	50,000.00	26,446.87	23,553.13	23,553.13	-	-	23,553.13	-	50,000.00	-
HOLMES II	235,124.00	204,859.30	30,264.70	30,264.70	-	2,000.00	28,264.70	-	235,124.00	-
Sub Total	12,086,202.48	6,317,033.23	5,769,169.25	5,556,441.07	1,231,802.22	1,883,101.87	2,447,526.93	1,225,812.27	11,873,474.30	-
Estimate for Accruals and Capital Creditors						790,950.18				
Grand Total	17,280,049.04	9,239,624.91	12,860,424.13	14,604,288.51	3,472,902.29	6,227,114.73	8,921,811.69	1,852,312.27	25,449,913.42	-

Financing

	Approved Programme 05/06 £	Revised Programme 05/06/07 £	Outturn 2005 / 2006 £	2006 / 07 £	2007 / 08 £
Capital Grants	5,168,090.93	4,703,391.06	1,725,614.20	3,522,414.77	1,852,312.27
Capital Receipts	560,000.00	745,535.00	595,535.00	150,000.00	-
Capital Expenditure from Revenue Account					
General	1,910,000.00	-			-
Computers		-			
Observation Vehicles / Airwave Vehicle		-			
Anti Social Behaviour Vehicle		-			
OS Photographic Processing Equipment		-			
RMS		-			
Storm Vehicle write offs	18,295.66	-			
IPLDP		-			
Earmarked Revenue Reserves	100,000.00	-	-		
Specific Capital Grant		-			
Airwave	766,318.81	766,318.81	766,318.81		
Premises Improvement Fund 03-04	45,000.00	45,000.00	45,000.00		
IPLDP	76,100.00	76,100.00	76,100.00		
ANPR	100,000.00	200,000.00	200,000.00		
Mobile Custody Suite	1,200,000.00	1,200,000.00	19,834.24	1,180,165.76	
IMPACT Grant		268,000.00	268,000.00		
Additional impact Grant		30,000.00	30,000.00		
Capital Income					
NMIS	226,500.00	208,411.25	188,278.09	20,133.16	
Case and Custody	456,118.73	456,118.73	456,118.73		
Additional Case and Custody Grant		50,000.00		50,000.00	
National Safety Camera Scheme 04-05	9,000.00	9,000.00	9,000.00		
Reserves					
General Capital Reserve	1,675,000.00	-			
Airwave Capital Reserve	400,000.00	-			
ANPR Capital Reserve	64,000.00	-			
PROMAT Capital Reserve	86,000.00	-			
Borrowing		5,846,413.66	1,847,315.66	3,999,098.00	
Total Financing	12,860,424.13	14,604,288.51	6,227,114.73	8,921,811.69	1,852,312.27

Cumbria Police Authority
Statement of Prudential Indicators
2005-06 to 2006-07

Introduction

The Prudential Code for Capital Finance in Local Authorities (Prudential Code) has been developed by the Chartered Institute of Public Finance and Accountancy to provide a code of practice to underpin the new system of capital finance embodied in Part 1 of the Local Government Act 2003. Local Authorities are no longer subject to government controlled borrowing approvals and are free to determine their own level of capital investment controlled by self-regulation. But the exercise of these new freedoms is subject to compliance with the requirements of the CIPFA Prudential Code, which is made a statutory requirement under the provisions of the Local Government Act 2003.

The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable.

The Prudential Code supports a system of self-regulation that is achieved by the setting and monitoring of a suite of Prudential Indicators that directly relate to each other. The indicators establish parameters within which the Police Authority should operate to ensure that the objectives of the Prudential Code are met.

Prudential Indicators

The Prudential Indicators for which the Police Authority is required to set limits are as follows:

1. Net Borrowing and the Capital Financing Requirement

This Prudential Indicator provides an overarching requirement that all the indicators operate within and is described in the Prudential Code as follows:

“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years”.

The Treasurer reports that the Police Authority had no difficulty meeting this requirement for 2004-05, nor are any difficulties envisaged for the

current or future years. This view takes into account all plans and commitments included in the 2006-07 budget.

2. Capital Expenditure

The actual amount of capital expenditure that was incurred during 2004/05, and the estimates of capital expenditure to be incurred for the current and future years that are proposed in the 2006/07 budget.

Capital Expenditure	2004/05 Actual £m	2005/06 Estimate £m	2006/07 Estimate £m
Capital Expenditure	4,473	6,227	8,922

3. Ratio of Financing Costs to Net Revenue Stream

Financing Costs include the amount of interest payable in respect of borrowing or other long term liabilities and the amount the Police Authority is required to set aside to repay debt, less interest and investments income. The Police Authority's financing costs are negative because the income earned from its investments is greater than the cost of servicing its borrowing requirements.

The actual Net Revenue Stream is the 'amount to be met from government grants and local taxation' taken from the annual Statement of Accounts. For 2005-06 the amount is the latest estimate of expenditure including the planned transfer to a number of earmarked reserves. For 2006-07, the indicator for the Ratio of Financing Costs to Net Revenue Stream is based on the Police Authority's 2006/07 Revenue Budget.

Ratio of Financing Costs to Net Revenue Stream	2004-05 Actual £m	2005-06 Estimate £m	2006-07 Estimate £m
Financing Costs	(0.619)	(0.437)	(0.495)
Net Revenue Stream	85.600	89.115	90.328
Ratio	(0.72%)	(0.49%)	(0.55%)

4. Capital Financing Requirement

The capital financing requirement is a measure of the extent to which the Police Authority needs to borrow to support capital expenditure. It does not necessarily relate to the actual amount of borrowing at any one point in time. The Police Authority has an integrated treasury management strategy where there is no distinction between revenue and capital cash flows, and the day to day position of external borrowing and investments can change constantly.

The capital financing requirement concerns only those borrowing transactions arising from capital spending, whereas the total amount of external borrowing is a consequence of all revenue and capital cash transactions combined together following recommended treasury management practice.

The estimates of the end of year capital financing requirement are as follows:

Capital Financing Requirement			
	2004/05 Actual £m	2005/06 Estimate £m	2006/07 Estimate £m
Capital Financing Requirement as at 31 March.	0	1,847	5,846

5. The Authorised Limit

The Authorised Limit represents an upper limit of borrowing that could be afforded in the short term but may not be sustainable. This limit includes a risk assessment of exceptional events taking into account the demands of revenue and capital cash flows. The Authorised Limit gauges events that may occur over and above those transactions which have been included in the Operational Boundary.

The Police Authority should note that the Authorised Limit represents the limit specified in section 3 (1) of the Local Government Act 2003 (Duty to determine affordable borrowing limit).

The following Authorised Limits for external debt, excluding temporary investments are recommended:

Authorised Limit for External Debt		
	2005/06 £m	2006/07 £m
External Borrowing	4.8	8.5
Other Long Term Liabilities	0	0
Total Authorised Limit	4.8	8.5

6. Operational Boundary

The Operational Boundary represents an estimate of the most likely, prudent, but not worst case scenario and provides a parameter against which day to day treasury management activity can be monitored.

Occasionally, the Operational Boundary may be exceeded (but still not breach the Authorised Limit) following variations in cash flow. Such an occurrence would follow controlled treasury management action and may not have a significant impact on the prudential indicators when viewed all together.

Consistent with the Authorised Limit, the Treasurer has delegated authority, within the Total Operational Boundary, to effect movement between the separately identified and agreed figures for External Borrowing and Other Long Term Liabilities. Any such changes will be reported to the next Police Authority meeting following the change. The following limits for each year's Operational Boundary, excluding temporary investments are recommended:

Operational Boundary for External Debt		
	2005/06 £m	2006/07 £m
External Borrowing	3.3	7.0
Other Long Term Liabilities	0	0
Total Operation Boundary	3.3	7.0

7. Actual External Debt

The Police Authority's actual external debt as at 31 March 2006 will be in the range £1.420 million to £3,268 million, wholly comprised of External Borrowing with no Other Long Term Liabilities

8. The Incremental Impact of Capital Investment Decisions on the Council Tax

This indicator identifies specifically the additional cost to the taxpayer of the **new capital investment** proposed in the 2006/07 Capital Programme.

The impact identifies transactions that will occur **over and above what has already been provided for in the 2005/06 revenue budget** and assumes the funding available in 2005/06 will be carried forward in the future year's base budgets.

The impact has been calculated using forward estimates of funding consistent with expectations in the latest medium term forecast.

The impact on the revenue budget, and therefore the Council Tax, is felt by a combination of the following: debt costs of the new borrowing, the amount set aside from revenue to repay the principal element of external borrowing (Minimum Revenue Provision), the revenue impact of a capital project (e.g. running costs or savings of a new asset) and general Revenue Contributions to Capital Outlay (RCCO's).

It should be noted that borrowing itself does not fund capital expenditure since the loans have to be repaid eventually. The actual funding comes from the Minimum Revenue Provision, which is statutorily charged to revenue each year.

The estimate of the impact of the capital investment approved in the 2006/07 Budget Policy on the Council Tax is set out in the table below. The figures are not cumulative and show the actual impact in each year.

Impact of Capital Investment Decisions on the Council Tax		
	2005/06	2006/07
Capital Expenditure funded from revenue	£ 0	£ 0
Incremental Impact on Band D Council Tax	£0.69	£1.09

9. Treasury Management Code of Practice

Cumbria Police Authority has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA): Code of Practice for Treasury Management in the Public Services.

10. Fixed Interest Rate Exposures

It is recommended that the Authority sets an upper limit on its fixed interest rate exposures as follows.

Upper limits for net principal sums outstanding at fixed rates

	2005/2006 £m	2006/2007 £m
Net Principal sums Outstanding at Fixed Rates	4.8	8.5

This represents the position that all of the Authority's authorised external borrowing may be at a fixed rate at any one time.

11. Variable Interest Rate Exposures

It is recommended that the Authority sets an upper limit on its variable interest rate exposures as follows.

Upper limits for net principal sums outstanding at variable rates

	2005/2006 £m	2006/2007 £m
Net Principal sums Outstanding at Variable Rates	1.5	1.5

This is the maximum external borrowing judged prudent by the Treasurer that the Police Authority should expose to variable rates.

12. Maturity Structure of Borrowing

It is recommended that the upper and lower limits for the maturity structure of borrowings are as follows:

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

Period of Maturity	Upper Limit %	Lower Limit %
Under 12 months	0	0
12 months and within 24 months	0	0
24 months and within 5 years	84	0
5 years and within 10years	100	0
10 years and above	0	0

13. Investments for longer than 364 days

There are no plans to make investments for longer than 364 days. Any plans to do so will be reported to the Authority as part of any revisions to the schedule of Prudential Indicators.