ITEM 6

Buckinghamshire & Milton Keynes Fire Authority

MEETING	Executive Committee
DATE OF MEETING	10 February 2021
OFFICER	Mark Hemming, Director of Finance & Assets.
LEAD MEMBER	Councillor David Hopkins
SUBJECT OF THE REPORT	**The Prudential Code, Prudential Indicators and Minimum Revenue Provision**
EXECUTIVE SUMMARY	This report is being presented as the Prudential Indicators (Appendices A and B) and Minimum Revenue Provision policy statement (Appendix C) are required to be approved by the Fire Authority and to support the Medium-Term Financial Plan (MTFP). The Authority has already made sufficient revenue provision to cover the repayment of its gross borrowing. However, due to prohibitive penalties the early repayment of this borrowing is not currently an option. The Authority has no plans for additional borrowing in the foreseeable future, according to the current MTFP. It is recommended that the Authorised Limit for 2021-22 continues to be set at £2m higher than the Operational Limit to allow for the effective management of cashflow in relation to capital receipts from land sales.
ACTION	Decision
RECOMMENDATIONS	That the Executive Committee approve the recommendations below for submission to the Fire Authority. That the Authority be recommended to approve: 1. the Prudential Indicators for 2021-22; 2. the Minimum Revenue Provision policy statement.
RISK MANAGEMENT	The Prudential Code was established to ensure that capital investment plans are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. The indicators presented here demonstrate that the current plans for capital investment meet these criteria and present an acceptable level of risk to the Authority. Minimum revenue provision is a statutory charge to

	the General Fund, which ensures that an Authority has sufficient cash balances to repay borrowing upon maturity, reducing the refinancing risk. There are no direct staffing implications.
FINANCIAL IMPLICATIONS	The decision on the prudential indicators sets out the financial limits within which the Authority will operate in future years. The minimum revenue provision is a statutory charge against the General Fund, estimated at £47k for 2021/22 (no change from 2020/21).
LEGAL IMPLICATIONS	The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, SI 2003/3146 make provision for capital finance and accounts under the Local Government Act 2003 requiring the authority to have regard to the 'Prudential Code for Capital Finance in Local Authorities' when determining, under the Local Government 2003 Act, how much money it can afford to borrow; and require the Authority to determine for the current financial year an amount of minimum revenue provision which it considers to be prudent.
CONSISTENCY WITH THE PRINCIPLES OF THE DUTY TO COLLABORATE	No direct impact.
HEALTH AND SAFETY	No direct impact.
EQUALITY AND DIVERSITY	No direct impact.
USE OF RESOURCES	The impact of the Prudential Code will allow the Authority to make informed choices between revenue and capital financing of procured services, to encourage invest to save schemes and will only allow capital investment to proceed where the Authority can fund projects within prudential limits. Making sufficient minimum revenue provision ensures that when borrowing matures, cash is available to make the repayment. This ensures that the Authority does not need to borrow additional money to repay existing loans.
PROVENANCE SECTION **&** **BACKGROUND PAPERS**	**Background** Realignment of Reserve Balances to Facilitate the Medium Term Financial Plan, Executive Committee, 18 November 2015, agenda item 6: https://bucksfire.gov.uk/documents/2020/03/181115_exec_committee_papers.pdf/

APPENDICES	Appendix A – Prudential Indicators Appendix B – Summary Table of Prudential Indicators Appendix C – Minimum Revenue Provision Policy Statement
TIME REQUIRED	10 minutes
REPORT ORIGINATOR AND CONTACT	Marcus Hussey mhussey@bucksfire.gov.uk 01296 744680

Appendix A – Prudential Indicators

1.0 Indicators for Affordability

1.1 The ratio of financing costs to net revenue stream

This indicator measures the percentage of the net revenue funding used to finance external debt. As no future borrowing is planned and a decision was made to reallocate reserves to reduce the capital financing requirement in 2015/16, the ratio of financing costs to net revenue stream will remain consistently low:

Indicator	Actual 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
Ratio of financing costs to net revenue stream	0.5%	0.8%	1.0%	1.0%	0.9%

2.0 Indicators for Prudence

2.1 Gross borrowing and the Capital Financing Requirement

The table below shows gross borrowing and the capital financing requirement (CFR). The Authority should ensure that gross borrowing does not, except in the short term, exceed the CFR. However, due to the reallocation of reserves to reduce the CFR (excluding finance lease) to zero (see Provenance Section & Background Papers) gross borrowing will exceed CFR for the medium to long-term. This situation will exist until borrowing is repaid. Due to early repayment premiums it is prohibitively expensive to make any early repayments at the current time.

Gross borrowing at the start of 2019/20 financial year was £6.797m. The figures shown below indicate the maximum level of borrowing during the year (i.e. repayments will reduce the limit for the following year):

Indicator	Actual 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
Gross borrowing (£000)	6,797	6,797	6,797	6,797	6,177
Capital financing requirement (£000)	1,637	1,590	1,543	1,496	1,449

3.0 Indicators for Capital Expenditure

3.1 Capital Expenditure

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

Indicator	Actual 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
Capital expenditure (£000)	7,579	5,049	2,240	2,380	1,230

3.2 Capital Financing Requirement (CFR)

The CFR reflects the Authority's underlying need to borrow. This figure was reduced down to the level of the finance lease by the reallocation of reserves (see Provenance Section & Background Papers). No additional borrowing is planned in the medium term. The CFR should be looked at in relation to gross borrowing, as detailed in Section 2.1:

Indicator	Actual 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
Capital financing requirement (underlying need to borrow for a capital purpose) (£000)	1,637	1,590	1,543	1,496	1,449

4.0 Indicators for External Debt

4.1 Authorised Limit

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

Indicator	Actual 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
Authorised limit for borrowing (£000)	8,797	8,797	8,797	8,797	8,177
Authorised limit for other long-term liabilities (£000)	1,637	1,590	1,543	1,496	1,449
Authorised limit for external debt (£000)	10,434	10,387	10,340	10,293	9,626

4.2 Operational Boundary

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

The actual external debt for the year ending 31 March 2020 was **£8.434m**.

Indicator	Actual 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
Operational boundary for borrowing (£000)	6,797	6,797	6,797	6,797	6,177
Operational boundary for other long-term liabilities (£000)	1,637	1,590	1,543	1,496	1,449
Operational boundary for external debt (£000)	8,434	8,387	8,340	8,293	7,626

5.0 Indicators for Treasury Management

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

The aim is to ensure that treasury management is led by a clear and integrated forward treasury management strategy, and a recognition of the pre-existing structure of the Authority's borrowing and investment portfolios.

5.2 Upper limit on fixed interest rate exposures

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

Indicator	Actual 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
Upper limit on fixed interest rate exposures	100%	100%	100%	100%	100%

5.3 Upper limit on variable interest rate exposures

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

Indicator	Actual 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
Upper limit on variable interest rate exposures	20%	20%	20%	20%	20%

5.4 Maturity structure of fixed rate borrowing

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

Indicator	Actual 2019/20		Estimate 2020/21		Estimate 2021/22		Estimate 2022/23		Estimate 2023/24	
Maturity structure of fixed rate borrowings	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit
Under 12 months	0%	0%	0%	0%	0%	9%	0%	24%	0%	16%
12 months and within 24 months	0%	0%	0%	9%	0%	15%	0%	0%	0%	0%
24 months and within five years	0%	24%	0%	15%	0%	0%	0%	15%	0%	16%
five years and within 10 years	0%	15%	0%	24%	0%	24%	0%	20%	0%	22%
10 years and within 20 years	0%	20%	0%	11%	0%	11%	0%	0%	0%	0%
20 years and within 30 years	0%	0%	0%	0%	0%	0%	0%	32%	0%	36%
30 years and within 40 years	0%	41%	0%	41%	0%	41%	0%	9%	0%	10%
40 years and above	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

5.5 Total principal sums invested for periods longer than 364 days

The purpose of this indicator is for the Authority to contain its exposure to the possibility of loss that might arise as a result of its having to seek early repayment or redemption of principal sums invested. The Authority currently has no investments over a period longer than 364 days.

Indicator	Actual 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
Total principal sums invested for periods longer than 364 days (£000)	4,000	4,000	4,000	4,000	4,000

5.6 Credit Risk

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

Appendix B – Summary Table of Prudential Indicators

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

	Indicator	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
Indicators for Affordability						
1.1	Ratio of financing costs to net revenue stream	0.5%	0.8%	1.0%	1.0%	0.9%
1.2	The incremental impact of capital investment decisions on the council tax	£0.00	£0.00	£0.00	£0.00	£0.00
Indicators for Prudence						
2.1	Gross borrowing (£000)	6,797	6,797	6,797	6,797	6,177
Indicators for Capital Expenditure						
3.1	Capital expenditure (£000)	7,579	5,049	2,240	2,380	1,230
3.2	Capital financing requirement (£000)	1,637	1,590	1,543	1,496	1,449
Indicators for External Debt						
4.1	Authorised limit for external debt (£000)	10,434	10,387	10,340	10,293	9,626
4.2	Operational boundary for external debt (£000)	8,434	8,387	8,340	8,293	7,626
Indicators for Treasury Management						
5.2	Upper limit on fixed interest rate exposures	100%	100%	100%	100%	100%
5.3	Upper limit on variable interest rate exposures	20%	20%	20%	20%	20%
5.5	Total principal sums invested for periods longer than 364 days (£000)	4,000	4,000	4,000	4,000	4,000

The actual external debt for the year ending 31 March 2020 was £8.434m. The projected external debt for the year ending 31 March 2021 is £8.387m (both figures include the finance lease liability).

The following indicators are not shown above:

- 5.1 – the Authority has adopted CIPFA's Treasury Management Code for 2020/21
- 5.4 – details of the maturity structure of fixed rate borrowing (see Appendix A)
- 5.6 – narrative regarding credit risk (see Appendix A)

Appendix C – Minimum Revenue Provision (MRP) Policy Statement

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

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

(a) CFR Method

MRP is equal to 4% of the Capital Financing Requirement (CFR) at the end of the preceding financial years. Since the CFR (excluding finance lease) is now at zero, this method is no longer applicable (for finance leases, the MRP requirement is regarded as met by a charge equal to the element of the rent that goes to write down the Balance Sheet liability).

(b) Asset Life Method

Since 1 April 2008, where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset, based on an equal instalment method. This amount is projected to be nil for 2021/22.

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

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