APPENDIX G

The Prudential Code for Capital Investment in Local Authorities

Outturn Report 2011/12

1. The Prudential Framework for Local Authority Capital Investment

1.1. The Prudential Code for Capital Investment commenced on the 1st April 2004. This system replaced the previous complex system of central Government control over council borrowing, although the Government has retained reserve powers of control which it may use in exceptional circumstances.

1.2. The regime offers significantly greater freedom to authorities to make their own capital investment plans, whereas the previous system restricted authorities to credit approvals controlled by central government.

1.3. Within this regime, authorities must have regard to the *Chartered Institute of Public Finance and Accountancy's* (CIPFA) *Prudential Code for Capital Finance in Local Authorities*. The principles behind this code are that capital investment plans made by the Council are prudent, affordable and sustainable. The code identifies a range of indicators which must be considered by the Council when it makes its decisions about future capital programme and sets its budget.

2. The Prudential Indicators

2.1. The Prudential Code sets out the information that each Council must consider when making its decisions about future borrowing and investment. This takes the form of a series of "Prudential Indicators".

2.2. The Code is a formal statement of good practice that has been developed to apply to all authorities regardless of their local circumstances.

2.3 This appendix will set out the original estimated 2011/12 prudential indicators as approved by the Council in February 2011, and the actual outturn position, now that the final spend on the capital programme for 2011/12 is known.

3. Capital Expenditure

3.1 The first prudential indicator sets out **capital expenditure** both for the General Fund, and Housing Revenue Account Expenditure. These figures are shown in table 1:

Table 1: Capital Expenditure (Prudential Indicator)

	2011/12 Original Estimate	**2011/12 Revised Estimate**	**2011/12 Actual**
	£'000	£'000	£'000
HRA	33,895	47,465	30,968
General Fund	87,757	120,101	97,178
Total	121,652	167,566	128,146

3.2 Table 1 shows that actual capital expenditure was £128.1m against a revised budget of £167.6m, largely due to slippage in project delivery.

3.3 The knock on effect of the reduction in spend on the capital programme is a reduction in the costs associated with financing the capital programme, and these are considered in the next section.

4. <u>Financing Costs</u>

4.1 The prudential code also requires Councils to have regard to the financing costs associated with its capital programme.

4.2 For an authority that has debt, the prudential indicator for its financing costs is calculated based on the interest and repayment of principle on borrowing.

4.3 Since the authority entered into borrowing there is now a Minimum Revenue Provision ("repayment of principal") in the General Fund financing costs. For the HRA there is, however, a charge for depreciation based on the Major Repairs Allowance. This is included in the financing costs of the authority although in practice it is matched by an equivalent amount in HRA Subsidy.

4.4 Table 2 shows outturn figures for 2011/12 in respect of the Council's Net Revenue Streams for both the General Fund and the Housing Revenue Account, Financing Costs for these two funds and the ratio of Net Revenue Streams to Financing Costs, based on capital expenditure shown in Table 1.

<u>Table 2: Financing Costs (Prudential Indicator)</u>

	2011/12 Original Estimate	2011/12 Actual
	£'000	£'000
Net Revenue Stream		
HRA	93,294	95,653
General Fund	183,381	183,382
Financing Costs		
HRA	3,431	1,113
General Fund	14,610	11,100
Ratio		
HRA	3.70%	1.16%
General Fund	8.00%	6.05%

4.5 The outturn position for the HRA and General Fund shows a lower figure for financing costs because the lower actual capital expenditure than estimate has reduced financing costs.

4.6 Financing costs can also be shown with reference to their impact on Council Tax and Housing Rents and this is set out in Table 3.

Table 3: The Impact of Capital Programme on the Council Tax and Housing Rents (Prudential Indicator)

	2011/12 Revised Estimate	2011/12 Actual
	£	£
For Band D Council Tax	0.02	0.01
For average Housing Rents	0.01	-0.11

4.8 The table shows the incremental cost of financing the capital programme in respect of the General Fund has increased negligibly. The additional financing costs in 2011/12 have been contained within the overall council budget, and therefore also within the Council Tax set.

4.9 The impact on Housing Rents is a saving on financing costs because of slippage in the HRA capital programme resulting in lower borrowing.

5. Capital Financing Requirement

5.1 The Prudential Code requires the Council to measure its underlying need to borrow for capital investment by calculating its **Capital Financing Requirement**.

5.2 The outturn position for this is shown in table 4 below. The capital financing requirement identifies the level of capital assets on an authority's balance sheet, and compares this to the capital reserves to see how much of these assets have been "funded". The difference is the level of debt that the authority has to repay in the future, or the "capital financing requirement".

Table 4: Capital Financing Requirement (Prudential Indicator)

	2011/12 Original Estimate	2011/12 Revised Estimate	2011/12 Actual
Housing Revenue Account (HRA)	-3,952	10,657	-5,795
HRA Self Financing Debt Settlement			265,912
General Fund	210,175	169,983	224,453
Capital Financing Requirement	**206,223**	**180,640**	**484,570**

5.3 The capital financing requirement is higher than the revised estimate because of the impact of the new Dagenham Park PFI scheme which became operational in March.