APPENDIX H

The Prudential Code for Capital Investment in Local Authorities

Prudential Indicators – 2011/12 to 2013/14

1. Introduction

1.1. The Prudential Code for Capital Investment commenced on the 1st April 2004. This system replaced the previously 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. The Code 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.

1.2. Within the 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. These prudential indicators have become particularly relevant as the proposals in this report, as the implications are that **the Council has a borrowing requirement** over the period from 2011/12 to 2013/14.

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. In previous years, Barking and Dagenham has been in a debt free position, so the indicators in respect of borrowing were not relevant. However, capital expenditure plans for 2011/12 to 2013/14 as proposed in this report, will now give arise to a net borrowing requirement for the Council. This has an impact on affordability on the revenue budget, both in terms of **loss of investment income** from reducing capital receipts, and also due to the costs associated with **financing borrowing**.

2.3 This appendix sets out the prudential indicators for the London Borough of Barking and Dagenham, based on the revised capital programme for 2011/12 to 2013/14 as detailed in this report.

3. Capital Expenditure

3.1 The first prudential indicator sets out **capital expenditure** both for the General Fund, and Housing Revenue Account Expenditure. Table 1 shows the current approved capital programme over the period from 2011/12 to 2013/14.

Table 1: Capital Expenditure (**as per Appendix G**):

	2011/12	**2012/13**	**2013/14**
	£'000	**£'000**	**£'000**
HRA	33,895	13,500	13,500
General Fund	87,757	24,275	384
Total	**121,652**	**37,775**	**13,884**

3.3 The capital programme for future years has been subject to a fundamental review. The elements here relate to the funding of Housing Futures, significant regeneration projects, investment in highways maintenance, investment in schools and the Becontree Heath Leisure Centre. The other schemes will be financed from a mixture of existing resources, external funding, "self financing" (i.e. revenue cost savings fund the cost of borrowing) and other schemes that will give rise to borrowing.

3.4 A full list of projects are detailed in **Appendix G** to this report.

4. Financing Costs

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

4.2 The prudential indicator for its financing costs calculated based on the interest and repayment of principle on borrowing, less interest received from investments.

Table 2 shows the following for the period from 2011/12 to 2013/14:

- 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.

Table 2: Financing Costs (**Prudential Indicator**)

	2011/12	**2012/13**	**2013/14**
	£'000	**£'000**	**£'000**
Net Revenue Stream			
HRA	93,294	98,687	101,863
General Fund	183,381	183,381	183,381
Financing Costs			
HRA	3,431	3,305	3,305
General Fund	14,610	17,217	18,376
Ratio			
HRA	3.70%	3.30%	3.24%
General Fund	8.00%	9.40%	10.02%

4.3 This shows the impact of falling interest receipts and borrowing costs as a result of spending on the capital programme.

4.4 Financing costs in the HRA relate to the Major Repairs Allowance, which is a government subsidy from the Department for Communities and Local Government (DCLG). This is an estimated figure for future years; these figures are confirmed by the DCLG during the year.

4.5 Financing costs can also be shown with reference to their impact on Council Tax and Housing Rents. This shows the additional Council Tax burden for Band D from financing. This is set out in Table 3.

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

	2011/12	**2012/13**	**2013/14**
	£	**£**	**£**
For Band D Council Tax	277	327	349
For average Housing Rents	0	0	0

4.6 The impact on Council Tax represents the cost of financing the capital programme in relation to the tax-base.

4.7 As a consequence of the absence of debt and the Government's policy on rent restructuring the capital programme has a minimal impact on future rents. There are no borrowing costs and the revenue contribution to capital expenditure is set according to the rent levels that are established by the rent restructuring regulations.

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 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	**2011/12**	**2013/14**
	£'000	**£'000**	**£'000**
Housing Revenue Account (HRA)	(3,952)	(3,952)	(3,952)
General Fund	210,175	226,161	239,045
Capital Financing Requirement	**206,223**	**222,209**	**235,093**

5.3 Capital expenditure is planned either to be funded from capital receipts, through external funding, or through borrowing. This therefore gives rise to an **underlying borrowing requirement of £206m** by March 2012, as shown above, **£222m** by the March 2013, and **£235m** by the end of 2013/14, the period over which the capital programme report covers.

6. Summary Assessment

6.1 The Prudential Indicators as laid out in this report show the impact of capital investment decisions for the period from 2011/12 to 2013/14.

6.2 These figures demonstrate that, while proposed changes to the capital programme have had financial implications on the Council, they have been made having taken into account the key principles of the CIPFA Prudential Code of **prudence, affordability** and **sustainability**.

6.3 This position will be reported on throughout 2011/12 to account for any changes to decisions on capital investment.