

The Prudential Code for Capital Investment in Local Authorities

Outturn Report 2010/11

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 2010/11 prudential indicators as approved by the Council in February 2010, and the actual outturn position, now that the final spend on the capital programme for 2010/11 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)

	2010/11 Original Estimate	2010/11 Revised Estimate	2010/11 Actual
	£'000	£'000	£'000
HRA	31,855	27,050	23,643
General Fund	128,177	88,594	82,454
Total	160,032	115,644	106,097

- 3.2 Table 1 shows that actual capital expenditure was £106.1m against a revised budget of £115.6m.
- 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. Financing Costs

- 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 principle") 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 2010/11 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.

Table 2: Financing Costs (Prudential Indicator)

	2010/11 Original Estimate	2010/11 Actual
	£'000	£'000
Net Revenue Stream		
HRA	89,613	90,616
General Fund	154,766	151,996
Financing Costs		
HRA	13,500	1,173
General Fund	7,008	10,206
Ratio		
HRA	15.06%	1.29%
General Fund	4.53%	6.71%

- 4.5 The outturn position for the HRA shows the lower figure for financing costs. This has meant that the ratio of financing costs to revenue stream is much lower.
- 4.6 The outturn position for the General Fund shows a lower revenue stream as per the budget. This has resulted in a higher cost
- 4.7 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)

	2010/11 Original Estimate	2010/11 Actual
	£	£
For Band D Council Tax	136	197.68
For average Housing Rents	0	0

- 4.8 The table shows that the costs of financing the capital programme in respect of the general fund have increased from the point at which the budget was originally set. The additional financing costs in 2010/11 have been contained within the overall council budget, and therefore also within the Council Tax set.
- 4.9 Due to the effect of the government's policy on rent restructuring, the financing costs for the HRA do not have an impact on the level of rents in the HRA.

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)

	2010/11 Original Estimate	2010/11 Revised Estimate	2010/11 Actual
Housing Revenue Account (HRA)	(21,355)	(10,667)	(11,414)
General Fund	126,576	157,179	151,407
Capital Financing Requirement	105,221	146,512	139,993

- 5.3 The capital financing requirement has therefore reduced from the revised estimate due to lower than anticipated capital spend from the original and revised budgets as noted in Appendix C.