

**CIPFA PRUDENTIAL  
CODE FOR CAPITAL  
FINANCE IN LOCAL  
AUTHORITIES –  
SECOND EXPOSURE  
DRAFT — WORK IN  
PROGRESS**



**CIPFA PRUDENTIAL CODE FOR CAPITAL FINANCE IN LOCAL  
AUTHORITIES – EXPOSURE DRAFT FOR CONSULTATION**

FOREWORD

**Consultation arrangements and acknowledgements will be inserted here.**

**CONTENTS****Paragraphs**

## PREFACE

[DRAFT] PRUDENTIAL CODE FOR CAPITAL FINANCE IN  
LOCAL AUTHORITIES

## Executive Summary

Objectives 1 – 3

Prudential indicators 4 – 33

Capital expenditure 9 – 15

External debt 16– 23

Treasury management 24 – 33

Matters required to be taken into account when setting or revising  
prudential indicators 34 – 48

Overall 34 – 35

Affordability and prudential indicators for affordability 36 – 44

Prudence and prudential indicators for prudence 45 – 48

Process and governance issues 49 – 62

Setting and revising prudential indicators 49 – 58

Monitoring against prudential indicators 59 - 62

Definitions 63 - 76

APPENDIX A DEVELOPMENT OF THE CODE

APPENDIX B ILLUSTRATIVE EXAMPLE OF PRUDENTIAL INDICATORS

APPENDIX C CAPITAL FINANCING REQUIREMENT

PARTICULAR ISSUES ON WHICH COMMENTS ARE INVITED

## PREFACE

CIPFA has prepared this [draft] Prudential Code in order to underpin a new system of capital finance for local authorities. It provides a framework within which local decision making can operate with respect to the matters covered by the [draft] Code, ensures transparency and accountability for the decisions taken, and provides assurance to the government and devolved administrations, and to local taxpayers on the affordability and prudence of the decisions taken. It supports local strategic planning, asset management planning and option appraisal; thereby significantly contributing to the modernisation agenda and best value in service delivery.

The [draft] *Prudential Code for Capital Finance in Local Authorities* (the [draft] Code) is set out in this document. The [draft] Code comprises the paragraphs in bold type. The explanatory statements are in standard type and shall be regarded as part of the [draft] Code insofar as they assist in interpreting the [draft] Code.

The appendices attached to the [draft] Code do not form part of the [draft] Code but will be helpful in explaining the background to the Code and the factors that have influenced its development.

EXECUTIVE SUMMARY

***An executive summary, which will form part of the Code, will be inserted here.***

## [DRAFT] PRUDENTIAL CODE FOR CAPITAL FINANCE IN LOCAL AUTHORITIES

### OBJECTIVES

**1 The objectives of the [draft] Code are to provide a framework for local authority capital finance that will ensure for individual local authorities (or in exceptional circumstances demonstrate that there is a danger of not ensuring so that the authority can take timely remedial action) that:**

- (a) capital expenditure plans are affordable**
- (b) all external borrowing and other long term liabilities are within prudent and sustainable levels**
- (c) treasury management decisions are taken in accordance with professional good practice**

**and that in taking decisions in relation to (a) to (c) above the local authority is**

- (d) accountable, by providing a clear and transparent framework.**

**Further, the framework established by the [draft] Code should be consistent with and support:**

- (e) local strategic planning**
- (f) local asset management planning**
- (g) proper option appraisal.**

**2 A framework for the internal control and self management of capital finance needs to deal with all three of the following elements:**

- external debt
- capital expenditure plans
- treasury management.

- 3 The framework in this [draft] Code includes a set of prudential indicators. These will need to be seen together, integrated into a coherent picture, rather than being seen individually in isolation. The setting of the forward looking prudential indicators will in practice need to be a circular rather than a linear process. For example, forward estimates for external debt will reflect the authority's capital plans, revenue forecasts and treasury management strategy. However, if initial estimates would result in outcomes that would not be affordable or prudent, then forward plans for capital and/or revenue will need to be reconsidered before they are finalised. At all times, the objectives specified in paragraph 1 of this [draft] Code are paramount to the operation of the prudential framework.

## PRUDENTIAL INDICATORS

- 4 **The local authority shall set and monitor against the specified prudential indicators for capital expenditure, external debt and treasury management (paragraphs 9 - 33) in accordance with the matters required to be taken into account (paragraphs 34- 48), the due processes to be followed (paragraphs 49 - 62) and in accordance with the definitions specified (paragraphs 63 – 76).**
- 5 Prudential indicators for the forthcoming financial year and subsequent two financial years must be set before the beginning of the financial year. They may be revised at any time following the same due process.
- 6 Prudential indicators may take the form of limits, estimates or actual figures. Prudential indicator is the generic term.
- 7 The prudential indicators specified are the minimum required. Local authorities may set further prudential indicators if they wish, and are encouraged to do so where this would assist their own management processes. However, any additional prudential indicators set locally should not, unless required to do so by statute, associate any part of the authority's external borrowing with particular item(s), category(ies) or purpose(s) of expenditure. The authority should have an integrated treasury management strategy within which its borrowing and investments are managed.
- 8 The prudential system is primarily designed to be managed and controlled by local authorities themselves. However, the Department for Transport, Local Government and the Regions has indicated that:

The government will take a view in its regular spending reviews about the overall size of public sector debt, in accordance with its policy on sound public finances. As part of that exercise, it will decide on the level to which local authority debt could be allowed to rise without risk to the national economy. It is expected that authorities' debt under the new prudential framework could normally be accommodated within that ceiling. The government will however have power under the proposed new legislation to set a formal limit on the rate at which local authorities can increase their debt. At the start of the new system, this power could be used temporarily to prevent a rise in debt which would be unmanageable for the national economy. The power would remain available for use later if macro-economic conditions ever necessitated extra safeguards to keep public expenditure to affordable levels. Any such national limits would be specified in regulations. The same power could be used to deal with any abuse of the prudential system by an individual authority, in which case a debt limit would be set by a direction issued to the authority.

The National Assembly for Wales has indicated that

The National Assembly for Wales will introduce the prudential system in Wales and ensure that the level of Welsh local authority debt does not endanger the Welsh economy or the UK economy as a whole.

The Scottish Executive has indicated that

The introduction of the prudential system in Scotland will be subject to separate consideration by Scottish Ministers but it is anticipated that the same broad principles in relation to the level of local authority debt would apply.

It should be noted that any centrally determined limit would then override the authority's own prudential limit (unless the latter was lower).

## **9 Capital expenditure Estimates of capital expenditure**

**The local authority will make reasonable estimates of the total of capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years. These**

**prudential indicators will be referred to as estimates of capital expenditure and shall be expressed in the following manner:**

**Estimate of total capital expenditure to be incurred in years 1, 2 and 3 (and 4 etc if applicable).**

- 10 The estimates of capital expenditure will include any capital expenditure that it is estimated might (depending on option appraisals) or will be dealt with as other long term liabilities.

**11 Actual capital expenditure**

**After the year end, the actual capital expenditure incurred during the financial year will be recorded. This prudential indicator will be referred to as actual capital expenditure and shall be expressed as follows:**

**Actual capital expenditure for 20xx/20xx.**

**12 Estimates of capital financing requirement**

**The local authority will make reasonable estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years. These prudential indicators will be referred to as the estimates of capital financing requirement and shall be expressed as follows:**

**Estimate of capital financing requirement as at the end of years 1, 2 and 3.**

- 13 The estimate of capital financing requirement at the end of each year will relate to all capital expenditure – ie it includes relevant capital expenditure incurred in previous years.

The capital financing requirement will reflect the authority's underlying need to borrow<sup>1</sup>

- 14 In order to make these estimates, the authority will need to consider all of the financing options available and estimate their use of these. The estimates will not commit the local authority to particular methods of financing. The Chief Finance

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<sup>1</sup> NB Cross refer to Appendix C for more information about the capital financing requirement.

Officer will determine the actual financing of capital expenditure incurred once a year, after the end of the financial year.

### **15 Actual capital financing requirement**

**After the year end, the actual capital financing requirement will be calculated directly from the local authority's balance sheet. This prudential indicator will be referred to as the actual capital financing requirement and shall be expressed as follows:**

**Actual capital financing requirement as at xx/xx/xx.**

External debt

### **16 Authorised limit**

**The local authority will set for the forthcoming financial year and the following two financial years an authorised limit for its total external debt, gross of investments, separately identifying borrowing from other long term liabilities. This prudential indicator will be referred to as the authorised limit and shall be expressed in the following manner:**

**Authorised limit for external debt = authorised limit for borrowing + authorised limit for other long term liabilities**

**For years 1, 2 and 3.**

### **17 Operational boundary**

**The local authority will also set for the forthcoming financial year and the following two financial years an operational boundary for its total external debt, gross of investments, separately identifying borrowing from other long term liabilities. This prudential indicator will be referred to as the operational boundary and shall be expressed in the following manner:**

**Operational boundary for external debt = operational boundary for borrowing + operational boundary for other long term liabilities.**

**For years 1, 2 and 3.**

**18 The prudential indicators for the authorised limit and operational boundary need to be set in accordance with the other provisions of this Prudential Code, in particular the requirements with respect to:**

- **the matters required to be taken into account when setting or revising prudential indicators (paragraphs 34 - 48)**
- **process and governance issues for setting and revising prudential indicators (paragraphs 49-56)**
- **definitions used (paragraphs 63-76).**

19 Both the authorised limit and operational boundary need to be consistent with the authority's plans for capital expenditure and financing; and with its treasury management policy statement and practices.

20 The operational boundary should be based on the authority's estimate of most likely, prudent but not worst case scenario. Risk analysis and risk management strategies should be taken into account. The operational boundary should equate to the maximum level of external debt projected by this estimate. Thus, the operational boundary links directly to: the authority's plans for capital expenditure; their estimates of capital financing requirement; and their estimate of cashflow requirements for the year for all purposes. The operational boundary is a key management tool for in-year monitoring – see in particular paragraph 60 of this Prudential Code, which includes the following:

“It will probably not be significant if the operational boundary is breached temporarily on occasions due to variations in cashflow. However, a sustained or regular trend above the operational boundary would be significant and should lead to further investigation and action as appropriate”

21 Thus, both the operational boundary and the authorised limit will be based on the authority's plans. The authority will need to assure itself that these plans are affordable and prudent. The operational boundary will be based on the most

likely, prudent but not worst case scenario. The authorised limit will in addition need to provide sufficient headroom over and above the operational boundary for unusual cash movements.

**22 Actual external debt**

**After the year end, the closing balance for actual gross borrowing plus (separately) other long term liabilities will be obtained directly from the local authority's balance sheet. This prudential indicator will be referred to as actual external debt and shall be expressed in the following manner:**

**Actual external debt as at xx/xx/xx = actual borrowing as at xx/xx/xx + actual other long term liabilities as at xx/xx/xx.**

- 23 The prudential indicator for actual external debt will not be directly comparable to the authorised limit and operational boundary, since the actual external debt will reflect the actual position at one point in time.

**Treasury Management**

- 24 The first prudential indicator in respect of treasury management is that the local authority has adopted the CIPFA *Code of Practice for Treasury Management in the Public Services*.**

**25 Variable interest rate exposure**

**The local authority will set for the forthcoming financial year and the following two financial years both upper and lower limits for its exposure to variable interest rate risk. These prudential indicators will be referred to as the upper and lower limits respectively for variable interest rate exposure and shall be calculated as follows:**

**Borrowing that is at variable rates  
Less  
Investments that are variable rate investments**

**For years 1, 2 and 3.**

**The upper and lower limits for variable interest rate exposure may be expressed either in absolute terms or as a percentage of total borrowing less investments.**

**26 Fixed interest rate exposure**

**The local authority will set for the forthcoming financial year and the following two financial years both upper and lower limits for its exposure to fixed interest rate risk. These prudential indicators will be referred to as the upper and lower limits respectively for fixed interest rate exposure and shall be calculated as follows:**

**Borrowing that is at fixed rates  
Less  
Investments that are fixed rate investments**

**For years 1, 2 and 3.**

**The upper and lower limits for fixed interest rate exposure may be expressed either in absolute terms or as a percentage of total borrowing less investments.**

- 27 In cases where the terms of the borrowing or investment raise questions as to whether it should be treated as fixed or variable, it should be treated as being variable for the purposes of these prudential indicators.
- 28 It should be noted that the prudential indicators for interest rate exposures can have negative values.

**29 Maturity structure of borrowing**

**The local authority will set for the forthcoming financial year both upper and lower limits with respect to the maturity structure of its borrowing. These prudential indicators will be referred to as the upper and lower limits respectively for the maturity structure of borrowing and shall be calculated as follows:**

**Amount of projected borrowing that is fixed rate maturing in  
each period  
Expressed as a percentage of  
Total projected borrowing that is fixed rate at the start of the  
period.**

**Where the periods in question are**

- **under 12 months**
- **12 months and within 24 months**
- **24 months and within 5 years**
- **5 years +.**

- 30** Where prudential indicators for interest rate exposures and/or the maturity structure of borrowing are revised during the financial year, the time periods under 12 months/12 months and within 24 months, etc shall refer to the time periods within 12 months of the start of the financial year/from 12 months and within 24 months, etc respectively.
- 31** Prudential limits for Principal sums invested for periods longer than 364 days

**Where a local authority invests, or plans to invest, for periods longer than 364 days, the local authority will set an upper limit for each forward financial year period for which the authority projects the maturing of such investments. These prudential indicators will be referred to as prudential limits for principal sums invested for periods longer than 364 days and shall be calculated as follows:**

**Total principal sum invested to final maturities beyond the period end**

**Less**

**Projected average cash balances in the period.**

- 32** In all cases, the process of setting prudential indicators for treasury management should be accompanied 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.
- 33** Local authorities should bear in mind that exposing themselves to undue risks for the purposes of securing lower borrowing costs or higher investment returns is not prudent. Accordingly, when setting prudential indicators involving limitations on their borrowing and investment activities, authorities will be expected to satisfy themselves that such limitations preclude the inappropriate or

ill-considered use of borrowing for the purpose, or in the expectation, of investing or on-lending. This is an activity commonly known as ‘roundtripping’, and its improper use would be likely to be considered an abuse of a framework for the internal control and self management of capital finance.

## MATTERS REQUIRED TO BE TAKEN INTO ACCOUNT WHEN SETTING OR REVISING PRUDENTIAL INDICATORS

### Overall

**34 In setting or revising their prudential indicators, the local authority is required to have regard to the following matters:**

- **option appraisal for all projects, ie value for money**
- **asset management planning, ie stewardship of assets**
- **strategic planning for the authority, ie service objectives**
- **achievability of the forward plan, ie its practicality**
- **implications for external borrowing, ie prudence**
- **implications for Council Tax, ie affordability.**

35 Further detailed requirements in respect of affordability and prudence are given below since these are primary roles for the [draft] Code. However, all the matters listed above must be taken into account when setting or revising prudential indicators.

### Affordability and prudential indicators for affordability

**36 The fundamental objective in the consideration of the affordability of the authority’s capital plans is to ensure that the level of investment in capital assets proposed means that the total capital investment of the authority remains within sustainable limits, and in particular to consider its impact on the local authority’s ‘bottom line’, its impact on the Council Tax.**

**37 In considering the affordability of its capital plans, the authority is required to consider all of the resources currently available to it/ estimated for the future, together with the totality of its capital plans**

**and revenue forecasts for the forthcoming year and the following two years.**

- 38 Matters which are relevant to a consideration of affordability include:
- to what extent are resources likely to be available to finance proposed capital expenditure immediately (capital receipts, grants and direct revenue contributions)
  - the revenue consequences of proposed capital expenditure in both the short and long term. This may be any combination of increased revenue expenditure/revenue savings/increased revenue income
  - existing expenditure commitments, both capital and revenue. This would by definition include PFI commitments, PPP schemes and operating leases
  - the revenue consequences of retirement benefits
  - planned change to revenue income or expenditure, whether through growth or savings
  - how much flexibility the authority's capital expenditure plans leave for future spending priorities, whether capital or revenue
  - whatever supersedes the current requirements for minimum revenue provision (England and Wales)/loans fund repayments (Scotland)
  - estimates of total interest costs and interest receivable. These should be the estimates of the actual amounts of interest that will be expended and received, based on the authority's estimates for actual external debt
  - risk and uncertainty in relation to all the above matters. Risk analysis and risk management strategies should be taken into account.
- 39 Paragraphs 36 and 37 require the development of three year revenue forecasts and three year forward estimates of Council Tax, as well as three year capital expenditure plans. NB These are rolling scenarios, not fixed for three years.
- 40 The local authority shall set and monitor against the prudential indicators specified in paragraphs 41-43 as key indicators of affordability. These prudential indicators shall be set and monitored in accordance with the due processes to be followed (paragraphs 49 –**

**62) and in accordance with the definitions specified (paragraphs 63 – 76).**

**41 Estimates of ratio of financing costs to net revenue stream**

**The local authority will estimate for the forthcoming financial year and the following two financial years the ratio of financing costs to net revenue stream. This prudential indicator shall be referred to as estimates of the ratio of financing cost to net revenue stream and shall be expressed in the following manner:**

**Estimate of financing costs : estimate of net revenue stream**

**For years 1, 2 and 3.**

**42 Actual ratio of financing costs to net revenue stream**

**After the year end, the ratio of financing costs to net revenue stream will be calculated directly from the local authority's consolidated revenue account. This prudential indicator shall be referred to actual ratio of financing costs to net revenue stream and shall be expressed in the following manner:**

**Actual financing costs : actual net revenue stream.**

**43 Estimates of impact of financing costs on the Council Tax**

**The local authority will estimate for the forthcoming financial year the impact of financing costs on the Council Tax. This impact shall be calculated using the same estimates of financing costs as used in the prudential indicator for the estimates of ratio of financing costs to net revenue stream, and shall be the local authority's best estimates of their impact on the Council Tax. This prudential indicator will be referred to as estimates of impact of financing costs on the Council Tax and shall be expressed in the following manner:**

**£ xxx.xx p.**

**44 The local authority's best estimates of the impact of financing costs on the Council Tax should be calculated in the same manner as if the local authority was setting a precept for the financing costs.**

**Prudence and prudential indicators for prudence**

**45 By virtue of the requirements already listed above, the prudential indicators in respect of external debt must be set and revised taking into account their affordability. It is through this means that the objective of ensuring that external debt is kept within sustainable, prudent limits is addressed.**

46 The penultimate two items listed in paragraph 38 of the [draft] Code will be particularly pertinent here.

47 Where the full year effect of capital projects will not be felt within a three year time frame, the local authority will need to have regard to the full year effects of the scheme when considering affordability and prudence.

#### **48 Net borrowing and the capital financing requirement**

**In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local 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. This is a key indicator of prudence. This prudential indicator will be referred to as net borrowing and the capital financing requirement.**

#### PROCESS AND GOVERNANCE ISSUES

##### Setting and revising prudential indicators

**49 Prudential indicators, other than actuals that are taken from information in the local authority's statement of accounts, are required to be set and where they are revised, revised by the same body that sets the budget for the local authority. These prudential indicators must be set and where they are revised, revised in accordance with the matters required to be taken into account (paragraphs 34 to 48).**

50 The body that sets the budget for the local authority will usually be the full Council of that local authority. Whether or not this is the case, the setting and revising of the prudential indicators should follow the same route as the setting of the budget of the local authority.

- 51 The prudential indicators for the forthcoming and following years must be set before the beginning of the forthcoming year. They may be revised at any time, following due process, and must be reviewed, and revised if appropriate, for the current year when the prudential indicators are set for the following year.**
- 52 Provided that the total authorised limit and total operational boundary for a year are unchanged, movement may be made between the separately identified figures within these prudential indicators for borrowing and other long term liabilities by the Chief Finance Officer. Any such changes should be reported to the next meeting of the body that sets the budget for the local authority.
- 53 Prudential indicators for treasury management should be considered together with the local authority's treasury management strategy and the annual report on treasury management activities.**
- 54 Prudential indicators for external debt and capital commitments for previous years are to be taken directly from information in the local authority's statements of accounts.**
- 55 If an item in the authority's statement of accounts that is relied on for a prudential indicator is the subject of audit qualification, this must be highlighted when prudential indicators are set or revised.
- 56 Prudential indicators for external debt and capital expenditure/commitments should not be set or revised in isolation from one another, but considered together. It would be logical for these to be considered when the budget for the local authority is set.
- 57 The Chief Finance Officer is responsible for ensuring that matters required to be taken into account when setting or revising prudential indicators (paragraphs 34-48) are reported to the decision making body for consideration. In relation to the local authority's statement of accounts, the Chief Finance Officer is responsible for signing and dating the statement, and for stating that it presents fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended.
- 58 This section of the [draft] Code establishes a clear governance procedure for the setting and revising of prudential indicators. This assists transparency and ensures accountability.

### **Monitoring against prudential indicators**

- 59 The Chief Finance Officer is required to establish procedures to monitor performance against all forward looking prudential indicators in paragraphs 9 – 33 plus the requirement specified in paragraph 48. The Chief Finance Officer will need to establish a measurement and reporting process that highlights significant deviations from expectations.**
- 60 With regard to prudential indicators and external debt:
- in respect of the prudential indicators for the authorised limit on external debt, where the Chief Finance Officer forms the view that a limit is likely to be breached a report to the decision making body is required. It will then be for the decision making body to determine if it would be prudent to raise the current limit or, alternatively, to instigate procedures to ensure that the current limit is not breached. It would be good practice for the Chief Finance Officer to establish an early warning system to the executive of any problems before they become severe
  - in respect of the prudential indicators for the operational boundary on external debt and estimate of the ratio of financing costs to net revenue stream, it should be emphasised that these are estimates. It will probably not be significant if the operational boundary is breached temporarily on occasions due to variations in cashflow. However, a sustained or regular trend above the operational boundary would be significant and should lead to further investigation and action as appropriate
  - regular monitoring should be undertaken in-year against key measures of affordability and sustainability, through regular monitoring of estimates of financing costs to revenue and capital financing requirement. Significant variation in the estimates used to calculate these prudential indicators, for example caused by major over-runs of expenditure on other projects or not achieving projected in-year capital receipts, should trigger management action. This will be particularly important before entering irrevocably into major commitments.
  - the new framework will put a greater emphasis on the monitoring of the local authority's cashflow. Variations above locally defined limits could trigger investigative action
  - one advantage of using total debt rather than attempting to focus just on long term debt or debt for a capital purpose, is that such a system would provide an early warning signal if an authority is getting into major difficulties through budgetary overspends which its other control

mechanisms are not yet flagging up – since such authorities will have unplanned demands for cash on an on-going basis.

- 61 In respect of prudential indicators and capital expenditure/capital commitments, it should be recognised that it is in the nature of capital expenditure to have variations from short-term time estimates and it is the success of the overall rolling medium term plan that is important. However, regular monitoring will assist the management of the authority’s capital plans.
- 62 The Chief Finance Officer should make arrangements for daily monitoring with respect to net borrowing and the capital financing requirement. Any deviation from the requirement in paragraph 48 may be significant and should lead to further investigation and action as appropriate.

## DEFINITIONS

- 63 These definitions shall be used for all purposes connected with the [draft] Code, and in particular shall be used by the local authority in setting, revising and monitoring against their prudential indicators.**

- 64 It is intended that, throughout, the definitions used in respect of the [draft] Code will be consistent with UK generally accepted accounting practice (UK GAAP) as applicable to the public services and embodied within the CIPFA/LASAAC *Code of Practice on Local Authority Accounting* (the SORP), except where statute requires otherwise. The SORP changes over time, particularly as UK GAAP and/or the statutory framework for local authority finance changes. In all cases, the development of the SORP follows due process and consultation. It is important that the [draft] Code is aligned with the SORP. Therefore, many of the definitions that follow cross refer to amounts that are required to be included within a local authority’s statement of accounts in accordance with the SORP. In relation to previous years, this means the version(s) of the SORP applicable to the year(s) involved. In relation to the current year or estimates for future year, this means the current SORP. Where changes to the SORP significantly affect the prudential indicators this fact should be highlighted by the local authority when setting or revising the indicators. If any figures in the authority’s statement of accounts that are used in prudential indicators are subject to audit qualification this fact should be highlighted when any prudential indicators are set or revised.

## 65 Borrowing

In the [draft] Code, borrowing refers to external borrowing. Prudential indicators for actual figures for previous years should be taken from the local

authority's consolidated balance sheets for those years, by aggregating the amounts for

- borrowing repayable with a period in excess of 12 months
- borrowing repayable on demand or within 12 months

Prudential indicators for current and future years should be calculated in a manner consistent with this definition.

**NB** See also transferred debt (paragraph 76 below).

## 66 Capital expenditure

The definition of capital expenditure starts with all those items that either should or may be capitalised under the SORP. To this must be added any items that have/will be capitalised in accordance with statute that otherwise would not be capitalised. Prudential indicators for actual figures for previous years should be taken from the amounts capitalised and included on the local authority's balance sheet. Prudential indicators for current and future years should be calculated in a manner consistent with this definition.

## 67 Capital expenditure committed but not incurred

For the purposes of the [draft] Code, capital expenditure committed but not incurred refers only to capital expenditure that has been contractually committed and that has not been incurred.

## 68 Capital financing requirement

Actual figures for capital financing requirement for previous years should be taken from the local authority's consolidated balance sheets for those years, by consolidating

- fixed assets
- deferred charges
- fixed asset restatement reserve
- capital financing reserve
- government grants deferred.

Estimates for capital financing requirement for current and future years should be calculated in a manner consistent with this definition.

## 69 Debt

For the purposes of the [draft] Code, debt refers to the sum of borrowing (see above paragraph 65) and other long term liabilities (see below paragraph 74).

## 70 Financing costs

Actual figures for financing costs for previous years should be taken from the local authority's consolidated revenue account by aggregating

- interest payable with respect to borrowing<sup>2</sup>
- interest payable under finance leases and any other long term liabilities<sup>2</sup>
- gains and losses on the repurchase or early settlement of borrowing
- interest and investment income<sup>3</sup>
- any amounts required in respect of whatever supersedes the current requirements for minimum revenue provision (England and Wales)/loans fund repayments (Scotland) plus any additional voluntary contributions plus any other amounts for depreciation/impairment that is charged to the amount to be met from government grants and local taxpayers.

Estimates for financing costs for current and future years should be calculated in a manner consistent with this definition.

NB See also transferred debt (paragraph 76 below).

## 71 Investments

Actual figures for investments for previous years should start with the sum of the amounts on the local authority's consolidated balance sheets<sup>4</sup> for

- long term investments
- (within current assets) investments
- (within current assets) cash and bank
- bank overdraft.

<sup>2</sup> These items are required by the SORP to be charged to the asset management revenue account. The notes to the consolidated revenue account require information on the nature and amount of all material transactions to the asset management revenue account if not disclosed on the face of the account.

<sup>3</sup> For consistency, any interest or investment income from investments excluded from prudential indicators in accordance with the definition for investments (see paragraph 71) should be excluded here.

<sup>4</sup> NB The SORP requires that the consolidated balance sheet should include the assets and liabilities of all activities of the authority, excluding the pension, trust, common good (in Scotland) and similar funds administered for third parties, therefore investments held by these funds will not be included.

From this should be subtracted any investments that are held clearly and explicitly in the course of the provision of, and for the purposes of, operational services. Estimates for investments for current and future years should be calculated in a manner consistent with this definition.

## 72 **Net borrowing**

For the purposes of the [draft] Code, net borrowing refers to borrowing (see above paragraph 65) net of investments (see above paragraph 71).

**NB** See also transferred debt (paragraph 76 below).

## 73 **Net revenue stream**

Actual figures for net revenue stream for previous years should be taken from the amounts in the local authority's consolidated revenue account for

— amount to be met from government grants and local taxpayers.

Estimates for net revenue stream for current and future years should be the local authority's estimates of the amounts to be met from government grants and local taxpayers, using the equivalent figures from the local authority's original/revised budget where available.

## 74 **Other long term liabilities**

The definition of other long term liabilities starts with items classified as long term liabilities on the local authority's balance sheet (ie other than borrowing repayable within a period in excess of 12 months). To this must be added any amounts that are determined by statute to be other long term liabilities that would otherwise not be so classified and from which must be subtracted any amounts that are determined by statute not to be other long term liabilities that would otherwise be so classified (referred to below as statutory adjustments). Prudential indicators for previous years should be taken from the local authority's balance sheets as amended for any statutory adjustments. Prudential indicators for current and future years should be calculated in a manner consistent with this definition.

## 75 **Treasury management**

Treasury management has the same definition as in CIPFA's *Code of Practice for Treasury Management in the Public Services*

“The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

## 76 Transferred debt

Some local authorities are managing debt that was transferred to them on reorganisation and which relates to a number of other local authorities as well as themselves. While such arrangements continue, such local authorities (ie those managing the transferred debt) should include these amounts in their prudential indicators, except only that

- (a) these amounts should be netted off when calculating net borrowing for the purposes of paragraph 48 of this [draft] Code
- (b) when considering financing costs for paragraphs 41-44 of this [draft] Code, wherever possible financing costs arising from transferred debt should be excluded from the financing costs of the local authority that is managing the debt for other local authorities and included within the financing costs of the relevant other local authority concerned.

## APPENDICES

*Appendices, which will not be part of the Code itself, will be inserted here.*