

THE PRUDENTIAL CODE FOR CAPITAL FINANCE FOR LOCAL AUTHORITIES

The Local Government Act 2003 has the effect of replacing the current system of Local Government Capital Finance with a new one, known as the 'Prudential Regime' from 1 April 2004. In the Prudential Regime, instead of the historical practice of local authorities only being able to borrow in line with central government prescribed limits, each local authority must decide its own borrowing limits. These must take account of the authority's financial situation, medium term plans and in particular affordability, as funding capital expenditure has an ongoing revenue cost which must be met from either Council Tax or housing rents.

CIPFA has developed a Prudential Code of Capital Finance in Local Authorities which specifies those indicators that the Council must consider and it is anticipated that this will become a regular feature of the budget setting process from 2004/05 onwards.

No.	AFFORDABILITY INDICATORS	2004/05	2005/06	2006/07
1	Financing Costs to Net Revenue Stream	%	%	%
(a)	General Fund	-0.1	0.6	0.5
(b)	Housing Revenue Account	-14.2	-13.5	-14.6
2	Impact of New Capital Investment	£ p	£ p	£ p
(a)	Cumulative Increase in Council Tax (Band D, per annum)	8.20	18.34	31.62
(b)	Cumulative Increase in housing rent per week	0.00	0.00	0.00
No.	CAPITAL EXPENDITURE INDICATORS	2004/05	2005/06	2006/07
3	Estimates of Gross Capital Expenditure	£'000	£'000	£'000
(a)	General Fund	15,025	31,322	31,132
(b)	Housing Revenue Account	4,556	4,595	4,632
(c)	TOTAL	19,581	35,917	35,764
4	Capital Financing Requirement (as at 31 March)	£'000	£'000	£'000
(a)	General Fund	6,846	11,084	17,157
(b)	Housing Revenue Account	0	0	0
(c)	TOTAL	6,846	11,084	17,157
No.	EXTERNAL DEBT INDICATORS	2004/05	2005/06	2006/07
5	Authorised limit for external debt -	£'000	£'000	£'000
(a)	Borrowing	10,000	15,000	21,000
(b)	Other long term liabilities	0	0	0
(c)	TOTAL	10,000	15,000	21,000
6	Operational boundary -	£'000	£'000	£'000
(a)	Borrowing	0	5,000	11,000
(b)	Other long term liabilities	0	0	0
(c)	TOTAL	0	5,000	11,000

No.	TREASURY MANAGEMENT INDICATORS	2004/05	2005/06	2006/07
7	Upper limit for fixed interest rate exposure Net principal outstanding (borrowing less investment)	% 100	% 100	% 100
8	Upper limit for variable rate exposure Net principal outstanding (borrowing less investment)	% 10	% 10	% 10
9	Upper limit for total principal sums invested for over 364 days Over 12 months (as % of total investments)	% 60	% 60	% 60
10	Maturity structure of new fixed rate borrowing during 2004/05	Upper limit	Lower limit	
(a)	Under 12 months	100%	0%	
(b)	12 months and within 24 months	0%	0%	
(c)	24 months and within 5 years	0%	0%	
(d)	5 years and within 10 years	0%	0%	
(e)	10 years and above	0%	0%	

Notes:

- a) The Council has adopted and complies with the CIPFA Code of Practice for Treasury Management.
- b) The above figures make no allowance for any capital expenditure or financing associated with the redevelopment of Bracknell Town Centre and the Civic Hub in particular. This could have an impact on the prudential indicators for 2005/06 and 2006/07. Detailed plans are still being developed and the financial arrangements remain uncertain.
- c) The above figures make no allowance for the repayment of the balance of the former County's debt currently managed by Reading Borough Council. The budget strategy does not provide for its repayment, but if interest rates continue to rise and market conditions become favourable the debt, which at 31 March 2004 is expected to be £8.7m, may be repaid. The repayment can be accommodated within the limits specified above.
- d) Estimates of gross capital expenditure are before deduction of any government grants or earmarked capital receipts (NB Garth Hill College and Brakenhale schemes).
- e) A further report will be made should there be a need to amend significantly any of the prudential indicators.

