Extract from the CIPFA Prudential Code for Capital Finance in Local Authorities 2017 Edition

Definitions

75 **These definitions shall be used for all purposes connected with the Prudential Code, and in particular shall be used by the local authority in setting, revising and monitoring against its prudential indicators.**

76 It is intended that, throughout, the definitions used in respect of the Prudential Code will be consistent with proper accounting practices for local authorities. The development of proper accounting practices follows due process and consultation. It is important that the Prudential Code is aligned with these practices. 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 proper accounting practices. Where changes to proper accounting practices 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.

77 Borrowing

In the Prudential Code, borrowing refers to actual external borrowing. Prudential indicators for actual figures for previous years should be taken from the local authority's 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.

This value should then be adjusted to exclude any accounting adjustments made including premiums and discounts, transactions costs, accrued interest and effective interest rate adjustments. The resulting value for borrowing should then be equal to the actual outstanding external borrowing at the end of the financial year.

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

NB: See also transferred debt (paragraph 87).

78 Capital expenditure

The definition of capital expenditure starts with all those items capitalised in accordance with proper accounting practice. To this must be added any items that have/will be capitalised in accordance with legislation that otherwise would not be capitalised. Prudential indicators for actual figures for previous years should be taken from the amounts capitalised as disclosed in the local authority's statutory accounts. Prudential indicators for current and future years should be calculated in a manner consistent with this definition. In Scotland, the definition of capital expenditure for Prudential Code purposes should include any expenditure for which Scottish ministers have provided a '*consent to borrow'* under the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 and relevant finance circulars.

79 Capital financing requirement

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

- tangible fixed assets (ie property, plant and equipment, investment properties and non-current assets held for sale)
- intangible assets
- long-term debtors relating to capital transactions (where applicable)
- any amounts carried as investments that were treated as capital expenditure under proper practice or applicable regulations
- Revaluation Reserve
- Capital Adjustment Account
- Donated Assets Account.

In addition, any other items on the local authority's balance sheet that relate to capital expenditure incurred should be included, but excluding the underlying liability – ie the underlying need for the equivalent to borrowing – for lease obligations, deferred purchases and similar arrangements in respect of long-term credit. (See in particular the definition of other long-term liabilities in paragraph 85.) Any items on the balance sheet that relate to prepayments for revenue items should not be included. Useable capital receipts that have not been applied to finance capital expenditure should not be included. Grants unapplied should also not be included.

NB: The capital financing requirement can be a negative figure.

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

80 Debt

For the purposes of the Prudential Code, debt or gross debt refers to the sum of borrowing (see paragraph 65) and other long-term liabilities (see paragraph 73). It should be noted for authorities in England, Wales and Northern Ireland that the Local Government Act 2003 and the Local Government Finance (Northern Ireland) Act 2011 require credit arrangements to be treated as the borrowing of money for the purposes of determining the affordable borrowing limit and the imposition of borrowing limits. In Scotland credit arrangements are not treated as the borrowing of money but are recognised as an outstanding liability on the balance sheet and are considered to be a debt associated with capital financing. Within the Prudential Code borrowing is distinguished from other long-term liabilities in order to relate the prudential indicators directly to the balance sheet. Net debt is debt which is net of investments (see paragraph 82).

81 Financing costs

Actual figures for financing costs for previous years should be those charges made to the General Fund made by aggregating:

- interest charged to the General Fund with respect to borrowing
- interest payable under finance leases and any other long-term liabilities
- gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount to be met from government grants and local taxpayers
- interest and investment income
- amounts payable or receivable in respect of financial derivatives
- any amounts required for the statutory provision for the repayment of debt, currently minimum revenue provision (England and Wales), loans fund repayments and the repayment of other long-term liabilities – PFI and finance leases (Scotland) and General Fund charges for loan principal (Northern Ireland), plus any additional voluntary contributions
- any amounts for depreciation/impairment that are 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 87).

82 Investments

Actual figures for investments for previous years should start with the sum of the amounts on the local authority's balance sheets for:

- long-term investments
- short-term investments
- cash and cash equivalents.

This value should then be adjusted to exclude accrued interest, so that the resulting value is equal to the value of external investments including impairments.

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

83 Net borrowing

For the purposes of the Prudential Code, net borrowing refers to borrowing (see paragraph 77) net of treasury management investments (see paragraph 82).

NB: See also transferred debt (paragraph 87).

84 Net revenue stream

Actual figures for net revenue stream should be taken from the amounts in the local authority's comprehensive income and expenditure statement for:

- taxation and non-specific grant income.

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.

85 Other long-term liabilities

'Other long-term liabilities' in this Code relate to the liabilities which are outstanding under credit arrangements (as defined by statute for authorities in England, Wales and Northern Ireland). The objective is to identify liabilities outstanding (other than borrowing) in relation to the financing of capital expenditure.

The definition of other long-term liabilities starts with the sum of the amounts on the face of the local authority's balance sheet that are classified as liabilities that are for periods in excess of 12 months, other than borrowing repayable within a period in excess of 12 months or liabilities that are for less than 12 months, for example during the last year of a PFI contract or finance lease. For clarification, amounts that relate to the Capital Adjustment Account, Financial Instruments Adjustment Account, Capital Grants Unapplied, Unequal Pay Back Pay Account, Revaluation Reserve, Pensions Reserve, Capital Receipts Reserve, Available-for-Sale Financial Instruments Reserve and Major Repairs Reserve (England and Wales – authorities with an HRA) are not included within the definition of other long-term liabilities for the purposes of the Prudential Code.

To the resultant figure must be added any amounts that are determined by legislation to be other long-term liabilities (credit arrangements under Part 1 of the Local Government Act 2003) that would otherwise not be so classified and from which must be subtracted any amounts that are determined by legislation not to be other long-term liabilities that would otherwise be so classified (referred to below as statutory adjustments). Deferred liabilities in respect of transferred debt should be treated in accordance with paragraph 87. 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.

86 Treasury management

Treasury management has the same definition as in the CIPFA *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*:

The management of the organisation's investments and 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.

87 Transferred debt

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

(a) These amounts should be netted off when calculating debt for the purposes of paragraph 62 of this Prudential Code.

(b) When considering financing costs for paragraphs 73–74 of this Prudential 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. This can be achieved by crediting income from the external organisation received in relation to the financing costs of the managed debt, in line with proper practices.

A local authority that is in the reverse of this position, ie for which another local authority holds debt managed in this way, should exclude these amounts from its prudential indicators, except only that:

(c) When considering financing costs for paragraphs 73–74 of this Prudential Code, wherever possible financing costs arising from transferred debt should be included within the financing costs of the local authority for which another local authority is managing its debt. This can be achieved by debiting amounts payable to the local authority managing the debt, in line with proper practice.

Borrowing undertaken in Scotland under Regulation 10 of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 should be treated in the same way as transferred debt.