

The Prudential Code for Capital Finance in Local Authorities

Introduction

The Police Authority is required by law (the Prudential Code) to have regard to a number of matters when setting its capital programme each year. The capital programme includes items that benefit more than one year (such as new buildings), whereas the revenue programme covers items such as staff pay.

Capital investment is partly met by borrowing. The cost of repaying that borrowing over a number of years – just like a mortgage on a private house – is met from the annual revenue budget.

The Police Authority, just like all local authorities, is not permitted to fund revenue expenditure from borrowing. That comes from Government grant and council tax.

Objectives

The objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable, and a number of indicators have been devised to test performance against this objective.

The main objective regarding affordability is to ensure that planned capital investment remains within sustainable limits, and in particular to consider its impact on the council tax. The Authority needs to take account of all the resources likely to be available to it.

In relation to being prudent there is a need to demonstrate that borrowing will only be used for capital purposes. There are also requirements to ensure that not all borrowing follows the same pattern of type of loan (fixed or variable interest rates) and repayment period.

Prudential Indicators for Leicestershire Police Authority

The report that accompanies the capital programme for 2010-11 and beyond (Paper A of 9th February 2010) is of necessity very complex. The purpose of this supplementary note, whilst not being a formal part of the report, is to describe in straightforward terms how the Leicestershire Police Authority is complying with the Code.

The indicators in the 9th February report show that:-

- The total capital programme for 2010-11 is £6.845 million, of which £4.571 million will be met from borrowing.
- The proportion of the 2010-11 revenue budget that will be required to meet the cost of borrowing is 1.34%.
- As a result of the 2009-10 capital programme the local council tax will increase in 2010-11 by 1 pence per week.

- The Authority has calculated that the maximum amount of external borrowing that would be consistent with the principles of the Code is, for 2010-11, £22.6 million. This includes a sum of £1.5 million to manage in-year cash flow fluctuations.
- The actual amount of external debt at 1 April 2009 was £17.1 million.