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ADDITIONAL CIRCULATION



To: All Members of the Council

Town House,
ABERDEEN, 6 February 2012

COUNCIL BUDGET MEETING

The undernoted items are circulated in connection with the meeting of the **COUNCIL** to be held here in the Town House on **THURSDAY, 9 FEBRUARY 2012 at 2.00pm.**

JANE G. MACEACHRAN
HEAD OF LEGAL AND DEMOCRATIC SERVICES

BUSINESS

Members are requested to resolve that any exempt business on this agenda be considered with the press and public excluded.

6 Prudential Indicators - Report by Director of Corporate Governance (Pages 1 - 8)

BUSINESS THE COUNCIL MAY WISH TO CONSIDER IN PRIVATE

7 Local Authority Trading Company - Report by Director of Social Care and Wellbeing (Pages 9 - 28)

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ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	9 February 2012
DIRECTOR	Stewart Carruth
TITLE OF REPORT	2012/13 to 2014/15 Prudential Indicators
REPORT NUMBER:	CG12/016

1. PURPOSE OF REPORT

To provide elected members with information in relation to the Prudential Code indicators that are required to be set for the financial years 2012/13 to 2014/15 as required by Part 7 of the Local Government in Scotland Act.

2. RECOMMENDATION(S)

It is recommended that Council:-

- a) Considers the information contained within this report and sets the Prudential indicators for the financial years 2012/13 to 2014/15, based on the approved budgets set to date per Appendix 1 of this report; and
- b) Instructs the Head of Finance to monitor the indicators and report back to Council on the position with regard to the Indicators where appropriate.

3. FINANCIAL IMPLICATIONS

The indicators cover the Council's revenue and capital budgets to ensure affordability and prudence. Since April 2004, Council's have been required by regulation to have regard to the Prudential Code when carrying out their duties under Part 7 of the Local Government (Scotland) Act 2003. Thus, in undertaking external borrowing the Council must pay cognisance to the key objectives of the Prudential Code which are to ensure that the Council's capital programmes are affordable, prudent and sustainable.

4. OTHER IMPLICATIONS

Failure to invest adequately in the Council's asset base may lead to the Council failing to comply with current health and safety requirements. If the continuation of close budgetary control is not exercised and maintained the Council may operate out with the capital control mechanisms laid down by the Scottish Government in relation to the Prudential Code for the 2012/13 Capital Programmes.

5. BACKGROUND/MAIN ISSUES

5.1 From 1 April 2004. Councils are required by Regulation to have regard to the Prudential Code (the Code) when carrying out their duties under Part 7 of the Local Government in Scotland Act 2003.

5.2 In setting the revenue and capital budgets, members will be aware that under the Prudential Code, the level of capital investment is determined locally. Therefore, these indicators will be reviewed on an ongoing basis to ensure that the Council does not breach the indicators it sets.

Prudential Code - Objectives

5.3 The key objectives of the Code are to ensure:

- The Council's capital programmes are affordable, prudent and sustainable.
- Treasury management decisions are taken in accordance with good professional practice.

The Code also has the objectives of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.

Capital Programme

5.4 In setting the indicators cognisance should be paid to the level of capital investment for both the housing and non-housing capital programmes that the Council wishes to embark upon. It is important that all capital investment decisions are consistent with the requirements of Council policy, local strategy, asset management planning, Vibrant, Dynamic and Forward Looking and Service plans.

Affordability and Sustainability

5.5 The Council must consider the affordability of its capital programme for all years. The Code also requires the Council to have regard for wider management processes (option appraisal, asset management planning, strategic planning and achievability) in accordance with professional good practice.

5.6 The fundamental objective in the consideration of the affordability of the Council's capital programme is to ensure that the total capital

investment of the authority remains within sustainable limits, and in particular to consider the impact on the “bottom line”. That is, affordability is determined by a judgement about acceptable levels on the level of housing rents or council tax.

Prudence

- 5.7 In order to ensure the Council is operating its capital programme prudently, it is a requirement of the Code that over the medium term net borrowing will only be for a capital purpose. That is, the Council should ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the financial years 2010/11 to 2014/15. This is a key indicator of prudence.

Treasury Management

- 5.8 It is also a requirement of the Code that treasury management is carried out in accordance with good professional practice. The Code requires the Council to comply with the CIPFA Code of Practice for Treasury Management in the Public Services. This Council does comply with this Code of Practice.
- 5.9 The Council is also required under the Code to set Treasury management indicators as part of its Treasury Management policy. These indicators and the Council’s Treasury Management policy are reported to the Finance and Resources Committee.

Conclusion

- 5.10 In conclusion the Council are requested to set Prudential Indicators that are affordable and sustainable as shown in Appendix 1 of this report. Further, the primary focus of the indicators is to ensure that the level of capital investment is also achievable.
- 5.11 However, any such capital investment decisions must comply with the requirements of Council policy, local strategy, asset management planning and Service plans.
- 5.12 That is, where capital investment assists in achieving these objectives it allows the Council to undertake a level of investment to proceed providing the Council can finance it within prudent and affordable limits.

6. IMPACT

This report aims to provide meaningful financial information to elected members to enable effective decision making. The report relates to the corporate objectives to provide adequate capital investment in the

Council's infrastructure and asset base as well as the revenue setting process.

7. BACKGROUND PAPERS

Non Housing Capital Programme;
Housing Capital Programme;
General Fund Revenue Budget;
Housing Revenue Account Budget.

8. REPORT AUTHOR DETAILS

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**ABERDEEN CITY COUNCIL
2012/13 to 2014/15**

**THE PRUDENTIAL CODE
For Capital Finance in Local Authorities**

From 1 April 2004, Councils are required by Regulation to have regard to the Prudential Code (the Code) when carrying out their duties under Part 7 of the Local Government in Scotland Act 2003.

In setting the revenue and capital budgets, members will be aware that under the Prudential Code, the level of capital investment is determined locally. Therefore, these indicators will be reviewed on an ongoing basis to ensure that the Council does not breach the indicators it sets.

The key objectives of the Code are to ensure:-

- The Council's capital programmes are affordable, prudent and sustainable.
- Treasury management decisions are taken in accordance with good professional practice.

The Code also has the objectives of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.

In setting the indicators, cognisance should be paid to the level of capital investment looking ahead for a three year period, for both the housing and non-housing capital programmes that the Council wishes to embark upon. For the purposes of this report, the underlying requirement to finance the 3R's project has been ignored on the basis that it is anticipated that the contract will continue to run as normal.

The Code requires the Council following Prudential Indicators are set for the Council:-

	Capital Expenditure				
	2010/11 £'000 Actual	2011/12 £'000 Estimate	2012/13 £'000 Estimate	2013/14 £'000 Estimate	2014/15 £'000 Estimate
Non HRA	60,588	35,155	31,059	24,359	22,554
HRA	52,911	46,540	39,825	37,563	35,178

	Ratio of Financing Costs to Net Revenue Stream				
	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Non HRA	7.2%	7.4%	7.6%	7.6%	7.6%
HRA	15.0%	16.7%	19.3%	20.5%	22.2%

	Capital Financing Requirement				
	2010/11 £'000 Actual	2011/12 £'000 Estimate	2012/13 £'000 Estimate	2013/14 £'000 Estimate	2014/15 £'000 Estimate
Non HRA	438,826	512,922	496,823	479,598	461,606
HRA	188,068	245,646	262,929	276,603	288,158
Total	626,894	758,568	759,752	756,201	749,763

The Prudential Code states:

“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 the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.” For example, the 2012/13 total authorised limit for external debt (£678.398 million per table below) should not exceed the total capital financing requirement as at 2014/15 (£749.763 million per table above).

The Head of Finance reports that the Council can meet this requirement in 2012/13, and it is expected to do so for the future years, as outlined, taking into account current commitments, existing plans, and the assumptions in this report.

	Authorised Limit for External Debt			
	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Borrowing	638,606	663,197	682,799	698,793
Other Long Term Liabilities	15,598	15,201	14,804	14,407
Total	654,204	678,398	697,603	713,200

	Operational Boundary for External Debt			
	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Borrowing	639,289	648,965	654,049	655,922
Other Long Term Liabilities	0	0	0	0
Total	639,289	648,965	654,049	655,922

The estimate of the incremental impact of capital investment decisions proposed in this report, over and above capital investment decisions that have previously been taken by the Council are:

(a) for the Band D Council Tax

2011/12	2012/13	2013/14
£0	£0 (Prov)	£0 (Prov)

(b) for average weekly housing rents (assuming that increased capital investment is financed by way of cfc and borrowing)

2011/12	2012/13	2013/14
£1.61	£0 (Prov)	£0 (Prov)

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Exempt information as described in paragraph(s) 11 of Schedule 7A of the Local Government (Scotland) Act 1973.

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