

**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) |