Appendix A

Rules for Spend to Save Schemes under the Prudential Borrowing Regime

There are three distinct types of potential spend to save schemes which have been identified, and the rules recommended for each are set out below.

General Rules for Spend to Save Proposals under Prudential Borrowing

- Bids under £20,000 will not be considered. Such proposals should be financed from departmental revenue budgets.

- All proposals should be submitted to the Chief Finance Officer through the Financial Strategy section.

- Bids between £20,000 and £250,000 to be approved by the Chief Finance Officer in consultation with the Cabinet Link Member for Finance. Such approvals would be reported to Cabinet as part of the capital monitoring process. The CFO will recommend an operational limit to Council each year with sufficient headroom to deliver a number of these schemes. The totality of approvals for such bids should not be greater than this operational limit for borrowing under the prudential code.

- Bids over £250,000 to be submitted to Cabinet for consideration.

- All bids are to include a risk analysis, which will be specified by the CFO..

Option 1 "Spend to Save"

This scenario may occur when capital investment would result in ongoing revenue savings or increased income. Based on a 25 year annuity there would be a 7.5% charge to departmental budgets on a permanent basis for the general fund. Costs for the HRA are expected to be similar if not the same. Part year costs would be split pro-rata to the start of the quarter when the payment is made. 7.5% equates approximately to the average cost of providing an annuity over ba 25 year period.

This would have the effect of departments being subsidised by the centre in the early years, but after year 7, this position would be reversed. After 25 years the capital borrowing costs for the centre will have been paid off. This example is based on a long – term borrowing rate of 5.5%.

Option 2 Temporary "Pump Priming"

In this scenario, money would be borrowed up front with a repayment of the whole amount expected within a short-period i.e. within 5 years. This scenario

could include examples where a new property is acquired, which would then be ultimately financed by the sale of the existing property, though this could not occur until the new premises are fully occupied for service delivery reasons. This scenario could also include examples where grant funding was guaranteed for a future year, but where departments would want to start spending earlier.

It is important to note that interest costs of such borrowing are a real cost to the Council and will need to be reimbursed as well as the principal repayments. Such interest costs could have a considerable impact on Council Tax in the short-term if such costs were not funded.

This would result in an interest charge of 6.1% p.a. being the short-term borrowing rate, plus 4% MRP in year 2 onwards. We would seek to review this interest charge each year for new schemes in the light of changes in market rates. Part year interest costs could be split pro-rata to the start of the quarter when the payment is made. MRP would not be charged in the financial year the borrowing was taken out, nor of course in the year the loan was repaid. (A full repayment would of course be greater than MRP).

The borrowing would be subject to a robust business case being demonstrated including a risk analysis which satisfied the Chief Finance Officer that the proposed repayments can be relied upon, and an adequate contingency was in place. Early repayment of the principal sum would normally be allowed.

Option 3 Internal "Payback Fund"

This scenario is similar to the current Payback Fund, although interest would need to be incorporated in the repayments, and a longer repayment period possibly up to 10 years could be considered, although shorter paybacks would be encouraged.

Interest would be charged at around 6.1% of the outstanding balance plus the capital repayments. This would be expressed in the form of a fixed repayment schedule based upon the average cost of buying an annuity for the value of the borrowing, repayable over whatever payback period is specified by the department. This payback period would be agreed at the start of the loan. The actual cost of the annuity will differ depending upon the length of the loan. MRP would not be a factor because the capital repayments incorporated within the annuity would be a greater sum. The option for early repayment of the loan would normally be allowed subject to the agreement of the Chief Finance Officer. The capital repayment would be recharged to departments regardless of actual compensating savings accruing.