Annex 8

Spend to save and prudential borrowing

This is when the Council can take advantage of a savings opportunity that will require an initial cash outflow which will be recouped in future years. Spend to save opportunities generally fall into three categories

(1) Those related totally to revenue expenditure
(2) Those related to capital investment
(3) A combination of 1 and 2 above

Spend to save revenue projects

Revenue related spend to save opportunities are usually associated with creating savings from improved efficiencies. An example of this would be the employment of interim specialist staff to undertake a business process re-engineering exercise which would involve an initial cash outflow, this being recovered in future years (the period to recover the initial costs is known as the payback period).

Determining a project's payback period is not an exact science and will largely be linked to the risk of the project failing or falling short of savings targets. The greater risk the shorter the required payback period. A reasonable rule of thumb for revenue based projects with a high probability of success would be a three year payback period.

Spend to save capital projects

Projects involving capital expenditure usually but not always require to be viewed over the longer term , using a whole life costing approach supported by discounted cash flow methodology (this enables the projects future cash flows to be assessed at todays values after taking into account the Councils cost of capital and the risks associated with the project)

Prudential Code

With capital projects the Council may have to borrow to fund the project. In these circumstances the Council will be guided by the principles of the Prudential Code

The Prudential Code states that a soundly formulated capital programme must be driven by the desire to provide high quality value for money public services.

The Code recognises that in making investment decisions the authority must have explicit regard to option appraisal, asset management planning, strategic planning and achievability of its forward plans, affordability eg implications for council tax and prudence and sustainability eg implications for external borrowing and whole life costing.

The Prudential Code requires that in the medium term, borrowing will only be for capital purposes (para 43 of the code) eg in the short term there maybe a need to borrowing to support cash flow requirements. Capital expenditure is defined as those items capitalised in accordance with proper accounting practice or will be capitalised in accordance with legislation that otherwise would not be capitalised.(para 65 of the code)