

**FLINTSHIRE COUNTY COUNCIL**

**REPORT TO:** **LIFELONG LEARNING OVERVIEW AND SCRUTINY COMMITTEE**

**DATE:** **MONDAY 11<sup>TH</sup> MAY 2015**

**REPORT BY:** **CHIEF OFFICER (EDUCATION & YOUTH) AND CHIEF OFFICER (ORGANISATIONAL CHANGE)**

**SUBJECT:** **UNSUPPORTED (PRUDENTIAL) BORROWING**

**1.00 PURPOSE OF REPORT**

- 1.01 To provide an update to Members on unsupported (Prudential) borrowing.

**2.00 BACKGROUND**

- 2.01 Unsupported borrowing, commonly referred to as prudential borrowing, is simply borrowing not supported by Welsh Government through the Revenue Support Grant.

- 2.02 Capital expenditure funded from borrowing is either classed as supported borrowing or unsupported (prudential) borrowing. All borrowing has associated revenue costs. The revenue costs of supported borrowing are recognised through funding in the revenue financial settlement in the Revenue Support Grant from Welsh Government. There is no support from Welsh Government to fund the revenue costs of unsupported (prudential) borrowing, therefore costs have to be met from the Councils revenue budget.

**Revenue Costs of Unsupported Borrowing**

- 2.03 **Interest costs** – Any form of borrowing will have an associated interest cost. This will vary dependent on the loan type, duration, and commencement date of the loan. In line with good practice the Council doesn't associate borrowing with any particular items of expenditure. The Council's current portfolio of loans has a weighted average interest rate of 5.4%. The current rate of borrowing is much lower; however, the average rate reflects historical borrowing when rates were much higher.
- 2.04 **Repayment of borrowing** – The charge to the revenue account for the repayment of debt is called the Minimum Revenue Provision. Local Authorities are required each year to set aside some of their revenue resources as provision for the repayment of debt i.e. a provision in respect of capital expenditure funded from borrowing.

- 2.05 For capital expenditure funded from unsupported (prudential) borrowing this is calculated in relation to the life of the asset. For example, a new school might have a useful life of 50 years and so the charge would be 2% per annum, however a new IT system might have a useful life of 5 years and so the charge would be 20% per annum.

### **3.00 CONSIDERATIONS**

- 3.01 Strategic decisions to undertake capital investment need to be in line with the Council's priorities and will be limited by the need to demonstrate that schemes are affordable, prudent and sustainable.
- 3.02 The revenue affordability of capital proposals is the key restraint on the use of unsupported (prudential) borrowing. The revenue costs of capital schemes will add to the Council's existing need to achieve significant revenue savings in the medium term unless the capital scheme releases revenue efficiencies.
- 3.03 When making a decision to invest in a capital asset, the Council must do more than determine whether it can afford the immediate cost. In order to ensure long-term affordability, decisions also have to be prudent and, and in the long term, sustainable
- 3.04 Borrowing has to be prudent as future interest rates and revenue streams are uncertain, it involves an element of risk. If the Council is unable to deliver the capital programme, or afford the running cost of running and maintaining new facilities, the chosen level of capital investment will not be sustainable in the long term.
- 3.05 As an example a very approximate estimate of the revenue costs to fund a £25m capital maintenance backlog through unsupported (prudential) borrowing is as follows:-
- 25 year asset life (9.4% \*\* x £25m) = £2.35m each year
  - 50 year asset life (7.4% x £25m) = £1.85m each year

(Note \*\*:- 9.4% relates to 5.4% interest rate plus an MRP of 4% = 9.4%)

- 3.06 The above calculation above uses an average interest rate of 5.4% (though current interest rates are significantly lower and depend on how long you need to borrow the money) so interest repayments would be in the region of £1.35m per year.
- 3.07 The Minimum Revenue Provision (MRP) included in the calculation above depends on the nature of the work and the asset life, as a minimum for example a 25 year period would attract a 4% charge which would equate to a repayment charge of £1m per year. The maximum period would be 50 years which would attract a 2% charge and equate to £0.5m per year.

3.08 Given the need to demonstrate that capital schemes funded by unsupported (prudential) borrowing are sustainable and affordable over long periods of time, involving an element of risk, the Council has taken a cautious approach to its use over recent years.

3.09 Total schemes funded are circa £4.6m as at 31<sup>st</sup> March 2014, a modest amount when considered as part of cumulative capital programme circa £120m over the same period. Included are schemes such as the rationalisation of depots and the extension and refurbishment of the single depot at Alltami, capital works needed for school amalgamations, and the 21<sup>st</sup> century schools programme.

#### **4.00 RECOMMENDATIONS**

4.01 That Members note the report.

#### **5.00 FINANCIAL IMPLICATIONS**

5.01 None as a direct result of this report.

#### **6.00 ANTI POVERTY IMPACT**

6.01 None as a direct result of this report.

#### **7.00 ENVIRONMENTAL IMPACT**

7.01 None as a direct result of this report.

#### **8.00 EQUALITIES IMPACT**

8.01 None as a direct result of this report.

#### **9.00 PERSONNEL IMPLICATIONS**

9.01 None as a direct result of this report.

#### **10.00 CONSULTATION REQUIRED**

10.01 None as a direct result of this report.

#### **11.00 CONSULTATION UNDERTAKEN**

11.01 None as a direct result of this report.

#### **12.00 APPENDICES**

None

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985**  
**BACKGROUND DOCUMENTS**

None

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