Local Government Association

funding innovation: local authority use of prudential borrowing

local authority case studies of using prudential borrowing to fund innovative projects

introduction

The Local Government Act 2003 introduced new freedoms and flexibilities for local authorities. One of the new powers allowed local authorities to borrow to invest in capital works and assets so long as the cost of that borrowing was affordable and in line with principles set out in a professional Prudential Code, endorsed by the Chartered Institute of Public Finance and Accountancy. Local authorities have been making use of prudential borrowing for three years now, with great variation existing between authorities in the amounts invested and the purpose to which it has been put.

Since the prudential capital system began in 2004/05 £6.13 bn has been borrowed using the system. This has steadily increased over the three years as the table below shows. Whilst the rate of increase of central government contribution to capital expenditure has slowed prudential borrowing has helped to maintain an overall increase in investment, allowing local authorities to meet the local and national challenges that they face.

the picture so far

The use of prudential borrowing has increased by over 180 per cent since it was introduced in 2004/05. The table below shows a breakdown of how much prudential borrowing has taken place over the last three years and how this has increased as a proportion of total spend and the number of authorities using prudential borrowing has also continued to rise.

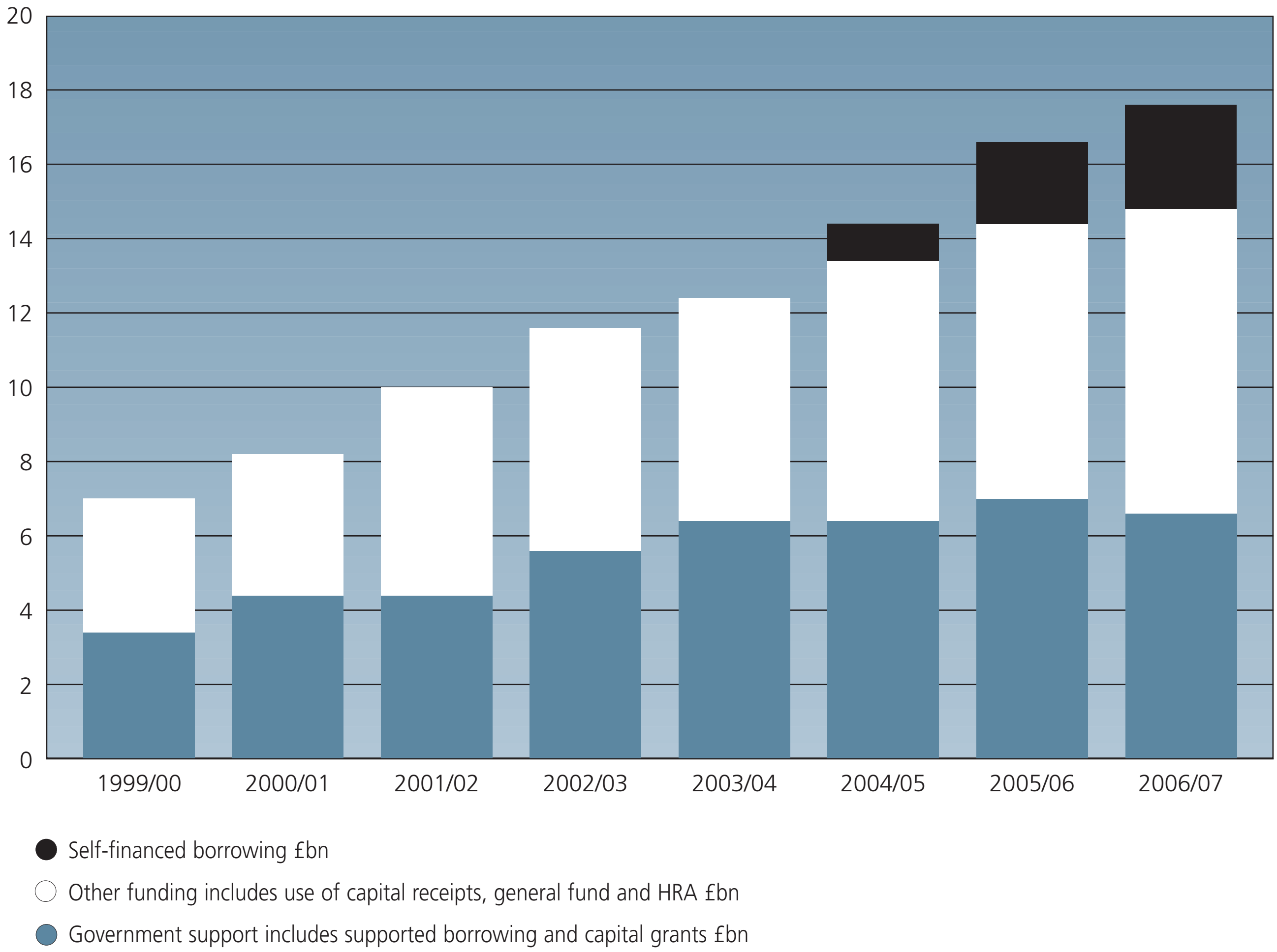
Year	Prudential borrowing £m	% as total spend	No. authorities using prudential borrowing
2004/05	987	7	189
2005/06	2375	14.5	214
2006/07	2768	15.1	248

The table below shows how authorities by type have been using prudential borrowing since 2004/05. Whilst the district authority figure appears to be low by comparison, when the debt free authorities are removed from this figure then 46 per cent of with-debt districts are intending to use prudential borrowing in 2006/07.

Authority type	% using prudential borrowing in 2006/07	Average borrowing per type of authority (£m)
London borough	75	14
Unitary	82	6.8
County	94	20.4
Met. Districts	97	14
Districts	29	1.5

The Greater London Authority makes up the largest single user of prudential borrowing, planning to use £677m in 2006/07. This borrowing will be used for Transport for London investment.

The graph overleaf shows how self-financed borrowing has impacted on the level of capital expenditure over the last three years. All sources of funding have been rising, except for government support in 2006/07. Some local authorities indicated in their response to the survey that they were using prudential borrowing to support their overall capital expenditure rather than on specific projects. As we go in to the CSR07 period we need to make sure that prudential borrowing is not replacing government supported borrowing.



using prudential borrowing to meet the challenges ahead

Looking ahead, local authorities are likely to face a tight settlement in the CSR07 period at a time when pressures on services are set to increase. An aging population and the rise in the number of households will put greater pressure on a range of services. The LGA showed in a recent publication *Meeting the challenges ahead* that unless additional resources are found to fund increasing demands on services by 2009/10 preventative care for elderly people could be forced to end[1]. Whilst prudential borrowing can only be used as a source of capital expenditure, it could help authorities reshape services to meet changing demands. One case study explains how a county is using prudential borrowing to improve its social care provision to meet the changing demands on the service from users and to meet national standards.

In the 2006 pre-budget report the chancellor announced that there would be a higher efficiency target for local government over the CSR07 period of at least three per cent per year with a focus on cashable savings. The higher cashable element could have an impact on the funds available to meet prudential borrowing repayments and curb the enthusiasm of councils to borrow. However, if councils are to make long term efficiency gains many will have to turn to large scale projects which could require an invest to save approach to transform services to make them citizen focused and reduce the size of the back office. Prudential borrowing could have a role to play in helping deliver invest to save projects. Case studies in this publication show how prudential borrowing has been used on invest to save projects as the most cost effective means of financing business process re-engineering projects.

The local government White Paper also talked about service transformation, collaboration and shared services and introduced the concept of a 'virtual unitary' whereby authorities in two tier authorities will be expected to be as efficient as unitary authorities. Prudential borrowing will be a source of any funding that might be required for that transformational programme, such as joint service centres.

1. *Meeting the challenges ahead,* LGA, November 2006. The publication is available for free on the LGA website at http://www.lga.gov.uk/Publication.asp?lsection=0&ccat=28&id=SXA6CC-A7834D05 or from LGconnect on 020 7664 3131 or email info@lga.gov.uk

how prudential borrowing is being used by authorities

Last year the LGA published *Using prudential borrowing: one year on*. This showed that prudential borrowing was being used to deliver: efficiency savings; better procurement; economic development and regeneration; partnership working; central government targets; better market operation; better capital programming; cheaper funding options; better asset management; and innovation. Meanwhile new needs continue to arise. Capitalisation of back pay has arisen as a key issue for some authorities which will have an impact on the capital budget.

The new case studies in this publication identify investment in back office and service transformation on which there will be increasing focus over the next CSR period. They also show the potential for prudential borrowing to provide the investment needs for the waste collection and disposal service. Some issues which they cover include:

Meeting service needs and improvements: particularly in meeting new service pressures where resources are not available from central government. Some authorities are also using it to address the service transformation agenda by building one stop shops and funding technology to facilitate a more joined up way of working. Nottingham City Council have developed a corporate contact centre designed around the needs of customers, which needed to use prudential borrowing to meet the cost of this service transformation.

Cover service pressures created by government initiatives such as decent homes and extended schools are also being met by authorities by using prudential borrowing where central government funding for these schemes is insufficient. Harrow has used it to help them meet the decent homes standards. It has allowed the council to deal with maintenance backlogs and meet the standards within a shorter time period.

Better procurement can be realised, as Horsham have shown through a project with the PCT. By using prudential borrowing they have been able to purchase a site and an old building which can be developed to provide modern health facilities for a rural community in need of the service. The council will maintain ownership of the land and the PCT will gain modern premises which would have proved more expensive for both sides through other financing arrangements.

Better capital programming and provide an immediate stream of capital to meet local priorities. The local government White Paper talks of increased devolution to local councils and local people; for local decisions to be realised funding needs to be readily available. Tight budgets can mean that this is not possible, leading to a sense of disempowerment and unfulfilled expectations from citizens. Prudential borrowing means that capital projects can be implemented to timescales that are appropriate locally. As more powers are devolved to the local level, prudential borrowing may come to play a greater role for more local authorities in helping to realise local priorities.

Partnership working – Adur Borough Council and Worthing Borough Council are working in partnership to develop a joint refuse and recycling service. They have used prudential borrowing to fund the service which will help both authorities to meet their recycling targets. By working in partnership they are also able to take advantage of economies of scale as well as reduce the amount they have to pay in landfill charges.

Pressures to keep council tax increases below five per cent have meant that some local authorities have not had sufficient funds to meet all their service needs. In addition, local authorities have had to deliver 2.5 per cent efficiency gains across the 2004-2007 spending period. Whilst local authorities have risen to this challenge it could put pressure on projects over the longer term. Prudential borrowing has been used to supplement capital projects and allow local authorities to focus on outcomes rather than concerns over inputs. Invest to save projects have also been funded to meet efficiency targets.

case studies

business process re-engineering

London Borough of Barnet – improving the back office

The efficiency agenda highlights the savings that can be made by making back office functions more effective and efficient. Barnet have taken this on board and have used just over £8m of prudential borrowing over 2004-2006 to modernise their core finance systems. This was an invest to save project to bring about efficiency gains and improvements in service delivery.

On 1 August 2005 the council implemented a new core finance system based on a SAP solution. The council now has a single core accountancy system bringing together all financial transactions into one system including payroll, procurement, asset values, benefit payments, grants management, accounts payable, income processing, accounts receivable and cash management transactions.

Budget status reports are in real time, allowing budget managers the ability to drill down into the accounts to analyse variances and take immediate action to mitigate or eliminate overspends.
SAP has clear authorisation structures and segregation of duties through strict user access, built around role profiles which provides total transparency and traceability against any transaction recorded in Modernising Core Systems (MCS). The benefits of MCS include:

- All financial transactions are now captured in one core system.
- All satellite finance systems outside of SAP (AXIS, Pericles, Swift) interface electronically with the SAP solution.
- All department managers now have direct access to real time financial information with drill down capability for variance investigation.
- All transactions in SAP are recorded and captured for scrutiny.
- All claims for expenses are now captured and recorded electronically and payment is made through payroll thereby reducing the need for petty cash.

MCS focuses on streamlining back-office processes and reducing administration costs. Central service areas are most affected, namely finance, human resources, information systems and procurement. All service areas have therefore benefited in some way from the new system. One specific example is in adult social services. All financial and staffing information is now available to managers from their desktops. All procurement activity is now managed through SAP R3 and processes are now embedded in the department.

Three successful interfaces were designed and implemented in-house between Swift and SAP R3 for accounts payable, accounts receivable and commitments. All purchased care is now recorded on Swift, invoices are processed within Swift and transferred for payment via the interfaces into SAP R3. The council's improved performance is reflected in its improved 2005 CPA rating from a 2 star to a 3 star authority. It has a 3 star rating for five out of six of its services and is deemed to be improving well.

From 1 April 2006, Phase 2 of MCS has been rolled out, including: HR Personnel Management; HR Training & Events; HR Recruitment; Works Order Management; e-forms; Business Warehouse; and e-tendering.

The Works Order Management (WOM) facilitates the management of the council's assets and the scheduling of work for these assets. This is anything from a street lamp to a park bench, a football pitch to a special collection by one of our bin lorries. So, for example, every round undertaken by the council's refuse crews will be managed through WOM or if one of their street enforcement officers wants to track an enforcement case it will go through WOM enabling them to track the enforcement action that is needed.

E-tendering will enable the council to get as much of the council's tendering process done online. An important part of this work stream is working with their current external providers, as well as new providers, to see them through the whole process of e-tendering, and that they have the necessary tools to do this.

The London Borough of Barnet is at the formula grant floor and increases on levels of council tax have been capped at five per cent. This means insufficient increases in resources to fund council activities. Funding capital investment through borrowing has revenue implications that may not be affordable within the limited annual tax and grant increases of the borough; unless the borrowing yields immediate revenue savings that fully cover the capital financing costs.

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London Borough of Harrow – Business Transformation Partnership

Harrow have invested £27.5m over three years (2005/06 to 2007/08) in IT Infrastructure, a one stop shop, a call centre, enterprise resource planning and a data warehouse. This has been in response to the efficiency agenda and service transformation agenda. It has improved the first point of contact with customers by providing forms of contact which are more effective, be that through face-to-face, online or by telephone.

The methods are developed with the customer needs as the starting point making the interaction a better experience for citizens and more efficient for the council. The new system has also increased the number of enquiries that can be resolved. For Harrow this has resulted in cost savings from the improved processes and procurement savings.

Prudential borrowing meant that Harrow was able to fund local priorities on a timescale that was needed to meet both local needs and a national agenda. Using invest to save through this project also meant that they could improve organisational effectiveness faster and make greater improvements across a range of services. This will bring about huge revenue savings which can pay back the prudential borrowing and bring about efficiency gains. With such large amounts of prudential borrowing being invested in this project there is the risk of not meeting expectations or not delivering the expected results. Robust business planning and managing expectations are important in this circumstance.

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Nottingham City Council - Corporate Customer Contact Centre and Customer Relationship Management System

Currently the city council's services are spread over eight different buildings, each providing different services. Some of these offices are located on the edge of the city centre and the Children's Services offices are over a mile outside the centre.

In direct response to feedback from residents obtained in the MORI residents surveys of 2004 and 2005, the corporate customer contact centre is being developed. The project involves creating a single point of access for all customer enquiries within the main city centre office: not only the necessary physical building accommodation works but also new hi-tech telephony and computer systems via a new Customer Relationship Management (CRM) system. The scheme will mean different roles and new skills for staff, new technology, changes to the organisation's day to day business processes and an extended working day.

The council is changing the way that it provides services and extending access to its main points of contact to better meet the needs of its customers. This is an ambitious and high risk project to transform the customer's experience with the council over time.

The corporate customer contact centre is designed specifically to benefit customers by resolving the majority of customer requests at first point of contact with the council and it is envisaged that customer satisfaction will improve as a result of the project.

Prudential borrowing has been used by the city council to fund both the accommodation works and the CRM system and a provision has been built into the base budget to meet the principal and interest payable. (As opposed to our 'invest to save' scheme where specific services using prudential borrowing are charged by the corporate centre for interest and principal – thus putting all the cost with the relevant service). The borrowing will be repaid via the Minimum Revenue Provision.

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community safety

London Borough of Hounslow – CCTV to street scene improvement

Hounslow are using £1m of prudential borrowing to provide borough wide CCTV. They are purchasing wireless mobile CCTV cameras for enforcement of parking offences and moving traffic contraventions. This should result in safer streets and faster flowing traffic.

The borrowing costs will be financed by income generated by fines levied partly as a result of what has been monitored on the CCTV. It is projected that this will yield a surplus which can be ploughed back into street scene investments.

In addition LBH has purchased hand held meters, again financed by prudential borrowing, for registering car-parking offences. The meters can also incorporate cameras, which can provide additional photographic evidence. This speeds up the process and reduces inaccuracies and the need for a back office function, therefore yielding efficiency gains as well.

Prudential borrowing has allowed the council to carry out two projects that they would otherwise not be able to do. At the same time they will generate income which can be used to improve local communities. The constraints placed on local authorities to keep council tax increases below five per cent have meant that they are limited by the number of projects they can finance through their own income generation. Prudential borrowing has meant that the council can fund additional projects to meet local priorities without putting additional pressure on the council tax rate.

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decent homes

London Borough of Harrow – meeting decent homes targets

Harrow have been and will continue to use prudential borrowing to support the decent homes investment programme aimed at catching up with a backlog of maintenance and repairs. They are spending £22m over 3 years (2006-07 to 2008-09) on this programme.

The freedom to use prudential borrowing to invest in local priorities has meant that they can fund improvements in local services through an invest to save approach. It means that the most efficient funding source can be used rather than more expensive ways of financing asset repairs. It has also provided a way of financing projects which is less time consuming and less costly to access than PFI for example.

However there is the danger that expectations of both officers and clients are raised in the belief that the funding is freely available and will continue indefinitely to make further improvements. The sustainability of a large capital programme that is financed by borrowing needs to be taken in to account to make sure that it is affordable and repayments can be made. This was taken in to consideration by the council before the project began and repayments have been factored in to future budgets.

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Blackburn with Darwen Borough Council – office space for small businesses

The council has used prudential borrowing to construct office building of 2,800 sqm sub-divided into managed suites for small businesses. Pre-lets have already been agreed, with other parties to provide business support, skills training and learning initiatives. Small businesses using digital media and other technology based sectors will be targeted for using the office space. The project's primary objective is to promote more business start-ups, and improve their chances of survival. Prudential borrowing is being used to fund half the cost of the £3.75m project, the balance coming from European Regional Development Fund. It is anticipated that the net rental income will offset the costs of capital financing.

Prudential borrowing has given the authorities the flexibility to spend at the council's discretion and the ability to invest to save. It has also given them viable alternatives to operating leasing which has driven improvements in the nature of leasing opportunities becoming available to authorities.

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London Borough of Camden – studio/office space for local firms

Deane House Studios was an early 20th century industrial building, which the council are now renovating and converting in to 40,000 sq feet of studio and office space, with a payback period of 10 years.

Prudential borrowing is being used to fund the £3m renovation costs. This will provide quality employment space in Camden, leading to relocation of firms to Camden and support for the expansion of existing local firms. The development will use sustainable energy systems including low cost lighting and heating and the use of solar panels for w.c. hot water.

Deane House was a poorly performing property asset investment and in basic repair was not producing a satisfactory return. The council assessed a selection of options including disposal and investment in the commercial future of the building provided the best payback option. The council's community strategy includes for a strong local business base and therefore this project was a major priority for the council.

Investment in the council's existing commercial portfolio did not come high up the priority list of capital projects where schemes compete for scarce capital resources. Prudential borrowing meant that the council could look at the payback on a commercial investment scheme as a scheme in isolation, rather than in competition with the demands for capital across all council services. This was a major advantage.

It is early days in respect of the rental payback assessments and the market for commercial office accommodation will influence the success of the scheme. The council has engaged a local agency firm to jointly market the space.

It was important to select a project management team with local commercial experience to supplement in-house expertise on initial assessments of payback and marketing of the finished space and a skilled project management consultant to ensure the building contract was undertaken within council standing orders and within reasonable price parameters. Bearing in mind the nature of the building and the assessed risks attached to the scheme.

A prudent line has to be taken on the appraisals of income over the 10-year payback period and beyond when the scheme moves into surplus, as is the case with any commercial investment project.

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Cumbria County Council – improving access to new employment sites

As part of a wider PFI scheme Cumbria are using around £4million in prudential borrowing to pay for work on a motorway junction which aims to maximise the scope for developing a strategic employment site in Carlisle and improve transport links to support regeneration in West Cumbria. Through opening up the motorway at this junction it will also reduce through traffic in Carlisle, which is part of Cumbria's local transport plan.

This work was a necessity before a much larger PFI road scheme could be commenced. The timing of the junction work was crucial, as it had to be completed before other major work, being undertaken by the Highways Agency, was started. If it had not been funded from prudential borrowing the work would have been delayed for three years, which would also have delayed the PFI scheme.

Prudential borrowing gave the authority the ability to undertake this project within the timescales needed. If it had not been available the project would have been delayed which would have significantly impacted on regeneration within the area. It gave the council much more flexibility and the ability to develop better long term capital planning and better integration of revenue and capital budgeting.

However prudential borrowing is not seen as an unlimited resource; officers are expected to submit applications for support for capital projects and they are advised of the ongoing costs of minimum revenue provision (MRP) and interest, which will be a charge on their directorate budgets.

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Warwickshire County Council – rental generating commercial developments

Warwickshire are working in partnership with others in the county, such as Advantage West Midlands, to help improve commercial premises available to help support small businesses and others requiring premises in the area. This in turn helps the county and others improve the service they provide around economic regeneration.

The council is using prudential borrowing to fund a range of smaller self-financing schemes costing an estimated £1.5m. The borrowing costs to be paid from the income generated, making it a self-financing scheme.

The investment will assist with promoting Warwickshire's economy so as to improve the quality of life of the most disadvantaged people by providing jobs and business opportunities.

Prudential borrowing has allowed the council to provide services through more capital intensive means which has taken pressure off the revenue budget. It has allowed the council to focus on local priorities and use the prudential system to fund these. This has also meant that they have not been forced to follow national government initiatives as a way of generating future credit approvals.

They have introduced a corporate project management methodology to deal with bids for prudential borrowing which has helped focus departments about their financial needs and improved business planning across the council. However there is also recognition that over ambitious business cases with expected revenue savings may not materialise and the borrowing will have to be paid back through other revenue streams. This has had to be taken in to account when decisions are made about where to use prudential borrowing.

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highways

London Borough of Barnet – Highway Maintenance Works Programme

Barnet Council have used £5million of prudential borrowing each year from 2004/5 (total £15m) for a highway improvement programme. It is being carried out to meet nationally defined standards to enhance the condition of the road network. In conjunction with improvements it is proposed to review existing traffic management measures to meet the key objectives of the Traffic Management Strategy.

Prudential borrowing was identified as the source of funding for a backlog of repairs to carriageways and footways. In 2004, this backlog was estimated at £24m; £14m for carriageways and £10m for footways. Capital Expenditure incurred by Highways & Design shows increase in investment since 2003/4:

2003/4	2004/5	2005/6
actual	actual	estimate
£9m	£11m	£11m

The investment will ensure that improvements can be made to the flow of traffic and reduce congestion, thereby maximising the performance of the network and reducing the incidence of traffic 'rat runs' in the adjoining residential roads.

By investing in the highways through prudential borrowing Barnet has been able to reduce the revenue maintenance costs which has allowed revenue budgets to be redirected to priority services. Resources redirected from reduced revenue maintenance costs are allocated across all services to meet LBB's key priorities. For 2006/7, these are:

- A Bright Future for Children and Young People
- Supporting the Vulnerable
- Clean, Green and Safe
- A Successful Suburb
- Strong and Healthy

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leisure services

London Borough of Bexley Council – developing leisure centre facilities

Bexley council are using prudential borrowing to build a 25 metre swimming pool, learner pool and health and fitness facilities, and sports hall for Sidcup Leisure Centre. The scheme is part of a 30 year PPP scheme. Two centres have already been delivered through a conventional PPP arrangement.

The council used prudential borrowing purely to reduce the cost of finance once construction has been completed. The accounting arrangements are complex and are a little different from that which applies to conventional prudential borrowing.

The original 2 centre PPP scheme pre-dated the flexibility offered by prudential borrowing as they were deals signed in June 2003. PPP was used as it offers a risk transfer to the private sector. This is significant during the construction phase where the risk of cost overruns on complex building schemes such as swimming centres are relatively high. Against this is the fact that the cost of financing through the PPP route can be up to two per cent per annum higher. For the Sidcup element of the scheme, prudential borrowing was used to make a £16m payment to the private sector construction firm on the completion of construction. By making this large payment up front they have also reduced the annual unitary charge to the PPP consortium for the operation of the centres, long terms maintenance and financing costs.

The sports hall will be a dual use facility shared with the local school which will make a better use of the asset by joining up different services within the public sector. The school will use it during term time hours – namely 8.30 – 5.30pm. Should the school not require some of these hours, they can be released to the leisure operator for public use. Before the start of the each school term, the school will indicate to the leisure operator, whether they are prepared to release any of the `core' time.

The increased capacity for teaching provided by the new larger swimming pool will assist in reducing waiting list for swimming lessons. The scheme also releases valuable sites which will generate capital receipts.

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Nottingham City Council – Leisure Centre Transformation Programme

The city council has approved a £20m programme of works to improve leisure centres, £12m of which will be funded by prudential borrowing. It is part of a citywide rationalisation project to reduce the number of facilities owned by the council and upgrade those that they retain to 21st century standards.

The programme sets a clear vision to establish a sustainable network of fewer but better quality community leisure centres which match modern customer expectations and better promote sport, active lifestyles, health and well-being.

A number of reviews of the city council's leisure facilities identified that there was an over provision of swimming pools and the facilities were in need of significant upgrades. A detailed appraisal of the facilities was undertaken and a number of options were considered for the future. The major factors were the decline in the number of people attending swimming pools over recent years and the poor condition of many of the pools. The preferred option was to reduce the number of swimming pools, upgrade those that were to be retained, to ensure at least a further 10 year life, and provide possibly two new pools within exiting dry leisure areas.

The overall funding package includes re-investment of capital receipts from the sale of pools not to be retained, some grant aid via the New Deal for Communities initiative and the balance of the funding from prudential borrowing, and a provision has been built into the base budget to meet the principal and interest payable. The borrowing will be repaid via the Minimum Revenue Provision mechanism.

The project will result in reduced repairs and maintenance costs as centres are fitted with new plant, the reduced number of pools means reduced staffing and running costs, and the new and upgraded facilities should benefit from increased income through increased public usage.

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schools

London Borough of Barnet – Primary Schools Capital Investment Project

Barnet have put in place an ambitious and innovative strategy for replacing or remodelling schools over a 5-20 year time frame. Wave 1, running from 2008/9 to 2010/11, has a gross budget of £85m and net budget of £12m, which will be funded through prudential borrowing.

The resulting schools will create high quality 21st century learning environments for Barnet's primary school children, a key objective both nationally and for Barnet council. Cutting edge ICT will be integral to the new schools and the programme will help develop extended school, children's centres and community links; helping to meet a number of central government agendas as well as helping schools to work in closer partnership with other organisations and create services that meet the needs of the local community. It will also make better use of the school building assets as they will be used for a greater period of the day.

In addition it will provide an opportunity to both make good a significant maintenance backlog to improve the fabric of the schools which will then reduce the need for ongoing maintenance in older buildings.

Barnet is clear that prudential borrowing will only be agreed against pre-determined criteria to prevent use on projects which are not priorities for the council. Prudential borrowing decisions must also follow a business case approach to determine investment priorities. The lessons that they have learned from using prudential borrowing highlight the importance of involving members in highlighting priorities and agreeing to the investment as well as looking carefully at the revenue implications of new capital bids.

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London Borough of Brent – Schools Improvement Project

With the approval of the secretary of state, Brent have set up a scheme which allows schools to access repayable funding to meet suitability and/or sufficiency needs through prudential borrowing provided that key affordability and scheme criteria are met. This has allowed a number of schools to undertake schemes that were not prioritised within the council's overall capital programme and ease pressure on the children and families core capital programme.

With regard to the council-wide position, by providing a larger capital programme than that available through supported borrowing and grants and contributions only, members have been given the option to include high priority service area schemes by utilising prudential borrowing as a means to meet resulting funding gaps. Preference has been given to cost neutral or spend to save schemes.

Prudential borrowing has meant that the council can use this additional flexibility to meet local demands and service needs. Capital funding can also be supplemented through this route in an affordable way.

Initially ensuring that prudential borrowing was not viewed as an inexhaustible and unlimited source of funding was avoided by the council through the issue of a range of guidance notes and reporting highlighting affordability issues and the importance of reference to the prudential indicators. The cost in future years of prudential borrowing is taken in to account through the capital bidding documentation as well as close links between the council's capital programme and revenue budget plan, within the medium term financial strategy.

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health and social care

Horsham District Council – health centre with the PCT

Horsham council are building a new health centre with their local PCT, using £4.059m of prudential borrowing. This is a much needed community facility for the people of Steyning. The new health centre is adjacent to a care home which is being refurbished and modernised by the county council and so complements this facility and its users as well. It will help to meet the need for non-acute case cover in this rural part of the district. The 1999 Health Act provided the opportunity for closer working between the PCT and the local authority.

The council purchased the freehold on a site which currently houses 20 year-old temporary buildings which were being used by the PCT. The council acted as developer in the project as it was then able to recover the VAT which helped to reduce the overall cost of the project; the PCT were appointed as employers agent.
The PCT have then leased the premises from the council and this rental stream enables the council to finance the prudential borrowing loan. The council was able to obtain prudential borrowing at a rate of 3.9 per cent which was far lower than the rate that they would have been charged had the PFI route been used on this project. The PCT has therefore also benefited from this, through the level of rent they are charged.

The health centre will be used by a large number of Horsham council tax payers at no additional cost to them, as the project has been funded through fixed rate prudential borrowing, which is more than covered by the rent. There is therefore no financial burden on the council tax payer. The council helped reduce the potential cost of the scheme to the PCT by using its VAT position and acting as the developer.

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Kent County Council – supporting carers

Kent is using £2.5m prudential borrowing to build a new purpose built registered care home, to provide better quality services. The existing building is not suited to modern care provision and is badly in need of upgrade and improvement.

The new building will be a 40-bed centre for adults, which will provide valuable respite, intermediate care, therapeutic rehabilitation and flat-lets for gaining skills to live independently.

In addition Kent is using £2.2m of prudential borrowing to build a new respite care centre for children with disabilities. This scheme is a reprovision of service in a modern, purpose built facility and will also provide an Independent Living Life Skills Centre. The latter will comprise a flat fitted with adaptations to provide training for service users with learning and physical disabilities to enable them to live independently within the community.

Both projects are part of a broader strategy that looks to help carers and thus help Kent County Council meet its priorities for children and adult care. There is a clear process in place for gaining agreement for using prudential borrowing for projects, including a business case. In both cases cashable savings were identified. In the past limited availability of capital financing, particularly for social care, would have meant these schemes probably would not have been progressed despite the compelling value-for-money logic. Prudential borrowing allows councils to make business-like decisions, looking at the overall cost implications.

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Warwickshire County Council – refurbishment of older peoples home

Warwickshire are using £0.75m of prudential borrowing to refurbish 'The Lawns' Home for older people. The prudential borrowing will be used to buy land from the PCT to join it with existing land owned by the council to provide a better development opportunity for the residential home. The bigger site will then be developed with smaller residential care facilities and the provision of housing with care facilities. The scheme is being developed in partnership with a housing association and an independent care provider. With the local authority contributing the land they will get better rates for the residential care provision than simply buying from the private sector. Also the alternative housing with care provision being available on the same site will enable the authority to redirect clients to this type of care – a more cost effective alternative with better outcomes.

The partnership with both the housing association and the care provider will result in revenue benefits that will be redirected to meet the borrowing costs. The result is new, bigger and more appropriate facilities, with better outcomes, being provided at no additional cost over the medium term.

The debt will be repaid over the life of the asset rather than the minimum statutory period which makes the true cost more realistic. A full and realistic business case had to be developed and standard project management methodologies have been developed across the organisation.

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waste projects

Adur Borough Council and Worthing Borough Council – AWS Joint Refuse Collection/Recycling Service

In the next 6-12 months Worthing Borough Council and Adur Borough Council will use prudential borrowing to support a joint refuse collection and recycling service. This will include the replacement of refuse and recycling vehicles and wheeled bins. The authorities will equally share the cost, which is estimated to be around £5.738m through prudential borrowing.

It is a partnership scheme with Adur Borough Council for a joint service for the two councils. By working together they can procure on a larger scale, resulting in greater economies of scale and joint working across boundaries to deliver the same service. This will also bring about efficiency savings through the procurement process.

Members from both authorities have been consulted at all stages in the development of this project. There has also been extensive public consultation after which members made their decision to go ahead with the project.

Prudential borrowing was the most cost effective method to fund this project. This investment is needed in the service for both district authorities to be able to achieve a high standard of service which is acceptable to the public and which will mean that they are able to achieve the countrywide 30 per cent target for recycling rates, rising from the current rate of 18 per cent, and also reduce landfill waste.

By using prudential borrowing to fund developments in the service now they will also hope to mitigate against the higher cost of landfill over the coming years. The cost of delivering the service will also be reducing which will help ensure best value. The new equipment will also improve health and safety for staff in this service area as it will reduce manual handling through the change from waste boxes and sacks to the use of wheeled bins.

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Cumbria County Council – developing new recycling facilities

Cumbria County Council is using prudential borrowing to build one new household waste and recycling development and replace three existing sites. They will use £3m on prudential borrowing that will increase recycling facilities for people in Cumbria. Part of the spend will be on improved signage and lighting which is intended to improve health and safety at the facilities and access to them. The project has been undertaken in response to government pressures around recycling and reducing landfill.

Ever increasing pressure on the revenue and capital budgets has meant that some projects in the environmental, protective and cultural services block programme would not have been undertaken without funding from prudential borrowing. Using this financing mechanism has also allowed members to focus on outcomes and address local community priorities rather than simply include capital projects that are already government funded. Without prudential borrowing and due to pressures elsewhere in the capital programme this project would not have been possible.

Prudential borrowing has given the authority much more flexibility and the ability to develop better long term capital planning.

The council is well aware that prudential borrowing is not cost free. To decide which projects will be funded through, prudential borrowing officers are expected to submit applications for support for capital projects and they are advised of the ongoing costs of MRP and interest, which will be a charge on their directorate budgets.

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appendix 1: about the survey

The survey was conducted by LGA policy staff. A survey was sent to all local authority heads of finance in September 2006. The aim of the survey was to collect a range of examples of ways in which prudential borrowing is being used to support innovative projects and to highlight the reasons why it is being used by local authorities. DCLG collect annual figures on the use of prudential borrowing by each authority. This survey was therefore not designed to give a comprehensive picture of the use of prudential borrowing but rather a range of examples of its use to inspire others and provide details on the opportunities and challenges that using prudential borrowing can involve.

This is the second publication from the LGA on the use of prudential borrowing. In November 2005 we published on which included a 19 case studies from local authorities who had used prudential borrowing. This covered a range of service areas and gave an overview to the types projects that local authorities could consider using it to fund.

In total 31 responses were received from local authorities. Of these 19 case studies were produced which came from 14 local authorities. These were then divided in to topic areas of: business process re-engineering; community safety; decent homes; economic regeneration; highways; joint projects; leisure; schools; and waste.

appendix 2: respondents

The LGA would like to thanks the following local authorities for their input to this publication:

Adur District Council

London Borough of Barnet

London Borough of Bexley

Blackburn with Darwen Borough Council

London Borough of Brent

London Borough of Camden

Castlepoint Borough Council

Chichester District Council

Cumbria County Council

Dudley Metropolitan Borough Council

East Riding of Yorkshire Council

Fareham Borough Council

London Borough of Harrow

Horsham District Council

London Borough of Hounslow

Kent County Council

Lancashire County Council

Macclesfield Borough Council

Mansfield District Council

North East Lincolnshire Council

Nottingham City Council

Oswestry Borough Council

Royal Borough of Windsor and Maidenhead

Sevenoaks District Council

South Gloucestershire Council

South Lakeland District Council

Stroud District Council

London Borough of Tower Hamlets

Walsall Metropolitan Borough Council

Warwickshire County Council

Worthing District Council

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