

Outline Prudential Borrowing Proposal

Background

1. Budgets for maintaining our highways and building assets have reduced in real terms (e.g. 50% in highway maintenance budget) whilst at the same time construction and technical costs have significantly increased.
2. Reductions in central government funding has led to a deterioration in our asset condition especially carriageways and footways but also schools and buildings. In addition, major growth in the county has led to a growth in the asset base to be maintained. This in turn creates additional financial pressures with, for example, increased insurance claims and increased reactive maintenance costs. Currently £10m is spent annually on carriageway maintenance, this is insufficient to maintain the current level of condition let alone improve. Major growth is taking place in Oxfordshire which has the potential to boost funding for the council but will also further affect the use and condition of our assets.
3. Against this backdrop of shrinking grant funding and rapid growth there is a need to address customer concerns over the quality of council owned assets. There is potential to borrow against the future revenue that will be generated by planned growth, to increase investment in our assets and finance key invest to save projects.

Proposal

4. The current growth trajectory will see council tax revenues rise by approximately £5.75m by 2024. If this increase is used as a baseline for additional borrowing, we could generate an investment pot of approximately £120m.
5. This prudential borrowing pot could then be used as follows:
 - To direct deliver maintenance of highways and other assets such as school buildings
 - As match-funding elements for any external bidding
 - To pump prime infrastructure which avoids maintenance or delivers growth quicker to unlock future revenue sooner
 - To deal with emergencies or necessary contingencies
 - To fund key invest to save and revenue generation projects
6. This paper seeks approval for the overall principle of increasing prudential borrowing by c.£120m based on increased revenue from growth. Each bid to access funds from this borrowing block will require the submission of a business case from the service area which is seeking additional funding. These business cases will in turn need approval via the standard capital governance process, as set out in the council's Finance Procedure Rules. It should be noted that this approach will not limit additional prudential borrowing that can be funded by other approved means.

Budgetary Implications and Risk
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7. The Housing & Growth Deal for Oxfordshire will accelerate the growth in house building. This is expected to generate additional council tax revenue (above the level in the current medium term financial plan) of £5.75m by 2024. This could fund a borrowing requirement of £120m.
8. The borrowing will take place over a number of years and can be timed to match the increase in revenue.
9. There is a risk that council tax revenue does not increase to the estimated level. As the borrowing will be taken over a number of years, based on individual business cases, the programme of investment can be stopped if the increased revenue does not materialise. This will keep debt management costs at an affordable level within the medium term financial plan.