

WEST DUNBARTONSHIRE COUNCIL

Report by the Executive Director of Corporate Services

Council – 28 April 2010

Subject : Borrowing for Restructure and the Future

1. Purpose

- 1.1** The purpose of this report is to provide Members with further information on the cost of options to borrow for the future to address the organisational and service delivery challenges facing the Council over the forthcoming years.

2. Background

- 2.1** On 11 February 2010, the Council was granted consent to borrow for equal pay to a maximum of £4.413m. Conditions which will apply include a repayment period not exceeding 10 years.
- 2.2** The Council has fully funded the cost of equal pay to date and holds a provision within its Balance Sheet for residual costs which are still anticipated.
- 2.3** One of the key factors taken into account by ministers in reaching the decision was the impact that equal pay costs have had on the reserve position of each council.
- 2.4** The Council's free reserves position as at 31 March 2009, after taking account of costs detailed in 2.2 above was £0.258m. The position anticipated as at 31 March 2010 is somewhat improved on this, however is still likely to be below the revised prudential reserve target of £4.100m approved by the Corporate and Efficient Governance Committee on 24 March 2010.
- 2.4** Indications are that the Council's funding position within the next 3-year settlement from the Scottish Government is likely to decrease by in excess of £30m. As outlined in the recent Audit Scotland report on "An Overview of Local Government in Scotland 2009" (tabled at the Improvement and Efficient Executive meeting on 13 April 2010) the scale of future financial challenges will demand radical thinking about service redesign. For the Council to achieve this, significant investment in business transformation will be required.

- 2.5** The Council's current financial position and balances held may not enable the Council to effect and implement the changes required without additional funding. The use of the £4.413m consent would be a significant tool to enable the Council to restructure and invest in its future in order to provide best value services on a much reduced government funding position.

3. Main Issues

- 3.1** If the Council was to agree to take forward the consent to borrow £4.413m over a 10 year period, current interest rates for borrowing would be approximately 4.2%. This calculates at an average annual repayment of £0.555m, equivalent to £5.550m (or £1.1m in interest charges) over the 10 years. The annual payment would require to be met through the revenue budget and financed by the savings/efficiencies that will accrue from the business transformation programme.
- 3.2** If the Council was to agree to take forward the consent to borrow, it could choose to take this over a shorter period of time. If this was the case, less interest over the period of the loan would be paid, however, annual charges requiring paid through revenue would be higher. For example – over a 7 year period the annual cost would be £0.745m, equivalent to £5.215m (or £0.8m in interest charges) over the reduced repayment period.
- 3.3** Without the Council investing in major changes in the way in which it provides services (through e.g. staffing restructures, streamlining of services, technology investments), there is a significant risk that savings targets which will be required to close the funding gap over the coming years may not be met.

4. People implications

- 4.1** There are no personnel issues arising directly out of this report.

5. Financial implications

- 5.1** The cost to the Council to borrow £4.413m over a 10 year period will be £5.55m i.e. we will repay an average of £555,000 in each of the next 10 years. As no loan charge support will be available, this expenditure will be financed from the General Fund over the 10 year period. However, this costing does not take into account any spend to save opportunities that may be generated from the utilisation of the additional £4.413m reserve balance.

6. Risk Analysis

- 6.1** The Council's revised prudential reserve target is £4.1m. The reserve as at 31 March 2009 was £258,000. A low level of reserves exposes the Council to a degree of risk whereby its ability to react to unforeseen circumstances can be reduced.

7. Equalities Impact

- 7.1** No significant issues were identified in a screening for potential equality impact of this measure.

8. Conclusions and Recommendations

- 8.1.** The Council requires to invest in its future, and this additional funding opportunity will help provide additional finances. This has been recognised by the Scottish Government in the award of this consent. The use of the consent to borrow will assist the Council in providing services and deliver some of the required changes.

- 8.2.** It is recommended :-

(a) That Council takes up the option to borrow £4.413m to allow this resource to be utilised to address the organisational and service delivery challenges facing the Council over the forthcoming years.

(b) That details of the final terms of the loan when secured are reported to the Corporate & Efficient Governance Committee

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Date: 13 April 2010

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Appendix: None

Background Papers: Scottish Government letter referenced B3610716 -
Consent to Borrow for Equal Pay

Wards Affected: n/a