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Pennaeth Cyllid



Jocelyn Davies,
Chair, Finance Committee,
National Assembly for Wales,
Cardiff Bay,
Cardiff.
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Your Ref/Eich Cyf

Our Ref/Ein Cyf KAF/SO

Date/Dyddiad 6th March 2012

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Dear Ms. Davies,

Prudential Borrowing & Innovative Approaches to Capital Funding

Thank you for your letter of 2nd February 2012.

The document attached sets out Flintshire County Council's collective response.

We are pleased to provide information to help the inquiry into the use of prudential borrowing by Welsh local authorities and other organisations and innovative approaches to the Silk Commission on financial accountability.

Yours sincerely,

K A Feather

Head of Finance

Enc.

c.c. Welsh Local Government Association

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The Council welcomes correspondence in Welsh or English
Mae'r Cyngor yn croesawu gohebiaeth yn y Gymraeg neu'r Saesneg

National Assembly for Wales
Prudential Borrowing and innovative approaches to capital funding
Response by Flintshire County Council to the call for evidence

Introduction

In responding to the call for evidence, the Council draws the attention of the Finance Committee to the response of the Welsh Local Government Association which:

- Sets out the prudential system for local authority capital finance
- Defines the response in relation to “prudential borrowing” as being concerned with “unsupported borrowing” for which authorities must find the necessary financing from within their existing resource total. This same definition forms the basis of the response from Flintshire
- Records that the levels of unsupported borrowing vary from council to council in accordance with local capital planning and financial strategies and, which needs to be considered within the context of total capital spending from all sources

In comparison to other councils in Wales, Flintshire has, until recently, utilised unsupported borrowing in a limited way. Where it has been used, it has been largely for the purchase of vehicles, plant and equipment to achieve savings due to capital charges being less than the cost of leasing.

During the last year, the Council has identified 6 areas for capital investment where it is likely to consider the use of unsupported borrowing. Work is in progress to develop the capital strategy and early discussion has taken place with members of the Council to establish a 10 year capital programme incorporating these 6 themes. This work will progress for implementation from 2013/14 onwards following the election of the new Council in May. A significant aspect of the strategy will be unsupported borrowing to fund the Council's 50% contribution to 21st Century Schools.

Themes

1. School Modernisation
2. Public / Civic Buildings
3. Infrastructure/Regeneration
4. Leisure
5. ICT
6. Energy

In response to the specific questions raised:

The total level of prudential borrowing and your prudential borrowing limit in each year since the inception of the scheme;

- The only unsupported (prudential) borrowing accessed during the 7 year period to 31 March 2011, is that in place of leasing (for which revenue cover exists) -

	Borrowing (£m)	Limit (£m)
2004/05	£0.571	£1.1
2005/06	£0.786	£1.1
2006/07	£0.896	£1.1
2007/08	£0.162	£1.0
2008/09	£0.311	£1.0
2009/10	£0.408	£1.0
2010/11	£0.757	£1.0
Total	£3.891	

- The limit is that as incorporated within the overall Authorised Limit for External Borrowing in each year.

Details on measures taken to determine and keep under review prudential borrowing limits, including the processes, consideration of revenue implications and how this is undertaken;

Monitoring/Review by way of –

- Treasury management procedures/policies which feed into related Prudential Indicator reports to Executive/Council – Estimates (February/March), and Actuals (August).
- Budget monitoring procedures which ensure a continuous review of revenue budgets and the implications of all unsupported (prudential) borrowing in place of leasing.

The level of outstanding debt at 31 March 2011 and the implications in terms of annual repayments due in the future;

	Outstanding Debt (£m)
2004/05	£0.067
2005/06	£0.120
2006/07	£0.096
2007/08	£0.032
2008/09	£0.162
2009/10	£0.292
2010/11	£0.732
Total	£1.501

There are no significant implications for these short term arrangements in place of leasing

The average cost of servicing prudential borrowing, in terms of total amount borrowed compared to total amount repaid over the lifetime of the borrowing; a brief overview of the nature of projects / purposes for which funds from prudential borrowing have been used;

- The low value, short term arrangements accessed to date have produced low impact servicing costs; e.g. the 2010/11 prudential borrowing total (£0.757m) relates to several draw downs repayable over various periods between 3 – 7 years in the sum of £0.801m
- Used for the acquisition of various items of vehicles, plant and equipment such as - wheeled bins, skips, IT equipment, refuse vehicles and gym equipment
- More significant will be the policy set for accessing the funding for strategic capital purposes (see below) i.e. the money market (and actual borrowing) v drawing down on available cash balances; with borrowing interest rates greater than investment rates the latter appears the obvious choice as far as available cash balances allow

Any lessons learned or concerns would wish to highlight in relation to prudential borrowing;

- No particular lessons from the Council's cautious use of unsupported (prudential) borrowing to date

A brief overview of any alternative mechanisms the authority may be considering to finance capital investment in the future; and any views on potential implications on local authorities of the Welsh Government's stated intention to maximising local authorities borrowing power to boost capital available for infrastructure

- The Council is moving forward with plans for much greater use of unsupported (prudential) borrowing for strategic capital scheme purposes during the period 2012/13 to 2019/20 (to the value of £38m); £3m of this total will be accessed in 2012/13. On top of this, £2.775m per year will be generated during the period 2012/13 to 2014/15 by way of the Local Government Borrowing Initiative (LGBI), to be 'WG supported' by unsupported (prudential) borrowing
- Developing a Local Asset Backed Vehicle (LABV) for Flintshire

Views on issues raised:

1. How local authority borrowing could be used to boost the levels of capital available for Welsh infrastructure;

- The Council welcomes the additional funding being provided to Flintshire and other councils through the Highways Infrastructure Improvement Works Programme. In the current absence of Welsh Government having the ability to borrow, this is a means which could be utilised further, subject to funding being made available to meet the capital financing costs which councils will incur in their revenue accounts. Whilst described as "prudential borrowing" this scheme is, in fact, "supported borrowing" as Welsh Government has committed to meeting the revenue costs through specific grant in 2012/13 and through provision within the Local Government Financial Settlement in

2013/14 and 2014/15. To remain viable, it is essential that Welsh Government support continues throughout the whole term of the borrowing

- In welcoming this approach, it is considered that the ability to invest in capital is vital to enable councils to deliver the degree of change and modernisation to services which the public expect and which are needed in order to manage within the constraints of reduced public sector funding for the foreseeable future. Whilst pressure continues on revenue budgets to deliver services, at the same time as significant downturn in the availability of capital resources, it is important that capital investment is included within the expenditure items to be funded from revenue. However, within this context, the capital investment must meet be affordable, sustainable and prudent (as set out with the regulations which underline the prudential code)
- As locally elected and democratically accountable bodies, councils will have their own particular priorities for capital investment. It is important that the joint working between Welsh Government and Local Government provide a framework which facilitates investment in both local and national priorities

2. Any alternative measures being considered by local authorities to finance capital expenditure;

- Through the development of its Capital Strategy and its modernisation programme "Flintshire Futures", the Council will be exploring all possibilities open to it to finance capital expenditure
- At the present time, the Council is currently exploring the opportunities to be gained through the use of Local Asset Backed Vehicles (LABVs)

3. Alternative mechanisms of leveraging capital funding being considered by the Welsh Government in the preparation of their Infrastructure Plan, including the possibility of boosting borrowing by local authorities and other organisations;

- See response to 1. above

4. Exploring innovative capital models proposed elsewhere in the UK, how these have been developed, utilised, and, where possible, how they have performed.

- See response to 2. above

In responding we would welcome specific details of the local authority's approach to, use and levels of prudential borrowing, including levels of outstanding debts.

- Covered in answers given throughout this consultation response

**Kerry Feather
Head of Finance**