

Eich cyf / Your ref:

Fy nghyf / My ref:

29<sup>th</sup> February 2012

Dyddiad / Date:

FAO The Clerk of the Finance Committee

Ms Jocelyn Davies AM  
Chair of Finance Committee  
National Assembly for Wales  
Cardiff Bay  
CARDIFF  
CF99 1NA



Dear Ms Davies AM

**A call for evidence – Prudential Borrowing and innovative approaches to capital funding.**

I refer to your recent letter calling for information to help inform your inquiry into the use of prudential borrowing by Welsh local authorities and other organisations and innovative approaches to capital funding. Detailed below are the answers to the questions raised in respect of Carmarthenshire County Council.

I have made an assumption that when you are referring to Prudential Borrowing you are actually concerned about unsupported borrowing (i.e. the borrowing that we undertake that is not supported by government grant or subsidy) and the response has been provided in that context.

Carmarthenshire County Council has made significant use of the unsupported borrowing provision within the prudential code, as a means of advancing our Capital Programme where there is proven benefit to the County in undertaking these

projects/enhancements and a business case can justify the use of such funds. Carmarthenshire County would certainly support the future use of the unsupported borrowing and hope that the flexibility of this provision will continue.

I detail below the response to the specific questions raised in your letter.

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

The current amount of Prudential Borrowing (Unsupported Borrowing) committed to date is £112m (which includes the HRA)

However with regards to the limits, there are no specific borrowing limits for prudential borrowing.

There are Authorised and Operational limits that are included within the Treasury Management Strategy. These borrowing limits (authorised and operational) set the total borrowing for capital purposes as prescribed in the Prudential Code. They are set at the beginning of the financial year as part of the Treasury Management Strategy.

Authorised limit and operational boundary figures for CCC are attached (See Appendix).

Please note that the figures are reduced between 09/10 and 10/11 because we made greater use of internal borrowing from 09/10 onwards.

***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.***

The above limits are monitored throughout the year and at year end. Quarterly and mid-year reports and an annual report are approved by the Executive Board and scrutinised by the P & R Scrutiny Committee. Specific business plans are developed on a service basis to justify the use prudential borrowing (with reference to service objectives, stewardship of assets, value for money, affordability, prudence and sustainability) which include an agreed allocation of their revenue budget and/or an agreed receipt of income streams to cover the principal and interest cost of the prudential borrowing (capital charges).

In each year the Prudential Indicators and the Capital Financing Requirement (CFR) are key factors that need to be considered. These indicators will need to demonstrate that the Capital Investment Programme is affordable, prudent and sustainable.

***Level of outstanding debt at 31 March 2011 and the implications in terms of annual repayments due in the future.***

Level of outstanding debt as at 31<sup>st</sup> March 2011 = £235m

The is debt repayable until 2058/59

Total repayments on current profile (Principal & Interest) = £529m

Profile of repayments until 2019/20:

<b>Financial Year</b>	<b>Principal Due</b>	<b>Interest Due</b>	<b>Total</b>
2011/2012	3,483,836.10	13,132,148.47	16,615,984.57
2012/2013	4,224,021.44	12,935,188.10	17,159,209.54
2013/2014	15,299,555.41	12,673,453.58	27,973,008.99
2014/2015	7,553,141.74	11,752,409.44	19,305,551.18
2015/2016	5,014,735.57	11,377,996.86	16,392,732.43
2016/2017	5,476,335.75	10,898,397.38	16,374,733.13
2017/2018	9,707,792.24	10,560,773.80	20,268,566.04
2018/2019	6,686,438.16	9,877,170.21	16,563,608.37
2019/2020	5,000,819.77	9,564,905.37	14,565,725.14

***The average cost of servicing prudential borrowing, in terms of total amount borrowed compared to total amount repaid over the lifetime of the borrowing;***

Where Prudential Borrowing (Unsupported Borrowing) is used by this Authority it is used on an individual Business Case basis. The average cost of servicing all our debt Supported and Unsupported is 5.7%. Total interest payable on current borrowings to 2058/59 = £294m.

Current cost of Unsupported Debt = £ 8.5m pa  
 Unsupported Borrowing as at 1/04/11 = £101m  
 Current Cost of All Debt = £26m

***A brief overview of the nature of projects / purposes for which funds from prudential borrowing have been used;***

The main capital projects for which prudential borrowing (unsupported borrowing) is used for within Carmarthenshire are the Modernising Education Provision Programme (refurbishment and new build of education establishments), the HRA Programme (Meeting the WQHS on Council housing), the recent Highways Improvement WG funding and the Fleet Replacement Programme (purchase of new/replacement vehicles) which in many cases replaces Leasing.

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

If robust and affordable business plans are produced, approved and monitored, the prudential borrowing regime is a hugely beneficial capital finance resource. It must be managed and monitored on a regular basis and must be reviewed on a long term basis as well as the short/medium impact into the medium term financial plan.

***A brief overview of any alternative mechanisms the authority may be considering to finance capital investment in the future;***

No major alternative mechanisms are proposed, apart from possibly the leasing of vehicles, as alternatives do not meet the affordability, prudence and sustainability requirements. Currently with the PWLB interest rates, the prudential borrowing tends to be the most flexible cost effective option

***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***

Additional borrowing over and above the supported borrowing needs to be undertaken on a case by case basis, following the assessment of the financial impact through a business model. However whilst there are many benefits of prudential (or unsupported ) borrowing , there are limits to its use in as much as the more your borrowing costs go up the more you tie up future revenue budgets. In an era of likely reductions in grant settlements the more of your budget that is legally committed the less opportunity you will have to deliver any required efficiency. Put simply, if 30% of our budget is tied up with schools (and WG protect these) and say another 20% in borrowing costs, any efficiencies can only come from the remaining 50%.

***Further views on the following issues:***

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

Only if an additional revenue stream is identified e.g. like the Highways Improvement Initiative currently underway.

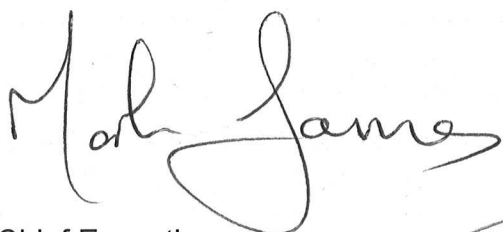
***Any alternative measures being considered by local authorities to finance capital expenditure;***

As stated above leasing and Salix funds

I hope this information is of assistance to you, we have certainly recognised that the use of prudential borrowing (unsupported) is a valuable tool to Local Authorities and Carmarthenshire has been able to benefit from the flexibility of this system. Without it, we would not have been able to build so many new schools nor refurbish many more. Similarly, we would not have been able to retain and improve our Council housing stock.

If you require any further information or clarification please do not hesitate to come back to me or my Head of Financial Services Mr C Moore.

Yours sincerely



Chief Executive

The Authorised Limit.

A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

		Authorised Limit for External Debt										
£m		2006/07 Estimate	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate		
Borrowing		289.5	302.5	319.5	349.5	299.5	339.5	358.5	367.5	375.5		
Other Long- Term Liabilities		0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5		
Total		290.0	303.0	320.0	350.0	300.0	340.0	359.0	368.0	376.0		

### Operational Boundary

The operational boundary for external debt is based on the same estimates as the authorised limit, but without the additional headroom for unusual and unexpected cash movements, and equates to the level of projected external debt. This is clearly subject to the timing of borrowing decisions.

Operational Boundary for External Debt									
£m	2006/07 Estimate	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Borrowing	262.9	271.9	289.9	319.9	259.9	299.9	318.9	327.9	336.9
Other Long- Term Liabilities	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total	263.0	272.0	290.0	320.0	260.0	300.0	319.0	328.0	337.0