FIN(4) DF 01

Inquiry into Prudential Borrowing and Innovative Approaches to Capital Funding

Response from Pembrokeshire County Council

In response to your letter dated 2nd February requesting evidence to inform the inquiry into the above, set out below is the information requested for Pembrokeshire.

- Since the inception of the scheme the Council has only approved prudential borrowing on one occasion, that being in the financial year 2009/10, when approval for borrowing of £1.6m was given.

- Borrowing limits, including any proposals for prudential borrowing, are reviewed annually as part of the formulation of the Treasury Management Strategy for the following financial year. The revenue implications of any proposed capital investment form part of the business case put forward, this includes the financing method and costs. The latter are assessed in terms of future budget impact by considering both affordability and sustainability. The usual prudential indicators as prescribed in the CIPFA Prudential Code for Capital Finance in Local Authorities are reported and reviewed as is appropriate.

- The level of outstanding debt for capital investment purposes, as measured by the Capital Financing Requirement is:

	Unsupported £m
Debt Outstanding 31st March 2011	1.3
Basis of repayment	Useful life of asset
Repayment 2011/12	0.1m

- The prudential loan is charged at a rate calculated by reference to the average weighted debt.

- Prudential borrowing was approved in respect of a leisure centre project when spare capacity in the budget was identified to meet the capital financing costs.

- Any lessons learned or concerns would wish to highlight in relation to prudential borrowing – no issues

- The Council future capital plans continue the use of various mechanisms previously employed. These include the identification of surplus assets and the recycling of proceeds from disposal to fund capital investment, the redirecting asset maintenance budgets from reactive to pre-planned repair and improvement programmes, invest to save payback schemes, accumulation of capital funds from revenue budget and savings. Ensuring grant funding opportunities from all sources are maximised.

- In all cases the most cost effective way of raising finance is considered (leasing compared to loan finance etc).

- The recent Local Government Borrowing Initiative to encourage improvement in the highway network is a welcome initiative and will ensure works that otherwise could not have been afforded will now go ahead. The use of specific grant funding to meet the cost of borrowing however needs to remain transparent in future years vis a vis the support received via RSG.

- It has been recognised that the provision and improvement of some assets which were in very poor condition, has not been feasible and the private sector has stepped into the gap, for example care homes provision.

- Partnership schemes with the health and housing association sectors have also been successful in certain areas and continue to be used.

- A longer term radical longer term option to ensure assets are renewed and replaced is to move to a properly funded depreciation budget. New borrowing being targeted at growth and expansion. Whatever solution is chosen borrowing should continue to be affordable and sustainable in the longer term.

I hope the above comments are useful.

Yours faithfully,

MARK LEWIS
<u>Director of Finance & Leisure</u>