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Inquiry into Prudential Borrowing and innovation approaches to capital funding.

Response from Bridgend County Borough Council

Further to your letter dated the 2nd February 2012 requesting information to help inform your inquiry into the use of prudential borrowing by Welsh local authorities, please find the attachment detailing Bridgend County Borough Council's response.

If you have any queries, please do not hesitate to contact either Mrs Mary Williams on (01656) 643359 or Mrs Nicola Evans on (01656) 643303.

Yours faithfully

For Head of Finance and Performance

Bridgend County Borough Council (BCBC) response to the National Assembly for Wales Finance Committee’s call for evidence – Prudential Borrowing and Innovative Approaches to Capital Funding

1. BCBC’s approach to Prudential Borrowing

BCBC has adopted a capital planning policy which looks to join together the strategic capital requirements of the Authority to show how capital investment contributes to the achievement of the Council’s objectives. This policy sets out the Council’s approach to Prudential Borrowing, beyond the requirements set out in the Prudential Code¹, which is that:

- **Prudential borrowing will be on an ‘invest-to-save’ basis only.**
- **Option appraisals to be prepared for all proposed projects.**
- **Few invest-to-save schemes will be in progress at any one time in order to minimise the risk to the council**

All projects funded by prudential borrowing within BCBC have adhered to this principle, with the exception of the funding made available for the Glamorgan Records Office. This funding was for a contribution to a joint facility managed by the City & County of Cardiff.

2. BCBC Use of Prudential Borrowing

The following table demonstrates the use of Prudential Borrowing by BCBC from 2004-05 until 2014-15.

Table 1 – BCBC Prudential Borrowing 2004-2015

	2004/05 to 2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Schools Modernisation	167	74	1,262	8,497	2,000		12,000
Bridge Renewal	550	190	260				1,000
Equipment	671		284				955
Glamorgan Records	1,245						1,245
Fleet purchases	1,841	78					1,919
B Day Centre		1,200					1,200
Office Accom		3,000					3,000
HLPP				3,000			3,000
LGBI - Highways				2,320	2,260	2280	6,860
Total	4,474	4,542	1,806	13,817	4,260	2,280	31,179

The rationale for the use of Prudential Borrowing for the projects listed above is described below.

¹ The Prudential Code for Capital Finance in Local Authorities, CIPFA, 2011

Schools Modernisation

Prudential borrowing of £12 million has been approved as part of the overall funding package for the Schools Modernisation Programme. The cost of borrowing will be met from savings arising from the amalgamation of schools aimed at reducing the number of surplus places for both primary and secondary schools.

Bridge Renewal

Prudential Borrowing of £1 million has been spent on carrying out improvements to highways structures to reduce on-going maintenance costs. The costs of this borrowing have been met from savings within revenue budgets held for structural maintenance.

Equipment / Fleet Purchases

A number of services within BCBC, most notably fleet services, purchase vehicles and equipment and finance this via lease arrangements. Each business case is reviewed on its merits to determine the most cost effective method of financing these purchases. Where Prudential Borrowing is considered to be the most cost effective option, this method is utilised. The cost of borrowing is met from existing budgets held by service directorates.

Bridgend Resource Centre

In early 2011, BCBC completed the construction of a new Resource Centre for people with learning disabilities at a total cost of £8.2 million. The funding package for this projection included supported borrowing and capital receipts along with prudential borrowing of £1.2 million. The borrowing costs will be met from savings on the cost of office accommodation which previously had to be externally leased and which is now incorporated into the new facility.

Office Accommodation

In 2010-11 BCBC used £3 million of prudential borrowing to implement its Office Accommodation strategy. This involved the purchase and refurbishment of a new building and refurbishment of an existing building to considerably increase the number of staff that could be accommodated. The resulting savings from the release of externally leased accommodation will be used to meet the borrowing costs of this initiative. Additional efficiency savings from the co-location of staff are anticipated which will help the Council achieve savings required for its Medium Term Financial Plan.

Healthy Living Partnership Project

£3 million prudential borrowing has been approved to fund improvements to leisure buildings linked to the proposed partnership contract for leisure services in 2012-13. The costs of this borrowing will be met from savings generated by the new arrangements.

LGBI – Highways Infrastructure Improvements

Notification has been received from WG indicating that they will provide revenue funding to support additional borrowing in the region of £6.8 million to enable the Council to improve its Highways infrastructure. This funding will be available over three years and is subject to WG approval of the business case for the investment.

3. Treasury Management

BCBC has an integrated Treasury Management strategy. This means that actual borrowing, regardless of how it is financed whether supported or unsupported, is not linked to individual assets.

Where a Directorate has an approved scheme through Prudential Borrowing, it will be charged each year a Minimum Revenue Provision which is based on the total value of the funding needed over the life of the asset together with an interest charge based on an equivalent PWLB fixed rate maturity loan. Individual Directorates must prove that they have sufficient revenue budget to meet these costs before their application is agreed within the Capital Programme.

4. Measures on Determining Prudential Borrowing Limits

Any Prudential Borrowing is approved as part of the discussions on the whole Capital Programme. It is another means of financing along with supported borrowing, grants and contributions and capital receipts.

A suite of Treasury Management and Prudential Indicators are produced by the Authority. These ensure that capital investment decisions are affordable, prudent and sustainable. The Indicators are set at the start of the financial year within the Treasury Policy Statement. They are also monitored quarterly and reported to Cabinet with the Half Yearly position and Annual Outturn position reported to Council.

5. Level of Outstanding Debt

CIPFA's definition of Outstanding Debt would include total borrowing as well as any Other Long Term Liabilities. For BCBC, the outstanding level of borrowing as at 31 March 2011 was £98 million together with other long term liabilities of £24 million including the Council's PFI scheme giving a level of outstanding debt of £122 million.

The annual repayments on this debt would include the Minimum Revenue Provision charge which is amount set aside from revenue to repay loans together with any actual interest payments on loans taken, finances leases and the PFI scheme.