

POLICIES IN RELATION TO FUNDING CAPITAL EXPENDITURE AND INVESTMENT

External Funding

Services must seek to maximise external funding wherever possible to support capital schemes. This can be in the form of grants and contributions from outside bodies including central government. However, services must underwrite any cost overruns on externally funded schemes. If services bid for external funding for schemes and say at tender or during construction or procurement, costs exceed the available funding, then services must fund any shortfall from their existing resources (either revenue or capital).

Prior to submitting bids for grant funding, an assessment of the risk of a contract price increase, associated with market conditions or abnormal building plan demands attached to some grants, must be completed to estimate the likelihood of additional funding being needed.

In respect of match funding bids then the relevant service must fully identify the necessary match funding resources from within existing budgets. If this is not possible then the appropriate service must raise this for consideration with the members of the Corporate Management Team and the relevant Cabinet Member prior to submitting any bid for funding.

Capital Receipts

A capital receipt is an amount of money exceeding £10,000 which is received from the sale of an asset. They cannot be spent on revenue items.

The Strategic Director (Finance and Resources) will review all of the Council's property annually against the aims and objectives of the Corporate Asset Management Strategy. The general policy is that any capital receipts are then pooled and used to finance future capital expenditure and investment according to priorities, although they may be used to repay outstanding debt on assets financed from loans, as permitted by the regulations.

Revenue Funding

Services may use their revenue budgets to fund capital expenditure. This may be via earmarked reserves such as the capital reserve which is an internal fund set up to finance capital expenditure as an alternative to external borrowing.

The Director of the service and the Strategic Director (Finance and Resources) will take an overview and decide the most appropriate way of funding their service areas. In doing that the Strategic Director (Finance and Resources) will take account of the strategy regarding the levels of general and earmarked reserves.

Prudential/Unsupported Borrowing

Local Authorities can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by the Government so the Council needs to ensure it can fund the repayment costs. This borrowing may also be referred to as Prudential Borrowing. The Council's Minimum Revenue Provision Policy sets out a prudent approach to the amount set aside for the repayment of debt.

Capital projects that cannot be funded from any other source can be funded from Prudential Borrowing. The Council must be able to afford the borrowing repayment and interest charges on the loan from existing revenue budgets or the Council must see this as their key priority for the budget process and to be factored into the medium term financial strategy accordingly.

The Strategic Director (Finance and Resources) will make an assessment of the overall prudence, affordability and sustainability of the total borrowing requested. The impact of this borrowing will be reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code for Capital Finance.

The view of the Strategic Director (Finance and Resources) will be fed into the corporate bidding process so that, should the borrowing levels be unaffordable or not prudent, then the schemes will be prioritised against the available funding from borrowing using the corporate prioritisation system.

The Strategic Director (Finance and Resources) will also determine whether the borrowing should be from internal resources such as the Capital Reserve or whether to enter into external borrowing.

Pump Priming and Invest to Save Schemes

Occasionally projects arise for which services require assistance with meeting the set up costs of projects which may bring long term service delivery improvements and/or cost savings. The initial set up costs may be of a revenue or capital nature. Assistance for these schemes must be considered on an individual basis by the Corporate Management Team and then the Cabinet with consideration to the Council's overall priorities and resources.

For 'invest to save' schemes assistance may be given for initial set up costs, but it is expected that in the longer term these schemes will produce savings and/or additional income that will as a minimum fund any additional operational or borrowing costs. If the additional savings/income does not cover the additional costs incurred, then the service will be required to fund the gap from their existing budgets (i.e. they will underwrite the savings/income).

Leasing

The Strategic Director (Finance and Resources) may enter into finance leasing agreements to fund capital expenditure on behalf of services. However, a full option appraisal and comparison of other funding sources must be made and the Strategic Director (Finance and Resources) must be certain that leasing provides the best value for money method of funding the scheme.

Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.