



---

**To Finance and Corporate Services Scrutiny Board 1**

Date 11<sup>th</sup> November

**Subject Capital Programme Funding**

---

**1 Purpose of the Note**

1.1 This item has been included on the Scrutiny Board work programme with the aim of looking at how the Capital Programme is funded with specific attention on revenue funding within the Programme and the interaction between different funding streams.

**2 Recommendations**

2.1 Scrutiny Board 1 is requested to consider the contents of the note.

**3 Information/Background**

3.1 This note gives an outline of funding of the Council's 2016/17 approved Capital Programme. The types of funding are summarised below.

<b>Funding</b>	<b>2015/16 £m</b>
Prudential Borrowing	42.6
Grants & Contributions	62.7
Capital Receipts	1.1
Revenue Contributions	11.3
Leasing	0.2
<b>Total</b>	<b>117.8</b>

The largest element of the funding is derived from grants and contributions including European funded spend in relation to the Friargate Bridgedeck and city centre Public Realm works.

3.3 The revenue funding of £11m included within the programme incorporates £7m of funding from on-going revenue budgets with a further £2m one-off funding each for the Customer Service Centre and new city centre leisure facility. A broad breakdown of this for 2015/16 is shown below.

	£m
Highways	3.0
Property	2.8
ICT	1.3
Customer Service Centre	2.0
City Centre Leisure Facility	2.2
Total	11.3

3.4 An issue raised previously has related to whether the Council should fund these costs from capital resources and free up the revenue resourcing to support the Council’s revenue budget, either by reducing the need to make savings or by directing resources towards spending priorities. It is important to recognise that the Council does not have significant amounts of capital resources with which to replace revenue. Although the Council has used capital receipts for this purpose in the past, these are limited and the Council is already incorporating a range of capital receipts into the financial models for delivering the Property FSR and Friargate project. Other assets that the Council owns in the form of heritage assets, come with their own complications in terms of the impact of how their sale might be viewed by external agencies and whether the Council should continue to receive external arts grant funding.

3.5 The only other real alternative for funding capital is prudential borrowing which will result in interest costs being charged to revenue. If we were simply to borrow to fund the on-going elements of the revenue funded programme the annual borrowing costs would exceed the current annual revenue cost over the lifetime of the assets created as a result of interest costs incurred over and above the capital expenditure/repayment cost.

3.6 In general there is an argument for saying that the Council should not use revenue resources to fund capital expenditure. However, there are exceptions to this, such as:

- Where there are rolling programmes of expenditure that result mostly in short life assets – any borrowing to fund such assets would involve a build-up of debt for the City Council.
- Where there are opportunistic circumstances that arise, in particular where these require a funding solution to be identified quickly, for instance the new Customer Service Centre.

3.7 However, the starting position should be one of trying to maximise the degree to which capital spend is financed by capital resources. There are ways in which the Council can start to look at this. For instance, it may be possible to identify any specific instances where

projects offer a business case that justifies a prudential borrowing approach – in the current programme the Customer Service Centre provides such a case because it is part of an approach that will deliver long-term savings to the Council. Also, there may be some areas where a technical switch can be engineered to deliver an approach which enables better value for money to be achieved.

- 3.8 Recent discussions have been held resulting in a proposal to explore individual opportunities to use borrowing instead of revenue funding for one-off capital spend. This can happen in occasional circumstances for example in funding some schools based expenditure, where revenue funding has previously been set aside. If the Council were to take out long-term borrowing instead of revenue, this would allow the use of the revenue to offset ER/VR costs. This can be demonstrated to be a cost effective use of resources through the creation of long-term savings for the Council through reduced employee costs. It has been concluded that the Executive Director of Resources should use this mechanism as part of the financial outturn process, where a financial case exists to justify it. In addition, at this stage it is also proposed that the £2m revenue funding for the new Customer Centre should be replaced by borrowing and the revenue added to the ER/VR reserve.

Paul Jennings  
Resources Directorate  
02476 833753