Appendix 9 Capital Funding

The Council is required to have a fully-funded capital programme that is affordable. This means that all proposed capital expenditure should have an identified source of funding and if that funding source is borrowing, the cost of borrowing should be built into a balanced revenue budget.

Key sources of funding for the Council are:

- grants
- developer contributions
- capital receipts
- direct revenue funding
- Major Repairs Reserve (HRA only), and
- borrowing

Grants

These are predominantly government grants and usually provided to the Council to fund specific schemes or programmes. Major grants received for capital purposes are from:

- the Department for Education (DfE) to ensure the Council is meeting its statutory duty to provide school places and that school buildings are in good condition;
- the Department for Transport (DfT) for infrastructure (i.e. highways) improvements; and
- the Department for Levelling Up, Housing and Communities (DLUHC) for disabled facilities grant (DFG).

Capital grants usually have stipulations attached, which require the grant to be used for specific purposes and in some cases may potentially require repayment in the event that they are not used for the purpose intended or within a set timescale.

Developer contributions

Developer contributions are usually either:

- s.106 agreements made under the section 106 of the Town and Country Planning Act 1990 whereby the Council in its capacity as a planning authority places an obligation on the developer to undertake an obligation as part of the planning permission, and the developer agrees to make a financial contribution so that the Council can undertake the specified works, or

- s.278 agreements made under section 278 of the Highways Act 1980 which allow a developer to enter into an agreement with the Highways authority to make permanent alterations or improvements to a public highway as part of the planning approval for a wider scheme.

Capital receipts

Capital receipts are generated from the sale of non-current assets (e.g. land and buildings). The use of capital receipts is statutorily prescribed, such that they can only be used primarily to fund capital expenditure or repay borrowing. The Council holds all capital receipts corporately, which ensures that they can be used to fund the overall capital programme.

As set out the Debt Recovery Strategy approved by Cabinet 1 March 2023 in the 2023/24 Treasury Management Strategy, capital receipts generated from asset sales will be used:

- firstly, to finance the IT capital programme
- secondly, to finance any expenditure capitalised under any Capitalisation Direction granted by the Government; and
- thirdly, to repay existing external debt.

Direct revenue funding

The Council can, if it chooses to, fund capital expenditure through the revenue budget. This can be through in-year budgets, earmarked reserves or by utilisation of General Fund or Housing Revenue Account (HRA) accumulated balances. Any funding of the capital programme from revenue resources has to be considered in light of:

- the Council's overall revenue budget position and the Medium Term Financial Plan in respect of the General Fund
- the HRA Business Plan in respect of the Housing Revenue Account.

Major Repairs Reserve

The Major Repairs Reserve (MRR) is unique to the HRA. Statute requires that depreciation on dwellings within the HRA is transferred to the MRR, and can only be used to fund capital expenditure on HRA assets.

Borrowing

In local government the Prudential Borrowing regime has operated since 2003/04 under which local authorities must take responsibility to ensure that borrowing is affordable and sustainable from the perspective of both the revenue budget and the council taxpayer.

Borrowing can take the form of internal or external borrowing. Internal borrowing is a temporary position where the Council uses its available cash balances instead of externally borrowing at any specific point in time. If not used for internal borrowing, these cash balances would be invested on a medium to long-term basis providing the Council with a return. External borrowing is where the Council borrows money from the open market such as from banks or the Government via the Public Works Loans Board, or from other local authorities.

Although the capital programme may highlight a need to borrow to fund capital expenditure at a particular level over the course of the whole financial year (the borrowing requirement referred to in Table 5 above), the timing, value and nature of each borrowing transaction depends on cashflow modelling and the Council's approved Treasury Management Strategy.

All borrowing incurs capital financing costs, namely interest charges and a minimum revenue provision (MRP). MRP is an amount which the Council is statutorily required to set aside to repay outstanding borrowing

All capital financing costs (interest and MRP) must be treated as a revenue cost and built into the Council's budget plans. In essence the more the Council borrows, the greater the call on the revenue budget, which may require further service savings to be identified to fund this in the longer term. Consequently, it is important that borrowing is set at a level which is both affordable and sustainable in revenue budget terms.