

Draft Capital Investment and Funding Assumptions For Consideration by Cabinet 10 November 2009

1 Initial Funding Forecasts and Assumptions

1.1 Underlying Borrowing Requirement (known as the Capital Financing Requirement)

There is no **supported** underlying borrowing requirement forecast for the five-year period at present, but in due course this may change, particularly for the Housing Revenue Account.

Assumptions underpinning the Council's **unsupported** underlying borrowing requirement are outlined below:

- i. The General Fund capital programme will provide for a £1.4M reduction in the underlying requirement for unsupported borrowing from 2010/11 onwards.
- ii. The practice will continue by which the Head of Finance will, under delegated authority, assess the most appropriate means of financing for the purchase of new vehicles and equipment. Unsupported borrowing will be selected if this offers a more cost effective solution than leasing.
- iii. Further unsupported borrowing need may be considered in developing the Capital Programme, but only in context of either:
 - providing cover to meet any additional costs arising in connection with the Luneside East scheme. Cabinet approval would be required before this facility could be called on;
 - providing cover for any losses associated with Icelandic investments, should a capitalisation directive be required (and granted) by Government;
 - providing interim funding for any essential building works, prior to other sources of funding (e.g. capital receipts) becoming available;
 - robust, achievable revenue savings being identified or income being generated to at least offset the ongoing (whole life) costs associated with individual schemes, and / or borrowing being required to support the cashflow position of major schemes spanning financial years.
- iv. No underlying borrowing requirement is assumed for council housing investment, but this will need to be reviewed in light of the outcome of the housing funding review.

1.2 Revenue Financing Of Capital Schemes

Substantial general budgetary provision for direct revenue financing will be made within the Housing Revenue Account (HRA) for council housing purposes, in line with existing budget forecasts. No such general provision will be built into the General Fund revenue budget, though revenue financing related to specific schemes may be considered in appropriate circumstances, e.g. invest to save schemes.

Revenue financing from reserves will be based on existing earmarked reserve levels (or projections), as long as capital investment proposals match with the approved use of those reserves.

1.3 Capital Receipts Forecasts

Over the next five years, from 01 April 2011, general capital receipts totalling £11M (provisional estimate) are anticipated, of which approximately £10.2M relates to General Fund property disposals with the remainder relating to Council housing. The assumptions regarding their use are set out below:

- Any council housing capital receipts will be used to support capital investment in council housing stock and supporting assets, and related environmental improvements.
- For General Fund, capital receipts of up to £8.8M will be used over the period to support capital investment generally, with the balance being set aside to provide for contingencies and/or the repayment of debt. Capital receipts will not normally be ring-fenced into reinvestment into particular areas, as this can undermine the prioritisation of investment needs, but there are exceptions to this:
 - o Capital receipts arising from the West End Masterplan implementation will be ring-fenced to the further development of projects identified in the Masterplan itself, subject to appropriate Cabinet approval.
- The application of any additional General Fund capital receipts arising (i.e. apparently exceeding the target referred to above and not covered by the specific ring-fencing arrangements outlined) will be considered in context of the likelihood of meeting the overall target. They will not be used to support new spending or commitments. For Council Housing, any additional capital receipts may be used to support the 30-year business plan.

2 CAPITAL INVESTMENT PRIORITIES

In line with the Council's core values, priorities and associated targets, capital investment for the period to 2015 will be focused into delivering the Council's medium term priorities and objectives. In determining priorities where funding is limited, then preference will be given to those schemes that contribute to delivering the agreed high priorities for capital investment, as set out below:

- Delivering the Council's Economic Vision as set out in the Economic Regeneration Strategy
- Delivering improvements for Cleaner Streets and the Public Realm
- Completion of the phased implementation of the Recycling and Waste Management Strategy
- Delivering schemes that support the Council's Climate Change Strategy
- Developing further the district's Cycling Infrastructure
- Delivering the City Council's obligations in the Sustainable Community Strategy, Community Safety Partnership, and the Lancashire Local Area Agreement
- Progressing the priorities within the Council's agreed Housing Strategy and in particular, in meeting the 'Lancaster' Standard in the provision of Council Housing, in line with the 30-Year Business Plan
- Refurbishment/ replacement of existing property or facilities required to deliver existing service levels, or to achieve key performance targets as set out in the Corporate Plan or Corporate Property Strategy, or to meet other legislative requirements
- New (or the expansion of existing) facilities, where they link clearly with the Corporate Plan or new proposed priorities, and they are either:
 - at least self financing (both in revenue and capital terms) or
 - invest to save proposals that require some up front capital investment but would generate cashable (and where possible, non-cashable) ongoing revenue savings. As a general guide, payback should be achievable in the medium term, up to 5 years, but longer payback periods may be considered should circumstances warrant it.