

THE CURRENT SYSTEM OF CAPITAL CONTROLS

- 1 The current capital finance system was introduced by the Local Government Act 2003 on 1 April 2004. In summary the system does not impose any limit on the amount of capital expenditure that can be incurred in any year but does impose limits on how expenditure can be financed. Only spending meeting a definition of capital expenditure can be capitalised. The schemes included within the housing capital programme have been examined to ensure that they come within this definition.
- 2 The new systems do not impose fixed borrowing limits but allow "Prudential Borrowing". Council's must approve & publish a set of "Prudential Indicators". The indicators cover the two main council income streams i.e. council tax (the General Fund) & council housing (the Housing Revenue Account) and seek to ensure that borrowing is only entered into where it is prudent to do so. The Prudential Indicators for Portsmouth's Housing Revenue Account are shown at Appendix 6.
- 3 Capital expenditure not met by borrowing can be financed from:
 - (a) Revenue Contributions to capital resources - There is no legal limit set for the amount that can be spent from this source.
 - (b) Capital Receipts remaining after the "Pooled" proportion has been paid over to the Government.

	"Pooled" Proportion paid over to Government	Usable Proportion
Sale of Council Houses	75%	25%
Other Housing Revenue Account assets **	50% **	50%
Non Housing Revenue Account asset sales	0%	100%

** Note where these receipts are used on affordable housing or regeneration the "Pooled" proportion payable to Government is now zero - see Recommendation 5 to report.

- (c) Supported Capital Expenditure - Government Grant - i.e. the Government contribution towards Disabled Facilities Grants and the Private Sector Renewal Discretionary Fund grant for private housing. Grants are used to finance capital expenditure providing valuable cash to reduce the revenue effect of Disabled Facilities Grants.
- (d) Specific Capital Grants - these include Disabled Facilities Grants towards private housing & European grants amongst others. These grants provide capital resources to finance the capital scheme being supported.
- (e) Grants and contributions towards capital schemes - the regulations provide that Grants and contributions towards a capital scheme can be used 100% to finance capital spending. An example of a contribution is a payment made by a leaseholder in a block of council flats to meet their share of the costs of capital works carried out to the block of flats or a Section 106 contribution from a developer towards the provision of affordable housing.