Appendix 1

Traditional Method

Historically, Central Government limited the level of annual capital spend of councils through 'consent'.

With the introduction of the Prudential Code in 2004, this limit was removed and Central Government gave councils control over the level of their capital spend. That is, a council could spend as much on capital as it could afford to fund. However, Central Government reserves the right to limit spend locally or nationally if it projects capital spending being too high to be acceptable. Although plans have been drafted to re-introduce controls, as yet this has not been imposed.

Central Government funds a limited amount of councils' capital spend by 'supported borrowing'. That is, councils will receive a regular contribution towards annual repayments of their capital debt (principle and interest) through the Revenue Support Grant. The level of supported borrowing is calculated by the Scottish Government from a level of capital grant it is felt (by them) to be adequate, no matter what the Council feels the level of spending required by them is.

Any capital spend over and above the government supported borrowing requires to be funded by alternative means – such as:

1. Grants (government and non-government)
2. Receipts from sale of assets owned by the Council
3. Revenue contributions
4. Prudential borrowing

The Council is limited on the funding level of options 1-3 above by outside factors such as grants being normally ringfenced to a particular project or theme; sale of assets being limited to the surplus assets available, and surplus revenue funds available based upon the annual budget and spend.

For the Council to choose prudential borrowing (option 4) to increase spend, which is repayable by revenue in the form of loan charges over a number of years, it first requires to identify the annual funding source.

As a guide, the Council estimates that £1m capital expenditure will cost the Council £100,000 per annum (linked to an assumed write off period of the debt and the interest rate).

The Council has a variety of options to fund this spend, for example, it can choose to:

- Identify general efficiencies within the corporate budget
- Identify spend to save options
- Identify additional income sources
- Increase Council Tax (this annual amount of £100,000 is equivalent to 0.26% on the 2007/08 level of Council Tax - or £3.05 per band D equivalent).