

Sources of Capital Funding

1. **Capital Receipts** - capital receipts arise from the disposal of an asset, both outright or by way of a lease, and on the repayment of capital grants and advances (eg mortgages). However only certain proportions of capital receipts arising can be used to finance capital expenditure. Currently only 25% of receipts arising from sale of council houses (right to buy) and 50% of any other housing receipts can be used. The remaining receipts will have to be paid into the Government Pool. Currently, 100% of non-housing receipts may be used to finance capital expenditure.
2. **Major Repairs Allowance** – the Government launched an initiative to fund capital based repairs within the HRA in 2001/02. This Council receives approximately £5 million per year by way of a cash grant.
3. **Freedom to Borrow** – Under the Local Authority Act 2003 the Council is able to borrow for a capital purpose on the condition that it can demonstrate that it is affordable. However, given the desire to remain debt free this option is unlikely to be used.
4. **Capital Grants** - capital grants are available for some projects, typically disabled facilities and decent homes grants. These are by way of direct cash grants, which reduce the cost of the project to the Council.
5. **Commuted Sums and Contributions** - It is sometimes possible to negotiate with a private developer for them to part or fully fund capital projects, either through S106 agreements or by direct contribution.
6. **Private Finance Initiatives** - currently regarded as being difficult to achieve and not cost effective for small-scale schemes.
7. **Revenue Contributions** - in theory a local authority can finance an unlimited amount of capital expenditure through its revenue account. However there is clearly a practical restriction on this freedom to the extent to which the local authority is prepared or indeed able to finance expenditure from local taxation or housing rents. Ring fencing of the Housing Revenue Account means that any revenue contributions to housing capital spending must be charged to the Housing Revenue Account. Revenue contributions can either come from resources raised in year or from accumulated reserves.