



Office of the  
Deputy Prime Minister  
Creating sustainable communities

11 JAN 2006

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**Government Support for Capital Investment**

When you came to see me with a delegation from SEERA, I promised to write following up your points about the financing of capital investment. You were concerned that it was not possible to see how that the settlement calculations did in fact work to take account of Supported capital Expenditure (Revenue); and with what assurances you could have over long term support.

On the former I explained that the grant to support capital borrowing was already included in the formula grant before floors. Therefore authorities that are at the floor receive their full formula grant before floors plus an additional amount to bring them up to the floor.

In 1998-99, Central Support Protection Grant was introduced for the first time. This grant protected authorities from cash decreases in their formula grant for the first time. In 2001-02, Floor Damping was introduced for authorities with education and social service responsibility. The following year, i.e. 2002-03, this was introduced for all authorities. Prior to this many authorities received a decrease in their formula grant year-on-year as the formulae changed. Indeed formulae used to change every year. We introduced the first formula freeze in 1999/2000. The formulae were then changed in 2003/04 when Formula Spending Shares were introduced for the first time. The formula changes that we are proposing now follow the end of the three-year formula freeze period that we announced in 2003/04.

We have published the calculations of the 2006/07 formula grant on the website and this will help you to see that the additional borrowing is supported in the formula grant before floor damping.

There never has been any absolute guarantee of continued Government support over the long term, because no Government can bind its successor. But for many years local authorities have felt able to continue planning both capital and revenue spending, and lenders have felt able to lend to local authorities, on the

basis that there will indeed be a continuing stream of financial support from central to local government. Nothing that we have done recently changes that, except that this Government's commitment to continue with grant floors makes the future that bit more certain and should assist with your planning.

**PHIL WOOLAS**