

## CAPITALISATION 2006-07

### ***Applications and method chosen for rationing approvals***

#### Introduction

Revised procedures for the issue of capitalisation directions were issued on 26 June 2006. The guidance is available at:

<http://www.local.communities.gov.uk/finance/capital/cappolpro.pdf>

Applications, which should be submitted to the department by 15 December, are now subject to a two-stage process. Those meeting the policy criteria for capitalisation initially receive only confirmation of that fact in a “minded to” letter (Gate 1).

At the second stage all such applications are considered simultaneously to determine the actual amounts which may be capitalised by each authority, in the light of the implications for the Chancellor’s “Golden Rule,” (Gate 2). At that stage it is necessary for the Secretary of State to decide whether the total expenditure can be capitalised in the financial year without any unacceptable national economic impact. If the Secretary of State is satisfied that it can, directions may be issued to each applicant for the full amount of the expenditure which met the policy criteria for capitalisation at Gate 1 (subject to any changes in circumstances or in the policy criteria since then).

If, however, it appears that there could be an adverse impact, a lower level of capitalisation may be identified which the Secretary of State considers to be manageable. The total of directions issued will need to be kept within this figure. Consideration will then be given to the appropriate method of distributing between applicants the amount available.

#### Applications in 2006-07

In 2006-07 the limit has been set at £230,000,000 (less resources totalling £33,100,000 allocated for Local Public Service Agreements, which had previously been treated through capitalisation, but are now considered as revenue). The final figure capitalised in 2005-06 was £193,921,744, allowing us to carry forward £6,078,256, bringing the limit in 2006-07 to £202,978,256.

190 applications were received by the 15 December deadline totalling £412,937,411. Following consideration of these applications 12 were refused because they failed to meet the criteria, and 2 were withdrawn by the authority. 95 applications therefore received Gate 1 “minded to” letters totalling £341,485,981 (not including those applications in connection with contaminated land under the scheme operated by the Department for Environment, Food and Rural Affairs).

Options for rationing applications to keep the total Gate 2 amount approved within the available limit were then considered. The method chosen was a pro

rata reduction of 42.81% applied across all authorities (with the exception of applications from two authorities where the Government has used its intervention or engagement powers). This method was considered to be simple, transparent and fair to all authorities. Formal capitalisation directions (Gate 2 letters) were subsequently issued to all qualifying applicants by 31 January 2007. Gate 2 approval totalled £202,978,176 including a pro rata total for applications applied for in connection with contaminated land under the scheme operated by the Department for Environment Food and Rural Affairs, and is within the limit set for 2006-07.

*Information regarding Gate 1 and Gate 2 approvals issued by the Department for Environment, Food and Rural Affairs will be posted on the website as soon as it is available. For further information on applications in connection with this scheme please contact Trevor Jones at: [trevor.jones@defra.gsi.gov.uk](mailto:trevor.jones@defra.gsi.gov.uk), or refer to the guidance in 'Contaminated Land Advice Note (CLAN) 1/06, available at:*

*[www.defra.gov.uk/environment/land/contaminated/pubs](http://www.defra.gov.uk/environment/land/contaminated/pubs)*