

## VII Capital Financing

### INTEREST RATE

A notional pool rate of interest calculated by the Secretary of State using a 12 month average of short and long term interest rates up to September 2007. This is 5.5 per cent.

### DEBT I

Assumed outstanding debt at 1 April 2008, as calculated by the Secretary of State. Assumed outstanding debt at 1 April 2008 is based generally on assumed outstanding debt at 1 April 1990, credit approvals for the financial years 1990/91 to 2003/2004, Supported Capital Expenditure (Revenue) amounts for 2004/2005 to 2008/2009 and assumed capital repayments.

Assumed outstanding debt at 1 April 1990 is the larger of a notional debt figure, based principally on the capital financing components of 1989/90 grant-related expenditure assessments, or an estimate of actual debt, based principally on the adjusted initial credit ceiling.

In deriving the notional debt figures, notional debt for the Inner London Education Authority has been reallocated to the City and the inner London boroughs and notional debt for the passenger transport authorities has been reallocated to the relevant metropolitan districts. Adjustments have been made to the notional debt figures for all London boroughs in respect of part of the debt (the “deemed debt”) of the former Greater London Council which was transferred to the London Residuary Body on 1 April 1986 (this adjustment covers the Housing Revenue Account part of debt associated with Thamesmead Housing, debt associated with Seaside and Country Homes, and debt associated with the 1971-73 Transfers).

The estimate of actual debt excludes HRA debt, estimated non-HRA debt associated with trading activities, and an estimate of debt associated with capital financing related grants. Adjustments have been made in respect of transfers made under the 1982 HRA Directions, the debts of former metropolitan county councils held by debt administering authorities designated under the Local Government Act 1985, the debt of the former Inner London Education Authority held by the London Residuary Body, parts of the “deemed debt” which were transferred from the Housing Revenue Account to the General Fund, and the debt held by Luton Borough Council for which Bedfordshire County Council is responsible.

Assumed outstanding debt at 1 April 1990 has been reallocated amongst the West Midlands districts to reflect their financing arrangements in respect of waste disposal. Assumed outstanding debt at 1 April 1990 has been reallocated amongst the West Yorkshire districts to reflect their financing arrangements in respect of waste disposal. For the Receiver for the Metropolitan Police District assumed outstanding debt at 1 April 1990 is estimated by the Secretary of State for Transport, Local Government and the Regions on the basis of 1989/90 expenditures.

Assumed outstanding debt at 31 March 1991 is calculated by subtracting the assumed capital repayment (4 per cent of the debt at 1 April 1990) and adding on approved new borrowing (obtained from the credit approvals for 1990/91, as estimated by the Secretary of State in the manner described below in the definition of **CREDIT APPROVALS** but substituting “1990/91” for 2003/2004 and excluding any credit approvals for the London Waste Regulation Agency). Applying this process to each of the

financial years for the period 1991/92 to 2003/2004 yields assumed outstanding debt at 1 April 2004. Assumed outstanding debt at 1 April 2008 is then calculated by an analogous process but using **SUPPORTED CAPITAL EXPENDITURE (REVENUE)** amounts instead of **CREDIT APPROVALS**.

Adjustments have been incorporated in respect of assumed outstanding debt at 31 March 1993 in respect of which the Further Education Funding Council makes payments under section 38 of the Further and Higher Education Act 1992.

Where functions have been transferred to new or reorganised local authorities on 1 April in a financial year by or in consequence of an order under section 17 of the Local Government Act 1992 assumed outstanding debt at 31 March in the preceding financial year has been reallocated to the relevant new or reorganised authorities by applying the following principles:

- (i) where shire county and shire district functions for the whole of a county area are transferred to a single shire county council the debt of the predecessor districts is transferred to the county council;
- (ii) where shire county and shire district functions throughout a county council area are transferred to two or more shire district authorities the debt of the shire county council will be apportioned among the reorganised shire district authorities on the basis of taxbase<sup>1</sup>, and the debt of any predecessor shire districts will be transferred to the reorganised shire districts, distributed where necessary among two or more reorganised shire district authorities on the basis of taxbase<sup>1</sup>;
- (iii) where part of the area of one shire district is transferred to another shire district a portion of the debt of the first district, based on taxbase<sup>1</sup>, is transferred to the second district; and
- (iv) where county functions for part of the area of a shire county are transferred to a shire district a portion of the debt of the county, based on taxbase<sup>1</sup>, is transferred to that district, except in the following three cases concerning:
  - (a) Derbyshire County Council and Derby City Council where 25.54 per cent of the assumed outstanding debt of Derbyshire County Council at 31 March 1997 is transferred to Derby City Council;
  - (b) Bedfordshire County Council and Luton Borough Council where 29.06 per cent of the assumed outstanding debt of Bedfordshire County Council at 31 March 1997 is transferred to Luton Borough Council; and
  - (c) Hampshire County Council, Portsmouth City Council and Southampton City Council where 9.74 per cent of the assumed outstanding debt of Hampshire County Council

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<sup>1</sup> The taxbase used for apportioning debt is the Council Tax Base for Revenue Support Grant purposes for the financial year in which the new or reorganised authority takes on its new or additional functions.

at 31 March 1997 is transferred to Portsmouth City Council and 10.78 per cent of the assumed outstanding debt of Hampshire County Council at 31 March 1997 is transferred to Southampton City Council.

For the county councils of Bedfordshire, Cambridgeshire, Cheshire, Cleveland, Cumbria, Derbyshire, Dorset, Durham, Essex, Gloucestershire, Hampshire, Hertfordshire, Humberside, Kent, Lancashire, Leicestershire, Lincolnshire, Norfolk, Northamptonshire, North Yorkshire, Nottinghamshire, Staffordshire, Suffolk, Surrey, Warwickshire and Wiltshire assumed outstanding debt at 1 April 1995 is assumed outstanding debt at 31 March 1995 less an amount estimated by the Secretary of State in respect of police debt. This estimate of assumed outstanding police debt at 31 March 1995 forms the 1 April 1995 assumed outstanding debt for the police authority within whose police area the county council was situated (assumed outstanding police debt in respect of the county councils of Essex, Hertfordshire and Surrey forms the assumed outstanding debt for the Essex, Hertfordshire and Surrey police authorities, respectively).

For the Receiver of the Metropolitan Police District assumed outstanding debt at 31 March 2000 has been divided between police and non-police services, with the police element being transferred to the Greater London Authority. The Receiver's assumed outstanding non-police debt at 31 March 2001 has been re-allocated to the inner London boroughs.

For the London Fire and Civil Defence Authority assumed outstanding debt at 31 March 2000 has been transferred to the Greater London Authority.

For the combined fire authorities assumed outstanding debt at 1 April 2008 is based on credit approvals and Supported Capital Expenditure (Revenue) amounts issued to the relevant CFA since it came into existence.

For Devon and Somerset Fire and Rescue Authority assumed outstanding debt at 1 April 2007 is the assumed outstanding debt held by Devon Fire and Rescue Authority at 31 March 2007 plus a share of the assumed outstanding debt held by Somerset County Council at 31 March 2007. Somerset County Council's assumed debt at 31 March 2007 has been consequently adjusted.

### **SUPPORTED CAPITAL EXPENDITURE (REVENUE)**

Supported Capital Expenditure (Revenue) ('SCE(R)') for an authority for 2008/09 is estimated by the Secretary of State on the basis of the aggregate of any amounts which the Secretary of State<sup>2</sup> has decided by 5 November 2007 is capital expenditure for that authority that should be supported by RSG or HRA subsidy<sup>3</sup>. Where the Secretary of State has not decided such an amount in relation to any area of her responsibility by that date, the Secretary of State shall estimate the amount, if any, on the basis of information available to her on 5 November 2007 and shall use that estimate when calculating the aggregate of the amounts.

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<sup>2</sup> References to the Secretary of State may include more than one Secretary of State in relation to different areas of her responsibility.

<sup>3</sup> HRA subsidy means Housing Revenue Account subsidy payable to a local housing authority under section 79 of the Local Government and Housing Act 1989.

SCE(R) amounts for statutory waste authorities and the Lee Valley Regional Park Authority are divided between their constituent authorities in proportion to their taxbase used in the 2007/08 Settlement.

SCE(R) amounts for passenger transport authorities are divided between their constituent authorities as a common amount per head of their projected population used in the 2007/08 Settlement.

The Comprehensive Spending Review 2007 determined the total amount of public sector capital expenditure that was prudent and how that national total (“the national total”) would be allocated by the Treasury between different Government Departments. For 2008/09, the Secretary of State for each of those Government Departments will decide firstly how her Department’s share of the national total, relevant to her Department’s responsibilities, will be allocated between local authorities and secondly how the amount allocated to each local authority should be split between capital expenditure supported by capital grants and capital expenditure supported by revenue grants.

For 2008/09, where a share of the national total has been allocated to a local authority by the Secretary of State and where she has decided that part of that share should be supported by revenue grants, she will decide the amount, if any, of that part which she considers should attract support through RSG or HRA subsidy.

**CREDIT APPROVALS** Basic Credit Approvals (BCAs) for 2003/2004; plus Supplementary Credit Approvals (SCAs) so far as they apply to 2003/2004, as estimated by the Secretary of State<sup>4</sup>.

For both BCAs and SCAs, a reduction is made to take account of trading activities. Any SCAs issued as a result of receiving support from the European Regional Development Fund, or in respect of Specified Capital Grants, or credit approvals relating to local authority projects undertaken through the Private Finance Initiative<sup>5</sup>, or which are not expected to give rise to additional long-term borrowing, are excluded.

For housing authorities, reductions are made to the BCA to take account of any part of the BCA issued to cover Specified Capital Grants and of an assumed portion of the BCA to be used in relation to local authority rented housing. Any SCAs issued for services accounted for within the Housing Revenue Account are also excluded.

Credit Approvals for statutory waste authorities and the Lee Valley Regional Park Authority are divided between the relevant authorities in proportion to their taxbase used in the 2007/08 Settlement.

Credit Approvals for passenger transport authorities are divided between their constituent authorities as a common amount per head of the projected population used in the 2007/08 Settlement.

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<sup>4</sup> Aggregate and Additional Credit Approvals for the Greater London Authority.

<sup>5</sup> The Private Finance Initiative (PFI) and its applicability to the local authority sector were originally explained in section 1 of the booklet *The Private Finance Initiative and Local Authorities – An Explanatory Note* published jointly by the Department of the Environment and the Welsh Office in October 1996. Current advice on the PFI and public/private partnerships is available on the Office’s web site at [www.communities.odpm.gov.uk/pfi/index.htm](http://www.communities.odpm.gov.uk/pfi/index.htm).