

ANNEX D

Capital spending & financing

This annex contains information on capital spending and how it is financed relating to **Chapter 4**. It is divided into the following sections:

- **Capital outturn summaries** **section D1**
- **Provision for credit liabilities** **section D2**
- **Changes to English local government capital finance systems** **section D3**

D1 Capital outturn summaries

Section D1 gives 2003-04 capital expenditure and receipts information from the *Capital Outturn Returns* (COR) for all service groups within the main service blocks. Information on acquisition of share or loan capital is not included in Total Capital Expenditure and Disposal of Investments is not included in Total Capital Receipts.

DEFINITIONS OF COLUMN HEADINGS

Acquisition of land and existing buildings and works (including any road charges) – payments against the service for which the land is required for use rather than that appropriate to the powers used for acquisition; interest on purchase money is excluded, except where it is in connection with Slum Clearance Subsidy.

New construction and conversion – capital payments include the wages and salaries (including the employer's share of national insurance and pension contributions) of employees engaged on direct labour schemes, and the cost of architectural, engineering and other services (including the authority's own professional staff) connection with these works and other overheads (including accommodation). Payments on demolition and site clearance with the erection of bridges is also included, as well as civil engineering works, for example for the provision, laying or replacement of water mains and sewers, the laying or improvement of roads, the preparation of playing fields and hard playing areas.

Vehicles – acquisition, renewal or replacement of vehicles and vessels (including ships and aircraft) and the acquisition of assets by Direct Labour and Service Organisations.

Plant machinery and equipment – acquisition, renewal or replacement of plant machinery and equipment, including furniture and fittings, and the installation of street lighting, road signs, traffic signals and related equipment, where the payment for these can be identified separately. Also includes the acquisition of assets by Direct Labour and Service Organisations.

Total payments on fixed assets – includes salaries of professional staff charged to the capital account.

Capital grants and advances – all grants and advances made for capital purposes, such as those for housing and industrial purposes.

Credit cover for credit arrangements (leases and other) – the estimated credit cover required for the entering into or variation of credit arrangements, which occurred during the year; existing credit arrangements are excluded.

Sales of fixed assets – amounts received by an authority in respect of the sale of any interest in a fixed asset, if at the time of the sale, expenditure on the acquisition of that asset would have counted as expenditure for capital purposes. Also includes receipts from the sale of assets to other authorities.

Repayments of capital grants and advances – repayments of grants, advances and other financial assistance of a capital nature. Includes repayments of renovation grants, repayments of principal (regular and premature) of loans to private persons and repayments of sums left outstanding (regular and premature) on the sale of council dwellings, where the purchase was financed by a mortgage. Also includes repayments of principal of loans to Housing Associations other than those required by the use of Housing Association Grant. Receipts from health authorities are excluded.

Disposal of leased assets – cash sums received by way of premiums on the disposal, grant or assignment of leases and other capital interests.

Table D1a: Capital outturn summary: all services (COR) 2003–04

	£ thousand				
	Acquisition of land and existing buildings (1)	New construction conversion and renovation (2)	Vehicles (3)	Plant machinery and equipment (4)	Total payments on fixed assets (5) (1+2+3+4)
Service Block					
Pre-primary & primary education	23,563	1,239,740	386	57,303	1,320,993
Secondary education	14,279	987,119	554	57,345	1,059,297
Special education	1,392	144,958	156	5,824	152,330
Youth service	2,684	19,333	521	957	23,495
Other education services & continuing education	1,076	151,973	823	27,255	181,128
Education	42,995	2,543,124	2,440	148,684	2,737,242
Social Services	6,634	166,204	6,676	58,676	238,190
Roads (inc. struct. maint.), street lighting & road safety	19,025	1,859,342	4,653	31,687	1,914,707
Parking of vehicles (inc. car parks)	6,849	63,192	235	5,611	75,887
Public passenger transport (GFRA) – bus	361	113,760	8,596	21,145	143,862
Public passenger transport (GFRA) – other	17,751	341,913	1,070	20,996	381,730
Tolled road bridges, tunnels & ferries, public transport companies	0	8,734	3,151	266	12,151
Local authority ports and piers	1,721	5,052	14	652	7,439
Airports	-7	1,280	40	627	1,940
Transport	45,700	2,393,273	17,760	80,984	2,537,716
Housing	95,145	2,671,244	6,804	48,421	2,821,614
Library services	1,501	44,163	610	7,885	54,158
Museums and galleries	1,074	42,267	11	4,059	47,411
Art activities and facilities	3,160	73,724	18	1,519	78,421
Libraries, culture & heritage	5,735	160,154	639	13,462	179,990
Land drainage and flood prevention	0	10,192	45	62	10,299
Coast protection	719	52,906	0	102	53,727
Other agriculture & fisheries (inc. smallholdings & trading)	752	6,013	429	257	7,451
Agriculture & fisheries	1,471	69,111	474	421	71,477
Consumer protection	2	814	29	292	1,137
Employment services	0	39	12	198	249
Sports facilities	17,873	185,743	209	7,952	211,777
Sports development & childrens play	208	28,943	103	8,245	37,499
Sport & recreation	18,081	214,686	312	16,197	249,276
Derelict land reclamation (grant aided)	2,602	34,373	0	27	37,002
Parks and open spaces	6,367	117,626	1,876	8,019	133,888
Waste collection	1,026	18,022	33,856	43,327	96,231
Waste disposal	2,651	30,732	4,152	11,907	49,442
General administration	41,932	368,662	7,996	274,360	692,950
Planning and development (inc. gypsy sites)	88,470	337,227	382	15,171	441,250
Community safety	3	25,213	391	18,256	43,863
Environmental health (inc. Clean Air Act and port health)	220	34,603	3,901	9,459	48,183
Miscellaneous	3,399	61,712	2,054	9,802	76,966
Industrial and commercial	42,695	93,654	22	1,243	137,614
Other trading services	833	21,018	18,332	7,939	48,122
Other environmental services	190,198	1,142,843	72,962	399,509	1,805,511
Fire service & civil defence	1,519	30,181	16,100	18,993	66,793
Police	21,095	197,778	91,362	202,425	512,661
Coroners courts	0	13	0	3	16
Magistrates courts	3,429	25,536	131	6,912	36,008
Total all services	432,003	9,615,001	215,700	995,178	11,257,881

Table D1b: Capital outturn summary: all services (COR) 2003-04

	£ thousand			
	Capital grants	Capital advances	Credit cover for credit arrangements	Total expenditure (including regeneration)
Service Block	(6)	(7)	(8)	(9) (5+6+7+8)
Pre-primary & primary education	20,444	49	157	1,341,643
Secondary education	11,853	1,384	364	1,072,898
Special education	828	0	37	153,195
Youth service	1,991	0	38	25,524
Other education services & continuing education	5,282	0	78	186,488
Education	40,398	1,433	674	2,779,747
Social Services	21,439	36	291	259,956
Roads (inc. struct. maint.), street lighting & road safety	4,278	0	0	1,918,984
Parking of vehicles (inc. car parks)	791	32	0	76,711
Public passenger transport (GFRA) – bus	1,755	0	0	145,618
Public passenger transport (GFRA) – other	7,112	0	0	388,842
Tolled road bridges, tunnels & ferries, public transport companies	4	0	0	12,155
Local authority ports and piers	0	0	0	7,439
Airports	71	0	0	2,011
Transport	14,012	32	0	2,551,759
Housing	606,725	56,446	0	3,484,786
Library services	106	0	31	54,295
Museums and galleries	8,067	831	41	56,350
Art activities and facilities	6,620	613	0	85,654
Libraries, culture & heritage	14,793	1,444	72	196,299
Land drainage and flood prevention	514	0	0	10,813
Coast protection	308	0	0	54,035
Other agriculture & fisheries (inc. smallholdings & trading)	175	0	0	7,626
Agriculture & fisheries	997	0	0	72,474
Consumer protection	146	0	0	1,283
Employment services	281	0	0	530
Sports facilities	7,882	1,940	7	221,605
Sports development & childrens play	4,323	28	0	41,850
Sport & recreation	12,205	1,968	7	263,455
Derelict land reclamation (grant aided)	256	0	0	37,258
Parks and open spaces	4,013	0	0	137,902
Waste collection	1,243	0	0	97,474
Waste disposal	2,654	209	440	52,745
General administration	13,571	18,454	5,409	730,384
Planning and development (inc. gypsy sites)	117,579	436	16	559,281
Community safety	5,213	15	0	49,090
Environmental health (inc. Clean Air Act and port health)	343	0	0	48,526
Miscellaneous	20,276	4,258	130	101,631
Industrial and commercial	11,715	0	2,756	152,086
Other trading services	1,051	0	0	49,173
Other environmental services	177,915	23,372	8,751	2,015,549
Fire service & civil defence	0	0	1,193	67,986
Police	412	0	3	513,076
Coroners courts	0	0	0	16
Magistrates courts	702	63	0	36,773
Total all services	890,023	84,794	10,991	12,243,689

Table D1c: Capital outturn summary: all services (COR) 2003–04

	£ thousand			
	Sale of fixed assets (10)	Repayments of capital grants and advances (11)	Leasing disposals (12)	Total receipts (13) (10+11+12)
Service Block				
Pre-primary & primary education	83,605	1	115	83,721
Secondary education	74,292	25	0	74,317
Special education	28,249	0	0	28,249
Youth service	908	0	0	908
Other education services & continuing education	34,057	22	0	34,079
Education	221,111	48	115	221,274
Social Services	74,322	145	0	74,467
Roads (inc. struct. maint.), street lighting & road safety	47,839	3,013	152	51,004
Parking of vehicles (inc. car parks)	13,039	24	0	13,063
Public passenger transport (GFRA) – bus	0	64	0	64
Public passenger transport (GFRA) – other	12,869	5	0	12,874
Tolled road bridges, tunnels & ferries, public transport companies	6	0	0	6
Local authority ports and piers	7	0	0	7
Airports	9,596	0	0	9,596
Transport	83,356	3,106	152	86,614
Housing	3,481,139	78,408	62,381	3,621,929
Library services	2,939	0	0	2,939
Museums and galleries	33	39	0	72
Art activities and facilities	1,919	38	367	2,324
Libraries, culture & heritage	4,891	77	367	5,335
Land drainage and flood prevention	0	0	0	0
Coast protection	0	15	0	15
Other agriculture & fisheries (inc. smallholdings & trading)	52,945	10	0	52,955
Agriculture & fisheries	52,945	25	0	52,970
Consumer protection	7	0	0	7
Employment services	199	0	0	199
Sports facilities	6,625	677	78	7,380
Sports development & childrens play	0	48	2	50
Sport & recreation	6,625	725	80	7,430
Derelict land reclamation (grant aided)	872	1	0	873
Parks and open spaces	43,861	404	70	44,335
Waste collection	1,451	138	555	2,144
Waste disposal	7,777	700	350	8,827
General administration	400,344	24,141	878	425,363
Planning and development (inc. gypsy sites)	305,044	2,160	6,636	313,840
Community safety	17,609	107	0	17,716
Environmental health (inc. Clean Air Act and port health)	1,633	566	0	2,199
Miscellaneous	79,488	7,641	137	87,267
Industrial and commercial	208,759	212	8,518	217,489
Other trading services	5,621	291	216	6,128
Other environmental services	1,072,458	36,361	17,360	1,126,180
Fire service & civil defence	17,841	3	0	17,844
Police	73,447	4,528	0	77,975
Coroners courts	0	0	0	0
Magistrates courts	5,810	0	0	5,810
Total all services	5,094,151	123,427	80,455	5,298,033

D2 Provision for credit liabilities

Table D2: Provision for credit liabilities (PCL) 2000-01 to 2003-04

	2000-01	2001-02	2002-03	£ million 2003-04
Amounts set aside as provision to meet credit liabilities at start of the year	7,201	6,853	6,643	6,773
Reserved part of in-year cash receipts ^(a)	2,033	1,808	2,415	2,156
Reserved part of in-year notional receipts ^(b)	0	0	0	1
Usable receipts set aside to provide credit cover for credit arrangements ^(c)	9	4	5	11
Usable receipts voluntarily set aside as provision to meet credit liabilities ^(d)	100	109	111	121
Revenue amounts set aside to provide credit cover for credit arrangements ^(c)	0	11	6	6
Revenue amounts set aside voluntarily as a provision to meet credit liabilities over MRP ^(d)	38	25	20	23
Minimum Revenue Provision (MRP) in respect of principal made in year ^(e)	918	935	980	1,061
Minimum Revenue Provision (MRP) in respect of notional interest on credit arrangements	11	4	18	13
European Regional Development Fund grants received in year ^(f)	-	-	-	-
Other European Community grants received in year ^(f)	22	3	13	4
Commutated payments set aside	-26	-1	-179	127
Amounts used to repay debt in respect of principal ^(g)	-2,299	-1,862	-2,483	-2,560
Amounts used to meet non-excluded credit arrangements ^(h)	-53	-60	-134	-87
Amounts used to finance expenditure covered by credit approvals ⁽ⁱ⁾	-394	-350	-419	-576
Amounts used to meet capital expenditure or transferred to other authorities (debt-free authorities)	-299	-354	-375	-238
Amounts used to meet revenue expenditure (authorities with a negative credit ceiling) ^(j)	-30	-35	-39	-62
Amounts set aside as PCL at end of year ^(k)	7,232	7,089	6,940	6,774
Credit ceiling at end of year ^(l)				
Housing	17,076	15,716	13,929	12,241
Non-housing	19,441	20,857	22,555	25,136
Total	36,628	36,688	36,608	37,511

Source: COR returns

- (a) The reserved part of any capital receipts received has to be set aside as PCL. This includes receipts from the repayment of loans to housing associations which are reimbursed by Social Housing Grant and repayments of debt associated with transferred assets, both of which must be wholly set aside.
- (b) Notional capital receipts are where the amount received is not in the form of money. Such receipts still have an associated reserved part and this has to be set aside from either usable receipts or revenue.
- (c) Credit cover for credit arrangements, if not provided by credit approvals, must be provided by usable receipts or revenue, which is then set aside as PCL.
- (d) Authorities may voluntarily set aside amounts from usable receipts or revenue as PCL, over and above any statutory requirement to do so. There is, however, a minimum amount which must be set aside from revenue (see below).
- (e) A minimum amount of PCL must be provided from revenue each year. This amount is known as Minimum Revenue Provision (MRP) and is derived from an authority's adjusted credit ceiling.
- (f) Prior to 2000-01 SCAs were issued to provide cover for expenditure financed by grants from the European Structural Fund. On receipt of European Community capital grants, such as European Regional Development Fund (ERDF) grant, an amount equal to the level of grant must be set aside as provision to meet credit liabilities. The amount set aside can be from the grant itself, usable receipts or revenue.
- (g) PCL may be applied for the repayment of principal of external debt. Liabilities in respect of interest are met from revenue accounts.
- (h) The payments associated with credit arrangements may be met from PCL. Excluded credit arrangements, however, cannot be met from PCL and will normally be met direct from revenue.
- (i) As an alternative to external borrowing, but still in reliance on a credit approval, an authority may use PCL to finance expenditure for capital purposes.
- (j) Use of PCL to mitigate commutation losses.
- (k) Figures may differ between the end of the year and the start of the next year because of inconsistencies. For example, in a few instances, local authorities have revised down the amounts set aside on the basis that they should have been applying it to repay debt.
- (l) An authority's credit ceiling increases whenever credit approvals are used (except as credit cover for excluded credit arrangements), and is reduced when an authority sets aside amounts as PCL.

D3 Changes to English local government capital finance systems

Between the mid-nineteenth century and 1972, local government capital finance remained much the same with only minor amendments to its detail. Capital projects were financed by government grants, revenue, sales of capital assets or loans. Central control operated only on the loans. A local authority needed a sanction in order to use a loan, first giving approval for the project itself and secondly authorising the use of a loan. Loans were available from a variety of sources; the Public Works Loan Board (PWLB) was a major source.

- 1933 Local Government Act. Consolidated the legislation of the previous 50 years. Set out the type of expenditure which could be financed by borrowing (effectively anything a Minister considered proper) and detailed types of borrowing open to local authorities.
- 1945 The Local Authorities Loans Act. Virtually all borrowing had to come from the PWLB until 1952.
- 1955 The PWLB became lender of last resort.
- 1963 Controls were imposed on temporary borrowing. Access to the PWLB was relaxed. The Local Government (Financial Provisions) Act allowed authorities to borrow by issuing bonds.
- 1970 Capital expenditure was dealt with in three classes. Those in the Key Sector, covering the great majority of services, continued to require specific loan sanction; the Subsidiary Sector had general consent to borrow; and the Locally Determined Sector had block borrowing approval.
- 1972 The Local Government Act consolidated all previous legislation into one act but made no significant changes to the system.
- 1976 The Layfield Committee on Local Government Finance concluded that current arrangements were not conducive to proper planning, management and control of local authorities' capital programmes.
- 1981 New system set up under the Local Government, Planning and Land Act 1980. Capital expenditure was defined and controlled through annual capital expenditure allocations. Expenditure was monitored quarterly from 1978. Limits on capital expenditure were set partly by reference to a prescribed proportion of an authority's capital receipts.
- 1986 The government published a Green Paper, *Paying for Local Government*, which considered ways of improving the system.

- 1990 Part IV of the Local Government and Housing Act 1989 introduced the broad framework of the present capital finance system. Detailed provisions were set out in regulations. The main effect was to control capital expenditure funded by borrowing (and all other forms of credit) through the issue of credit approvals. The spending of capital receipts was regulated by the requirement for authorities to set aside part of their receipts as provision for credit liabilities.
- 1995 The Local Authorities (Companies) Order 1995 extended the system to the finances of companies controlled or influenced by local authorities.
- 1997 The Local Authorities (Capital Finance) Regulations 1997 consolidated the changes to the system made since 1990 and contained new provisions to encourage the use of the Private Finance Initiative.
- 1998 The Capital Finance Regulations were amended for most non-housing capital receipts, from 1 September 1998 removing the requirement for authorities to set aside part of the receipts.
- 2000 In 1998, the White Paper *Modern Local Government – In Touch with the People* announced a review of the capital finance system. A consultation paper *Modernising Local Government Finance: A Green Paper* was issued in September 2000. It suggests replacing the existing credit approval system for controlling capital expenditure with a prudential approach to determine what is affordable.
- 2002 In December 2001, the White Paper *Strong Local Leadership – Quality Public Services* put forward proposals for a new prudential capital finance system, which would mean the end of credit approvals. On 2 April 2002, the Government abolished the Receipts Taken Into Account (RTIAs) mechanism, which was used to distribute local authorities' Basic Credit Approval allocations under the Single Capital Pot.
- 2003 The Local Government Bill 2003 received Royal Assent on 18 September. The Act put in place the broad legislative framework for the new prudential regime for borrowing by local authorities, which will be supplemented by the *Prudential Code* developed and published by CIPFA, and secondary legislation. This new system replaced that set out in Part IV of the Local Government and Housing Act 1989.
- 2004 From 1 April local authorities are, under the new Act and the CIPFA *Prudential Code*, free to finance capital spending from self-financed borrowing without the need to have government approval as long as it is affordable and prudent to do so.