

CHAPTER 4

How is the money spent? – capital spending and how it is financed

4.0.1 This chapter describes the pattern and trends in capital spending by local authorities and how that expenditure is financed. It is divided into the following sections:

- **Capital spending** **section 4.1**
- **Financing of capital spending – overview** **section 4.2**
- **Credit approvals, grants and contributions** **section 4.3**
- **Use of capital receipts** **section 4.4**
- **Private Finance Initiative** **section 4.5**

Additional detail on expenditure and receipts in 2003-04 is given in **Annex D**.

4.1 Capital spending

4.1.1 Capital spending by local authorities is mainly for buying, constructing or improving physical assets such as:

- buildings – schools, houses, libraries and museums, police and fire stations, courts etc;
- land – for development, roads, playing fields;
- vehicles, plant and machinery – including street lighting, road signs etc.

It also includes grants and advances made to the private sector or the rest of the public sector for capital purposes, such as advances to Registered Social Landlords.

4.1.2 Authorities finance this spending in a number of ways including use of their own revenue funds, borrowing or grants and contributions from elsewhere. Up until 31 March 2004 the capital finance system laid down in Part 4 of the Local Government and Housing Act 1989 (the “1989 Act”) provided the framework within which authorities were permitted to finance capital spending from sources other than revenue – that is by the use of borrowing, long-term credit or capital receipts.

- 4.1.3 The basic principle of the old system was that authorities could use borrowing and credit only up to the limits specified by the Government through the issue of **credit approvals**. From 1 April 2004, Part 1 of the Local Government Act 2003 (the “2003 Act”) has implemented a completely new capital finance system. The key feature of this new **Prudential system** is that authorities no longer need government approval to finance capital spending by borrowing or credit. They continue to receive central government support for a major part of their capital programmes, but are now free to borrow to fund additional investment as long as they can afford to service the debt without extra government support.
- 4.1.4 The *Prudential Code* specially prepared by CIPFA for the new system sets out in broad terms how affordability is to be assessed. With regard to capital receipts, they may, as before, be used to finance capital spending, but the former duty to set aside for debt redemption part of most housing receipts has been replaced by pooling, under which part of most housing receipts has to be paid to the Secretary of State.
- 4.1.5 The definition of capital spending under the Prudential system is now tied much more closely to the normal accounting concept, but this can be varied by regulations or by directions issued to individual authorities. Such directions allowing revenue spending to be treated as capital spending were formally issued under section 40(6) of the 1989 Act and from 1 April 2004, under sections 16(2)(b) and 20 of the 2003 Act. They have been issued, for example, in relation to spending on reorganisation, redundancy payments and pension fund contributions. They are issued only in cases of demonstrable financial difficulty.

- Local authority capital expenditure has risen every year since 1998-99.
- Spending in 2004-05, the first year of the new capital finance system, increased by 19%, faster growth than in 2003-04.
- The forecast for 2005-06 is for further rapid growth.
- In real terms capital spending increased by 98% between 1998-99 and 2004-05.
- New construction and conversion forms the major part of capital spending.

Table 4.1a: Capital expenditure by economic category

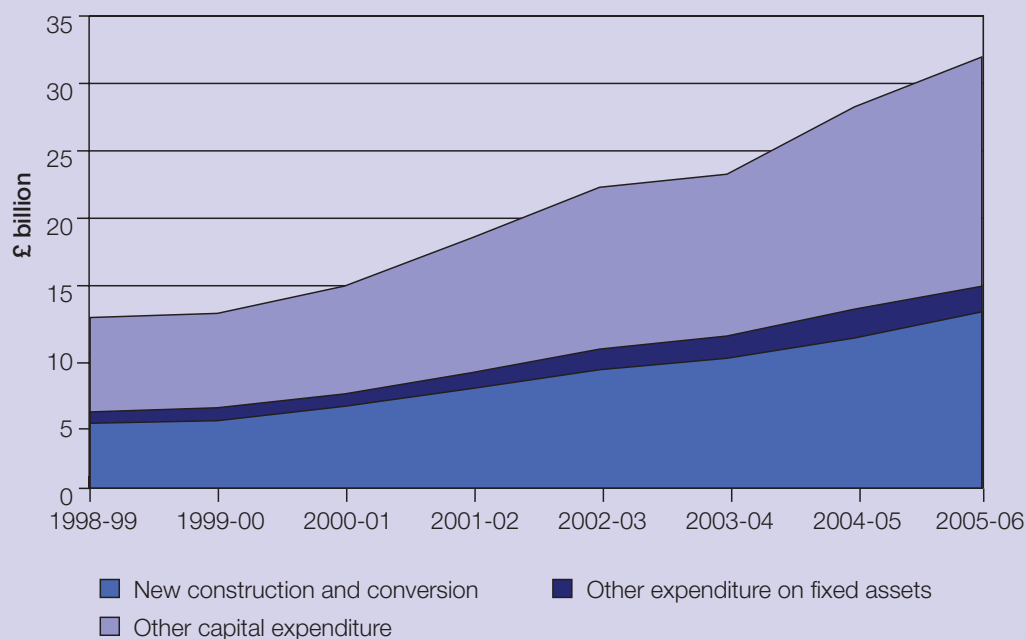
	£ million							
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05 (P)	2005-06 (F)
Acquisitions of land and existing buildings and works	320	394	310	392	491	432	702	580
New construction and conversion	4,795	4,992	6,056	7,385	8,768	9,615	11,116	13,062
Vehicles, plant equipment and machinery ^(a)	523	570	608	786	1,038	1,222	1,268	1,177
Intangible fixed assets	...	...	...	...	...	...	168	139
Total expenditure on fixed assets	5,638	5,956	6,974	8,563	10,297	11,269	13,254	14,957
Grants, loans and other financial assistance	935	945	1,117	1,175	1,190	975	1,286	1,540
Acquisition of share or loan capital	56	10	17	22	21	39	36	218
Total capital expenditure	6,630	6,912	8,109	9,741	11,508	12,282	14,576	16,715
Net adjustment for changes in capital creditors	-15	-24	-55	-6	-57	-84	...	...
Expenditure by virtue of a section 40(6) direction ^(b)	94	77	202	245	181	116	...	...
Notional capital receipts set aside	2	34	33	48	40	11	...	...
Total expenditure and other transactions	6,710	6,998	8,288	10,028	11,672	12,326	...	...

Source: COR/CPR4/CER returns

(a) From 2004-05, 'Credit cover required for credit arrangements' is no longer collected separately. Authorities are asked to include it within types of fixed assets. For prior years, figures have been included in 'Vehicles, plant equipment and machinery'.

(b) Expenditure which does not fall within the definition of expenditure for capital purposes, but is treated like capital expenditure by a direction under section 40(6) of the 1989 Act. From 2004-05 the direction is made under section 16(2)(b) of the 2003 Act.

Chart 4.1b: Capital expenditure by economic category



- Between 1998-99 and 2004-05 the fastest growing sectors have been education and transport.
- As a result, the education sector's share of capital spending has risen over this period from 15% to 21% and the transport sector's share has risen from 16% to 22%. Housing remains the largest single sector.

Table 4.1c: Capital expenditure by service

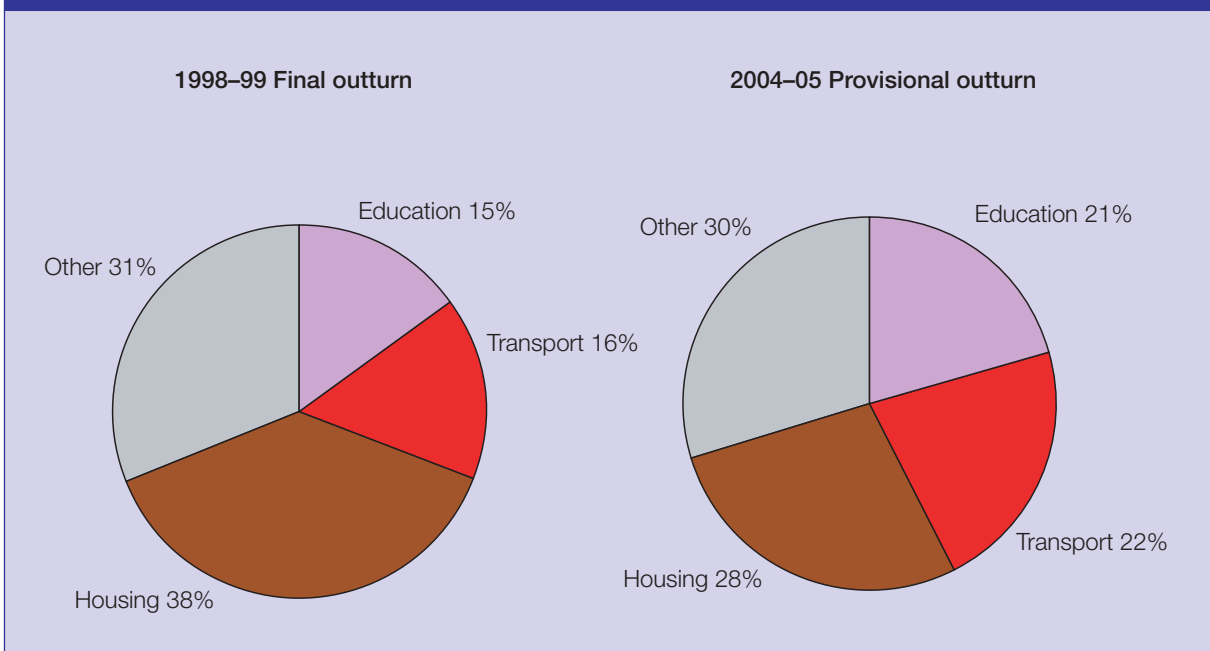
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05 (P)	2005-06 (F)
Education	995	1,139	1,533	2,064	2,287	2,780	3,066	3,398
Transport	1,053	1,086	1,410	1,877	2,461	2,552	3,139	3,567
Social Services	140	134	156	158	199	260	299	428
Housing	2,513	2,406	2,779	3,110	3,828	3,485	4,014	4,312
Agriculture & fisheries	57	48	45	38	65	72	20	111
Libraries, culture & heritage	150	195	194	213	208	196	219	301
Sport & recreation	235	241	291	314	307	263	348	621
Police ^(a)	263	286	291	359	408	513	551	661
Fire	49	50	46	62	72	68	81	104
Magistrates courts	33	28	22	33	40	37	42	57
Other ^(b)	1,140	1,299	1,341	1,513	1,631	2,056	2,798	3,156
Total	6,630	6,912	8,109	9,741	11,508	12,282	14,576	16,715

Source: COR/CPR4/CER returns

(a) Includes probation services up to 2000-01, after which it ceased to be a local authority responsibility.

(b) Other covers other environmental services, consumer protection and employment services.

Chart 4.1d: Capital expenditure by service



- There is considerable regional variation in the level of capital spending per head of population. London has had the highest spending per head for many years, mainly through housing.

Table 4.1e: Capital expenditure by region

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	£ million	
							2004-05 (P)	2005-06 (F)
North East	400	458	583	662	693	756	859	908
North West	952	1,020	1,181	1,371	1,637	1,741	2,034	2,240
Yorkshire & the Humber	605	611	813	1,031	1,392	1,193	1,611	1,784
East Midlands	444	469	543	706	801	922	1,110	1,228
West Midlands	732	684	805	920	1,116	1,236	1,534	1,827
East of England	531	575	682	879	1,013	1,116	1,250	1,500
London	1,362	1,463	1,773	1,986	2,369	2,753	3,219	3,984
South East	1,079	1,039	1,068	1,357	1,570	1,555	1,849	2,019
South West	525	593	662	829	917	1,010	1,111	1,226
Total England	6,630	6,912	8,109	9,741	11,508	12,282	14,576	16,715

Source: COR/CPR4/CER returns

Table 4.1f: Capital expenditure by region

	£ per head					
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
North East	154	177	226	263	273	298
North West	138	148	171	203	241	256
Yorkshire & the Humber	120	121	161	207	279	238
East Midlands	106	112	129	169	190	217
West Midlands	137	128	151	174	210	232
East of England	99	106	125	163	187	204
London	190	201	235	272	321	373
South East	135	129	132	169	195	192
South West	107	120	133	168	185	202
Total England	134	139	161	197	232	246

Source: COR returns

- The distribution of capital spending by class of authority shows a decline in the share of the shire districts, in part a reflection of the shift from housing into education.

Table 4.1g: Capital expenditure by class

	2000-01	2001-02	2002-03	2003-04	2004-05 (P)	£ million 2005-06 (F)
London boroughs	1,450	1,712	1,919	2,069	2,345	2,643
Metropolitan districts	1,993	2,320	2,775	2,742	3,500	4,038
Unitary authorities	1,217	1,452	1,667	1,897	2,137	2,210
Shire counties	1,322	1,957	2,327	2,600	3,142	3,359
Shire districts	1,443	1,598	1,820	1,759	1,942	2,317
Other authorities	683	703	1,000	1,216	1,511	2,149
All English authorities	8,109	9,741	11,508	12,282	14,576	16,715
						%
London boroughs	18	18	17	17	16	16
Metropolitan districts	25	24	24	22	24	24
Unitary authorities	15	15	14	15	15	13
Shire counties	16	20	20	21	22	20
Shire districts	18	16	16	14	13	14
Other authorities	8	7	9	10	10	13
All English authorities	100	100	100	100	100	100

Source: COR/CPR4/CER returns

4.1.6 The following tables provide final 2003-04 and provisional 2004-05 outturn expenditure showing:

- service by economic category for both years;
- service by region (£ million and £ per head) for 2003-04 only;
- service by class for 2003-04 only.

Table 4.1h: Capital expenditure by service and economic category 2003-04 final outturn					
	Total expenditure on fixed assets	Grants and advances	Acquisition of share or loan capital	Credit cover for credit arrangements ^(a)	£ million Total capital expenditure
Education	2,737	42	0	1	2,780
Transport	2,538	14	0	0	2,552
Social Services	238	21	0	0	260
Housing	2,822	663	0	0	3,485
Agriculture & fisheries	71	1	0	0	72
Libraries, culture & heritage	180	16	0	0	196
Sport & recreation	249	14	0	0	263
Police	513	0	0	0	513
Fire	67	0	0	1	68
Magistrates courts	36	1	0	0	37
Other ^(b)	1,807	202	39	0	2,056
Total	11,258	975	39	2	12,282

Source: COR returns

(a) 2003-04 was the last year that 'credit cover for credit arrangements' was collected separately. From 2004-05 it is included in fixed assets and therefore not included in table 4.1i below.

(b) Other covers other environmental services, consumer protection and employment services.

Table 4.1i: Capital expenditure by service and economic category 2004-05 provisional outturn				
	Total expenditure on fixed assets	Grants and advances	Acquisition of share or loan capital	£ million Total capital expenditure
Education	3,023	42	0	3,066
Transport	2,842	296	0	3,139
Social Services	279	20	0	299
Housing	3,399	614	0	4,014
Agriculture & fisheries	19	0	0	20
Libraries, culture & heritage	207	12	0	219
Sport & recreation	333	15	0	348
Police	539	11	0	551
Fire	81	0	0	81
Magistrates courts	42	0	0	42
Other ^(a)	2,489	274	36	2,798
Total	13,254	1,286	36	14,576

Source: CPR4 returns

(a) Other covers other environmental services, consumer protection and employment services.

Table 4.1j: Capital expenditure by service and region 2003-04 final outturn

	North East	North West	Yorks & Humber	East Midlands	West Midlands	East of England	London	South East	South West	Total England	£ million
Education	155	338	310	232	303	289	403	461	288	2,780	
Transport	133	357	229	173	256	243	638	295	227	2,552	
Social Services	33	27	30	19	32	18	38	41	22	260	
Housing	234	570	373	256	312	264	982	309	185	3,485	
Agriculture & fisheries	4	5	13	1	2	3	1	25	19	72	
Libraries, culture & heritage	32	26	12	17	28	13	33	19	15	196	
Sport & recreation	14	32	18	37	24	32	32	42	33	263	
Police	19	61	40	38	38	19	204	51	43	513	
Fire	4	10	7	3	6	6	12	11	10	68	
Magistrates courts	3	9	4	2	5	2	3	5	3	37	
Other ^(a)	125	307	156	144	231	227	406	296	164	2,056	
Total	756	1,741	1,193	922	1,236	1,116	2,753	1,555	1,010	12,282	
											£ per head
Education	61	50	62	54	57	53	55	57	58	56	
Transport	52	52	46	41	48	44	86	37	45	51	
Social Services	13	4	6	4	6	3	5	5	4	5	
Housing	92	84	74	60	59	48	133	38	37	70	
Agriculture & fisheries	2	1	3	0	0	1	0	3	4	1	
Libraries, culture & heritage	13	4	2	4	5	2	5	2	3	4	
Sport & recreation	5	5	4	9	4	6	4	5	7	5	
Police	8	9	8	9	7	3	28	6	9	10	
Fire	1	1	1	1	1	1	2	1	2	1	
Magistrates courts	1	1	1	1	1	0	0	1	1	1	
Other ^(a)	49	45	31	34	43	41	55	37	33	41	
Total	298	256	238	217	232	204	373	192	202	246	

Source: COR returns
(a) Other covers other environmental services, consumer protection and employment services.

Table 4.1k: Capital expenditure by service and class 2003-04 final outturn

	London boroughs	Metropolitan districts	Unitary authorities	Shire counties	Shire districts	Other authorities	All English authorities	£ million
Education	403	598	538	1,240	0	0	2,780	
Transport	260	426	345	930	48	542	2,552	
Social Services	38	74	50	97	1	0	260	
Housing	982	1,066	566	0	870	0	3,485	
Agriculture & fisheries	1	2	22	8	41	0	72	
Libraries, culture & heritage	33	74	32	26	31	0	196	
Sport & recreation	32	48	45	2	136	1	263	
Police	3	0	0	0	0	510	513	
Fire	0	0	0	15	0	53	68	
Magistrates courts	0	14	3	17	0	3	37	
Other ^(a)	316	440	297	265	631	107	2,056	
Total	2,069	2,742	1,897	2,600	1,759	1,216	12,282	

Source: COR returns
(a) Other covers other environmental services, consumer protection and employment services.

4.2 Financing of capital spending – overview

4.2.1 Up until 31 March 2004, capital spending could be financed by:

- revenue resources – either the **General Fund Revenue Account**, the **Housing Revenue Account (HRA)** or the Major Repairs Reserve – but an authority could not charge council tenants for spending on general services, or spending on council houses to local taxpayers;
- borrowing or long-term credit as authorised by the credit approvals issued by central government. Credit approvals were normally accompanied by an element of **Revenue Support Grant (RSG)** covering most of the costs of borrowing;
- grants received from central government;
- contributions or grants from elsewhere – including the National Lottery and **NDPBs** such as the Sports Council, English Heritage and the Countryside Commission, as well as private sector partners;
- capital receipts (that is proceeds from the sale of land, buildings or other fixed assets);
- sums set aside as **Provision for Credit Liabilities (PCL)**. This required the use of a credit approval, unless the authority was debt-free.

4.2.2 From 1 April 2004, capital spending can be financed in the same ways except that:

- central government no longer issues credit approvals to allow authorities to finance capital spending by borrowing. However, it continues to provide financial support in the usual way, via RSG or HRA subsidy, towards some capital spending financed by borrowing that is **Supported Capital Expenditure (Revenue) – SCE(R)**;
- authorities are now free to finance capital spending by self-financed borrowing within limits of affordability set having regard to the 2003 Act and the CIPFA *Prudential Code*;
- the concept of PCL has not been carried forward into the new system, although authorities which were debt-free and had a negative credit ceiling at the end of the old system could still spend amounts of PCL built up under the old rules.

- About a third of capital spending was financed through credit approvals until 1999-00. In 2000-01 credit approvals rose substantially with increased housing provision and some funding transferred from capital grant (around £165million in 1999-00).
- From 2001-02 onwards, credit approvals as a proportion have been lower because a substantial part of housing provision has been redirected as Major Repairs Allowance (MRA) and paid through the Housing Subsidy system.
- The amount financed by using receipts rose in 1999-00 because authorities were able, from September 1998, to use most of their non-housing capital receipts instead of having to set 50% aside as PCL.

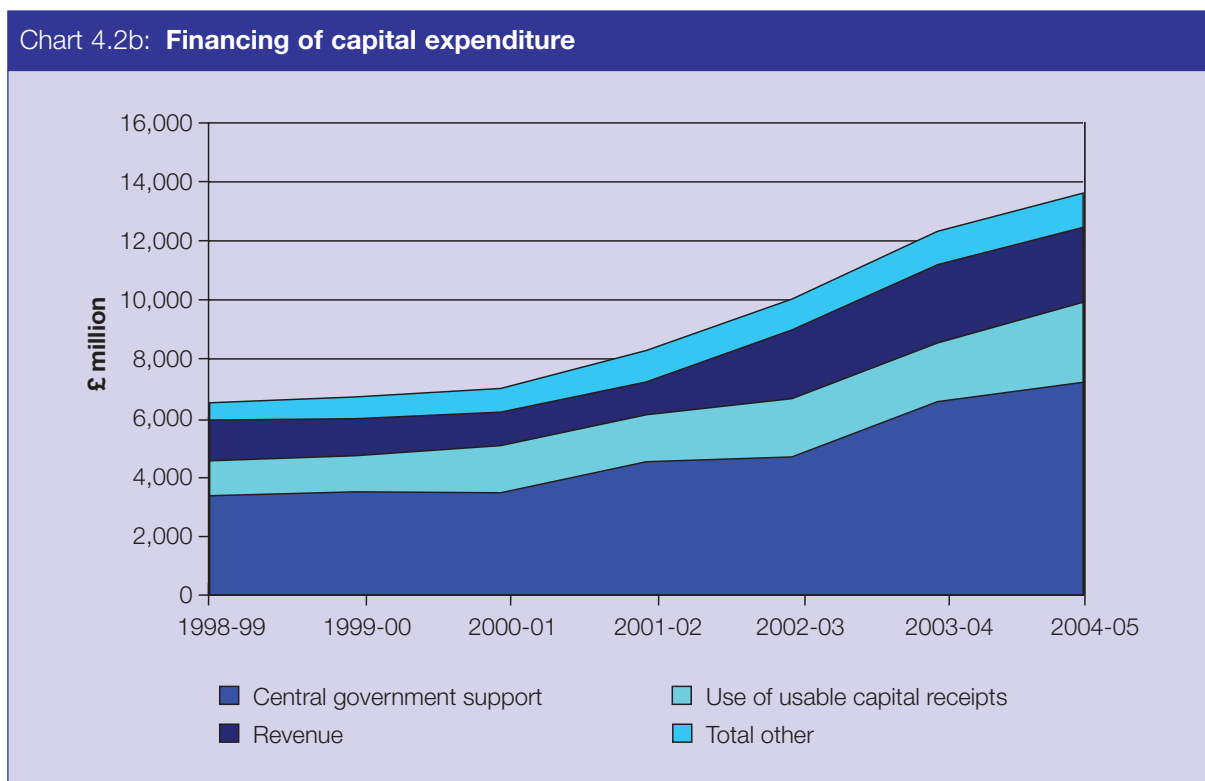
Table 4.2a: Financing of capital expenditure

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05 (P)	£ million
Central government grants	1,160	1,161	1,298	2,027	2,474	2,642	3,342	
Other grants and contributions ^(a)	485	571	762	757	716	869	1,161	
Use of usable capital receipts	1,223	1,599	1,592	1,975	2,426	1,988	2,713	
Revenue financing of capital expenditure								
<i>of which:</i>								
<i>Housing Revenue Account</i>	408	327	218	1,505	175	212	192	
<i>Major Repairs Reserve</i>	...	...	...	...	1,465	1,388	1,447	
<i>General Fund</i>	847	808	896	825	825	1,055	901	
BCA/SCE(R) Single Capital Pot	1,048	1,051	2,271	1,173	2,281	2,583	3,227	
SCA/SCE(R) Separate Programme Element	1,286	1,250	945	1,378	935	1,326	638	
Other borrowing and credit arrangements not supported by central government	...	...	...	...	...	...	1,024	
Use of other resources ^(b)	253	231	304	387	375	262	...	
Total resources used	6,710	6,998	8,288	10,028	11,672	12,326	14,644	
								%
Central government grants	17	17	16	20	21	21	23	
Other grants and contributions ^(a)	7	8	9	8	6	7	8	
Use of usable capital receipts	18	23	19	20	21	16	19	
Revenue financing of capital expenditure								
<i>of which:</i>								
<i>Housing Revenue Account</i>	6	5	3	15	2	2	1	
<i>Major Repairs Reserve</i>	...	...	...	...	13	11	10	
<i>General Fund</i>	13	12	11	8	7	9	6	
BCA/SCE(R) Single Capital Pot	16	15	27	12	20	21	22	
SCA/SCE(R) Separate Programme Element	19	18	11	14	8	11	4	
Other borrowing and credit arrangements not supported by central government	...	...	...	...	...	...	7	
Use of other resources ^(b)	4	3	4	4	3	2	...	
Total resources used	100	100	100	100	100	100	100	

Source: COR/CPR4 returns

(a) Includes grants and contributions from private developers, Non-Departmental Public Bodies, National Lottery and European Structural Fund.

(b) Use of monies set aside as provision for credit liabilities to finance capital expenditure (debt-free authorities).



4.3 Credit approvals, grants and contributions

4.3.1 Up until 31 March 2004, credit approvals made it possible to finance capital spending by borrowing or credit – and set upper limits to such spending. There were two types of credit approval:

- **Basic Credit Approval (BCA)** which could be used for any capital project that is not ring-fenced, but had to be spent in the one year;
- **Supplementary Credit Approval (SCA)** which was normally tied to a specific project and which could be spent normally over a two year period.

4.3.2 From 1 April 2004, local authorities have not required government approval to borrow, although central government continues to provide some support via Supported Capital Expenditure (Revenue) – SCE(R). It continues to do this by giving annual revenue grants or HRA subsidy to help meet the costs of such borrowing. In the past however, not all credit approvals attracted financial support for example trading SCAs which could be given for a project which would generate income to pay for the costs of the borrowing.

4.3.3 BCAs (using a formula applied to **Annual Capital Guidelines (ACGs)**) and now SCE(R)s are calculated to represent an authority's relative need for capital expenditure in up to 5 sectors (education, transport, housing, social services and Environmental, Protective and Cultural services). Until 2002-03, the formula to calculate BCA was in two parts, so as to reflect the need for spending and ability to finance it from existing funds. This was achieved by deducting a proportion of an authority's usable receipts (the **RTIAs** mechanism).

- 4.3.4 Capital grants have mainly been given only for specific projects or types of expenditure, although from 1 April 2004 a new power in the 2003 Act enables grants to be given for a wide range of purposes. Grants may be given by government departments, mainly for transport, housing or regeneration work.
- 4.3.5 SCE(R)s are also provided in connection with specific projects or outcomes.
- 4.3.6 Local authorities receive grants and contributions from other sources for example NDPBs and the National Lottery distributors as well as contributions from the private sector, for example for access roads or traffic management schemes.

Table 4.3a: Annual Capital Guidelines (ACGs) and Basic Credit Approvals (BCAs)						
	1998-99	1999-00	2000-01	2001-02	2002-03	£ million 2003-04
Annual Capital Guidelines (ACG)						
Housing	544	609	2,019	882	945	792
Transport	130	115	49	44	1,053	1,106
Education	348	354	432	459	399	570
Social Services	45	43	44	44	42	35
Fire ^(a)	23	26	29	40	48	45
Other	61	61	79	81	81	58
Total ACGs	1,151	1,208	2,652	1,551	2,568	2,606
<i>less</i> Receipts Taken Into Account	275	275	350	350	350	...
<i>less</i> Net Prior Year Adjustment	...	...	...	...	...	50
<i>plus</i> Capital Challenge BCAs	166	142	...	...	...	...
<i>plus</i> Discretionary Element	...	...	...	...	114	132
Basic Credit Approvals	1,042	1,075	2,302	1,201	2,332	2,688
(a) Not subject to the RTIAs mechanism						

- The balance between BCAs and SCAs has varied over the years. This balance swung temporarily towards BCAs in 2000-01, with the increase in housing provision, before swinging back in 2001-02 when Major Repairs Allowance (MRA) was redirected through the Housing Subsidy system.
- In 2002-03 there was a further swing towards BCAs reflecting a switch in transport support from SCAs into the Single Capital Pot.

Table 4.3b: Credit approvals

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	£ million
Basic Credit Approvals available	1,055	1,060	2,288	1,176	2,307	2,673	
Supplementary Credit Approvals available ^(a)	1,324	1,359	1,166	1,673	1,206	1,518	
Total Credit Approvals available^(b)	2,380	2,419	3,454	2,849	3,513	4,190	
Basic Credit Approvals used	1,048	1,051	2,271	1,173	2,281	2,583	
Supplementary Credit Approvals used	1,286	1,250	945	1,378	935	1,326	
Total Credit Approvals used	2,334	2,301	3,216	2,551	3,216	3,910	

Source: COR/CPR4 returns

(a) Each year includes the total SCAs available in that year plus any SCA carried over from the previous year.

(b) Basic Credit Approval available includes reductions and increases in BCAs as a result of increases or decreases in the preceding year's relevant liabilities of local authority companies and specified capital grant.

- Currently, about three quarters of grants and contributions come from central government.

Table 4.3c: Grants and other contributions

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05 (P)	£ million
Central government grants	1,160	1,161	1,298	2,027	2,474	2,642	3,191	
Private developers	194	212	231	233	297	310	347	
Non-Departmental Public Bodies	121	166	170	192	183	289	432	
National Lottery	170	193	230	223	150	140	165	
European Structural Funds ^(a)	...	...	131	109	86	129	176	
Other grants and contributions	485	571	762	757	716	868	1,120	
Total grants and contributions	1,645	1,732	2,060	2,784	3,190	3,510	4,311	

Source: COR/CPR4 returns

(a) Prior to 2000-01 SCAs were issued to provide cover for expenditure financed by grants from the European Structural Fund.

4.4 Use of capital receipts

- 4.4.1 A capital receipt is what is received by a local authority from the sale of a capital asset, such as a council house, or from the repayment of a grant or loan made by the authority to someone else to use for capital spending.
- 4.4.2 Until 31 March 2004, all capital receipts were divided into usable and reserved parts when they were received. Only the usable part could be used to fund new capital spending. The reserved part had to be set aside as provision to repay debt or meet other credit liabilities. The standard usable proportions of capital receipts until September 1998 were 25% from the sale of council houses, police authority assets, and financial assets such as company shares; and 50% from the sale of most other assets. Since then, receipts from the sale of most non-housing assets have been fully usable, but set-aside in relation to housing receipts continued until 31 March 2004.
- 4.4.3 From 1 April 2004, there is no requirement to set-aside any part of a receipt, though authorities are still free to earmark all or some of their receipts for debt-redemption if they wish. However, a new pooling system has been put in place requiring authorities to pay to the Government a proportion of their capital receipts from the sale of housing land and dwellings. **Large and Small Scale Voluntary Transfers** are excluded from this scheme.

- Most capital receipts are from the sale of assets (97% in 2003-04) and mainly fixed housing assets (67% in 2003-04).

Table 4.4a: Capital receipts by economic category

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05 (P)	2005-06 (F)	£ million
Sales of fixed assets ^(a)	2,399	3,267	3,379	3,349	4,817	5,174	4,807	5,306	
Intangible Fixed Assets	...	...	...	...	...	...	6	2	
Repayments of grants and advances	151	113	133	127	154	123	44	27	
Disposal of investments including share or loan capital	112	271	0	103	69	24	48	17	
Total capital receipts	2,662	3,651	3,512	3,579	5,040	5,322	4,906	5,352	

Source: COR/CPR4 returns

(a) From 2004-05, 'Leasing disposals' is no longer collected separately. Authorities are asked to include it within sales of fixed assets. For prior years, figures have been included in 'Sales of fixed assets'.

Table 4.4b: Capital receipts by service

	£ million							
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05 (P)	2005-06 (F)
Education	82	102	119	146	233	221	214	389
Transport	64	105	98	138	107	92	192	71
Social Services	52	51	63	71	75	74	77	107
Housing	1,630	2,249	2,440	2,245	3,474	3,622	3,189	3,003
Agriculture & fisheries	51	48	44	42	49	53	47	67
Libraries, culture & heritage	6	2	19	19	22	5	13	7
Sport & recreation	10	8	12	12	21	7	13	117
Police ^(a)	76	118	104	86	70	78	73	118
Fire	3	5	8	7	10	18	4	23
Magistrates courts	0	2	4	12	4	6	6	8
Other ^(b)	687	960	600	801	975	1,145	1,077	1,445
Total	2,662	3,651	3,512	3,579	5,040	5,322	4,906	5,352

Source: COR/CPR4/CER returns

(a) Includes probation services up to 2000-01, after which it ceased to be a local authority responsibility.

(b) Other covers other environmental services, consumer protection and employment services.

Table 4.4c: Capital receipts by service and economic category 2003-04 final outturn

	£ million				
	Receipts from sale of fixed assets	Repayment of grants and advances	Disposal of investments including share or loan capital	Leasing disposals	Total capital receipts
Education	221	0	0	0	221
Transport	83	3	5	0	92
Social Services	74	0	0	0	74
Housing	3,481	78	0	62	3,622
Agriculture & fisheries	53	0	0	0	53
Libraries, culture & heritage	5	0	0	0	5
Sport & recreation	7	1	0	0	7
Police	73	5	0	0	78
Fire	18	0	0	0	18
Magistrates courts	6	0	0	0	6
Other ^(a)	1,073	36	19	17	1,145
Total	5,094	123	24	80	5,322

Source: COR returns

(a) Other covers other environmental services, consumer protection and employment services.

Table 4.4d: Capital receipts by service and economic category 2004-05 provisional outturn

						£ million
	Receipts from sale of fixed assets	Intangible Assets	Repayment of grants and advances	Disposal of investments including share or loan capital	Total capital receipts	
Education	214	0	0	0	214	
Transport	179	0	0	13	192	
Social Services	77	0	0	0	77	
Housing	3,153	2	33	0	3,189	
Agriculture & fisheries	47	0	0	0	47	
Libraries, culture & heritage	13	0	0	0	13	
Sport & recreation	12	0	0	0	13	
Police	73	0	0	0	73	
Fire	4	0	0	0	4	
Magistrates courts	6	0	0	0	6	
Other ^(a)	1,029	4	10	34	1,077	
Total	4,807	6	44	48	4,906	

Source: CPR4 returns

(a) Other covers other environmental services, consumer protection and employment services.

- Local authorities have been accumulating usable capital receipts since March 1998 and by 31 March 2004 these had more than doubled.

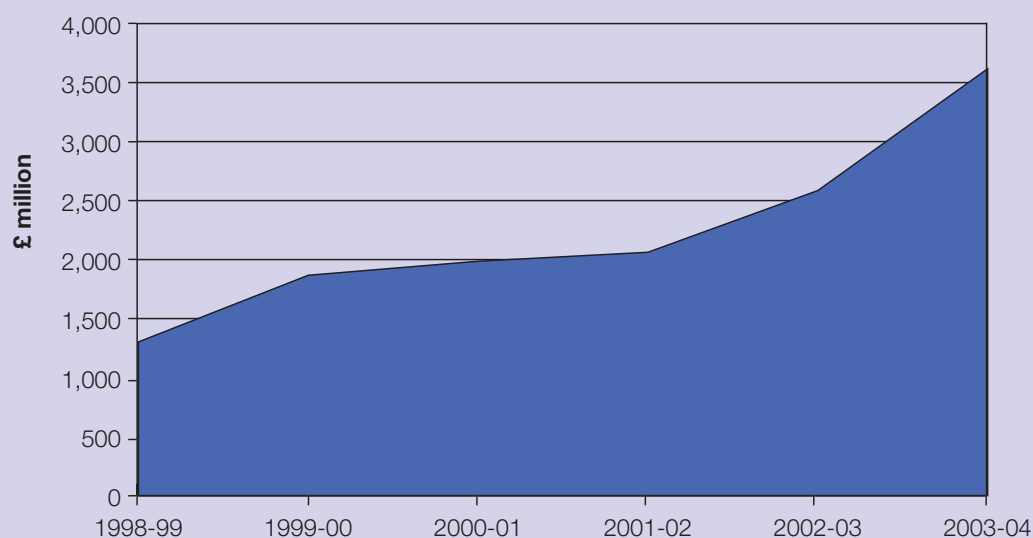
Table 4.4e: Usable and reserved receipts 1998-99 to 2003-04

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	£ million
% of in-year receipts which were usable	51	54	48	54	56	60	
IN-YEAR CASH RECEIPTS							
Usable part of receipts	1,532	2,168	1,862	2,165	3,065	3,170	
Reserved part of receipts to be set aside	1,469	1,812	2,033	1,808	2,415	2,116	
Total in-year cash receipts^(a)	3,001	3,980	3,895	3,973	5,480	5,286	
USABLE CAPITAL RECEIPTS							
Usable receipts held at 1 April	1,119	1,365	1,817	1,978	2,057	2,573	
In-year usable receipts	1,532	2,168	1,862	2,165	3,065	3,169	
Usable receipts used to meet capital expenditure	1,220	1,582	1,584	1,968	2,421	1,988	
Usable receipts statutorily set aside	3	17	9	4	5	11	
Usable receipts voluntarily set aside as provision to meet credit liabilities	126	67	100	109	111	121	
Usable receipts at 31 March	1,302	1,867	1,986	2,062	2,585	3,617	
PROVISION FOR CREDIT LIABILITIES (PCL)							
Amounts set aside as PCL at end of year	7,108	7,201	7,231	7,081	6,940	6,774	
Credit ceiling at end of year							
Housing	18,684	17,803	17,076	15,824	13,929	12,241	
Non-housing	17,992	18,466	19,441	20,794	22,555	25,136	
Total	36,782	36,364	36,628	36,732	36,608	37,377	

Source: COR returns

(a) Figures differ from total receipts in main tables as they are in cash terms and include Social Housing Grant and other 100% set aside receipts.

Chart 4.4f: Usable receipts at end of year



4.5 Private Finance Initiative

- 4.5.1 The **Private Finance Initiative (PFI)** provides an additional and different route for local authorities to secure the use of a capital asset such as a building. It offers a form of public-private partnership under which local authorities can pay for the use of new or improved capital assets (and some associated services) rather than themselves borrowing to build or buy the assets. They do this by entering into a contract under which the private sector partner will design, build, finance and then operate or manage the asset. The essence of such contracts is that the authority's regular payments to the contractor are linked to the latter's operating performance. If, for example, the building is not cleaned or heated or maintained to the level specified in the contract, then the contractor's remuneration is abated according to a formula specified in the contract. In this way, risk is transferred from the public to private sector. If that risk-transfer is significant, the overall transaction does not score on the public sector balance sheet.
- 4.5.2 The local authority PFI programme is the government's way of providing financial support for local authority projects which meet an appropriate set of criteria. Departments receive allocations in each Spending Review which are intended to cover planned PFI activity over the Review period. The plans become reality when a PFI credit is issued to an authority once a contract for the project has been signed. The PFI credit measures the capital value of a project which government will support and in due course triggers an ongoing stream of revenue grant. This is similar to the revenue support issued to local authorities for the borrowing costs arising through their mainstream capital programmes.
- 4.5.3 Capital investment funded through PFI is excluded from the expenditure figures appearing in the rest of this chapter.

- The local authority PFI programme has been increasing rapidly in scale each year since 2002-03. By March 2005 a total of £5.9billion worth of PFI credits had been issued to local authorities for projects where contracts had been signed.
- Education accounts for about half of the local authority PFI programme compared with only 20% of traditional capital spending.

Table 4.5a: Private Finance Initiative (PFI) credits, England

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	£ million Total Spending
Education	79	197	510	458	224	874	777	3,119
Transport	8	291	0	0	19	97	286	701
Social Services	7	1	9	5	38	41	52	153
Housing	4	2	3	0	111	61	83	264
Police	34	61	25	54	108	73	79	434
Fire	5	0	81	0	37	0	0	123
Magistrates courts	0	60	36	46	0	0	40	182
Waste	57	86	34	0	96	93	89	455
Other	57	26	52	32	59	10	98	334
Total PFI Credits	251	724	750	595	692	1,249	1,504	5,765

Chart 4.5b: PFI credits issued by service: 1998 to 2003-04

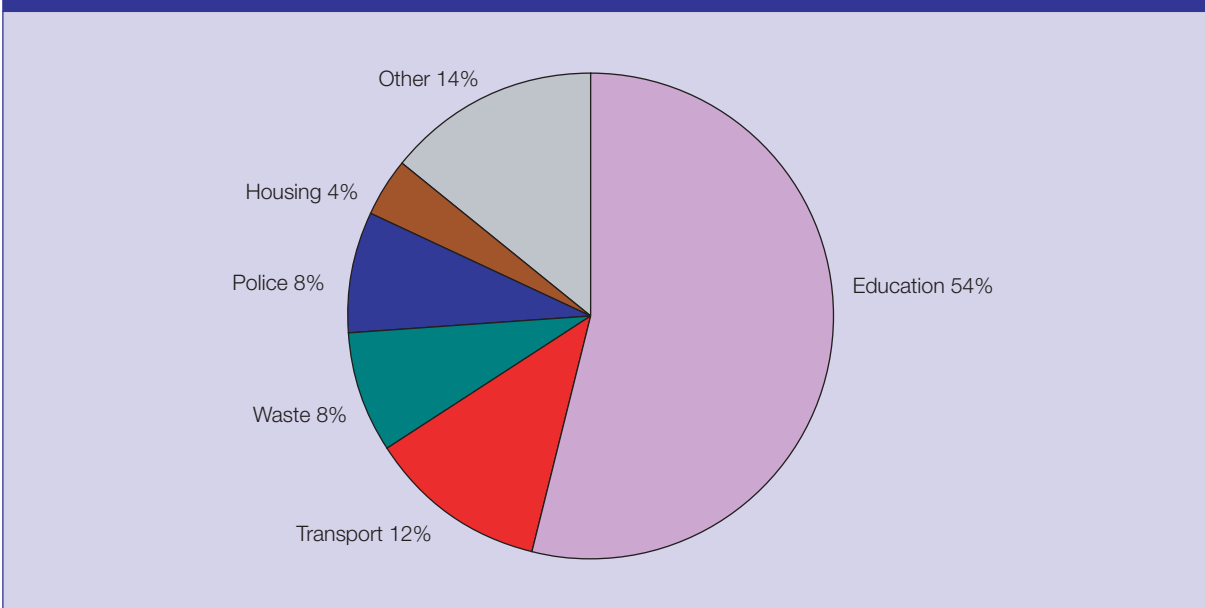


Table 4.5c: Traditional capital financing and PFI by major service total during 1998-99 to 2004-05

	Traditional %	PFI %
Education	20	53
Transport	19	12
Social Services	2	3
Housing	32	4
Other	27	28
Total	100	100