

CHAPTER 5

Assets and liabilities

5.0.1 This chapter looks at the assets and liabilities of local authorities. It is divided into the following sections:

- **Local authority fixed assets** **section 5.1**
- **Outstanding debt and holdings of investments** **section 5.2**
- **Borrowing and investment transactions** **section 5.3**
- **Prudential System** **section 5.4**

5.1 Local authority fixed assets

5.1.1 The following tables provide the value of local authority fixed assets at 31 March 2004 in total and by type, and:

- by class of authority;
- by region.

Table 5.1a: Value of fixed assets^(a) by class of authority: 31 March 2004

	London boroughs	Metropolitan districts	Unitary authorities	Shire counties	Shire districts	Other authorities	£ million All English authorities
Operational assets:							
i) Council dwellings	32,377	18,337	15,118	-	32,142	5	97,979
ii) Other land & buildings – education	8,754	9,729	7,737	23,649	31	4	49,904
iii) Other land & buildings – other	4,417	5,367	4,510	3,811	6,034	5,196	29,336
iv) Vehicles, plant & equipment	231	272	190	535	370	813	2,410
v) Infrastructure	1,982	3,574	2,527	6,184	625	2,619	17,511
vi) Community	172	213	304	40	266	31	1,026
Total operational assets	47,933	37,492	30,386	34,219	39,468	8,667	198,165
Non operational:							
i) Investment properties	2,282	1,641	1,654	140	2,605	15	8,336
ii) Other	524	1,173	703	979	773	344	4,496
Total non-operational assets	2,806	2,815	2,356	1,119	3,378	359	12,832
Total value of fixed assets	50,738	40,307	32,743	35,338	42,846	9,026	210,997

Source: COR returns

(a) Infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation. Other assets are included in the balance sheet at the lower of the net current replacement cost or net realisable value.

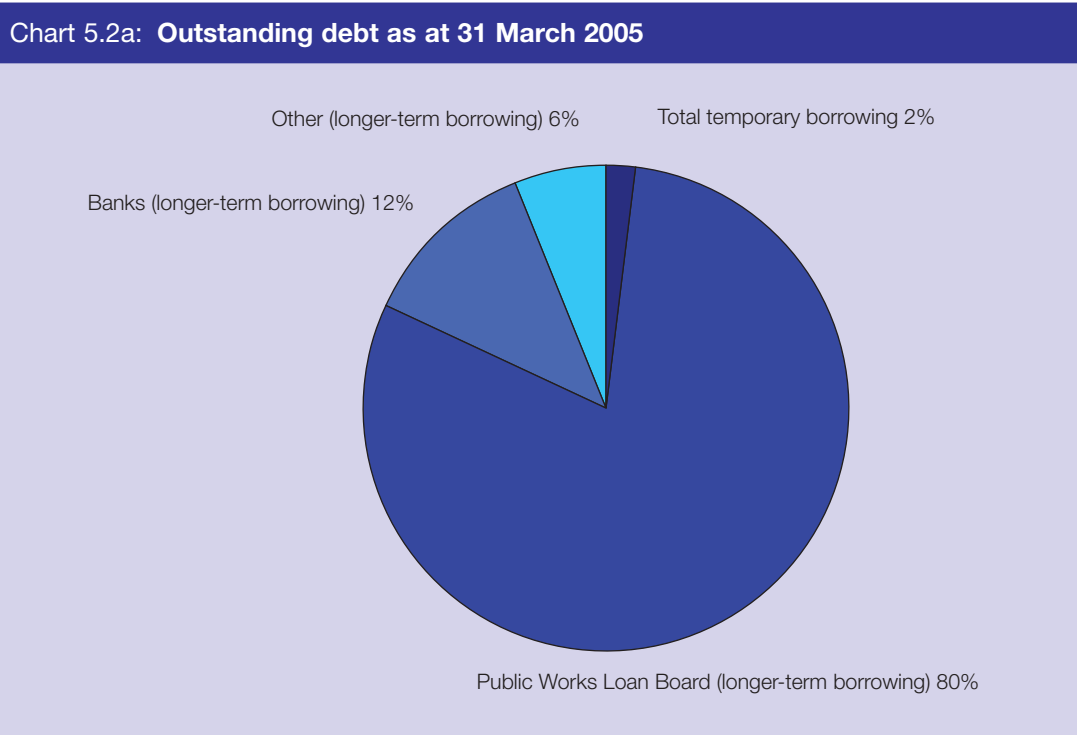
Table 5.1b: Value of fixed assets^(a) by regions: 31 March 2004

	North East	North West	Yorkshire & the Humber	East Midlands	West Midlands	East of England	London	South East	South West	£ million Total England
Operational assets:										
i) Council dwellings	4,950	7,171	7,166	7,876	6,167	12,947	32,377	12,255	7,069	97,979
ii) Other land & buildings – education	2,189	5,285	4,031	4,004	5,574	6,073	8,755	9,921	4,071	49,904
iii) Other land & buildings – other	1,581	3,350	2,735	1,851	3,062	2,369	6,735	5,001	2,651	29,336
iv) Vehicles, plant & equipment	139	304	185	235	206	256	504	399	182	2,410
v) Infrastructure	1,233	2,413	1,664	1,153	1,688	1,455	4,073	2,474	1,358	17,511
vi) Community	69	148	102	65	67	82	173	166	155	1,026
Total operational assets	10,161	18,671	15,884	15,184	16,764	23,182	52,618	30,216	15,486	198,165
Non-operational:										
i) Investment properties	226	856	563	664	886	763	2,286	1,563	527	8,336
ii) Other	422	550	484	395	216	575	787	644	423	4,496
Total non-operational assets	649	1,407	1,047	1,059	1,102	1,338	3,073	2,208	950	12,832
Total value of fixed assets	10,810	20,077	16,931	16,242	17,865	24,520	55,691	32,424	16,436	210,997
£ per head of population	4,257	2,951	3,380	3,820	3,358	4,488	7,538	4,013	3,288	4,232
Source: COR returns										
(a) Infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation. Other assets are included in the balance sheet at the lower of the net current replacement cost or net realisable value.										

5.2 Outstanding debt and holdings of investments

5.2.1 Outstanding debt includes temporary borrowing for management of cash flow, and longer-term borrowing taken out to finance capital projects.

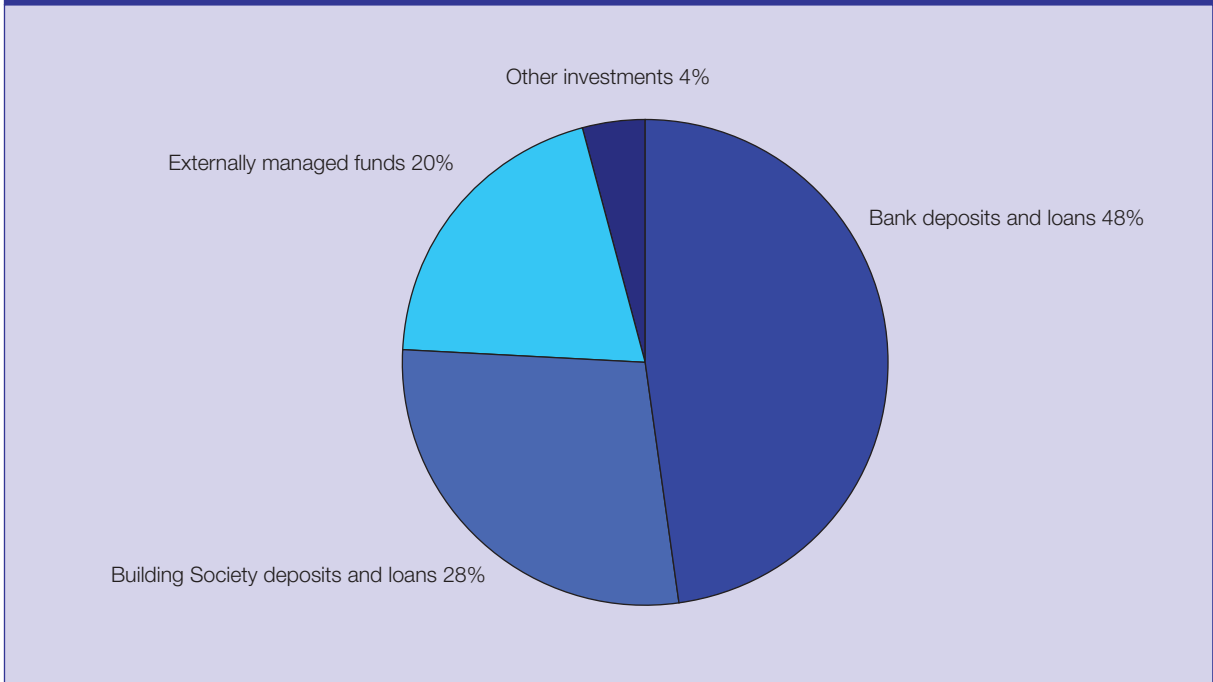
- The vast majority of outstanding debt is longer-term borrowing (98%) and the largest proportion of that is owed to the Public Works Loan Board (80%).



5.2.2 The stock of local authority investments is the financial representation of local authorities' reserves, unused capital receipts and short term deposits for management of cash flows. The 'other' section includes investments with public corporations, other financial institutions and British Government securities.

- About three quarters of local authority investments (76%) are deposits with banks or building societies.

Chart 5.2b: Investments as at 31 March 2005



5.3 Borrowing and investment transactions

- 5.3.1 New borrowing and drawing down of investments are ways of accessing funds. New borrowing is a major way of financing capital spending. Funds that are received as income or capital receipts, but are not going to be spent immediately, may be invested in financial assets or used to redeem debt.
- 5.3.2 Local Government Net Cash Requirement summarises changes in local authority borrowing less change in investments. When Net Cash Requirement is positive, local authorities are increasing their borrowing and/or reducing their investments. When Net Cash Requirement is negative, local authorities are reducing their borrowing and/or increasing their investments.

- In 2004-05 the Local Government Net Cash Requirement was £0.8 billion. This was partly due to the introduction of the Prudential System from 1 April 2004. More information on the Prudential System can be found in **section 5.4**.
- This is the first time for many years that local authorities' increases in temporary and longer-term borrowing have exceeded the increases in investments. In the period 1998-99 to 2003-04 the increases in local authorities' investments exceeded the increases in temporary and longer-term borrowing.
- In 2003-04 the Local Government Net Cash Requirement was – £1.9 billion. This was partly due to Transport for London (TfL) increasing investments associated with the transfer of London Underground from the Department for Transport to TfL in July 2003.

Table 5.3a: Local Government Net Cash Requirement^(a) – England

	£ million						
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Change in borrowing							
Total temporary borrowing	-93	61	17	-93	-107	245	8
Total longer-term borrowing	533	246	436	-104	-6	-765	2,463
Total borrowing	440	307	453	-197	-113	-520	2,472
less Net investments	896	347	1,240	797	823	1,373	1,638
Net Cash Requirement	-456	-40	-787	-994	-936	-1,893	834

Source: ODPM borrowing and lending inquiries, Public Works Loan Board, Debt Management Office

(a) The Local Government Net Cash Requirement (previously known as the local authority borrowing requirement) is the external borrowing by local authorities less changes in the level of their investments.

- Total outstanding debt at 31 March 2005 for England was just over £40 billion.
- New borrowing was more than repayments in 2004-05. This was also the case from 1998-99 to 2000-01, but was less than repayments from 2001-02 to 2003-04. This pattern was also evident for Public Works Loan Board borrowing.
- From 1998-99 to 2000-01, repayments exceeded new longer-term borrowing from banks, but were less than new borrowing from 2001-02 to 2004-05.

Table 5.3b: Local authority borrowing – England

	Change in borrowing							£ million
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Outstanding debt at 31 March 2005
Temporary borrowing								
Revenue bills	-2	0	0	0	0	0	0	0
Banks	31	50	-27	28	16	-40	31	136
Building societies	10	-12	-3	1	51	174	-118	135
Other financial intermediaries	-136	-56	45	-62	20	65	63	536
Public corporations	-24	32	-23	-12	-17	40	23	96
Private non-financial corporations	0	2	4	-4	-4	12	-6	10
Central government	41	61	17	-44	-174	-9	0	0
Household sector	-13	-1	5	0	-4	4	20	61
Other sources	0	-15	-1	0	5	0	-5	4
Total	-93	61	17	-93	-107	245	8	979
Longer-term borrowing								
Negotiable bonds	-5	0	12	-10	-1	-84	191	292
Listed securities other than bonds	30	0	-14	6	0	-336	0	217
Public Works Loan Board	1,175	985	678	-452	-981	-2,248	1,092	32,223
Banks	-506	-551	-121	252	926	1,205	1,126	4,667
Building societies	-52	-76	-50	-12	1	21	-38	39
Other financial intermediaries	-53	-23	-18	33	-9	121	16	452
Public corporations	-21	1	-5	-6	-1	0	0	0
Private non-financial corporations	7	-1	-1	0	1	0	0	3
Central government	-11	-5	1	-2	-1	-2	-1	15
Household sector	-2	1	-5	-5	-2	-1	-3	10
Rest of the World	-32	-84	-50	116	64	555	77	1,215
Other sources	3	-1	9	-24	-4	3	3	21
Total	533	246	436	-104	-6	-765	2,463	39,152
Total borrowing	440	307	453	-197	-113	-520	2,472	40,131

Source: ODPM borrowing and lending inquiries; Public Works Loan Board

- During 2004-05 outstanding investments for England increased by £1.6 billion to just over £21 billion at 31 March 2005. This was partly due to an increase in investments at Transport for London (TfL) of around £0.5 billion during 2004-05.
- Local authority investments have increased each year from 1997-98 until 2004-05.
- The amounts held in externally managed funds have increased each year from 1998-99 to 2001-02. However, since 2002-03 the amount held in externally managed funds has decreased each year.

Table 5.3c: Local authority investments – England

	Net investments							£ million
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Outstanding debt at 31 March 2005
Deposits and loans: banks	-194	-666	1,107	95	909	291	1,926	10,150
Deposits and loans: building societies	159	464	-195	376	-149	1,319	635	5,866
Treasury bills	65	-22	-43	0	0	0	0	0
Certificates of deposit: banks	5	-2	8	-2	-6	80	-45	35
Certificates of deposit: building societies	0	0	0	0	0	0	20	20
British Government (Gilt-edge) securities	38	-19	-4	-3	-7	5	-11	14
Other financial intermediaries	54	-5	15	-35	-19	-5	20	47
Public corporations	4	-3	-1	-1	-2	1	-2	118
Debt Management Account deposit facility ^(a)	-	-	-	-	119	-65	-20	34
National Loans Fund	0	0	0	0	0	423	-423	0
Money market funds (a)	0	0	0	0	331	-37	-50	244
Externally managed funds	657	510	202	338	-343	-640	-472	4,136
Other investments	108	90	151	29	-10	-1	60	346
Total investments	896	347	1,240	797	823	1,373	1,638	21,011

Source: ODPM borrowing and lending inquiries, Debt Management Office

(a) Changes to the approved investment regulations, starting at 1 April 2002, permitted local authorities to invest in the Debt Management Account deposit facility and in money market funds.

5.4 Prudential System

- 5.4.1 The Prudential System (Part 1 of the Local Government Act 2003), which took effect from 1 April 2004, allows local authorities to raise finance for capital expenditure – without Government consent – where they can afford to service the debt without extra Government support.
- 5.4.2 In particular, the Prudential system has not maintained the artificial incentives to acquire debt-free status that were in place before 1 April 2004 (Section 5.4 previously covered debt-free authorities). The new system seeks to facilitate the use of borrowing for worthwhile capital projects, provided it is affordable, and debt-free status is not seen as having any intrinsic merit. Authorities must manage their debt responsibly, but decisions about debt repayment should be dictated solely by consideration of prudent treasury management practice.
- 5.4.3 The new prudential system therefore provides a new method of financing capital expenditure from 2004-05 onwards.
- 5.4.4 Provisional estimates for 2004-05, the first year of the system, are now available and these are given in **Table 5.4a** together with forecasts for 2005-06. The forecasts are authorities' own estimates and have not been adjusted for possible slippage and it is likely that these will prove to be optimistic.
- 5.4.5 In planning what level of capital expenditure is affordable, local authorities now follow procedures for setting and revising prudential indicators as set out in the Prudential Code. These include:
- estimates of capital expenditure (see **Chapter 4**);
 - estimates of the capital financing requirement that is the underlying need to borrow for a capital purpose. It relates to all capital expenditure (that is including relevant expenditure incurred in previous years) and is calculated directly from the balance sheet;
 - operational boundary for external debt – based on an authority's working estimate of most likely (that is prudent), but not worst case scenario;
 - authorised limit for external debt – the intended absolute limit that has to be set by the full Council;
 - actual external debt that is gross borrowing and other long-term liabilities.
- 5.4.6 **Table 5.4c** sets out the aggregate England figures for these indicators as well as the level of investments.

- About 33% of authorities used the new powers to finance capital expenditure through self-financed borrowing in 2004-05.
- The extent to which the new powers were used varied considerably by class of authority. While 86% of metropolitan districts used the new powers, only 16% of shire districts did so in 2004-05.
- Local authorities' forecasts for 2005-06 show 46% intending to use the new powers in the second year of the system, with all classes of authority increasing their use.

Table 5.4a: Prudential system, self-financed borrowing by class of authority

	Percentage of authorities using self-financed borrowing		Amount of expenditure financed		Average amount per authority using self-financed borrowing	
	%		£million		£million	
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
London boroughs	55	61	154	230	9	12
Metropolitan districts	86	92	248	566 ^(a)	8	11 ^(b)
Unitary authorities	49	77	105	239	5	7
Shire counties	62	82	160	535	8	19
Shire districts	16	22	57	86	2	2
GLA	100	100	223	672	223	672
Other authorities ^(c)	30	54	40	259	1	5
All English authorities	33	46	987	2,587	6	12

Source: CPR4/CER returns

(a) Includes £215m for the refinancing of the Birmingham National Exhibition Centre.

(b) Average excludes Birmingham.

(c) Other includes Police, Fire, & Waste Authorities and National Parks.

Chart 5.4b: Authorities using self-financed borrowing in 2004-05 and 2005-06: by class

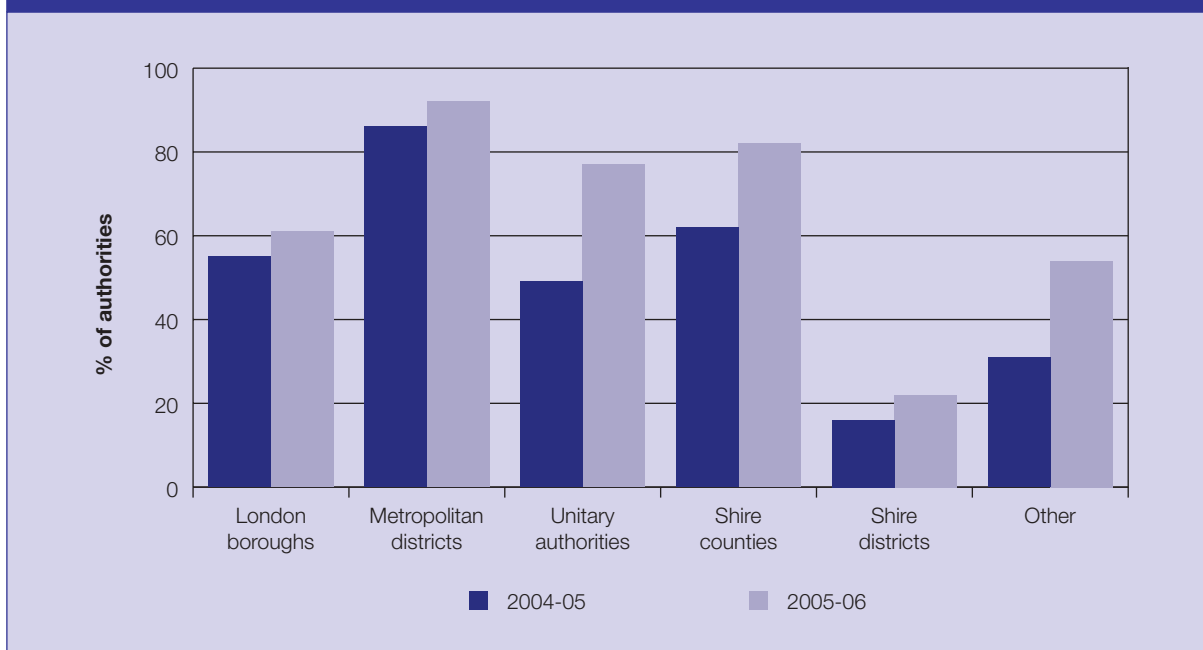


Table 5.4c: Prudential system information 2004-05 provisional outturn

	£ million		
Reported by local authorities	as at 1 April 2004	in 2004-05	as at 31 March 2005
Capital Financing Requirement as at 1 April 2004	39,526		
Capital expenditure to be resourced by means of credit (+)		4,713	
Minimum Revenue Provision & voluntary contributions (-)		996	
Change in Capital Financing Requirement		3,717	
Capital Financing Requirement as at 31 March 2005			43,243
Investments	17,756		19,445
Gross borrowing	36,436		38,512
Other long-term liabilities	1,218		1,207
Total external debt	37,654		39,719
Operational boundary for external debt	47,256		49,108
Authorised limit for external debt	53,609		56,816
Source: CPR4 returns			