

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 : 2010-11** **section D1**
- **Changes to English local government capital finance systems** **section D2**

D1 Capital outturn summaries

Tables D1a-c show 2010-11 **capital expenditure** and receipts information from the **Capital Outturn Returns** (COR) for all service groups within the main service blocks. Figures for 2010-11 reflect the service category changes on the Capital Outturn Return (COR) form consistent with *Service Reporting Code of Practice* (SERCOP). Information on acquisition of share and loan capital is not included in Total Capital Expenditure, and Disposal of Investments is not included in Total **Capital Receipts**.

Table D1d shows further details of gross expenditure on “new construction, conversion and renovation” of “roads (including structural maintenance), street lighting and road safety”.

Tables D1e-f show further details of local authority financed capital expenditure on social services by region and time series. The data shows the uneven nature of capital expenditure whereby in some years an authority will spend heavily on a specific project or purchase, whereas other years it will spend very little.

Table D1g shows a time series of expenditure that local authorities were allowed to finance from capital resources – capitalise – under section 16(2)(b) of the Local Government Act 2003.

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) in connection with these works and other overheads (including accommodation). Payments on demolition and site clearance and 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 expenditure 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.

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.

Sales of intangible assets – covers receipts for intangible assets. This includes software licences and other intangible assets which are required by the **Statement of Recommended Practice (SORP)** to be capitalised on the balance sheet. Generally intangible assets are assets of value which do not have a physical shape e.g. purchased franchises, licences and patents. Goodwill is excluded.

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 registered social landlords. Receipts from health authorities are excluded.

Table D1a: Capital outturn summary: all services (COR) 2010-11

	£ thousand					
	Acquisition of land & existing buildings (1)	New construction conversion & renovation (2)	Vehicles (3)	Plant machinery & equipment (4)	Intangible assets (5)	Total expenditure on fixed & intangible assets (6) (1+2+3+4+5)
Pre-primary and primary education	16,435	2,058,097	780	119,258	4,908	2,199,478
Secondary education	57,873	2,668,930	945	199,227	15,261	2,942,236
Special education	924	237,369	953	13,051	912	253,209
Non-school funding	8,617	262,558	2,543	45,630	2,936	322,284
Education	83,849	5,226,954	5,221	377,166	24,017	5,717,207
Roads, street lights and safety	34,941	2,717,984	10,682	22,772	5,117	2,791,496
Parking of vehicles	3,632	39,982	974	6,547	472	51,607
Public passenger transport-bus	2,455	118,628	12,307	12,415	1,816	147,621
Public passenger transport-rail and other	1,726	654,154	31,799	42,703	7,453	737,835
Tolled roads, bridges, tunnels, ferries, public transport companies	0	2,467	0	0	0	2,467
Local authority ports and piers	0	18,513	18	835	0	19,366
Airports	8,670	59,515	346	348	0	68,879
Highways & transport	51,424	3,611,243	56,126	85,620	14,858	3,819,271
Social services	26,795	187,938	3,008	44,041	7,076	268,858
Housing	279,326	3,055,611	1,264	32,526	17,705	3,386,432
Culture and heritage	7,714	232,362	26	13,084	297	253,483
Recreation and sport	4,478	448,748	859	49,171	1,012	504,268
Open spaces	4,235	168,048	6,956	9,365	246	188,850
Tourism	8	7,883	45	229	0	8,165
Library services	2,611	121,821	1,188	12,506	544	138,670
Total culture and related services	19,046	978,862	9,074	84,355	2,099	1,093,436
Cemeteries, cremation and mortuary	1,061	35,943	74	7,099	106	44,283
Coast protection	201	26,121	91	1,425	0	27,838
Community safety	1	8,897	737	2,984	2,831	15,450
Community safety (CCTV)	0	1,665	709	7,712	47	10,133
Flood defence and land drainage	25	20,170	15	54	71	20,335
Agriculture and fisheries	0	0	0	69	0	19,962
Regulatory services (environmental health)	0	19,916	1,105	2,644	335	24,000
Regulatory services (trading standards)	0	1,415	390	337	4	2,146
Street cleaning not chargeable to highways	0	1,843	9,008	814	273	11,938
Waste collection	619	6,163	53,274	28,099	416	88,571
Waste disposal	28,836	107,978	2,316	8,019	572	147,721
Trade waste	0	1,643	732	627	0	3,002
Recycling	3,172	36,711	6,490	20,930	83	67,386
Waste minimisation	0	1,914	48	424	0	2,386
Climate change costs	0	4,487	0	1,388	55	5,930
Total environmental and regulatory services	40,821	287,794	75,048	82,625	4,793	491,081
Planning and development services	185,875	429,143	394	8,248	3,411	627,071
Police	73,669	213,533	88,489	194,084	31,940	601,715
Fire and rescue services	4,997	104,523	53,486	26,644	4,424	194,074
Central services	124,332	568,856	39,271	226,419	90,980	1,049,858
Industrial and commercial trading	145,853	62,983	66	881	3,100	212,883
Other trading	6,689	49,113	21,408	4,497	265	81,972
Total trading	152,542	112,096	21,474	5,378	3,365	294,855
Total all services	1,042,676	14,776,553	352,855	1,167,106	204,668	17,543,858

Table D1b: Capital outturn summary: all services (COR) 2010-11

	£ thousand			
	Total expenditure on fixed & intangible assets (6) (1+2+3+4+5)	Expenditure on grants (7)	Expenditure on loans & other financial assistance (8)	Total Expenditure ^(a) (9) (6+7+8)
Pre-primary and primary education	2,199,478	154,798	433	2,354,709
Secondary education	2,942,236	167,749	17,503	3,127,488
Special education	253,209	4,454	0	257,663
Non-school funding	322,284	43,731	135	366,150
Education	5,717,207	370,732	18,071	6,106,010
Roads, street lights and safety	2,791,496	10,389	427	2,802,312
Parking of vehicles	51,607	1,265	36	52,908
Public passenger transport-bus	147,621	12,670	11,381	174,670
Public passenger transport-rail and other	737,835	1,385,458	2,230,761	4,354,054
Tolled roads, bridges, tunnels, ferries, public transport companies	2,467	40	0	2,507
Local authority ports and piers	19,366	0	0	19,366
Airports	68,879	0	0	68,879
Highways & transport	3,819,271	1,441,695	2,231,264	7,492,230
Social Services	268,858	43,017	446	312,321
Housing	3,386,432	620,586	53,860	4,060,878
Culture and heritage	253,483	10,857	7,552	271,892
Recreation and sport	504,268	19,205	422	523,895
Open spaces	188,850	14,957	126	203,933
Tourism	8,165	45	0	8,210
Library services	138,670	331	0	139,001
Total culture and related services	1,093,436	45,395	8,100	1,146,931
Cemeteries, cremation and mortuary	44,283	251	0	44,534
Coast protection	27,838	158	0	27,996
Community safety	15,450	3,549	0	18,999
Community safety (CCTV)	10,133	122	0	10,255
Flood defence and land drainage	20,335	1,337	0	21,672
Agriculture and fisheries	19,962	0	57	20,019
Regulatory services (environmental health)	24,000	3,179	1,779	28,958
Regulatory services (trading standards)	2,146	14	0	2,160
Street cleaning (not chargeable to highways)	11,938	237	0	12,175
Waste collection	88,571	2,118	252	90,941
Waste disposal	147,721	14,298	0	162,019
Trade waste	3,002	0	0	3,002
Recycling	67,386	0	459	67,845
Waste minimisation	2,386	0	0	2,386
Climate change costs	5,930	11,926	6	17,862
Total environmental and regulatory services	491,081	37,189	2,553	530,823
Planning and development services	627,071	167,150	38,599	832,820
Police	601,715	0	0	601,715
Fire and rescue services	194,074	443	0	194,517
Central services	601,715	0	0	601,715
Industrial and commercial trading	212,883	8,973	0	221,856
Other trading	81,972	619	0	82,591
Total trading	294,855	9,592	0	304,447
Total all services	17,543,858	2,772,727	2,375,165	22,691,750

(a) Figures in this column do not include acquisitions of share and loan capital

Table D1c: Capital outturn summary: all services (COR) 2010-11

	£ thousand			
	Sales & disposal of tangible fixed assets (10)	Sales of intangible assets (11)	Repayments of grants loans & financial assistance (12)	Total receipts ^(a) (10+11+12)
Pre-primary and primary education	35,422	0	51	35,473
Secondary education	57,797	0	2,034	59,831
Special education	6,849	0	0	6,849
Non-school funding	11,759	0	47	11,806
Education	111,827	0	2,132	113,959
Roads, street lights & safety	20,463	0	4	20,467
Parking of vehicles	12,273	0	15	12,288
Public passenger transport-bus	307	0	0	307
Public passenger transport-rail and other	7,011	0	417	7,428
Tolled roads, bridges, tunnels, ferries, public transport companies	9	396	0	405
Local authority ports and piers	0	0	445	445
Airports	3	0	0	3
Highways & transport	40,066	396	881	41,343
Social Services	44,168	0	101	44,269
Housing	485,220	7,701	20,465	513,386
Culture and heritage				
Recreation and sport	3,718	0	470	4,188
Open spaces	28,351	0	776	29,127
Tourism	14,557	0	159	14,716
Library services	1,261	0	0	1,261
Total culture and related services	3,108	0	45	3,153
Cemeteries, cremation and mortuary	1,531	0	0	1,531
Coast protection	0	0	0	0
Community safety	513	0	77	590
Community safety (CCTV)	3	0	0	3
Flood defence and land drainage	3	0	94	97
Agriculture and fisheries	19,546	0	0	19,546
Regulatory services (environmental health)	410	0	12	422
Regulatory services (trading standards)	1	0	0	1
Street cleaning not chargeable to highways	26	0	0	26
Waste collection	940	0	36	976
Waste disposal	940	0	36	976
Trade waste	2,072	0	0	2,072
Recycling	12,217	0	12	12,229
Waste minimisation	61	0	0	61
Climate change costs	0	0	0	0
Waste minimisation	0	0	0	0
Total environmental and regulatory services	37,323	0	231	37,554
Planning and development services	281,183	0	1,610	282,793
Police	65,641	0	871	66,512
Fire and rescue services	6,169	0	946	7,115
Central services	251,099	23	7,039	258,161
Industrial and commercial trading	55,942	0	39	55,981
Other trading	4,291	0	49	4,340
Total trading	60,233	0	88	60,321
Total all services	1,433,924	8,120	35,814	1,477,858

(a) Figures in this column do not include disposals of share and loan capital

**Table D1d: Roads (including structural maintenance), street lighting & road safety:
England 2006-07 to 2010-11**

	2006-07	2007-08	2008-09	2009-10	£ thousand 2010-11
New construction/improvement of roads	765,909	843,829	1,072,346	846,984	986,409
Structural maintenance - principal roads	310,178	271,808	297,318	370,999	377,246
Structural maintenance - other LA roads	570,573	615,961	677,986	720,978	726,605
Expenditure on bridges	195,258	210,835	216,203	205,356	212,665
Road safety	227,811	242,289	248,004	278,801	329,554
Street lighting	59,572	79,009	74,572	82,551	85,451
Total	2,129,298	2,263,730	2,586,429	2,505,669	2,717,930

Table D1e: Social services capital expenditure by region 2010-11

	North East	North West	Yorkshire & the Humber	East Midlands	West Midlands	East of England	London	South East	South West	£ thousand England
Children and their families: residential care	11,637	2,052	2,384	6,033	912	322	1,630	4,248	1,941	31,159
Children and their families: day care	2,419	7,708	3,135	1,116	304	1,038	4,249	1,078	9,455	30,502
Elderly: residential care	1,239	13,510	4,007	1,856	9,367	3,129	5,057	16,818	7,112	62,095
Elderly: day care	686	2,445	871	828	343	1,851	3,292	3,099	1,396	14,811
Physically disabled: residential care	503	104	179	1,184	472	1,300	257	166	2,773	6,938
Physically disabled: day care	417	1,212	1,111	321	454	1,845	3,335	2,415	236	11,346
Learning disabled: residential care	721	3,144	722	3,168	1,577	1,695	1,278	1,785	4,093	18,183
Learning disabled: day care	3,659	3,852	1,914	1,135	1,266	848	8,357	1,520	7,373	29,924
Mentally ill: residential care	348	4,140	335	11	1,256	1	2,439	2,722	375	11,627
Mentally ill: day care	873	1,005	83	195	1,264	215	2,104	538	91	6,368
HIV/AIDS and alcohol/drugs misuse	506	1,028	184	0	2,707	80	3,428	254	422	8,609
Other	5,982	11,164	13,691	5,735	2,057	8,175	18,827	9,353	5,775	80,759
Total social services capital expenditure	28,990	51,364	28,616	21,582	21,979	20,499	54,253	43,996	41,042	312,321
										% of total
Children and their families: residential care	40	4	8	28	4	2	3	10	5	10
Children and their families: day care	8	15	11	5	1	5	8	2	23	10
Elderly: residential care	4	26	14	9	43	15	9	38	17	20
Elderly: day care	2	5	3	4	2	9	6	7	3	5
Physically disabled: residential care	2	0	1	5	2	6	0	0	7	2
Physically disabled: day care	1	2	4	1	2	9	6	5	1	4
Learning disabled: residential care	2	6	3	15	7	8	2	4	10	6
Learning disabled: day care	13	7	7	5	6	4	15	3	18	10
Mentally ill: residential care	1	8	1	0	6	0	4	6	1	4
Mentally ill: day care	3	2	0	1	6	1	4	1	0	2
HIV/AIDS and alcohol/drugs misuse	2	2	1	0	12	0	6	1	1	3
Other	21	22	48	27	9	40	35	21	14	26
Total social services capital expenditure	100	100	100	100	100	100	100	100	100	100

Table D1f: Social services capital expenditure 2006-07 to 2010-11

	£ thousand				
	2006-07	2007-08	2008-09	2009-10	2010-11
Children and their families: residential care	29,655	26,737	20,446	19,015	31,159
Children and their families: day care	33,684	22,784	24,222	32,883	30,502
Elderly: residential care	132,019	169,974	103,305	62,700	62,095
Elderly: day care	17,117	38,827	15,047	17,732	14,811
Physically disabled: residential care	3,318	1,904	3,541	8,199	6,938
Physically disabled: day care	11,181	5,637	7,133	9,323	11,346
Learning disabled: residential care	21,100	17,629	16,113	23,179	18,183
Learning disabled: day care	28,311	24,843	21,489	26,492	29,924
Mentally ill: residential care	4,825	5,558	2,685	6,940	11,627
Mentally ill: day care	9,839	9,001	7,614	9,786	6,368
HIV/AIDS and alcohol/drugs misuse	5,678	2,910	3,956	3,590	8,609
Other	67,316	85,050	74,354	67,790	80,759
Total social services capital expenditure	364,040	410,854	299,905	287,629	312,321
					% of total
Children and their families: residential care	8	7	7	7	10
Children and their families: day care	9	6	11	11	10
Elderly: residential care	36	41	22	22	20
Elderly: day care	5	9	6	6	5
Physically disabled: residential care	1	0	3	3	2
Physically disabled: day care	3	1	3	3	4
Learning disabled: residential care	6	4	8	8	6
Learning disabled: day care	8	6	9	9	10
Mentally ill: residential care	1	1	2	2	4
Mentally ill: day care	3	2	3	3	2
HIV/AIDS and alcohol/drugs misuse	2	1	1	1	3
Other	18	21	24	24	26
Total social services capital expenditure	100	100	100	100	100

Table D1g: Section 16(2)(b) direction expenditure 2006-07 to 2010-11

	£ thousand				
	2006-07	2007-08	2008-09	2009-10	2010-11
Redundancy costs (M1)	11,086	13,499	19,041	25,396	73,815
Pension scheme contributions (M2)	15,929	15,773	21,941	19,746	41,139
Other (M4)	135,941	385,628	390,859	419,325	123,830
of which:					
<i>Equal Pay directions</i>	121,071	372,845	375,160	337,215	107,273
<i>Local PSA PPG</i> ^(a)	10,347	3,712
<i>Other</i> ^(b)	4,523	9,071	15,699	82,110	16,557
Total	162,956	414,900	431,841	464,467	238,784

(a) Local Public Service Agreements Pump-Priming Grants (Local PSA PPG)

(b) Amounts covered by directions classed as "exceptional", contaminated land and commutation, which are not recorded separately

D2 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. It 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. Loan sanctions were replaced by borrowing approvals.
- 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 suggested 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 Act 2003 put in place the broad legislative framework for the new prudential regime for borrowing by local authorities, which is 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 were, 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.
- 2009 Changes in accounting practice brought most PFI schemes on to local authority balance sheets from 1 April 2009, and hence formally within the prudential capital finance system. However, DCLG continue to publish capital expenditure data on the previous basis (leaving most schemes off balance sheet) because that is the basis on which National Accounts are prepared.
- 2010 From 1 April 2010 local authority accounts are based on International Financial Reporting Standards. This alters the accounting classification of some leases, though protection is provided for existing leases by DCLG regulation allowing them to be accounted for in accordance with the old rules.