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# **Local Authority Capital Finance Overview**

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# Local Authority Capital Finance Overview

## 1. Introduction

### 1.1 Purpose of this document

This document is designed to give an overview of the current capital finance system for English local government. Focusing on capital support provided to local authorities, it aims to be a useful source of information for both local and central government. It looks at:

- different elements of capital finance;
- levels of capital support to local government provided by central government;
- capital finance processes within local authorities; and
- the future of local authority capital finance.

### 1.2 Audience

This document has been designed for anyone with an interest in local authority capital support. However, it will be particularly useful for:

- policy/programme officials in Government Departments; and
- local authority members and senior officers who have an interest in local authority capital finance.

A glossary of local authority capital finance terms is provided at [Annex A](#). Any specific comments or queries regarding this overview should be sent to [cfp@communities.gsi.gov.uk](mailto:cfp@communities.gsi.gov.uk).

### 1.3 Local Authority Capital Finance in Context

Local authorities in England spent more than £126 billion on capital expenditure between 1997-98 and 2007-08<sup>1</sup>. This included capital support from Central Government of over £25 billion in grants and over £31 billion of borrowing.

In addition, the Comprehensive Spending Review 2007 (CSR07) allocated a minimum of £29 billion in capital support for local authorities over the three years of the current settlement covering 2008-09 to 2010-11.

The CSR07 and the associated three-year Local Government Finance Settlement are underpinned by a focus on stability, efficiency and value for money. The aims of the local authority capital element of the CSR07 process included minimising the amount of ringfenced grants, and maximising the amount of funding allocated on a three year basis.

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<sup>1</sup> Source: Local Government Financial Statistics England Nos. 15 (2004), 16 (2005), 17 (2007) and 18 (2008) and the CLG Statistical Release: Local authority capital expenditure and receipts: England: 2007-08 Provisional Outturn & 2008-09 Forecast. All the listed documents can be found at: <http://www.local.communities.gov.uk/finance/stats/index.htm>

## 1.4 What is local authority capital finance?

Local authorities use capital money primarily for buying, constructing or improving physical assets, such as:

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

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

Capital expenditure has been defined in the Public Expenditure Statistical Analyses 2007 as follows:

*“In National Accounts capital expenditure is usually understood to mean capital formation, the net acquisition of land, and expenditure on capital grants. Capital formation is expenditure, net of sales, on fixed assets (such as buildings, vehicles and machinery) and net of stock building, and can be measured gross or net of depreciation. Fixed assets are assets that can be used repeatedly to produce goods and services and generally last more than one year.”<sup>1</sup>*

Local authorities finance their capital spending in a number of ways including using their own revenue funds, capital receipts (money raised from selling an asset, such as a building or land), borrowing, grants, or other contributions. This is explained in more detail in Chapter 2 below.

Until 31 March 2004 the capital finance system was set out in Part 4 of the Local Government and Housing Act 1989. The basic principle of the old system was that authorities could borrow or use credit only up to the limits specified by the Government through the issue of credit approvals.

Part 1 of the Local Government Act 2003 introduced a new capital finance system with effect from 1 April 2004. The key feature of this system is that authorities no longer need government approval to finance capital expenditure by borrowing or credit. Local authorities continue to receive central government support for a major part of their capital programmes, but are now free to borrow to fund additional investment, provided they can afford to service the debt without extra government support<sup>2</sup>.

## 1.5 Policy Context

### *Local authority capital finance and the National Economy*

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<sup>1</sup> Public Expenditure Statistical Analyses 2007, April 2007, HM Treasury, National Statistics – page 212

<sup>2</sup> Regulated by the CIPFA's Prudential Code, which can be purchased at: <http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/EN/product/CF005>

## *Local Authority Capital Finance Overview*

Local authorities have (with the support of central government) invested over £108 billion<sup>1</sup> in capital from 1996-97 to 2006-07.

Public Sector investment has risen significantly in recent years, with net investment rising as a share of GDP from 0.6% in 1997-98 to 2% in 2007-08<sup>1</sup>. The CSR07 period will see investment of 2.25% of GDP. The Government's fiscal rules have enabled this increase in capital investment, and investment at this level is consistent with meeting the fiscal rules to 2012-13.

### *Local authority capital finance and the devolutionary agenda*

The 2003 Local Government Act, the 2006 Local Government White Paper and the 2007 Local Government and Public Involvement in Health Act promote devolution to the lowest possible level. This means that local authorities should be accountable for those matters over which they have control.

As mentioned earlier, the introduction of the Prudential Capital Finance System in 2004<sup>2</sup> for the first time enabled local authorities to undertake additional capital spending, financed by borrowing, so long as they could afford to service the debt without additional Government support. This has given local authorities much more freedom to manage their own capital expenditure.

The Government is committed, where possible, to allocating funding on a three year basis and removing unnecessary ring fencing from grants. The New Performance Framework asks local authorities to report on only 198 indicators (known as the National Indicator Set) rather than the previous 1,200 measures. This means that there will be a substantial reduction in the level of monitoring required. Government also supports and encourages authorities to work across boundaries with other public or private organisations to jointly deliver services.

The capital finance system is crucial to the delivery of local priorities and visions and [Annex B](#) shows a diagram setting out how asset management and capital finance can be used to underpin local priorities.

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<sup>1</sup> [http://www.hm-treasury.gov.uk/media/9/9/bud08\\_chapterb.pdf](http://www.hm-treasury.gov.uk/media/9/9/bud08_chapterb.pdf) at page 184

<sup>2</sup> Regulated by the CIPFA's Prudential Code, which can be purchased at: <http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/EN/product/CF005>

## 2. Funding Local Authority Capital Expenditure

### 2.1 Overview

Local authorities finance capital expenditure through a number of mechanisms including:

- supported capital expenditure (including capital grants);
- capital receipts arising from the sale of assets; and
- capital expenditure funded by self-financed borrowing.

However, it is worth noting that there are also many other sources of locally generated income that support capital expenditure. Additional capital funding is also available through the Private Finance Initiative.

The funding mechanisms set out above are explained in detail below.

### 2.2 Supported Capital Expenditure (including capital grants)

Central government agrees priorities with local authorities through the Local Area Agreements and Performance Framework. Each Government Department then puts forward a bid to Parliament for the necessary level of capital support. When a Government Department knows its capital Departmental Expenditure Limit (DEL), it can then determine the level of capital allocations to local government in line with the agreed priorities. This is known as Supported Capital Expenditure.

Supported Capital Expenditure (SCE) is provided to local authorities from central government in the following ways:

- **Supported Capital Expenditure (Revenue) (SCE(R))** This is the total amount of borrowing that central government is prepared to support. The funding to cover the revenue cost of this borrowing is distributed as part of Formula Grant, which is non-ringfenced<sup>1</sup>..
- **Supported Capital Expenditure (Capital) (SCE(C))** This is allocated directly to an authority in the form of a capital grant.

To maximise flexibility, the Government is committed to reducing the level of ringfenced grants. The Single Capital Pot (SCP) is the term used to define non ringfenced capital support to local authorities. The Single Capital Pot includes all of the supported borrowing (SCE(R)s) and the non ringfenced capital grants (or SCE(C)s). The SCP is separate from the Area Based Grant (ABG) which is for non-ringfenced revenue grants for local authorities.

Grants will only be agreed as ringfenced funding in exceptional circumstances These include:

- existing policy commitments for a specific grant for a particular purpose;

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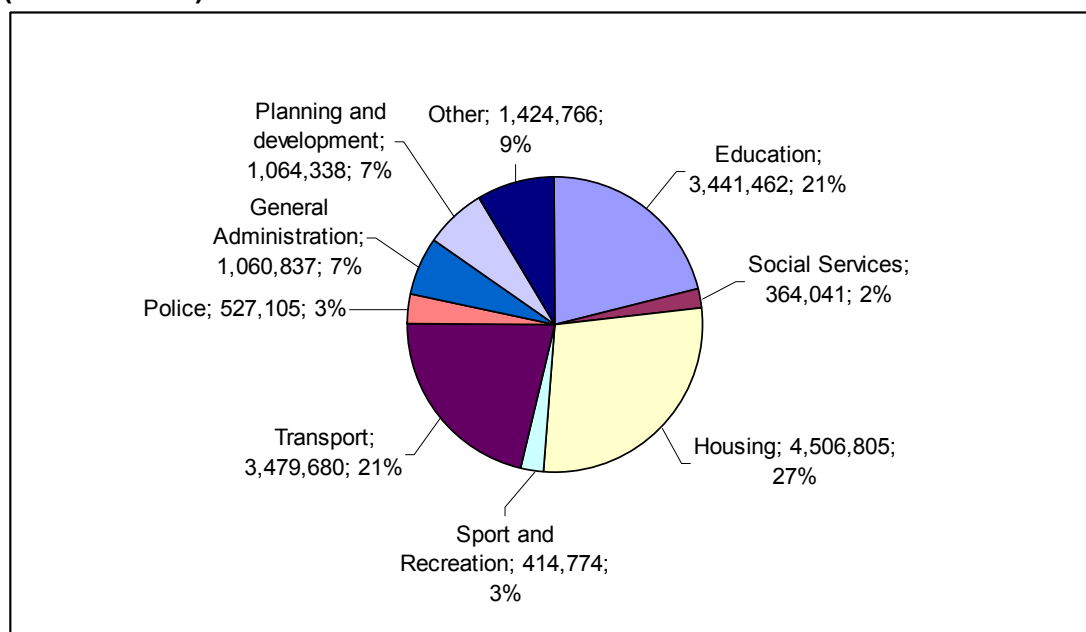
<sup>1</sup> This does not include the housing SCE(R)s which are paid via the Housing Revenue Account.

## Local Authority Capital Finance Overview

- where Ministers collectively consider that there is a need to allocate resources to specific purposes;
- bid-based grants; or
- grants for pilot work.

As mentioned in Chapter 1, local authorities spend capital money on a number of different service areas. Chart 1 shows the split between services by percentage and cost.

**Chart 1: Local authority capital expenditure by service 2006-07: England (£ thousand<sup>1</sup>)**



### 2.3 The 2007 Comprehensive Spending Review (CSR07)

During the period covered by the CSR07, the Government will allocate at least £29 billion in capital support to local authorities. Of this, 47% (£13.8 billion) will be nominally included in the Single Capital Pot (non ringfenced). [Annex C](#) sets out the provisional level of capital support from each Government department to local authorities.

#### *Grant determination letters*

Each Government Department directly allocates its capital grant to local authorities and they are encouraged to do so by using Section 31 of the Local Government Act 2003. Guidance on grant determinations is available from Communities and Local Government for policy teams in Government Departments. Please contact [cfp@communities.gsi.gov.uk](mailto:cfp@communities.gsi.gov.uk) for further information

<sup>1</sup> Source: CLG Statistical Release: Local authority capital expenditure and receipts: England: 2006-07 Final Outturn. The diagram excludes acquisitions of share and loan capital. Other includes: Other Environmental Services, such as parks and waste collection; Libraries, Culture and Heritage; Fire Service; and Magistrates Courts. The diagram excludes acquisitions of share and loan capital.

*Performance management and monitoring of capital grants*

As mentioned in Chapter 1, the new Performance Framework and National Indicator Set are the only methods for Government Departments to determine how grants are being used by local authorities.

Further information on the National Indicator Set is available on the Communities and Local Government website at

<http://www.communities.gov.uk/localgovernment/performanceframeworkpartnerships/nationalindicators/faqs2007/nifaq/indicatorset/>

## 2.4 Capital Receipts

*Overview*

A capital receipt is the money received by a local authority from the sale of a capital asset or from the repayment to the local authority of a grant or loan for capital spending. The Government's policy on capital receipts is different for housing and non-housing receipts.

*Non housing capital receipts*

Authorities can use all of their non housing capital receipts to fund capital expenditure or repay debts. The set-aside (pooling<sup>1</sup>) of receipts from the sale of non-housing assets was abolished in 1998.

*Housing capital receipts*

There is a different system for housing capital receipts, where pooling arrangements still exist. There are different pooling arrangements for each of the three types of housing receipt:

- Right to Buy (the sale of a dwelling to a tenant) - 75% of the receipt is pooled;
- "Other" Housing Land (the sale of bare housing land, estate shops, garages and community facilities) - 50% of the receipts is pooled; authorities can avoid pooling these receipts altogether if they use them entirely for affordable housing or regeneration projects;
- Large and small voluntary transfers to Registered Social Landlords (known as "Qualifying Disposals") - nothing is pooled.

Pooled receipts are then redistributed as housing allocations to ensure that authorities are funded in accordance with their housing needs.

*Review of Council Housing Finance (HRA Subsidy Review)*

In March 2008 the Government launched a review of the current funding system for council housing. The purpose of the review is to develop a sustainable, long term system for financing council housing, one that is consistent with wider housing policy, including the establishment of a regulator of social housing.

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<sup>1</sup> Pooling is a compulsory payment to Central Government by a local authority of a proportion of its capital receipts.

The Review is due to report to Ministers in the spring of 2009, setting out options for the subsidy system, including proposals for changes to rent policy and to inform the next spending review. A formal consultation will follow the review.

## 2.5 Self Financed Local Authority Borrowing

### *Overview*

The Prudential Capital Finance system was introduced in 2004 and it allows local authorities to self-finance borrowing for capital expenditure without Government consent.

The system seeks to facilitate the use of borrowing for capital projects, provided it is affordable. Authorities must manage their debt responsibly and decisions about debt repayment should be made through the consideration of prudent treasury management practice.

Local authority borrowing contributes to the total level of public sector debt which is monitored against the Government's Sustainable Investment Rule (SIR). The SIR is achieved if, other things being equal, public sector net debt is maintained below 40% of Gross Domestic Product (GDP) over the economic cycle.

### *Data on self-financed debt*

It is estimated, by local authorities, that £3.6 billion<sup>1</sup> of self-financed borrowing was planned to be used to finance capital expenditure in 2007-08, compared to £2.3 billion in 2006-07. This equates to about 18% of the total resources for financing capital expenditure.

### *What do we mean by Prudent?*

Borrowing incurs a revenue cost of approximately 10% of the loan each year, comprising the interest charges and money set aside to cover the repayment of the debt. For a loan to be prudent a local authority will need to satisfy itself that it can afford this annual revenue cost. This cost to the authority is a combination of interest charges and minimum revenue provision (MRP) – see explanation below.

### *Minimum Revenue Provision – Changes and Regulations*

The Government has given local authorities greater freedom in the way that they provide for their debts. As mentioned above, authorities have to earmark revenues each year as provision for repaying debts incurred on capital projects. Since 1990, this "Minimum Revenue Provision" (or MRP) regime has been governed by detailed legislation offering no local discretion.

On 31 March 2008, the Government removed the complex MRP regulations in favour of a simple duty on each local authority to make an amount of debt provision which the authority considers prudent.

The Department has issued simple guidance on setting the level of prudent provision. Authorities must have regard to these recommendations, but will

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<sup>1</sup> Communities and Local Government: Local Government Finance Key Facts: England. November 2007

be free to develop arrangements suited to their individual circumstances, so long as these are considered to be prudent.

The guidance can be found at

<http://www.local.communities.gov.uk/finance/capital/statguidmrp.pdf>

## 2.6 Private Finance Initiative (PFI)

The Private Finance Initiative (PFI) is a form of public-private partnership (PPP) by which local authorities can gain access to new or improved capital assets (mostly, but not always, buildings). Unlike traditional procurement, the public sector does not buy the assets, but rather pays for their use together with associated services (for example, security, cleaning, etc). Capital investment in the asset is made by the private sector, which recovers its costs over the length of the contract - often 25 years or more.

Grant support for local authority PFI is available from Central Government. The promise of support is given in the form of a letter, which sets out a level of 'PFI credits' issued for that project. PFI credits are a measure of the private sector investment which will be supported, and act as a promise that PFI grant can be claimed once the project is operational, to the value of the credits issued. Each sponsoring Department is limited in the level of PFI credits it can issue by having to manage within an allocation for its programmes.

**Table 1: Allocation of PFI credits by Government Department for CSR07 period<sup>1</sup>**

	Allocations (£ million)		
	2008-09	2009-10	2010-11
Children, Schools and Families	1,320	1,320	1,320
Communities and Local Government	710	610	610
Environment, Food and Rural Affairs	600	700	700
Health	130	130	130
Home Office	120	120	120
Transport	750	750	750
<b>Total</b>	<b>3,630</b>	<b>3,630</b>	<b>3,630</b>

PFI grant for all new projects will be calculated as an annuity based on the level of PFI credits and the contract length. Additional information on local government PFI is available from:

<http://www.local.communities.gov.uk/pfi/index.htm>

The Government remains committed to the levels of PFI investment allocated during CSR07 and previous spending reviews. More information on how PFI contributes to the Government's investment plans is available from:

[http://www.hm-treasury.gov.uk/media/5/C/bud08\\_procurement\\_533.pdf](http://www.hm-treasury.gov.uk/media/5/C/bud08_procurement_533.pdf)

## 2.7 Capitalisation

<sup>1</sup> Source: 2007 Pre Budget Report & Comprehensive Spending Review; page 30 - [http://www.hm-treasury.gov.uk/media/2/B/pbr\\_csr07\\_economy907.pdf](http://www.hm-treasury.gov.uk/media/2/B/pbr_csr07_economy907.pdf)

## *Local Authority Capital Finance Overview*

Under standard accounting practice, revenue resources may be spent on capital and revenue expenditure. Capital resources can normally be only applied to meet capital expenditure. Capitalisation is the controlled use of spending capital resources for revenue purposes

Capitalisation directions allow specified revenue expenditure to be treated as capital expenditure. This means that in exceptional cases revenue expenditure may be funded from borrowed money or capital receipts.

Capitalisation directions are considered against strict criteria, and the Government closely monitors and controls the degree and use of directions. This is appropriate because capitalisation has an impact at macroeconomic level by facilitating practice which threatens the achievement of the Government's fiscal rules.

HM Treasury have allocated £100m of capitalisation directions in each of the CSR07 years to be administered by Communities and Local Government. This allocation excludes applications for capitalisation to cover equal pay costs which is administered separately, according to the above guidance.

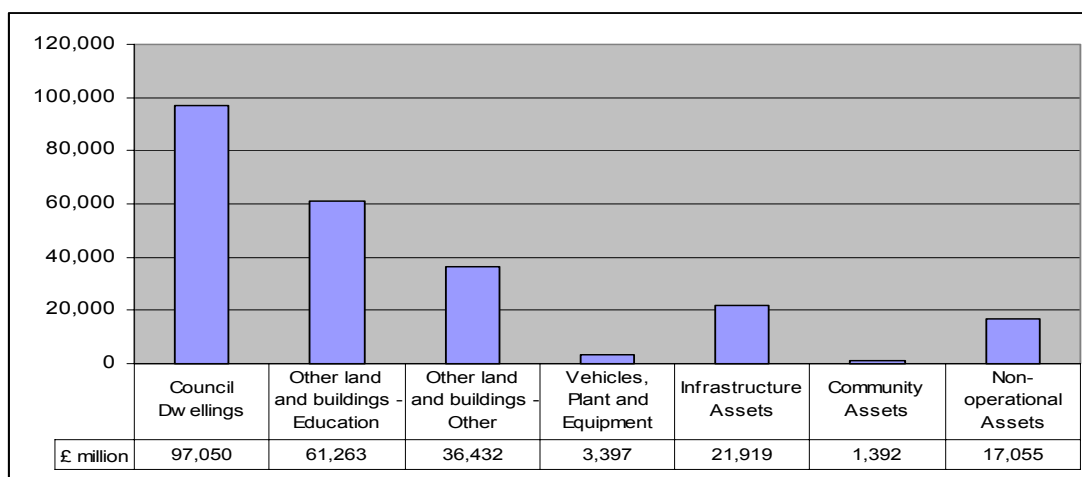
Details of the system for processing capitalisation applications are available from <http://www.local.odpm.gov.uk/finance/capital/capdirsum.htm>.

### 3. Local Authority Asset Management

#### 3.1 Overview

Local authorities own fixed assets worth<sup>1</sup> £244billion<sup>2</sup>. This makes assets the second most costly resource for local authorities to manage and maintain, after staff. Effective asset management plays a major role in delivering better outcomes for residents, creating a sense of place and generating efficiency gains. Chart 2 shows a breakdown of non highway local authority assets as at 31 March 2007.

**Chart 2: local authority operational and non-operational assets at 31 March 2007**



Research<sup>3</sup> shows that in recent years councils have greatly improved the way in which they manage their assets. However, there remain significant improvements that can be made to raise the standards of all authorities to those of the best.

The same study also concluded that there is a widespread (but entirely mistaken) perception among local authorities that the Government has ‘lost interest’ in asset management. This is not the case, and the recently published ‘Building on Strong Foundations – A Framework for Local Authority Asset Management’<sup>4</sup> sets out, in part, our response to this mistaken perception.

In addition, The Royal Institution of Chartered Surveyors (RICS) recently published Public Sector Asset Management Guidelines which apply to all practitioners in all public sector bodies. These Guidelines are available from <http://www.publicsectorassetmanagement.com>. More specifically, Communities and Local Government has commissioned RICS to produce a

<sup>1</sup> Capital Outturn Return (COR), Local Authority Capital Expenditure and Receipts England 2006-07 Final Outturn [www.local.communities.gov.uk/finance/stats/natstats.htm](http://www.local.communities.gov.uk/finance/stats/natstats.htm).

<sup>2</sup> At present, the value of local highways is not fully reflected in the Capital Finance returns, and this figure therefore understates the real value of local authority assets.

<sup>3</sup> Evaluation of Corporate Capital and Asset Planning in local Authorities by York Consulting, November 2007, commissioned by Communities and Local Government, [www.communities.gov.uk/publications/localgovernment/capitalassetplanning1](http://www.communities.gov.uk/publications/localgovernment/capitalassetplanning1)

<sup>4</sup> See: [www.communities.gov.uk/publications/localgovernment/assetmanagement](http://www.communities.gov.uk/publications/localgovernment/assetmanagement)

series of topic based local authority asset management pamphlets to reflect recent policy changes. The intention is that these pamphlets will be published in autumn 2008 and that they should be read by local authorities alongside the overarching RICS public sector guidelines.

### 3.2 Improvement, Maintenance and Efficiency

The National Improvement and Efficiency Strategy (NIES)<sup>1</sup> sets out the ambition for councils to take the lead on supporting improvement and efficiency within their local area, working with other local service providers. This is a more devolved approach putting the new Regional Improvement and Efficiency Partnerships (RIEPs) at the heart of delivering greater value for money and co-ordinating support at a regional level. CSR07 gives £185 million for RIEPs to take forward the NIES, including supporting efficiencies in capital expenditure and better asset management.

The NIES stresses the need for a new approach to delivery, with councils increasingly working in partnership to deliver better and more efficient services. Better use of assets is important for achieving all four strategic priorities of the NIES by:

- promoting efficiency gains;
- responding in an innovative way to customer needs;
- tailoring assets more to community want; and
- underpinning local authorities' decisions to improve local services.

### 3.3 Options for Under Used Assets

In July 2004, the Government announced a target of at least £30 billion public sector assets to be disposed of within the period 2004-05 to 2010-11. Local authorities across the UK are expected to make a significant contribution to the delivery of this target, and current assumptions are that they will contribute at least £4 billion per annum over the CSR07 period.

It is important that authorities consider all options for under-used assets, including transfer to the community at less than best value, and using assets to lever in private finance. Option appraisals should consider the social benefits accruing from particular uses as well as potential capital receipts from open market disposal. Where open market disposal is chosen, it should be put into effect at the correct time. Assets sold at the wrong time may lead to the local authority (and residents) getting a poor return.

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<sup>1</sup> See: [www.communities.gov.uk/publications/localgovernment/efficiency](http://www.communities.gov.uk/publications/localgovernment/efficiency)

## 4. Capital Finance Processes

### 4.1 Overview

It is essential that colleagues in both local and central Government are aware of the pressures that they each face. Section 4.2 has been provided by local government to help policy teams in Government Departments to better understand pressures at a local level. Whilst section 4.3 has been provided by Government statisticians to help local authorities understand the reasons behind the collection of capital finance data.

### 4.2 Local Authority Budget Setting Process

Local authority budget setting is not just about the year ahead. It is an annual cycle which reviews medium term plans for the following 2-3 years. The main things that a local authority considers when planning future levels of capital spend are that:

- capital spend must be linked to other resources - mainly the revenue implications of both running costs and the costs of borrowing;
- capital allocations must relate to wider asset management planning, which in turn must be founded in the delivery of local priorities and services; and that
- capital allocations must be integrated into service planning, i.e. alignment with Council strategic priorities - relating financial investment to the planning of service outcomes, and to performance management.

These considerations also mirror those set out in CIPFA's Prudential Code. The above processes happen in an annual cycle - a detailed timetable of which is at [Annex D](#). In summary, capital grants should ideally be announced in the December of the previous financial year and preferably in three-year settlements.

The challenge now is for central government to sustain and improve the same level of certainty for capital funding for local government as it does for revenue.

### 4.3 Local Authority Capital Finance Returns

The Government delivers, collects and presents the key information about the local government finance system. This information comes from many inquiries that collect finance information from local authorities in England.

The key pieces of information collected in capital inquiries are capital expenditure, capital receipts and how capital spending is financed. More recently, since April 2004, returns have also sought information about self financed borrowing. The collection of these returns follows a regular annual cycle. Table 2 below provides a timetable of when data is collected and published by CLG.

*What is collected and why*

A central and immediate purpose is to provide the Secretary of State for Communities and Local Government, HM Treasury and the Office for National Statistics (for National Accounts) with the most up to date information available on local authority capital spending plans and how these are financed, both as forecasts and as emerging outturn information. In addition, the returns are important sources for evidence-based policy decisions, answering Parliamentary Questions and other requests for information by Ministers, local authorities and the general public.

**Table 2: Summary of data collection and publication by CLG**

	<b>Capital Forecast Return</b>	<b>Capital Estimates Return</b>	<b>Capital Payments Return 1 – 3</b>	<b>Capital Payments Return 4</b>	<b>Capital Outturn Return</b>
	<b>CFR</b>	<b>CER</b>	<b>CPR1-3</b>	<b>CPR4</b>	<b>COR</b>
Frequency	Annual	Annual	Quarterly (cumulative)	Annual	Annual
Issued	Mid December	Mid March	End quarter	End March	Mid April
Publication or use by	Estimate needed by end January	Statistical Release by mid June	GDP use within 6 weeks	GDP use within 6 weeks and Statistical Release by mid June	Provisional Statistical Release by mid September and Final Statistical Release by end November

**CFR** provides provisional information ahead of the start of the financial year to inform public expenditure planning and consideration of likely levels of public sector borrowing in the coming financial year.

**CER** provides information at the start of the financial year about how much local authorities have budgeted to spend during the year, a broad breakdown by service group, a detailed breakdown of how spending is to be financed, their budget assumptions about capital receipts during the coming year, and planned values of their key prudential indicators.

**CPR 1-3** provides cumulative quarterly estimates of the key aggregates (no service breakdown) of capital expenditure and receipts which are used in National Accounts for the calculation of Gross Domestic Product and the Public Sector Finances.

**CPR 4** provides provisional outturn information about capital expenditure and receipts for the year, with some broad service breakdown, a detailed breakdown of how spending has been financed, and provisional outturn values of their key prudential indicators. This is used in conjunction with

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CPR1-3 to provide a provisional quarterly path for the full year for National Accounts.

**COR** provides the final outturn figures on capital expenditure and receipts for a full breakdown of 46 service lines (with some additional detail on social services, transport and capitalised direction expenditure), how the spending has been financed, final outturn information about the prudential system, detail on the use of capital receipts and a breakdown of local authority capital assets. The full service breakdown is required for the National Accounts.

## 5. Conclusion

Whilst progress has been made since the introduction of the Prudential Capital Finance system in 2004, there is still much more that we could all be doing to make the capital finance system more efficient and responsive to the needs of both central and local government.

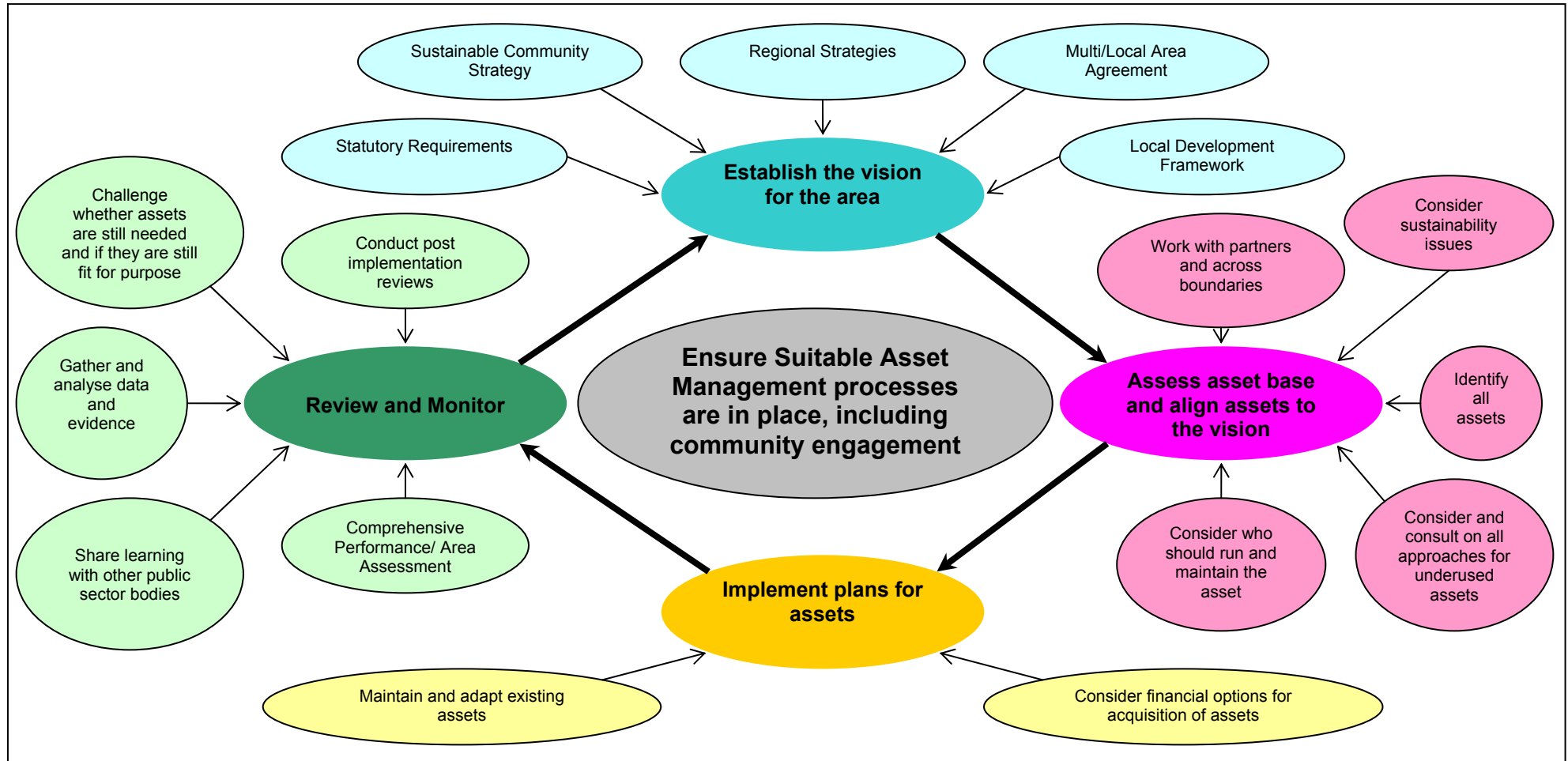
If you have anything that you would like to contribute to the development of the policy on local authority capital financing you can contact us on:

[cfp@communities.gsi.gov.uk](mailto:cfp@communities.gsi.gov.uk)

## Glossary: Local authority capital finance terms

<b>Capital Support</b>	Funding from Central Government for capital expenditure
<b>Capitalisation</b>	Mechanism by which revenue expenditure can be financed from capital resources
<b>CER</b>	Capital Estimates Return
<b>CFR</b>	Capital Forecast Return
<b>COR</b>	Capital Outturn Return
<b>CPR 1-3</b>	Capital Payments Return 1-3
<b>CPR 4</b>	Capital Payments Return 4
<b>CSR07</b>	The 2007 Comprehensive Spending Review which finalised spending for the financial years 2008-09, 2009-10, 2010-11
<b>DEL</b>	Departmental Expenditure Limit – Parliament approved level of spending for an individual Department
<b>Local Government Finance Settlement</b>	Allocation of revenue support from Central Government to local authorities
<b>MRP</b>	Minimum Revenue Provision – the minimum amount which an authority must charge to a revenue account each year and set aside as provision for repaying external loans and meeting other credit liabilities
<b>PFI</b>	Private Finance Initiative – offers a form of public-private partnership in which local authorities do not buy assets but rather pay for the use of assets held by the private sector
<b>PFI credits</b>	PFI credits are a measure of the private sector investment which will be supported by Central Government, and act as a promise that PFI grant can be claimed once the project is operational, to the value of the credits issued
<b>Prudential capital finance system</b>	Informal name for the system introduced on 1 April 2004 by Part 1 of Local Government Act 2003. It allows local authorities to borrow without Government consent, provided they can afford to service the debt from their own resources
<b>Ringfenced capital support</b>	Monies given to an authority for a specific capital purpose
<b>Non-Ringfenced capital support</b>	Monies given to an authority for any capital purpose
<b>Single Capital Pot</b>	The name given to the notional ‘pot’ of non-ringfenced capital grants. This is simply the name given to the overall amount of non-ringfenced capital grants – it is not an actual grant in itself.
<b>Supported Capital Expenditure</b>	This is the term for most forms of central government support for local authority capital expenditure
<b>Supported Capital Expenditure (Capital) (SCE(C))</b>	This is the term used for capital grants from Central Government to local authorities, which can be either ringfenced or non-ringfenced
<b>Supported Capital Expenditure (Capital) (SCE(R))</b>	Capital support from central government to local authorities to cover the revenue costs of borrowing. Non-ringfenced funding distributed as part of the Local Government Finance Settlement

Asset Management Framework



Source: Building on Strong Foundations: A Framework for Local Authority Asset Management – Communities and Local Government, February 2008 - <http://www.communities.gov.uk/publications/localgovernment/assetmanagement>

Assets could include: capital grants; capital receipts; PFI; borrowing or other source of income

## Summary of Capital Finance for CSR07

Below is a summary of total capital support from central government for capital expenditure. A breakdown of capital grants allocated to local authorities in the three CSR07 financial years, separated by Department, is also included. <sup>1</sup>

**Summary**

<b>TOTAL CAPITAL SUPPORT (SCE(C) and SCE(R)) (£000s)</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>Total</b>
Capital grants	6,354,924	7,247,899	9,025,635	22,628,458
Supported borrowing (HRA)	311,000	311,000	311,000	933,000
Supported borrowing (RSG)	2,037,400	1,992,222	1,667,776	5,697,398
<b>Total</b>	<b>8,703,324</b>	<b>9,551,121</b>	<b>11,004,411</b>	<b>29,258,856</b>

**Ringfenced vs Non Ringfenced**

<b>TOTAL CAPITAL SUPPORT (£000s)</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>Total</b>
Non Ringfenced	4,238,768	4,652,969	4,976,305	13,867,763
Ringfenced	4,464,556	4,898,152	6,028,106	15,390,814
<b>Total</b>	<b>8,703,324</b>	<b>9,551,121</b>	<b>11,004,411</b>	<b>29,258,856</b>

<b>TOTAL CAPITAL GRANTS (SCE(C)) (£000s)</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>Total</b>
Non Ringfenced	1,890,368	2,349,747	2,997,529	7,237,644
Ringfenced	4,464,556	4,898,152	6,028,106	15,390,814
<b>Total</b>	<b>6,354,924</b>	<b>7,247,899</b>	<b>9,025,635</b>	<b>22,628,458</b>

<b>TOTAL CAPITAL SUPPORT (%)</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>Average</b>
Non-Ringfenced	48	49	46	48
Ringfenced	51	51	54	52

**Department for Children, Schools and Families**

<b>DCSF (£000s)</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>Total</b>
Non-Ringfenced	84,001	301,307	969,922	1,355,230
Ringfenced	3,761,656	4,401,052	5,558,006	13,720,714
<b>Total</b>	<b>3,845,657</b>	<b>4,702,359</b>	<b>6,527,928</b>	<b>15,075,944</b>

[note: the grant figures in the above table do not include supported borrowing allocations, allocations by the Department for Children Schools and Families direct to Academies, payments to Voluntary Aided schools and PFI allocations. These, when added to the local authority figures, amount to a total schools capital programme over the next three years of £21.9 billion.]

<sup>1</sup> Source: CLG – capital finance summary for CSR07 period, as at end January 2008 - <http://www.local.communities.gov.uk/finance/0809/capgrants/summary.pdf>

### Department for Innovation, Universities and Skills

DIUS (£000s)	2008/09	2009/10	2010/11	Total
Non-Ringfenced	0	0	0	0
Ringfenced	10,000	10,000	10,000	30,000
<b>Total</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>30,000</b>

### Department of Health

DH (£000s)	2008/09	2009/10	2010/11	Total
Non-Ringfenced	50,320	50,320	50,320	150,960
Ringfenced	69,100	70,100	71,100	210,300
<b>Total</b>	<b>119,420</b>	<b>120,420</b>	<b>121,420</b>	<b>361,260</b>

### Department for Transport

DFT (£000s)	2008/09	2009/10	2010/11	Total
Non-Ringfenced	952,345	980,902	985,108	2,918,355
Ringfenced	0	0	0	0
<b>Total</b>	<b>952,345</b>	<b>980,902</b>	<b>985,108</b>	<b>2,918,355</b>

### Department for Environment, Food and Rural Affairs

DEFRA (£000s)	2008/09	2009/10	2010/11	Total
Non-Ringfenced	78,205	78,200	28,808	185,213
Ringfenced	89,000	96,000	103,000	288,000
<b>Total</b>	<b>167,205</b>	<b>174,200</b>	<b>131,808</b>	<b>473,213</b>

### Home Office

HO (£000s)	2008/09	2009/10	2010/11	Total
Non-Ringfenced	158,671	158,671	158,671	476,013
Ringfenced	0	0	0	0
<b>Total</b>	<b>158,671</b>	<b>158,671</b>	<b>158,671</b>	<b>476,013</b>

### Communities and Local Government

CLG (£000s)	2008/09	2009/10	2010/11	Total
Non-Ringfenced	566,547	780,347	804,700	2,151,594
Ringfenced	534,800	321,000	286,000	1,141,800
<b>Total</b>	<b>1,101,347</b>	<b>1,101,347</b>	<b>1,090,700</b>	<b>3,293,394</b>

### Supported Capital Expenditure (Revenue)<sup>1</sup>

SCE(R) (£000s)	2008/09	2009/10	2010/11	Total
CLG, Fire	61,620	68,831	70,824	201,275
Home Office	69,625	69,625	69,625	208,875
DfT	858,216	901,762	974,875	2,734,853
DCSF	1,047,939	952,004	552,452	2,552,395
<b>TOTAL</b>	<b>2,037,400</b>	<b>1,992,222</b>	<b>1,667,776</b>	<b>5,697,398</b>

<sup>1</sup> All SCE(R) is non-ringfenced

**Annex D**

**Budget timetable for a typical local authority**

	Spring	June	Jul-Sept	Sept-Oct	Early Dec	Mid Dec	January	End Jan	February
Update Medium Term plans from previous Budget, in light of outturn, latest Government announcements, service developments etc.									
Political review of service and financial performance (inc AMP issues), identify financial issues and areas for further investigation									
Evaluate options for revenue and capital investment and disinvestment, related to corporate priorities, AMP issues and service outcomes									
Feed back results at political level for direction about which things to plan in more detail in the budget									
(Provisional Revenue Grant Settlement)									
Budget provisionally agreed by Executive members									
Period of public & business consultation									
Final Executive decision									
Formal Governance ending with Council Meeting approval									