

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**
- **Capital receipts** **section 4.4**
- **Private Finance Initiative** **section 4.5**

Additional detail on expenditure and receipts in 2006-07 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 etc;
- land – for development, roads, playing fields etc;
- 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, capital receipts, 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”) implemented a completely new capital finance system. The key feature of the **Prudential capital finance 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** was specially prepared by **CIPFA** and 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. However 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 redundancy payments and pension fund contributions. They are issued only in cases of demonstrable financial difficulty.

- Local authority capital expenditure rose every year between 2001-02 and 2005-06 at an average annual rate of 11%. Expenditure then decreased by 2% in 2006-07. The refinancing of the National Exhibition Centre in Birmingham and major rail development funded by the Greater London Authority (GLA) in 2005-06 account for most of the decrease between 2005-06 and 2006-07.
- The forecast for 2007-08 is for the upward trend to resume with an increase of 15%.
- New construction and conversion forms the major part of capital spending.

Table 4.1a: Capital expenditure by economic category

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (F)
	£ million						
Acquisition of land and existing buildings and works	392	491	432	850	866	964	1,115
New construction and conversion	7,385	8,768	9,615	10,543	12,078	11,797	14,344
Vehicles, plant equipment and machinery	766	1,038	1,222	1,363	1,515	1,312	1,177
Intangible assets ^(a)	...	...	...	219	313	292	209
Total expenditure on fixed assets	8,543	10,297	11,269	12,975	14,773	14,366	16,845
Grants, loans and other financial assistance	1,175	1,190	975	1,268	1,628	1,918	1,927
Acquisition of share and loan capital	22	21	39	33	241	23	4
Total capital expenditure	9,741	11,508	12,282	14,276	16,641	16,307	18,776
Net adjustment for changes in capital creditors ^(b)	-6	-57	-84	-	-	-	-
Expenditure by virtue of section 40(6) or 16(2)(b) directions ^(c)	245	181	116	119	148	163	...
Notional capital receipts set aside and Large Scale Voluntary Transfer levy	48	40	11	9	8	2	...
Total expenditure and other transactions	10,028	11,672	12,326	14,404	16,797	16,472	...

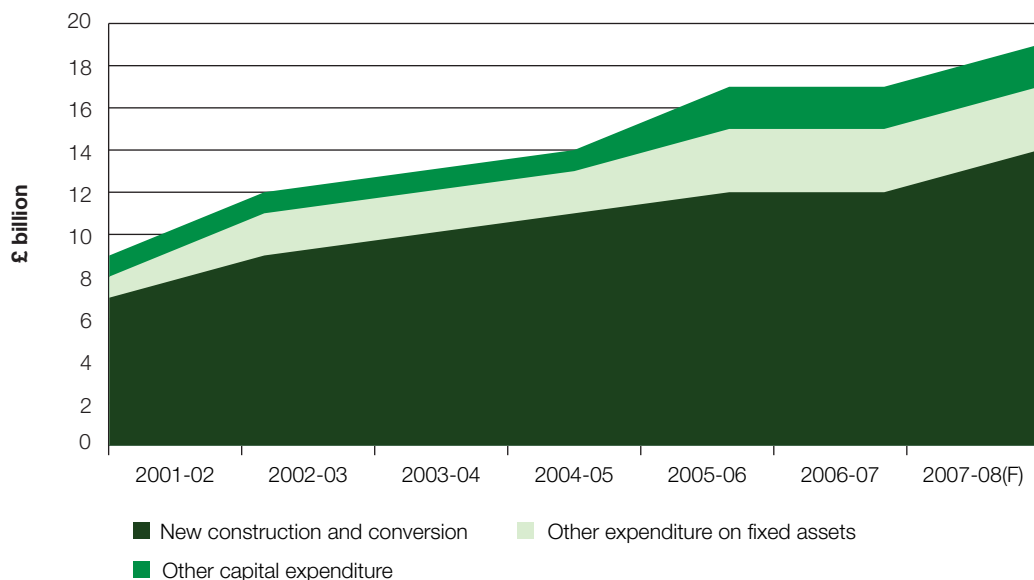
Source: COR/CER returns

(a) Intangible assets have been added as a heading to the balance sheet in the CIPFA/LASAAC 2004 Statement of Recommended Practice (SORP).

(b) From 2004-05 local authorities have been required to finance their expenditure on an accruals basis.

(c) Expenditure which does not fall within the definition of expenditure for capital purposes, but is treated as capital expenditure by a direction under section 40(6) of the Local Government & Housing Act 1989. From 2004-05 the direction is made under sections 20 and 16(2)(b) of the Local Government Act 2003.

Chart 4.1b: Capital expenditure by economic category



- Between 2001-02 and 2006-07 the most rapid increases in capital expenditure have been in social services and in coast protection (included in agriculture and fisheries), although both remain a small proportion of total spending.
- The transport sector's share of capital spending has risen from 19% to 21% over this period. The housing sector's share has fallen from 32% to 28%, although it remains the largest single sector.

Table 4.1c: Capital expenditure by service

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	£ million 2007-08 (F)
Education	2,064	2,287	2,780	3,087	3,492	3,442	4,187
Transport	1,877	2,461	2,552	2,905	3,461	3,480	4,034
Social services	158	199	260	284	387	364	442
Housing	3,110	3,828	3,485	3,987	4,534	4,507	4,468
Agriculture & fisheries	38	65	72	66	93	96	115
Libraries, culture & heritage	213	208	196	227	329	296	355
Sport & recreation	314	307	263	306	424	415	704
Police	359	408	513	561	606	531	654
Fire & rescue	62	72	68	82	96	126	151
Magistrates courts ^(a)	33	40	37	46	1	0	0
Other ^(b)	1,513	1,631	2,056	2,725	3,218	3,052	3,664
Total	9,741	11,508	12,282	14,276	16,641	16,307	18,776

Source: COR/CER returns

(a) Most local authorities have ceased to have responsibility for magistrates courts. In 2006-07 just three authorities reported capital expenditure, totalling £41 thousand.

(b) Other covers consumer protection, employment services and other environmental services, including planning and development, waste collection and disposal, parks and general administration.

Chart 4.1d: Capital expenditure by service 2001-02 and 2006-07



- 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: £ million

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (F)	£ million
North East	662	693	756	840	1,006	1,004	1,031	
North West	1,371	1,637	1,741	2,026	2,263	2,160	2,368	
Yorkshire & the Humber	1,031	1,392	1,193	1,550	1,826	1,808	2,022	
East Midlands	706	801	922	1,109	1,164	1,177	1,342	
West Midlands	920	1,116	1,236	1,460	1,870	1,760	2,070	
East of England	879	1,013	1,116	1,265	1,500	1,448	1,637	
London	1,990	2,373	2,758	3,106	3,866	3,952	4,764	
South East	1,352	1,565	1,550	1,842	1,924	1,785	2,064	
South West	829	917	1,010	1,078	1,224	1,213	1,478	
Total England	9,741	11,508	12,282	14,276	16,641	16,307	18,776	

Source: COR/CER returns

Table 4.1f: Capital expenditure by region: £ per head

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	£ per head
North East	263	273	298	330	394	393	
North West	203	241	256	297	331	315	
Yorkshire & the Humber	207	279	238	308	357	352	
East Midlands	169	190	217	259	269	270	
West Midlands	174	210	232	274	349	328	
East of England	163	187	204	230	270	258	
London	272	321	373	418	518	526	
South East	169	195	192	227	235	217	
South West	168	185	202	214	241	237	
Total England	197	232	246	285	330	321	

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.
- There has also been an increase in the share of 'other' authorities which include the GLA, police, fire, passenger transport, waste and park authorities.

Table 4.1g: Capital expenditure by class

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	£ million 2007-08 (F)
London boroughs	1,712	1,919	2,069	2,365	2,662	2,570	2,853
Metropolitan districts	2,320	2,775	2,742	3,385	4,276	4,080	4,462
Unitary authorities	1,452	1,667	1,897	2,112	2,257	2,343	2,692
Shire counties	1,957	2,327	2,600	3,133	3,395	3,277	3,716
Shire districts	1,598	1,820	1,759	1,897	2,160	2,017	2,266
Other authorities	703	1,000	1,216	1,384	1,890	2,020	2,787
All English authorities	9,741	11,508	12,282	14,276	16,641	16,307	18,776
							%
London boroughs	18	17	17	17	16	16	15
Metropolitan districts	24	24	22	24	26	25	24
Unitary authorities	15	14	15	15	14	14	14
Shire counties	20	20	21	22	20	20	20
Shire districts	16	16	14	13	13	12	12
Other authorities	7	9	10	10	11	12	15
All English authorities	100	100	100	100	100	100	100

Source: COR/CER returns

4.1.6 The following tables (and map) provide final 2006-07 outturn expenditure showing:

- service by economic category;
- service by region (£ million and £ per head);
- service by class.

Table 4.1h: Capital expenditure by service and economic category 2006-07

	Total expenditure on fixed assets	Grants and advances	Acquisition of share and loan capital	£ million Total capital expenditure
Education	3,387	54	0	3,442
Transport	2,793	687	0	3,480
Social services	337	27	0	364
Housing	3,794	713	0	4,507
Agriculture & fisheries	95	0	0	96
Libraries, culture & heritage	278	18	0	296
Sport & recreation	398	17	0	415
Police	530	1	0	531
Fire & rescue	125	1	0	126
Other ^(a)	2,629	400	23	3,052
Total	14,366	1,918	23	16,307

Source: COR returns

(a) Other covers consumer protection, employment services and other environmental services, including planning and development, waste collection and disposal, parks and general administration.

Table 4.1i: Capital expenditure by service and region 2006-07

	£ million									
	North East	North West	Yorkshire & the Humber	East Midlands	West Midlands	East of England	London	South East	South West	Total England
Education	182	383	328	295	395	399	550	565	344	3,442
Transport	153	339	302	213	342	355	1,181	336	258	3,480
Social services	24	43	28	23	55	19	58	70	43	364
Housing	388	703	678	284	476	284	1,158	307	230	4,507
Agriculture & fisheries	1	42	1	2	2	6	1	12	29	96
Libraries, culture & heritage	23	15	48	39	40	31	36	32	31	296
Sport & recreation	35	72	50	38	28	37	64	69	22	415
Police	28	58	48	37	61	51	156	55	36	531
Fire & rescue	4	12	19	9	16	16	17	21	12	126
Magistrates courts	0	0	0	0	0	0	0	0	0	0
Other ^(a)	166	493	306	237	344	249	730	318	208	3,052
Total	1,004	2,160	1,808	1,177	1,760	1,448	3,952	1,785	1,213	16,307
	£ per head									
Education	71	56	64	68	74	71	73	69	67	68
Transport	60	50	59	49	64	63	157	41	50	69
Social services	9	6	6	5	10	3	8	9	8	7
Housing	152	103	132	65	89	51	154	37	45	89
Agriculture & fisheries	1	6	0	1	0	1	0	1	6	2
Libraries, culture & heritage	9	2	9	9	8	6	5	4	6	6
Sport & recreation	14	10	10	9	5	7	9	8	4	8
Police	11	8	9	9	11	9	21	7	7	10
Fire & rescue	1	2	4	2	3	3	2	3	2	2
Magistrates courts	0	0	0	0	0	0	0	0	0	0
Other ^(a)	65	72	59	54	64	44	97	39	41	60
Total	393	315	352	270	328	258	526	217	237	321

Source: COR returns

(a) Other covers consumer protection, employment services and other environmental services, including planning and development, waste collection and disposal, parks and general administration.

Map 4.1j: Capital expenditure per head 2006-07

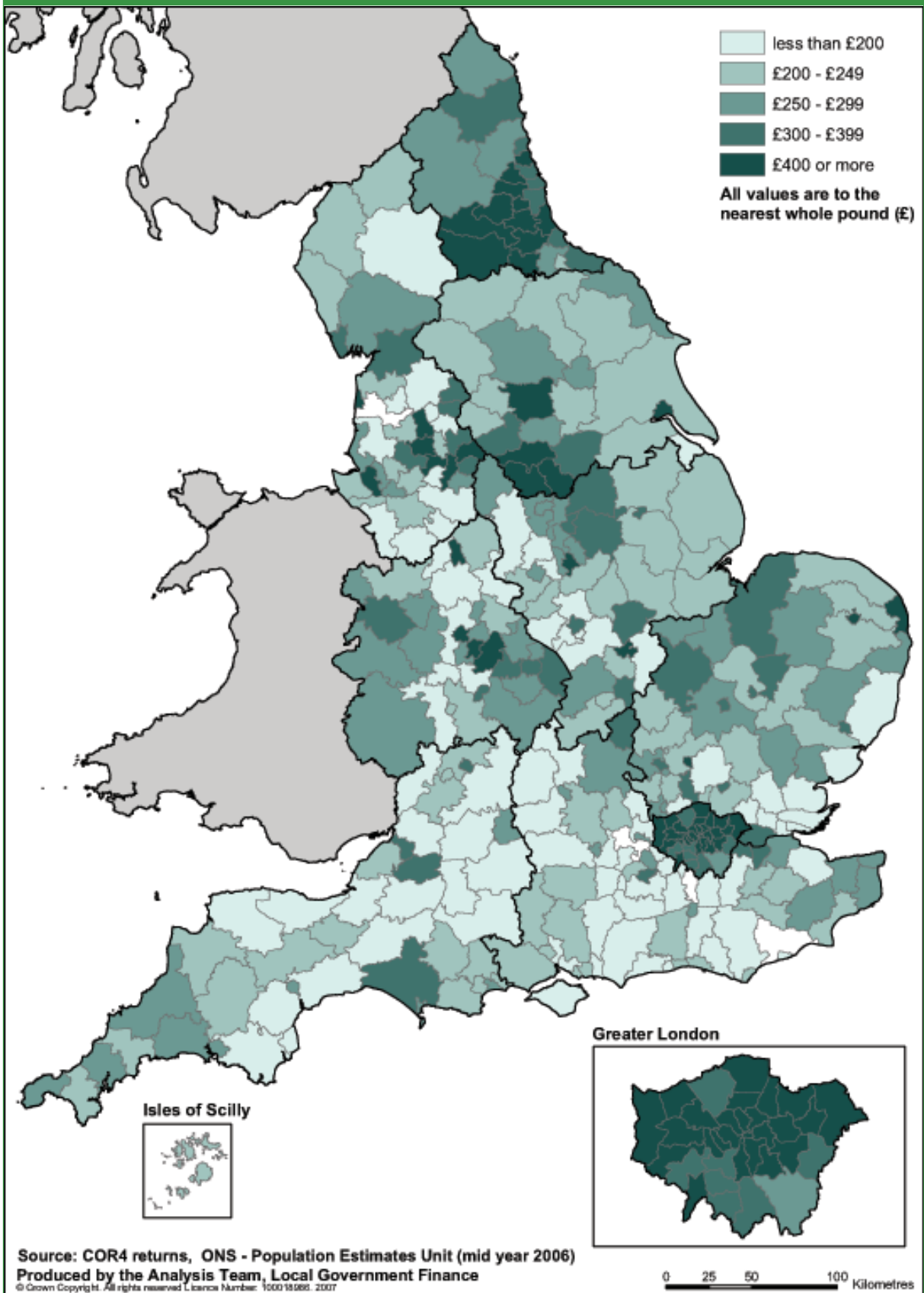


Table 4.1k: Capital expenditure by service and class 2006-07

	London boroughs	Metropolitan districts	Unitary authorities	Shire counties	Shire districts	Other authorities	£ million All English authorities
Education	550	727	634	1,529	1	0	3,442
Transport	294	542	359	1,176	54	1,055	3,480
Social services	58	90	78	137	1	0	364
Housing	1,158	1,713	631	1	1,004	0	4,507
Agriculture & fisheries	1	1	31	8	55	0	96
Libraries, culture & heritage	36	83	73	50	53	0	296
Sport & recreation	58	138	47	6	160	7	415
Police	2	0	4	0	0	526	531
Fire & rescue	0	0	1	21	0	105	126
Other ^(a)	413	786	485	350	689	329	3,052
Total	2,570	4,080	2,343	3,277	2,017	2,020	16,307

Source: COR returns

(a) Other covers consumer protection, employment services and other environmental services, including planning and development, waste collection and disposal, parks and general administration.

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 – **Basic Credit Approval (BCA)** or **Supplementary Credit Approval (SCA)** 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 Sports England, English Heritage and Natural England, 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.

- In 2001-02 credit approvals were the principal financing source for capital expenditure, accounting for 26% of the total. By 2006-07 government grants accounted for 25% of the total financing.
- In 2006-07 capital expenditure of almost £2.3bn (about 14%) was financed by unsupported borrowing, an increase of 2% from the amount financed in 2005-06. Unsupported borrowing in 2005-06 includes a bond issued as part of the refinancing of the National Exhibition Centre in Birmingham, and if this is excluded then capital expenditure financed by unsupported borrowing in 2006-07 shows an increase of 13% over 2005-06.

Table 4.2a: Financing of capital expenditure

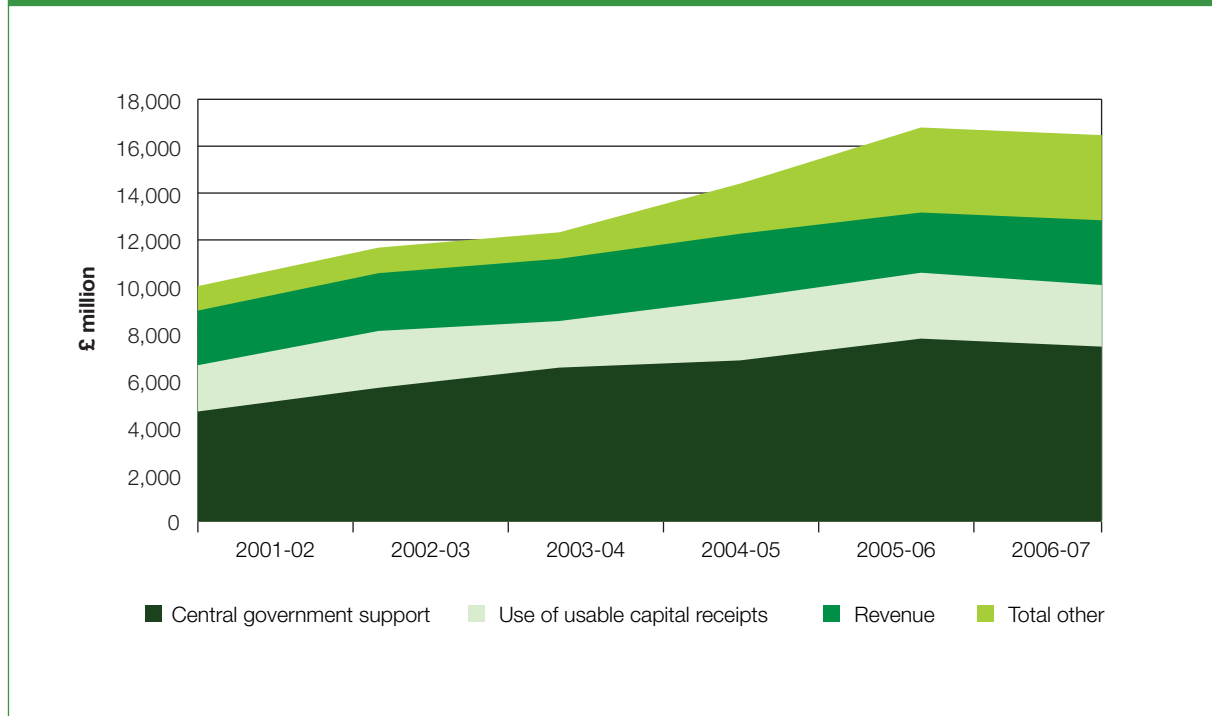
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	£ million
Central government grants	2,027	2,474	2,642	3,196	3,909	4,083	
Other grants and contributions ^(a)	757	716	869	1,080	1,377	1,344	
<i>of which:</i>							
<i>Private developers</i>	233	297	310	361	477	502	
<i>Non-Departmental Public Bodies</i>	192	183	289	412	520	492	
<i>National Lottery</i>	223	150	140	149	212	166	
<i>European Structural Funds</i>	109	86	129	158	169	185	
Use of usable capital receipts	1,975	2,426	1,988	2,647	2,812	2,628	
Revenue financing of capital expenditure	2,330	2,465	2,655	2,757	2,568	2,763	
<i>of which:</i>							
<i>Housing Revenue Account</i>	1,505	175	212	187	238	240	
<i>Major Repairs Reserve</i>	–	1,465	1,388	1,440	1,327	1,337	
<i>General Fund</i>	825	825	1,055	1,130	1,004	1,185	
BCA/SCE(R) Single Capital Pot	1,173	2,281	2,583	2,959	2,932	2,734	
SCA/SCE(R) Separate Programme Element	1,378	935	1,326	704	947	630	
Other borrowing and credit arrangements not supported by central government	–	–	–	1,061	2,251	2,291	
Use of other resources ^(b)	387	375	262	...	...	...
Total resources used	10,028	11,672	12,326	14,404	16,797	16,472	
							%
Central government grants	20	21	21	22	23	25	
Other grants and contributions ^(a)	8	6	7	7	8	8	
<i>of which:</i>							
<i>Private developers</i>	2	3	3	3	3	3	
<i>Non-Departmental Public Bodies</i>	2	2	2	3	3	3	
<i>National Lottery</i>	2	1	1	1	1	1	
<i>European Structural Funds</i>	1	1	1	1	1	1	
Use of usable capital receipts	20	21	16	18	17	16	
Revenue financing of capital expenditure							
<i>of which:</i>							
<i>Housing Revenue Account</i>	15	2	2	1	1	1	
<i>Major Repairs Reserve</i>	–	13	11	10	8	8	
<i>General Fund</i>	8	7	9	8	6	7	
BCA/SCE(R) Single Capital Pot	12	20	21	21	17	17	
SCA/SCE(R) Separate Programme Element	14	8	11	5	6	4	
Other borrowing and credit arrangements not supported by central government	–	–	–	7	13	14	
Use of other resources ^(b)	4	3	2	–	–	–	
Total resources used	100	100	100	100	100	100	

Source: COR 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).

Chart 4.2b: Financing of capital expenditure



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 five 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 under the **Receipts taken into account (RTIA)** 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.

4.4 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. From 1998 receipts from the sale of most non-housing assets were fully usable, but set-aside in relation to housing receipts (at 75 percent for council houses and 50 percent for other housing assets) 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 (95% in 2006-07) and mainly fixed housing assets (47% in 2006-07).

Table 4.4a: Capital receipts by economic category

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (F)
							£ million
Sales of fixed assets	3,349	4,817	5,174	4,560	3,661	3,471	4,115
Intangible fixed assets	...	...	...	26	11	8	6
Repayments of grants and advances	127	154	123	58	78	90	30
Disposal of investments including share and loan capital	103	69	24	17	28	102	128
Total capital receipts	3,579	5,040	5,322	4,661	3,777	3,671	4,279

Source: COR/CER returns

Table 4.4b: Capital receipts by service

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (F)	£ million
Education	146	233	221	210	217	261	433	
Transport	138	107	92	101	87	130	121	
Social services	71	75	74	75	84	85	101	
Housing	2,245	3,474	3,622	3,193	2,179	1,769	1,499	
Agriculture & fisheries	42	49	53	45	63	65	98	
Libraries, culture & heritage	19	22	5	10	7	10	15	
Sport & recreation	12	21	7	11	48	51	83	
Police	86	70	78	71	96	117	13	
Fire	7	10	18	6	8	9	155	
Magistrates courts	12	4	6	8	1	0	1	
Other ^(a)	801	975	1,145	931	987	1,172	1,759	
Total	3,579	5,040	5,322	4,661	3,777	3,671	4,279	

Source: COR/CER returns
(a) Other covers consumer protection, employment services and other environmental services, including planning and development, waste collection and disposal, parks and general administration.

Table 4.4c: Capital receipts by service and economic category 2006-07

	Sales of tangible fixed assets	Sale of intangible assets	Repayment of grants, loans and financial assistance	Disposal of investments including share and loan capital	Total capital receipts	£ million
Education	261	0	0	0	261	
Transport	64	0	3	63	130	
Social services	85	0	0	0	85	
Housing	1,733	5	29	3	1,769	
Agriculture & fisheries	65	0	0	0	65	
Libraries, culture & heritage	10	0	0	0	10	
Sport & recreation	48	1	2	0	51	
Police	116	0	1	0	117	
Fire & rescue	9	0	0	0	9	
Magistrates courts	0	0	0	0	0	
Other ^(a)	1,080	2	54	36	1,172	
Total	3,471	8	90	102	3,671	

Source: COR returns
(a) Other covers consumer protection, employment services and other environmental services, including planning and development, waste collection and disposal, parks and general administration.

Map 4.4d: Capital receipts per head 2006-07

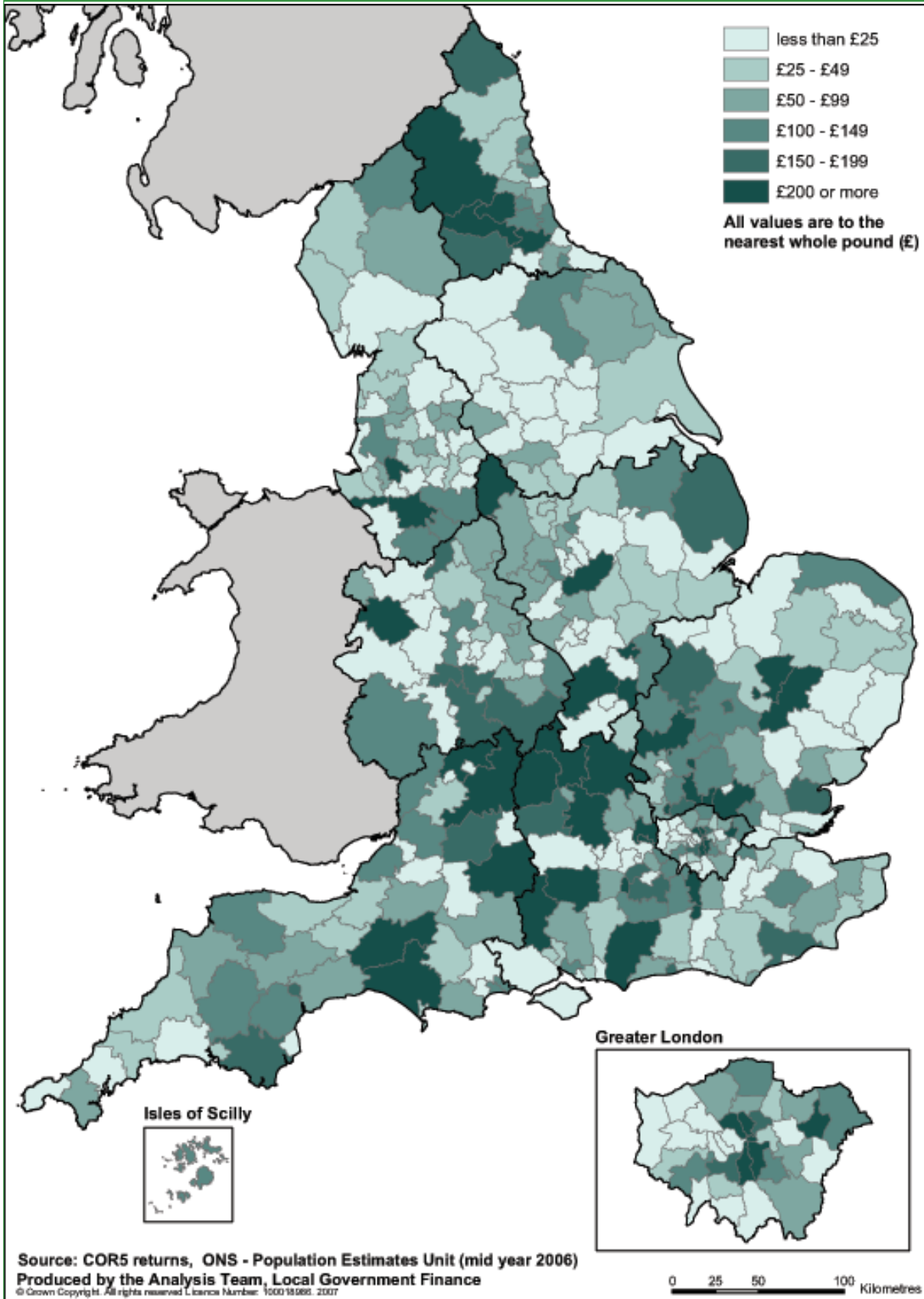


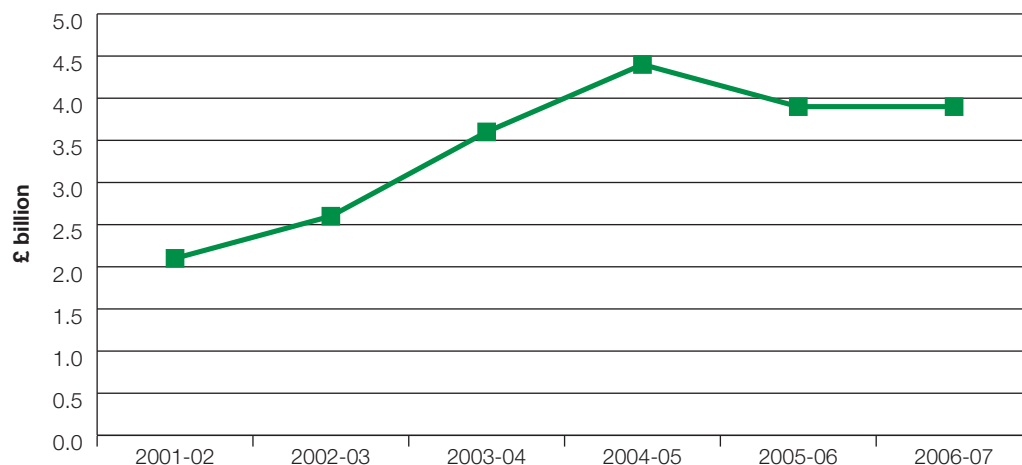
Table 4.4e: Usable and reserved receipts 2001-02 to 2006-07

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	£ million
% of in-year receipts which were usable	54	56	60	100	100	100	
IN-YEAR CASH RECEIPTS							
Usable part of receipts	2,165	3,065	3,170	4,661	3,777	3,671	
Reserved part of receipts to be set aside	1,808	2,415	2,116	–	–	–	
Total in-year cash receipts (a)	3,973	5,480	5,286	4,661	3,777	3,671	
USABLE CAPITAL RECEIPTS							
The amount of Provision for Credit Liabilities monies as at 31 March 2004 treated as a capital receipt (debt-free authorities)							
	–	–	–	839	–	–	
Usable receipts held at 1 April	1,978	2,057	2,573	3,621	4,141	3,875	
In-year usable receipts	2,165	3,065	3,169	4,661	3,777	3,671	
Usable receipts used to meet capital expenditure	1,968	2,421	1,988	2,655	2,812	2,628	
Usable receipts statutorily set aside	4	5	11	–	–	–	
Usable receipts voluntarily set aside as provision to meet credit liabilities	109	111	121	395	134	190	
Pooling of housing capital receipts	–	–	–	1,637	1,045	817	
Interest on late pooling payments	–	–	–	0	4	0	
Usable receipts at 31 March	2,062	2,585	3,617	4,434	3,923	3,911	
PROVISION FOR CREDIT LIABILITIES (PCL)							
Amounts set aside as PCL at end of year	7,081	6,940	6,774	–	–	–	
Credit ceiling at end of year							
Housing	15,824	13,929	12,241	–	–	–	
Non-housing	20,794	22,555	25,136	–	–	–	
Total	36,732	36,608	37,377	–	–	–	

Source: COR returns

(a) Figures up to 2003-04 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 the 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.

- Education accounted for about half of the local authority PFI programme in 2006-07 compared with only 21% of traditional capital spending.
- Housing increased its share from 13% in 2005-06 to 27% in 2006-07, reflecting the value of projects that were signed.
- Waste accounted for 13% of the local authority PFI programme in 2006-07 compared with only 1% of traditional capital spending.

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

	£ million						%
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	
Education	458	221	845	754	563	976	50
Transport	19	0	167	121	169	83	4
Social services	5	38	35	42	7	71	4
Housing	0	111	61	83	118	532	27
Police	54	108	74	79	0	46	2
Fire & rescue	0	35	0	0	0	0	0
Waste	0	96	56	0	0	251	13
Other	29	66	10	98	58	11	1
Total PFI Credits	565	675	1,248	1,178	914	1,970	100

Spend figures only reflect the value of projects that have reached contract signature in that year, and are not a reflection of actual projects in procurement within the PFI programme. Depending on a number of factors, projects reaching contract signature can vary dramatically from year to year.

Chart 4.5b: PFI credits issued by service 2006-07

