

CHAPTER 5

Assets and liabilities

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

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

5.1 Local authority fixed assets

5.1.1 The following tables and map provide the value of local authority fixed assets at 31 March 2007 in total and by type, and:

- by class of authority;
- by region.

Table 5.1a: Value of fixed assets ^(a) by class of authority: 31 March 2007							
	London boroughs	Metropolitan districts	Unitary authorities	Shire counties	Shire districts	Other authorities	£ million All English authorities
Operational assets:							
i) Council dwellings	29,817	21,617	15,103	237	32,508	4	99,286
ii) Other land & buildings – education	9,682	11,832	10,274	30,701	2	0	62,489
iii) Other land & buildings – other	6,242	6,845	5,836	4,868	7,826	5,967	37,583
iv) Vehicles, plant & equipment	355	429	344	652	536	1,136	3,451
v) Infrastructure	2,555	4,660	3,151	8,367	701	2,878	22,310
vi) Community	259	326	343	56	338	52	1,374
Total operational assets	48,909	45,708	35,049	44,880	41,910	10,038	226,494
Non operational:							
i) Investment properties	2,365	2,076	2,423	156	3,088	371	10,479
ii) Other	878	1,646	879	1,534	1,250	511	6,697
Total non-operational assets	3,243	3,722	3,302	1,690	4,338	881	17,176
Total value of tangible assets	52,152	49,430	38,351	46,569	46,249	10,919	243,670
Intangible assets	85	81	49	70	95	55	435
Total value of fixed assets	52,237	49,511	38,401	46,639	46,343	10,973	244,105

Source: COR returns

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

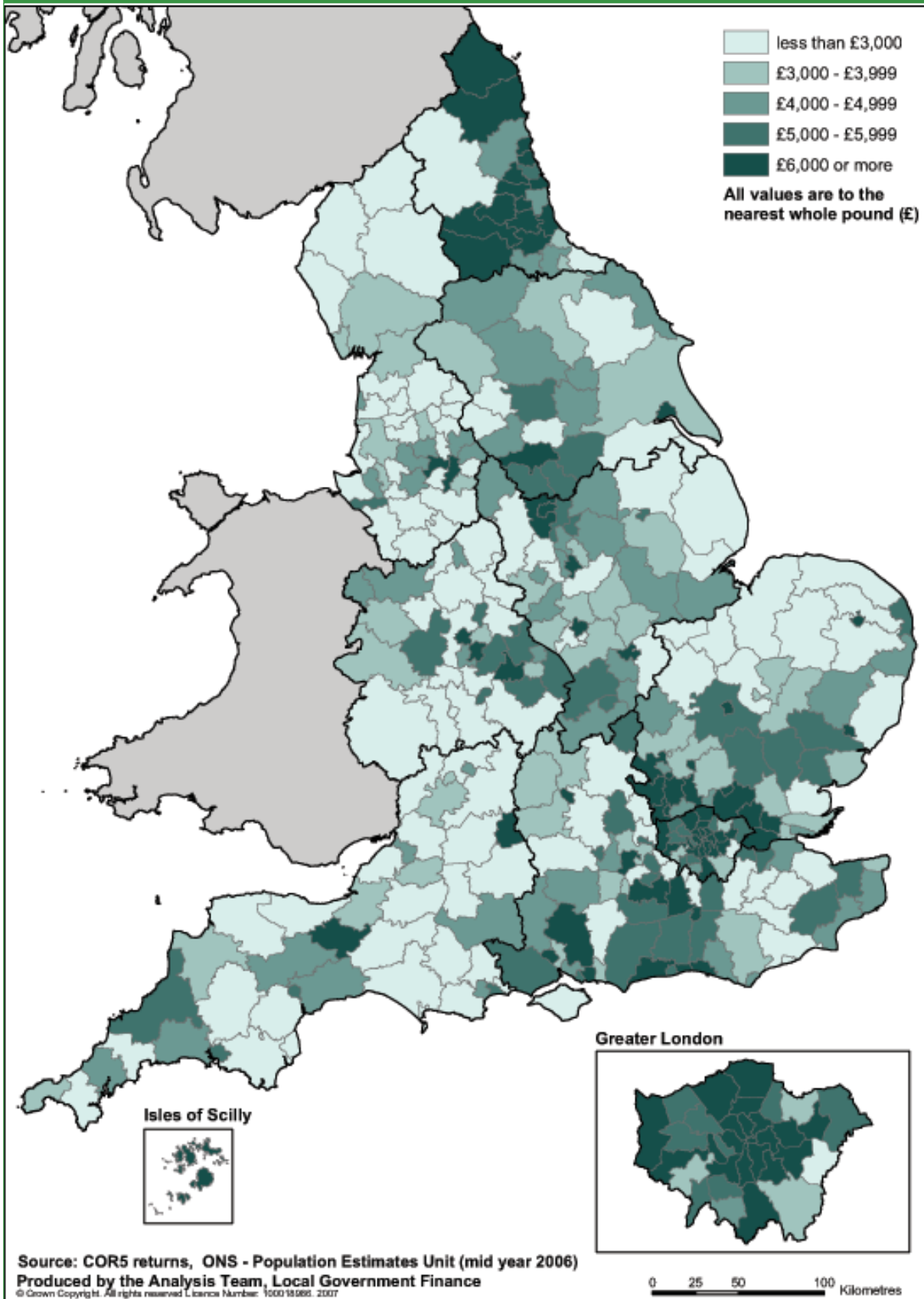
Table 5.1b: Value of fixed assets^(a) by regions: 31 March 2007

										£ million
	North East	North West	Yorkshire & the Humber	East Midlands	West Midlands	East of England	London	South East	South West	Total England
Operational assets:										
i) Council dwellings	5,727	7,235	9,010	9,039	8,296	12,230	29,817	12,165	5,768	99,286
ii) Other land & buildings – education	2,655	6,228	5,488	4,907	7,280	8,495	9,682	12,799	4,955	62,489
iii) Other land & buildings – other	1,979	3,927	3,822	2,434	3,678	3,896	8,181	6,029	3,638	37,583
iv) Vehicles, plant & equipment	227	368	314	302	326	396	739	512	267	3,451
v) Infrastructure	1,701	3,144	2,133	1,604	2,168	2,116	4,683	2,888	1,874	22,310
vi) Community	97	207	131	97	107	102	290	157	187	1,374
Total operational assets	12,385	21,109	20,897	18,383	21,854	27,235	53,392	34,550	16,689	226,494
Non-operational:										
i) Investment properties	403	1,251	590	819	967	945	2,700	1,954	850	10,479
ii) Other	557	984	686	501	459	831	1,189	1,123	366	6,697
Total non-operational assets	960	2,235	1,276	1,319	1,427	1,776	3,889	3,077	1,217	17,176
Total value of tangible assets	13,345	23,344	22,173	19,702	23,281	29,011	57,282	37,627	17,906	243,670
Intangible assets	6	40	54	23	32	69	100	86	25	435
Total value of fixed assets	13,351	23,384	22,227	19,726	23,312	29,080	57,381	37,713	17,931	244,105
£ per head of population	5,224	3,412	4,322	4,520	4,344	5,187	7,638	4,578	3,499	4,809

Source: COR returns

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

Map 5.1c: Total Assets per head 2006-07

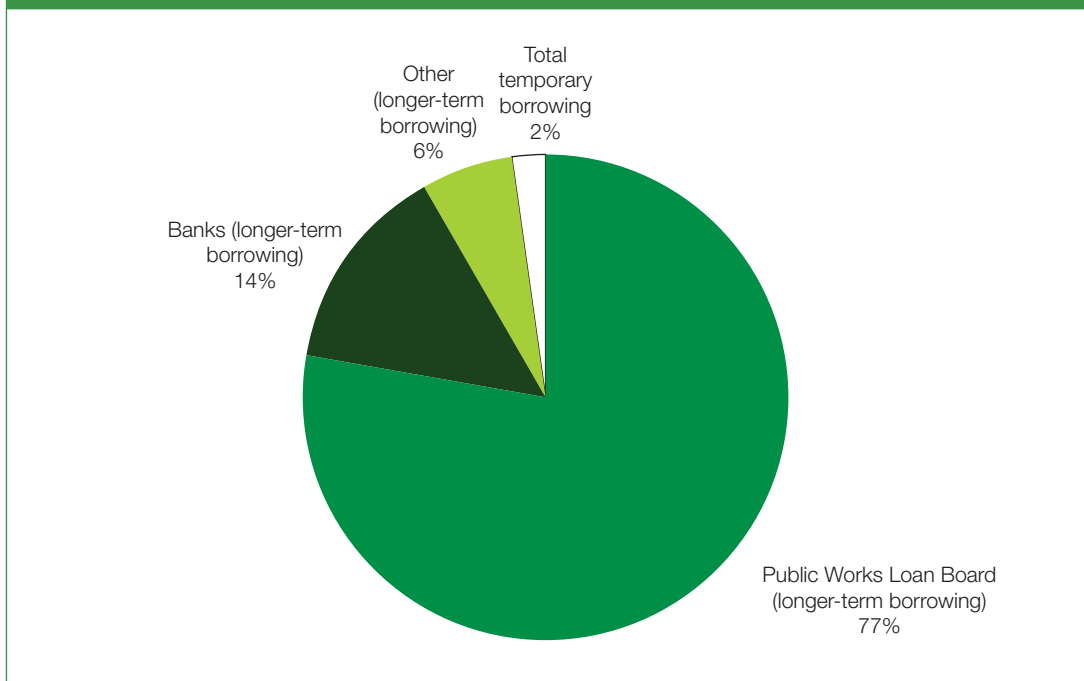


5.2 Outstanding debt and holdings of investments

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

- The vast majority of outstanding debt is longer-term borrowing (98%) and the largest proportion of that is owed to the Public Works Loan Board (77%).

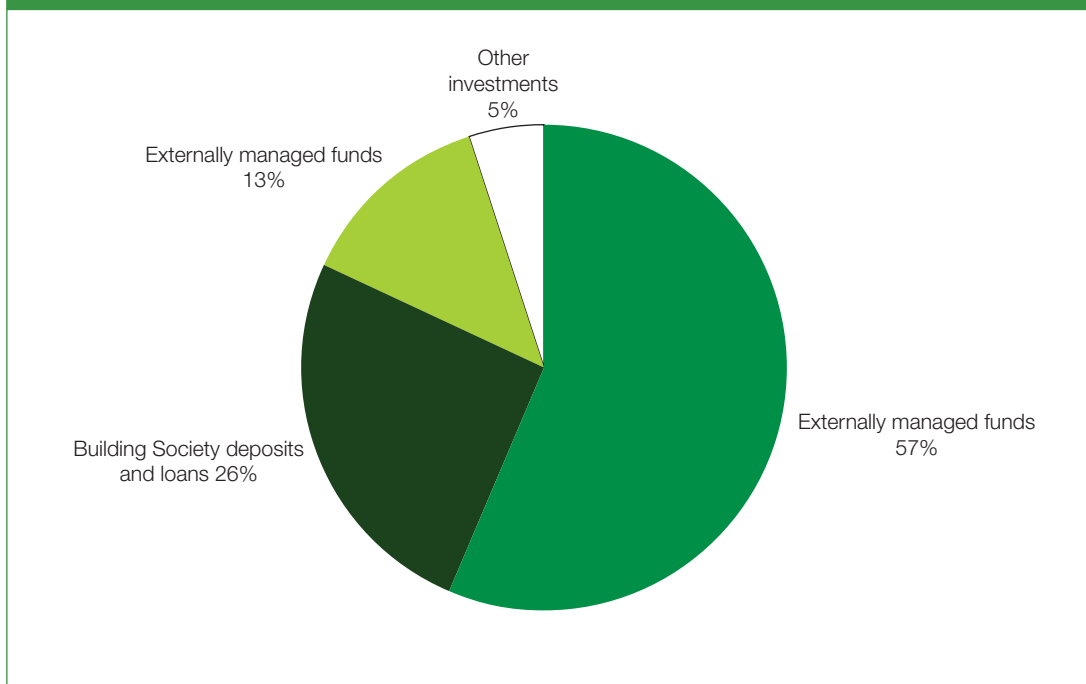
Chart 5.2a: Outstanding debt as at 31 March 2007



5.2.2 The stock of local authority investments is the financial representation of local authorities' reserves, unused capital receipts and cash flow surpluses, though authorities that are net borrowers may use such resources to reduce their borrowing rather than holding them as investments. The 'other' section includes investments with public corporations, other financial institutions and British Government securities.

- About four fifths of local authority investments are deposits with banks or building societies.

Chart 5.2b: Investments as at 31 March 2007



5.3 Borrowing and investment transactions

5.3.1 New borrowing and drawing down of investments are ways of accessing funds. New borrowing is a major way of financing capital spending. Funds that are received as income or capital receipts, but are not going to be spent immediately, may be invested in financial assets or used to redeem debt.

5.3.2 Local Government Net Cash Requirement summarises changes in local authority borrowing less change in investments. When Net Cash Requirement is positive, local authorities are increasing their borrowing and/or reducing their investments. When Net Cash Requirement is negative, local authorities are reducing their borrowing and/or increasing their investments.

- Since 2004-05, the Local Government Net Cash Requirement has been positive, some of which reflects the introduction of the new Prudential system and the freedom for local authorities to finance capital spending by self-financed borrowing. (See Chapter 4)

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

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
						£ million
Change in borrowing						
Total temporary borrowing	-93	-107	245	8	-175	205
Total longer-term borrowing	-104	-6	-765	2,463	6,137	2,333
Total change in borrowing	-197	-113	-520	2,472	5,961	2,538
less Net change in investments	797	823	1,373	1,638	2,362	2,120
Net Cash Requirement	-994	-936	-1,893	834	3,600	417

Source: Monthly Borrowing (MB) and Quarterly Borrowing (QB) returns, Public Works Loan Board, Debt Management Office.

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

- Total outstanding debt at 31 March 2007 for England was £48.6bn.
- New borrowing was more than repayments in 2004-05 and 2005-06.
- From 1999-00 to 2000-01, repayments exceeded new longer-term borrowing from banks, but were less than new borrowing from 2001-02 to 2006-07.
- Longer-term borrowing from the Public Works Loan Board substantially increased its share of all longer-term borrowing in 2005-06 owing to particularly favourable long-term rates.

Table 5.3b: Local authority borrowing

	Change in borrowing							£ million
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Outstanding amount at 31 March 2007
Temporary borrowing								
Revenue bills	0	0	0	0	0	0	0	0
Banks	-27	28	16	-40	31	-56	33	113
Building societies	-3	1	51	174	-118	-30	78	183
Other financial intermediaries	45	-62	20	65	63	-11	-26	499
Public corporations	-23	-12	-17	40	23	-59	123	160
Private non-financial corporations	4	-4	-4	12	-6	-2	-2	6
Central government	17	-44	-174	-9	0	0	0	0
Household sector	5	0	-4	4	20	-20	-3	39
Other sources	-1	0	5	0	-5	2	2	8
Total	17	-93	-107	245	8	-175	205	1,008
Longer-term borrowing								
Negotiable bonds	12	-10	-1	-84	191	102	199	593
Listed securities other than bonds	-14	6	0	-336	0	298	-26	489
Public Works Loan Board	678	-452	-981	-2,248	1,092	4,390	1,014	37,627
Banks	-121	252	926	1,205	1,126	1,200	1,162	7,029
Building societies	-50	-12	1	21	-38	-8	8	38
Other financial intermediaries	-18	33	-9	121	16	-8	-208	237
Public corporations	-5	-6	-1	0	0	0	1	1
Private non-financial corporations	-1	0	1	0	0	-1	-2	0
Central government	1	-2	-1	-2	-1	-1	-2	12
Household sector	-5	-5	-2	-1	-3	-1	0	8
Rest of the World	-50	116	64	555	77	170	187	1,573
Other sources	9	-24	-4	3	3	-5	0	16
Total	436	-104	-6	-765	2,463	6,137	2,333	47,622
Total borrowing	453	-197	-113	-520	2,472	5,961	2,538	48,630

Source: Monthly Borrowing (MB) and Quarterly Borrowing (QB) returns; Public Works Loan Board

- During 2006-07 outstanding investments for England increased by £2.1bn to £25.5bn at 31 March 2007.
- Local authority investments have increased each year from 2000-01 until 2006-07.
- Since 2002-03 the amount held in externally managed funds has decreased each year.

Table 5.3c: Local authority investments

	Change in investments							£ million
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Outstanding amount at 31 March 2007
Deposits: banks	1,107	95	909	291	1,926	2,239	2,025	14,414
Deposits: building societies	-195	376	-149	1,319	635	65	744	6,676
Treasury bills	-43	0	0	0	0	0	0	0
Certificates of deposit: banks	8	-2	-6	80	-45	0	-32	3
Certificates of deposit: building societies	0	0	0	0	20	-20	0	0
British Government (Gilt-edge) securities	-4	-3	-7	5	-11	13	-24	4
Other financial intermediaries	15	-35	-19	-5	20	-1	-10	36
Public corporations	-1	-1	-2	1	-2	-9	-9	100
Debt Management Account deposit facility ^(a)	-	-	119	-65	-20	-5	-29	0
National Loans Fund	0	0	0	423	-423	0	0	0
Money market funds ^(a)	0	0	331	-37	-50	36	-54	225
Externally managed funds	202	338	-343	-640	-472	-183	-702	3,243
Other investments	151	29	-10	-1	60	226	210	783
Total investments	1,240	797	823	1,373	1,638	2,362	2,120	25,485

Source: Monthly Borrowing (MB) and Quarterly Borrowing (QB) returns, Debt Management Office

(a) Changes to the investments regulations with effect from 1st April 2002 enabled authorities to invest in the Government's Debt Management Account deposit facility and in commercial money market funds. More substantial changes to the investment regime with effect from 1st April 2004 gave authorities greater freedom, by removing most restrictions on the choice of investment options and the periods for which funds could be committed.

5.4 Prudential System

- 5.4.1 The Prudential system (Part 1 of the Local Government Act 2003), which took effect from 1 April 2004, allows local authorities to raise finance for capital expenditure - without government consent - where they can afford to service the debt without extra government support.
- 5.4.2 In particular, the Prudential system has not maintained the artificial incentives to acquire debt-free status that were in place before 1 April 2004. The new system seeks to facilitate the use of borrowing for worthwhile capital projects, provided it is affordable, and debt-free status is not seen as having any intrinsic merit. Authorities must manage their debt responsibly, but decisions about debt repayment should be dictated solely by consideration of prudent treasury management practice.
- 5.4.3 The Prudential system therefore provides a new method of financing capital expenditure from 2004-05 onwards.
- 5.4.4 Final figures for 2006-07, the third year of the system, are now available and these are given in **Table 5.4a**.
- 5.4.5 In planning what level of capital expenditure is affordable, local authorities now follow procedures for setting and revising prudential indicators as set out in the Prudential Code. These include:
- estimates of capital expenditure (see **Chapter 4**);
 - estimates of the capital financing requirement that is the underlying need to borrow for a capital purpose. It relates to all capital expenditure (that is including relevant expenditure incurred in previous years) and is calculated directly from the balance sheet;
 - actual external debt that is gross borrowing and other long-term liabilities;
 - operational boundary for external debt - based on an authority's working estimate of most likely (that is prudent), but not worst case scenario;
 - authorised limit for external debt - the intended absolute limit that has to be set by the full council;
- 5.4.6 **Table 5.4c** sets out the aggregate England figures for these indicators as well as the level of investments.

- About 53% of authorities used the new powers to finance capital expenditure through self-financed borrowing in 2006-07, compared with 37% in the first year of the system.
- The extent to which the new powers are being used vary considerably by class of authority. While all except one of the 36 metropolitan districts are now using the new powers, only 34% of shire districts did so in 2006-07.

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

	Percentage of authorities using self-financed borrowing			Amount of expenditure financed			Average amount per authority using self-financed borrowing		
	%			£million			£million		
	2004-05	2005-06	2006-07	2004-05	2005-06	2006-07	2004-05	2005-06	2006-07
London boroughs	64	61	70	155	181	183	7	9	8
Metropolitan districts	81	86	97	231	586 ^(a)	535	8	12 ^(b)	15
Unitary authorities	64	77	79	134	225	260	4	6	7
Shire counties	74	85	88	197	427	507	8	15	17
Shire districts	18	30	34	60	101	122	1	1	2
GLA	100	100	100	243	609	574	243	609	574
Other authorities ^(c)	33	48	49	41	121	109	1	3	2
All English authorities	37	48	53	1,061	2,251	2,291	6	10	9

Source: COR returns

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

(b) Average excludes the refinancing of the Birmingham National Exhibition Centre.

(c) Other includes police, fire, parks and waste authorities.

Chart 5.4b: Authorities using self-financed borrowing in 2004-05 and 2006-07: by class



Table 5.4c: Prudential system information 2006-07

			£ million
Reported by local authorities	as at 1 April 2006	in 2006-07	as at 31 March 2007
Capital Financing Requirement as at 1 April 2006	45,782		
Capital expenditure to be resourced by means of credit (+)		5,655	
Minimum Revenue Provision (-)		1,261	
Additional contribution from revenue (-)		333	
Contribution from Major Repairs Reserve (-)		79	
Use of receipts (-)		128	
Change in Capital Financing Requirement		3,854	
Capital Financing Requirement as at 31 March 2007			49,636
Gross borrowing	45,638		47,615
Other long-term liabilities	978		959
Total external debt	46,615		48,574
Operational boundary for external debt	55,967		57,455
Authorised limit for external debt	63,627		65,164
Investments	23,093		25,598
Source: COR returns			

