

## APPENDIX A — DEVELOPMENT OF THE CODE

A.1 This appendix provides background technical information to the development of the Prudential Code for Capital Finance in Local Authorities.

### THE GOVERNMENT'S OBJECTIVES FOR THE NEW CAPITAL FINANCE SYSTEM

A.2 The government has a wide ranging agenda for the modernisation of public services. As part of this, the systems of local government finance are being reviewed.

A.3 The government's view on the aims of a good system for local government finance were expressed in the green paper on modernising local government finance that was published by the (then) DETR in September 2000, as follows:

#### **“Aims of a local government finance system**

However, local authorities cannot achieve anything without money. So, getting the local government finance system right is important. In the Government's view, the aims of a good system should be to:

- **fund all authorities adequately.** This means getting the overall balance of resources right. We must then allocate grant fairly, taking due account of authorities' differing needs and capacities to finance expenditure from their own resources;
- **promote continuous improvement in service quality and efficiency in line with Best Value;**
- **provide a reasonable degree of predictability and stability.** Authorities cannot plan ahead with confidence if they are subject to large or unexpected variations in grant. Taxpayers and other stakeholders would also like greater predictability and stability;

- **balance funding for local government's delivery of national priorities and targets with real financial freedom and responsibility for local authorities.** The Government has a clear mandate to raise educational standards, to tackle crime, and to address other pressing national issues for which local government is primarily responsible. But local circumstances and priorities vary. Authorities need to be able to reflect this in their spending and charging plans;
- **be fair to those who use and pay for local authority services.** The system should ensure that they are fully protected;
- **clarify accountability for financial decisions.** If council tax increases are excessive or services are underfunded, people should know who to hold to account;
- **be intelligible and transparent to all stakeholders.** There cannot be true accountability unless people understand the system. At present, many do not;
- **make partnership working easier.** Local authorities need to co-operate with one another and with a wide range of public, private and voluntary sector partners to ensure the richness and diversity of provision which Best Value requires. The local government finance system should help, not hinder;
- **encourage consultation, particularly with local taxpayers.**

Some of these aims reinforce one another. Some are more relevant to some aspects of local government finance than others. Giving local authorities more financial freedom and greater certainty about future funding should help them deliver continuous improvement. Making funding more intelligible and transparent helps

clarify accountability. But there are also some tensions between these aims, and balances to be struck. The delivery of national priorities should not be at the expense of local freedom and responsibility. Nor should local freedom be at the expense of fairness to those who use and pay for services.”

Similar sentiment was included in the consultation paper from the Cabinet of the National Assembly for Wales on local government finance in Wales, “Simplifying the System”, also published in September 2000.

In addition, the Scottish Parliament is undertaking an inquiry into local government finance.

A.4 Specifically in relation to capital finance, the (then) DETR’s green paper stated:

“In the Government’s view, the present capital control system blurs accountability, limits local financial freedom and has become an obstacle to effective capital investment. We need a new regime where local authorities no longer have to get government approval before borrowing, but which protects taxpayers and promotes partnership working. It should enable local authorities to consider revenue and capital solutions on an equal footing, so that Best Value will be what counts.”

The National Assembly for Wales consultation paper concurred with this view.

The local authority capital finance system in England and Wales operates through the Local Government and Housing Act 1989 and regulations made under it. This legislation is highly complex.

A.5 The statutory framework within Scotland is different. Local authority capital expenditure in Scotland is subject to the provisions of section 94 of the Local Government (Scotland) Act 1973. Under section 94, local authorities require the consent of Scottish Ministers before they incur a liability to meet capital expenses. This is conveyed by means of an annual section 94 consent letter.

As part of the modernising agenda, Scottish Ministers have undertaken to review the current system for dealing with local authority capital expenditure.

## CIPFA'S OBJECTIVES

- A.6** In the Institute's responses to the government's modernising agenda, CIPFA expressed the view that the current systems of capital finance for local authorities could beneficially be changed to a system that places less emphasis on detailed statute and more reliance on the role of the Chief Finance Officer and on professional codes of practice.
- A.7** As the leading professional accounting body for the public services, CIPFA is uniquely placed to develop a professional code of practice, the *Prudential Code for Capital Finance in Local Authorities* (the Code), to support the new framework. CIPFA has been asked by the DTLR to develop such a Code and the DTLR is providing funding towards the development of the Code.
- A.8** In developing the Code, CIPFA's objectives are threefold:
- (a) to promote better asset management and service delivery as an essential part of the modernising agenda for public services
  - (b) to promote professional best practice, eg by ensuring that the Code fits well with proper option appraisal, sensible treasury management, strategic local planning and the figures required by HM Treasury for macro economic indicators
  - (c) to promote UK generally accepted accounting practice (UK GAAP), not simply for its own sake but because it has a potentially significant and meaningful role to play in capital finance, particularly in respect of depreciation, capital receipts and inter-generational equity.
- A.9** Of the above objectives, (a) is the most important. Indeed, if one thinks in terms of 'means' and 'ends', there is a sense in which (b) and (c) may be thought of as the 'means' and (a) as the 'ends'. Capital finance in local authorities is not just a complex technical matter or an accounting issue. It is both of these, but it is something more. The system of capital finance has a real impact on public services. It can provide a framework for better strategic choices in relation to public service

infrastructure and hence make real and significant differences to service delivery at the front line.

## SCOPE OF THE CODE

A.10 The scope of the Code proposed in this exposure draft for consultation is the same as that proposed in CIPFA's representations to government. This is that the Code should comprise requirements for locally determined prudential indicators to be set by the local authority, and where appropriate revised, in accordance with definitions and process required by the Code for:

- external debt (all external borrowings and other external long term liabilities)
- capital expenditure and commitments
- treasury management.

A.11 Some commentators have remarked that previous control frameworks have concentrated **either** on external debt or on capital expenditure/commitments and that a control framework that includes both would be something of a straightjacket. However, it is stressed that the Code is intended to set the framework for **locally determined** prudential indicators. A system that is determined and managed locally needs to be aware of, manage and be accountable for all of these factors.

A.12 The Code is called a **Prudential Code**. A definition of prudent in the Concise Oxford Dictionary is "(of person or conduct) careful to avoid undesired consequences". In relation to the Prudential Code, the Code is particularly concerned to avoid the undesired consequence of the unsustainability of long term liabilities. However, it is intended that the Code will not **only** assist in the avoidance of undesired consequences. In addition to this, the Code should facilitate positive developments by providing a framework that supports the local authority's strategic plans, option appraisals and asset management strategies and hence, in addition to avoiding negative consequences, assists in real improvements to service delivery.

A.13 It is important to stress that the Prudential Code needs to be read in the round. No one prudential indicator can achieve all these ends. Nor should any one prudential indicator be highlighted in isolation from the others. Rather, a range of prudential indicators are proposed, and these need to be seen together.

**A.14 Specifically, objectives for the prudential indicators are that, taken together, and with the processes required for their determination, they will provide a framework for local authority capital finance that will ensure for individual local authorities (or in exceptional circumstances demonstrate that there is a danger of not ensuring so that the authority can take timely remedial action) that:**

- (a) all external borrowings and other long term liabilities are within prudent and sustainable levels**
- (b) capital expenditure plans are affordable**
- (c) treasury management decisions are taken in accordance with professional good practice**

**and that taking decisions in relation to (a) to (c) above the local authority is**

- (d) accountable, by providing a clear and transparent framework.**

**Further, the framework established by the Prudential Code should be consistent with and support:**

- (e) local strategic planning**
- (f) local asset management planning**
- (g) proper option appraisal.**

## PRUDENTIAL INDICATORS FOR EXTERNAL DEBT

### **Borrowing**

- A.15** The prudential indicators for debt relate to the external debt of the local authority, ie its actual external position. Actual external debt is consistent with the figures required nationally for macro-economic purposes. Also, actual external debt is what has to be serviced and repaid by the local authority. It is an effect not a cause. External debt results from the actual income and expenditure of the authority combined with its treasury management strategy. The view might be taken, therefore, that if income, expenditure and treasury management are adequately dealt with that there is no need for prudential indicators for external debt. However, the exposure draft of the Code takes a different view. The primary outcomes of the authority's income and expenditure are of course the public services provided or facilitated. However, an important secondary outcome is the level of external debt thereby incurred and it is important that the local authority is accountable for its actual external position.
- A.16** It is CIPFA's view that, throughout, the Prudential Code should be consistent with UK GAAP as applicable to the public services and embodied within the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the UK* (the SORP for the local authority sector). Certain elements of the SORP currently depart from UK GAAP, particularly in relation to capital finance, because of the statutory framework for capital finance. These aspects are detailed in the SORP review, which has been completed by the CIPFA/LASAAC Joint Committee and published on the Technical pages of the CIPFA website ([www.cipfa.org.uk](http://www.cipfa.org.uk)). CIPFA hopes that it will be possible, as the prudential framework develops, to amend the statutory regimes to enable these divergences from UK GAAP to be removed.
- A.17** It is also CIPFA's view that, wherever possible, the items used in the prudential indicators in relation to year-end 'actuals' should be capable of being read from the consolidated balance sheet or the consolidated revenue account of the local authority. This will assist clarity, transparency and ease of audit trail. The Finance Director of the local authority is responsible for signing and dating the Statement of Accounts, stating that it presents fairly the financial position of the authority at the accounting date and its income and expenditure for the year. Further, in England and Wales the authority must approve the Statement of Accounts. The draft Code also requires that, where items in the

statement of account that are relied on for the prudential indicators are the subject of audit qualification, this is highlighted when the prudential indicators are set or revised. This provides a significant level of both assurance and accountability within a public report that is subject to external audit. It is recognised that this will require a procedure for authorities to follow to revise their prudential indicators when appropriate, which may be the case when the requirements within the SORP change as financial reporting develops.

**A.18 In relation to external borrowing, the consolidated balance sheet must include on the face of the account:**

- Borrowing repayable within a period in excess of 12 months, and
- Borrowing repayable on demand or within 12 months.

A required note to the account shows an analysis of the borrowing repayable within a period in excess of 12 months, by lender category and maturity:

- between one and two years
- between two and five years
- between five and ten years
- in ten years or more.

The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment. All figures are included on an accruals basis.

**A.19 The aggregation of both borrowing repayable within a period in excess of 12 months, and borrowing repayable on demand or within 12 months should in total, together with any bank overdraft, form the first step in measuring actual external debt for the prudential indicators.**

**A.20 It is recognised that a counter view can be put that only longer term borrowing should be included, since as a broad rule of thumb this could be considered to reflect borrowing for a capital purpose; whereas short term borrowing is more likely to reflect borrowing for a revenue purpose of a temporary nature. This alternative view is not recommended because:**

- there is no necessary congruence between short term borrowing and borrowing related to revenue
- to exclude short term borrowing from the prudential indicators would introduce perverse incentives to skew treasury management decisions towards short term borrowing
- both long and short term debt can be applied to capital expenditure
- it is not possible from the balance sheet to distinguish between temporary revenue borrowing and borrowing for a capital purpose
- nor is it possible to distinguish these on a day by day basis as cash flows are managed – this is only possible after the event, and then only notionally since individual elements of debt are not matched to individual elements of expenditure
- both short and long term borrowing involve actual external debt
- long term borrowing moves into to the ‘borrowing repayable on demand or within 12 month’ category in its final year.

**A.21** It is recognised that including both short and long term borrowing within prudential indicators will extend the prudential system beyond the purposes for which (in England and Wales) basic and supplementary credit approvals are given and (in Scotland) authority to incur expenditure is given. It is considered that it is right that it should do so, for the reasons given above. It will be essential that both the framework for setting local prudential indicators and any limits imposed by central government take this fully into account.

### **Other long term liabilities**

**A.22** In addition to borrowing, and separately identified, the prudential indicators that measure external debt include other long term liabilities. One advantage of this is that, by doing so, the detailed statutory frameworks in England and Wales for the definition of what constitutes a credit arrangement will then be able to be dismantled. The original purpose of credit arrangements was simple – to ensure that there was no

incentive to enter into alternative forms of credit other than borrowing – ie to put all forms of credit onto the same footing vis-à-vis the control framework. However, over time, it has become increasingly apparent that the system is over complex, little understood and well due an overhaul.

**A.23** CIPFA has recommended that reliance can be placed on UK GAAP, and specifically on the balance sheet of local authorities, to identify long term liabilities. A technical paper detailing the rationale for this view was included within CIPFA's comments to the consultations on local authority finance from the then DETR, National Assembly for Wales, and the Scottish Parliament. It is attached as Appendix C to this exposure draft.

**A.24** Nationally, separate macro-economic indicators are collected inclusive and exclusive of other long term liabilities. Locally, the information sources for other long term liabilities will be different for borrowing and other long term liabilities. It will therefore be helpful to distinguish between the two within the prudential indicators.

**A.25** The draft Code requires that the aggregate total of other long term liabilities identified on the face of the consolidated balance sheet be included within prudential indicators, separately from borrowing. (NB it is not intended to include the Government Grants Deferred Account in the prudential indicators for external debt).

**A.26** It is recognised that the government may wish to retain the power to specifically over-ride accounting practice and identify other items for inclusion within prudential indicators. However, CIPFA would recommend that this power is not used as we believe that long term liabilities should be recognised only in accordance with UK GAAP and change only as UK GAAP develops, which in itself is achieved through established due process.

**A.27** There is one exception to this, and that relates to local authority companies. The CIPFA/LASAAC Joint Committee is re-examining the approach in the SORP to the preparation of group accounts, with a view to converging on the GAAP treatment. This could result in the preparation of local authority group accounts through full consolidation of subsidiaries. The net indebtedness of local authority regulated companies would thus impact on the picture given by the consolidated accounts. In addition, the gross income of local authority regulated companies would be relevant to measures of

the revenue stream of local authorities. If this matter is resolved within the SORP before the prudential framework is introduced then it is recommended that no separate action will be needed or should be taken; however, if not, either the current or an alternative statutory framework for the identification of liabilities associated with local authority companies may be necessary on a temporary basis.

**A.28** It is important to establish whether other long term contracts such as off balance sheet PFI deals should be included within the prudential indicators. Clearly, such contracts will be an important consideration, along with many others, within the overall finances of the local authority, but the prudential indicators, which relate to external debt, need to be clearly and explicitly linked to actual external borrowing and other long term liabilities, by associating them with only those items that are identified as such on the face of the consolidated balance sheet. The requirements for accounting in relation to private finance initiative and similar transactions are specified in an amendment to FRS 5, *Reporting the Substance of transactions*, that was published by the Accounting Standards Board in 1998. These have been incorporated as an appendix to the SORP.

**A.29** Local authorities may have a number of long term revenue commitments, including PFI, that it will be important to take into account when considering the affordability of new capital investment. For some authorities, these will be large and significant elements of their on-going revenue stream. It would however be inappropriate to try to take these into account by attempting to find ways – other than UK GAAP – to add these to other long term liabilities within the Code. Rather, they should be dealt with through a consideration of revenue commitments and affordability.

## **Investments**

**A.30** The SORP requires that, on the face of the balance sheet, the following be disclosed:

- long term investments, and
- (within current assets) investments

where

- a long term investment is an investment that is intended to be held for use on a continuing basis in the activities of

the authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

- investments which do not meet the above criteria should be classified as current assets and where all figures are included on an accruals basis.

The accounting policy required by the SORP in relation to investments is:

“Investments in listed and unlisted companies established for the promotion of local authority activities and in marketable securities should be carried at cost less provision, where appropriate, for loss in value. Investments held by pension funds should be carried at market value<sup>1</sup>. Long-term investment should be identified separately on the face of the balance sheet. Dividends should be credited to revenue when received or receivable. Where the local authority's investment in a company is unlikely to be recovered, the loss should be charged against a relevant reserve or written off to the appropriate revenue account.”

A.31 One possibility would be that the sum of both long term investments and other (within current assets) investments should in total be used for the prudential indicator. However, for many authorities, the inclusion of all long and short-term investments would include investments held for service purposes in addition to those held as part of the authority's financing position.

A.32 It is therefore proposed that the definition of investments to be used within the Code includes both long term investments and other (within current assets) investments except that investments that are held clearly and explicitly in the course of the provision of, and for the purpose of, operational services should be excluded.

## Transferred debt

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<sup>1</sup> NB Investments held by pension funds are not included in the consolidated balance sheet, since the SORP requires that the consolidated balance sheet should include the assets and liabilities of all activities of the authority, excluding the pension, trust, common good (in Scotland), and similar funds administered for third parties.

- A.33** A complication in using actual external debt within the prudential indicator is that some local authorities are managing debt which was transferred to them on reorganisation and which relates to a number of other local authorities as well as themselves. Whilst such arrangements continue, it is necessary to specify how they should be handled within a prudential framework.
- A.34** One alternative would be for the lead authority for the debt to reduce its figure for external debt and for each of the other authorities to increase theirs. The relevant figures should be identifiable from the local authorities' balance sheets. This would, however, dilute the principle of using the total of actual external debt for the prudential indicators.
- A.35** A second alternative would be for each of the local authorities concerned to continue to use their actual figures but to take this into account when setting their prudential indicators. This is the proposed approach. This is on grounds of simplicity, to avoid adjustments and because the lead authority will also receive the income stream for the debt, so this will not affect affordability.
- A.36** It will, however, be necessary to exclude transferred debt from the comparison with the authority's own capital expenditure unfinanced (paragraph 33 of the draft Code).

### **Prudential indicators**

- A.37** The draft Code requires local authorities to set prudential limits and authorised limits for its external debt. It also requires estimates of maxima.
- A.38** The prudential limit is important in establishing locally the limit within which the local authority decides that it would be prudent to operate. It is likely that this may change over time.
- A.39** The local authority may not wish to authorise, in any one year, external debt up to its prudent limit, since this may not reflect its actual plans. Therefore, the Code requires the local authority to set an authorised limit that must be lower than or equal to its prudential limit.
- A.40** It will be important for the authorised limit to be livable within – since it will act as an important limit and control. It will

therefore need to allow sufficient headroom for day to day operations.

- A.41 This means that if the limits set by all local authorities for a particular year are added together, the total will inevitably exceed, by a significantly large amount, the likely maxima for external debt for local authorities at any point in the timeframe concerned. It is therefore not necessarily the most helpful measure for forward planning within the authority, or for consideration vis-à-vis macro-economic indicators. Therefore, in addition, the Code requires reasonable estimates of maxima. These should be based on the authority's estimates of most likely, prudent but not worse case, scenario.
- A.42 The draft Code also requires the identification of actual debt, after the year end, from the balance sheet as a prudential indicator. This links the prudential system directly to the local authority's balance sheet. It is important to stress that this prudential indicator is not directly comparable to the forward looking estimates of maxima as it will reflect the actual position at one point in time.
- A.43 The draft Code requires that, after the year end, the ratio of financing costs to net revenue stream be calculated. Over time, this will provide a record of outcomes that is related to affordability.

#### **Other ratios not recommended**

- A.44 During the development of the draft Code, the Prudential Code Steering Group considered other ratios for use as prudential indicators. These are not recommended for the reasons explained below.
- A.45 Local authorities incur capital expenditure on their own fixed assets. All local authority fixed assets except infrastructure and community assets are valued on the balance sheet at current value. Infrastructure and community assets are valued on the balance sheet at historical cost. Local authorities also incur capital expenditure on deferred charges. These are amortised from the balance sheet at an appropriate rate – in practice most are written off in the year that the expenditure is incurred since they have no on-going value to the authority itself.
- A.46 It might be thought, therefore, that it would be appropriate to have a prudential indicator or indicators which involve ratio(s)

of debt to the value of fixed assets. However, this is not recommended.

**A.47** It should be remembered that local authorities are not permitted by statute to mortgage their assets to raise finance. Rather, all money borrowed by a local authority, together with any interest, is to be charged indifferently on all the revenues of the authority<sup>2</sup>. This is a long standing feature of local government finance which is expected will continue in any new regulatory framework. It is therefore considered to be inappropriate to have any prudential indicators that compare the authority's debt with the value of their fixed assets.

**A.48** Some commentators have further asked whether the Prudential Code should require capital expenditure that relates to short lived assets or deferred charges to be financed more quickly than other capital expenditure by requiring debt incurred as a result of such expenditure to be repaid within a certain time frame. However, individual loans are not, and should not be, associated with individual items of expenditure. Rather, the underlying issue raised by these concerns could and should be dealt with through making a charge for depreciation in the service revenue account and not reversing this charge out on consolidation of the accounts. CIPFA is preparing a separate paper on the role that depreciation could play in the new system.

### **Transitional issues – exposure to external borrowing**

**A.49** On transition to the new system, local authorities may be concerned that a move to a measure of external debt and talk of a limit on increase in borrowing will curtail their options in the future to minimise their costs through good treasury management and best use of internal resources. This would be most regrettable and negate many of the benefits of the prudential system proposed. Specifically, local authorities may feel that their position is best protected by maximising their exposure to external borrowing within the current framework before the move to the new system, and thereafter continuing to maximise their exposure – just in case they need to do so in future and are not able to do so because of future externally determined limits.

**A.50** It is suggested that this perverse incentive can be avoided if a guarantee is given that no external limit will be applied in the

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<sup>2</sup> NB This relates only to borrowing  
TECH4/T&P/BOOKS/MW/pmh/BKS055A

**new system to a local authority if its net borrowings do not exceed the total of its actual capital expenditure already incurred / actually committed but not yet financed.**

## **Transitional issues – credit ratings**

- A.51 CIPFA has taken the view that where local authorities borrow money on terms consistent with current statute, then the credit worthiness of all local authorities is exactly the same, and of a very high degree.**
- A.52 This view has come under the spotlight on various occasions in the past. It is inevitable that it will do so again as the system changes.**
- A.53 It is expected that any new statutory provisions will retain the current ‘safe harbour’ provisions with respect to lending to local authorities.**
- A.54 It is the view of the Prudential Code Steering Group that the new system will not alter the current situation with respect to local authorities and credit ratings.**

## **PRUDENTIAL INDICATORS FOR CAPITAL EXPENDITURE AND CAPITAL COMMITMENTS**

- A.55 A prudential system for capital finance must consider capital expenditure and capital commitments as well as actual debt. There are a number of reasons for this. Important among them are:**
- all capital investment expenditure, however financed, needs to be considered together as part of the authority’s strategic management processes**
  - for capital expenditure that is not financed immediately (ie not financed from revenue contribution, capital receipts or capital grants) the cash flow of the authority and sensible treasury management will mean that external borrowing may not be necessary or appropriate immediately; it will be important for financial probity to have a record of capital expenditure that has been incurred and not yet financed, and to have a method of ensuring that it is financed in an appropriate and timely manner (NB borrowing does not finance the expenditure!)**
  - the total of capital expenditure incurred that has not yet been financed is a measure of the underlying resource gap within the local authority in relation to capital expenditure that will, over time, need to be financed. This is often thought of as the underlying long term**

indebtedness in relation to capital finance of the local authority in that, if the authority had no other cash flow available to it, external borrowing would be necessary for the full amount. It is referred to in the draft Code as 'capital expenditure unfinanced'

- the total of capital expenditure unfinanced is a vital measure in terms of affordability since, in relation to capital expenditure, it is this that will have to be financed (ie afforded) over time. Its financing therefore needs to be one of the matters taken into account when new capital commitments are considered
- in addition to capital expenditure it will be important for medium and longer term planning to consider other ongoing revenue effects of the capital programme and this will be done as part of a consideration of capital commitments.

### **Capital expenditure unfinanced**

A.56 CIPFA recommends that UK GAAP is adopted. The measurement of capital expenditure unfinanced as proposed in this draft has no equivalent within UK GAAP and therefore it may seem odd that it is recommended for use. However, it is clear that there is no current policy to allow gains and losses on the disposal of fixed assets by local authorities to flow through the revenue account. Also, whilst there is a commitment to consider the matter of depreciation, it is not clear whether and when depreciation will be allowed to flow through to the bottom line. It is within this context that a measure of capital expenditure unfinanced is recommended, to offer the necessary level of assurance within a prudential framework. Capital expenditure unfinanced is further described and exemplified in Appendix D.

### **Accruals**

A.57 The SORP requires that capital expenditure, as well as revenue expenditure, is accounted for on an accruals basis. In contrast, the current control frameworks operate on a cash basis for capital. For full alignment with the SORP, the draft Prudential Code requires that prudential indicators are calculated on an accruals basis, through the use of definitions that are consistent with the figures required for the local authority's statement of accounts.

## **Deferred charges**

**A.58 In the current control frameworks, the government can specifically over-ride accounting practice and identify other items as being capital expenditure for the purposes of financing. It is recognised that the government will wish to retain this power in the new system. Indeed, because of the nature of local authority expenditure, combined with the separation in local authority finance between capital and revenue resources, it is likely that this power will be used for significant items of expenditure. These items are treated as deferred charges rather than fixed assets in the accounts of local authorities. In particular, it is suggested that consideration be given as to whether or not any of the following items that would not be capitalised under UK GAAP should continue to be capitalised for financing purposes, and therefore by the Code, by statute:**

- the making of advances, grants or other financial assistance to any person towards expenditure incurred or to be incurred by him on items of a capital nature, eg improvement grants**
- the acquisition of share capital or loan capital in any body corporate**
- various items currently defined in regulations in England and Wales as expenditure for capital purposes, eg the carrying out of thermal insulation that would not be capitalised were it not for the regulations**
- expenditure capitalised by Secretary of State or National Assembly for Wales direction, eg costs of major restructurings**
- private finance transactions.**

**In relation to the last of these items, private finance transactions, the current position is odd in that most private finance transactions are expected to be off balance sheet, therefore expenditure on them revenue expenditure, but in England and Wales the expenditure is then required by statute to be treated as capital expenditure.**

**A.59 In the current control frameworks, the government can also specifically over-ride accounting practice and identify items as not being capital expenditure for the purposes of financing. It is recognised that the government may wish to retain this power**

in the new system. However, CIPFA would recommend that this power is not used.

### **Prudential indicators**

- A.60** The prudential indicators for estimates of capital expenditure to be incurred are where the draft Code ties in with the strategic planning processes for the authority, with asset management planning and with service delivery. For local authorities in England, the DTLR has introduced specific requirements in relation to asset management plans and capital strategies. There are no specific requirements in Scotland for asset management plans. However, whilst the detailed format will vary, all local authorities will (or should) be undertaking their own asset management planning and capital strategy as part of their standard management practices.
- A.61** It is of prime importance that the Code links into the strategic planning, asset management and service delivery of the local authority in a sensible way and without introducing perverse incentives to those activities.
- A.62** The draft Code requires that all local authorities, before the beginning of the financial year, have forward estimates for total capital expenditure for a minimum of three years. A medium term capital programme will be necessary to achieve this.
- A.63** The draft Code also requires forward estimates of the total of capital expenditure unfinanced at the end of each year for three years, but stresses that this does not commit the authority to particular methods of financing. In order to make these estimates, the authority will need to consider all of the financing options available and estimate their use of these. It will also need to consider what capital expenditure will be 'supported' by central government and how. Similarly, it will need to estimate future charges to revenue for minimum revenue provision (England and Wales)/loans fund repayments (Scotland)/ any statutory replacements for these/ when and where introduced, the application of depreciation accounting.
- A.64** The specific considerations will be heavily dependent on the details of the statutory and support frameworks that are introduced. These may vary over time and geographically. It is intended that CIPFA will in due course prepare more detailed guidance on the application of the Code in this respect for specific regulatory and support arrangements.

**A.65** The draft Code requires prudential indicators in relation to total figures. The draft Code also encourages additional prudential indicators to be set locally where this would assist the local authority's own management arrangements. Additional prudential indicators may be helpful locally in respect of capital expenditure plans and capital expenditure unfinanced, for example to distinguish 'supported' and 'unsupported' (by central government finance) capital expenditure.

### **Transitional issues**

**A.66** The SORP requires that capital expenditure, as well as revenue expenditure, is accounted for on an accruals basis. However, the current capital control frameworks operate on a cash basis. The draft Code requires that the prudential framework for capital expenditure and financing operates on an accruals basis. In order to bring this about, in the first year only of the new system, the financing system will need to deal with two sets of accruals: items that were accrued in the previous year for accounting purposes but excluded from the control framework (for BCAs etc) on a cash basis, and items that are accrued at the year end. Prudential indicators set locally and any long-stop central controls will all need to take this into consideration in the first year of operation of the new system.

**A.67** It is suggested that where there are differences between the definition of capital expenditure under the current control framework as compared with the Code, any expenditure incurred (ie accruals basis) in the financial years before the introduction of the new framework that was capitalised under the old control frameworks should continue to be treated as capital expenditure in the new framework in respect of being able to be financed from capital resources. Conversely, any expenditure incurred (ie accruals basis) in the financial years before the introduction of the new framework that was not able to be capitalised under the old control frameworks should continue to be treated as revenue expenditure in the new framework in respect of not being able to be financed from capital resources.

### **PRUDENTIAL INDICATORS FOR TREASURY MANAGEMENT**

**A.68** One of the key objectives for the Code is that it should provide a framework within which treasury management decisions can be taken in accordance with professional good practice. It must not introduce perverse incentives that skew decision making

away from professional good practice. The treasury management activity of a local authority is what links the authority's capital expenditure / commitments and external debt. Therefore, the manner in which these aspects of the Code operate will be instrumental in achieving this objective. In addition, any prudential indicators for treasury management need to be consistent with this objective. It is vital not to place too much emphasis on numerical treasury management prudential indicators in isolation from good practice processes.

### **CIPFA Treasury Management Code**

**A.69** CIPFA has published a *Code of Practice for Treasury Management*. This provides a framework for professional good practice for treasury management. The CIPFA *Code of Practice for Treasury Management in Local Authorities* was originally published in 1992 and revised in 1996. CIPFA also published codes and guides for other public services. Recently, CIPFA has prepared, through the work of the CIPFA Treasury Management Panel, a *Code of Practice for Treasury Management in the Public Services*, which will replace the existing sector specific codes. The new Code has been approved by the Institute Council with a recommended start date of 1 April 2002.

**A.70** The *Code of Practice for Treasury Management in the Public Services* (the TM Code) is a high level document that sets out the key recommendations and practices to be followed by an organisation in its treasury management activities. The TM Code defines treasury management activities as:

“The management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

**A.71** The TM Code makes four key recommendations:

#### **“Key Recommendation 1**

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

### **Key Recommendation 2**

**Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities.**

### **Key Recommendation 3**

**They should acknowledge that the pursuit of best value in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.**

### **Key Recommendation 4**

**In order to achieve the above, organisations should:**

- (1) adopt the 4 clauses in Section 5 [of the TM Code]**
- (2) adopt a Treasury Management Policy Statement, as recommended in Section 6 [of the TM Code]**
- (3) follow the recommendations in Section 7 [of the TM Code] concerning the creation of Treasury Management Practices (TMPs)."**

**A.72 The TM Code requires that the organisation (ie for local authorities full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close.**

### **Objectives for treasury management activities**

**A.73 The TM Code stresses the overriding importance of effective risk management as the foundation for treasury management in all public service bodies.**

**A.74 The TM Code also encourages the pursuit of best value in treasury management, and promotes the reasoned use, development and appreciation of appropriate and practical measures of performance.**

**A.75** It is the Institute’s view, expressed within the TM Code, that throughout the public services the priority is to protect capital rather than to maximise return. The avoidance of all risk is neither appropriate nor possible. However, a balance must be struck with a keen responsibility for public money.

**A.76** The TM Code states:

“... the successful identification, monitoring and control of risk [are] the prime criteria by which the effectiveness of [an organisation’s] treasury management activities will be measured”

and

“... effective treasury management will provide support towards the achievement of (an organisation’s) business and service objectives.”

Source: Recommended forms of words for a Treasury Management Policy Statement.

**A.77** By implication, therefore, undesired consequences of treasury management in the public services would be:

- (a) failure to identify, monitor and control risk properly, and
- (b) lack of support for business/service objectives.

The Prudential Code seeks to create a framework for these to be avoided. The first of these is of prime importance – the other is secondary to this but is nevertheless important.

**A.78** By way of example to illustrate the TM Code states that an “... organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements...”

The TM Code also states that it will do so “... primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of feasibility to take advantage of unexpected, potentially advantageous changes in the level and structure of interest rates ....”

The former is the authority's prime objective, the latter is secondary. Prudential indicators should seek to measure both, but should reflect the TM Code's clear priorities.

It will, of course, be for each local authority, in setting its own prudential indicators, to determine how precisely the balance should be struck.

### **Prudential indicators**

**A.79** The first prudential indicator in the draft Code for treasury management is that the local authority has adopted the CIPFA TM Code for use within its own authority. The adoption of the TM Code will set the context for treasury management activity within the authority. Making this the first prudential indicator for treasury management obviates the need to reproduce the requirements of the TM Code within the Prudential Code.

**A.80** TMP1 (2) from the TM Code suggests the following form of words in relation to interest rate risk management

“This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements or amended in accordance with TMP6, Reporting requirements and management information arrangements.

It will achieve these objectives by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.... The above are subject at all times to the consideration and, if required, approval, of any policy or budgetary implications.”

**A.81** The prudential indicators that relate to interest rate exposures cover both variable and fixed interest rate exposures. In setting these, the authority will need to consider the inherent budgetary advantages afforded by fixed rates, relative to the flexibility but uncertainty of variable rates.

**A.82** The prudential indicators for interest rate exposures integrate

both borrowing and investments. It will be important to manage exposures to interest rates through integrated strategies that cover both borrowing and cash investment activities.

- A.83** TMP1 (6) of the TM Code includes the need for maturity profiling in order to obtain offer terms of loan renewals which are competitive and favourable.
- A.84** Actual practices in this respect will inevitably vary from authority to authority, and will be a function, inter alia, of their particular view of such matters as forthcoming political and economic events, both domestically and internationally.
- A.85** The prudential indicators relating to interest rate exposures and to the maturity structure of borrowing require both upper and lower limits to be set.
- A.86** TMP1 (9) of the TM Code states the need for a policy to provide protection against “adverse market fluctuations in the value of the principal sums (an organisation) invests” compromising its “stated treasury management policies and objectives”.
- A.87** The Prudential Code Steering Group took the view that limits should be set on an authority’s exposure to fluctuations in the market value of the principal sums it invests. It also decided that compliance with the TM Code should be adequate to ensure that authorities minimise the risk of investing with organisations that might be of inadequate credit standing.
- A.88** Therefore the prudential indicators that relate to principal sums invested are concerned with limiting the likelihood of an authority having to realise an investment at a time of uncertainty as to its market value. This is taken to be at any time other than at final maturity, whether the investment involved is or is not a liquid or marketable security. These prudential indicators apply only to authorities investing for longer than 364 days. If an authority were to set a high prudential indicator, relative to its projected cash balances, it would need to have assessed fully the potential risks to the principal involved, were it to be forced to sell investments before their final maturities. An authority setting a high maximum sum would be expected also to decide to limit itself to investing in liquid or marketable securities, where realisation is more readily available.

## MATTERS REQUIRED TO BE TAKEN INTO ACCOUNT WHEN SETTING OR REVISING PRUDENTIAL INDICATORS

**A.89 The draft Code requires that a number of matters are taken into account when setting or revising prudential indicators, and makes further specific requirements in respect of two of these matters, prudence and affordability.**

**A.90 Further background information is given here in respect of**

- three year revenue plans
- requirement on net borrowing.

### **Three year revenue plans**

**A.91 In discussing affordability, the Prudential Code Steering Group came to the view that three year capital plans will need to be considered together with, rather than separately from, estimates for revenue expenditure and estimates for the Council Tax, and that these will need to be over the same time frame.**

### **Requirement re net borrowing**

**A.92 It may be queried why the requirement in paragraph 33 of the draft Code with respect to net borrowing is needed over and above the current balanced budget requirement. Certainly the balanced budget requirement is a very important control mechanism. However, it cannot guarantee that, over the medium term, borrowing is only undertaken for a capital purpose for a number of reasons, including:**

- local authorities may borrow for temporary revenue purpose including, for example, where revenue monies are owed to them. The balanced budget requirement and proper practice means that any bad debts are written off to revenue. However, this does not preclude the situation where the revenue monies owed to a local authority are, over a long period, always greater than the revenue monies that the authority owes to others. This would, unless other cashflow is available, put the authority into the position of borrowing on a long term basis for a temporary revenue purpose, in which case long term borrowing may well occur
- local authorities can make ‘below the line’ adjustments which are in accordance with statute but which mean that the balanced budget requirement cannot guarantee that long term borrowing is only undertaken for a capital purpose. For example, under the 1989 Act that applies in England and Wales, the DTLR has indicated that the provision for credit liabilities may be used to meet premiums on the early repayment of PWLB debt and the credit ceiling increased by the equivalent amount.

- A.93 It is considered that the requirement proposed in paragraph 33 of the draft Code is flexible enough to enable the local authority to sensibly manage its treasury management activities, including borrowing in advance of need if appropriate.**
- A.94 It is also considered that it will not require any additional allowance specifically for borrowing for a temporary purpose, as it will be flexible enough to accommodate it.**
- A.95 There is no need for a separate reference in respect of other long term liabilities, since by definition other long term liabilities are for a capital purpose.**

## **APPENDIX B — LOCAL AUTHORITY DATA**

- B.1** As background information to the preparation of the Code, the DTLR has provided an analysis for all local authorities in England of total debt, investments, net debt, fixed assets and credit ceilings, all as at 31/3/00, plus capital expenditure for 1999/2000 and the budgeted revenue expenditure for 2000/2001. This is in tabular form. In addition, there is a graph showing gross debt plotted up against investment and net debt plotted against credit ceiling. The National Assembly for Wales has provided similar figures for Wales and the Scottish Executive has provided the equivalent figures for Scotland. These are all reproduced in this Appendix. Individual local authorities are not identified.
- B.2** It is important to stress that local authorities will be entering the new system with different starting positions with respect to external debt and capital expenditure unfinanced.

## APPENDIX B

### LOCAL AUTHORITY OUTSTANDING DEBT AND FIXED ASSET IN ENGLAND AT 31 MARCH 2000

Local Authority	Total Debt at 31.3.00 (£ million)	Investments at 31.3.00 (£ million)	Net Debt at 31.3.00 (£ million)	Fixed Assets at 31.3.00 (£ million)	Adjusted Credit Ceiling at 31.03.00 (£ million)	Capital Expenditure 1999/00 (£ million)	Budgeted Revenue Expenditure 2000/01 (£ million)
1	1287.2	223.9	1063.3	1791.0	1,128.8	182.3	539.2
2	1194.4	22.3	1172.1	2782.6	1,336.2	110.3	1212.0
3	900.3	99.9	800.4	1364.9	735.3	64.0	334.8
4	800.8	116.8	684.1	1670.6	812.4	90.9	347.1
5	792.2	65.1	727.1	1030.9	761.7	71.8	303.3
6	784.5	25.6	758.9	1723.4	798.1	49.5	271.0
7	776.1	22.7	753.4	1687.6	755.0	84.0	534.4
8	766.1	77.4	688.7	1210.2	771.1	75.6	584.1
9	724.6	5.1	719.5	2103.9	774.8	88.8	691.1
10	644.7	91.3	553.4	794.0	643.6	68.4	337.5
11	623.6	97.7	525.9	1683.3	618.7	77.1	381.8
12	616.6	39.2	577.4	1957.3	597.9	105.6	1144.0
13	604.2	15.0	589.2	1144.5	557.6	50.2	306.1
14	505.1	65.6	439.5	1265.5	498.4	53.1	322.0
15	473.4	88.1	385.4	1025.5	476.1	51.3	299.3
16	462.7	53.3	409.4	730.7	446.6	31.2	298.7
17	456.0	76.5	379.5	1707.2	589.1	56.4	282.0
18	446.8	65.9	380.9	955.0	429.8	65.5	296.7
19	440.4	95.6	344.8	1026.3	339.9	48.9	961.9
20	435.0	87.9	347.1	1376.0	313.6	62.9	370.1
21	431.4	57.7	373.7	910.8	434.9	43.7	504.0
22	428.9	21.3	407.5	875.9	408.0	40.5	246.1
23	382.6	90.3	292.3	1126.3	303.4	35.4	288.1
24	371.9	160.9	210.9	939.8	270.0	38.2	316.7
25	344.7	90.0	254.7	1148.1	311.6	35.6	318.9
26	336.1	174.1	162.0	652.5	255.6	52.8	218.4
27	334.6	69.0	265.6	1193.7	331.9	39.5	290.3
28	334.0	38.3	295.7	605.1	148.3	16.5	162.8
29	320.3	0.0	320.3	534.3	300.1	36.1	216.0
30	308.7	31.3	277.4	778.4	301.8	32.8	530.0
31	299.7	47.9	251.8	846.4	239.5	51.9	279.0
32	297.5	16.0	281.5	773.0	287.4	41.6	271.5
33	276.4	102.6	173.8	987.7	282.0	56.3	608.7
34	268.9	298.1	-29.2	1033.5	274.6	38.8	285.3
35	266.7	5.0	261.7	799.7	277.9	38.3	262.9
36	266.5	65.9	200.6	569.7	249.6	27.5	569.3
37	262.0	5.9	256.1	971.9	305.7	57.5	294.4
38	261.1	29.9	231.2	730.2	266.8	43.8	246.8
39	257.7	0.1	257.6	906.8	267.8	44.4	374.9
40	257.7	17.2	240.5	1178.9	266.8	39.4	242.5
41	257.2	40.1	217.1	817.6	242.4	33.5	210.0
42	240.8	35.2	205.6	1004.4	297.3	38.9	316.2
43	240.6	89.2	151.4	729.8	199.4	47.1	605.9
44	240.5	48.3	192.2	472.5	241.6	22.9	443.2
45	238.7	40.1	198.6	1265.0	301.9	52.3	1018.6
46	236.6	69.8	166.8	878.8	224.6	25.3	290.1
47	230.4	125.7	104.7	461.7	135.1	17.0	170.3
48	221.3	34.1	187.2	883.8	233.2	34.5	314.3
49	219.8	24.6	195.3	1154.3	244.3	54.1	299.4
50	215.1	7.7	207.5	657.5	249.0	33.8	292.9

51	215.1	58.4	156.7	786.7	242.0	27.0	283.8
52	212.6	8.7	204.0	559.9	219.3	21.8	218.2
53	205.4	268.1	-62.7	1390.8	144.6	73.6	247.8
54	204.7	16.9	187.8	497.5	204.0	39.1	190.7
55	203.8	118.8	85.0	771.0	181.1	22.5	181.4
56	203.7	65.9	137.8	528.9	203.5	23.9	364.7
57	202.8	38.4	164.4	527.0	186.4	26.4	171.2
58	202.7	11.5	191.1	1979.0	324.8	50.2	868.6
59	200.4	56.2	144.2	592.5	212.6	33.1	193.6
60	197.4	28.0	169.4	757.3	187.3	27.9	258.0
61	195.4	7.2	188.3	636.2	222.7	18.5	391.1
62	191.8	48.1	143.7	539.6	191.1	23.7	185.6
63	191.6	50.0	141.6	772.8	179.4	28.9	496.7
64	185.9	133.4	52.4	323.2	93.2	28.1	224.0
65	184.3	27.3	157.1	600.2	193.0	42.9	276.3
66	178.9	40.2	138.7	1125.9	231.2	41.1	736.1
67	172.8	57.1	115.7	382.8	165.4	35.3	421.5
68	172.6	89.2	83.4	638.9	116.0	14.6	195.4
69	169.9	66.2	103.7	658.4	168.3	41.8	395.4
70	167.4	50.6	116.8	459.0	165.1	22.8	406.0
71	167.0	101.5	65.5	543.4	123.0	25.6	366.5
72	166.7	28.7	138.0	556.1	222.9	38.6	341.4
73	162.9	164.3	-1.4	611.1	135.0	45.5	534.9
74	160.9	38.9	121.9	765.7	138.3	41.0	183.8
75	158.6	88.6	70.0	801.2	133.6	35.8	597.4
76	158.1	55.5	102.5	645.1	165.3	22.1	432.4
77	156.9	45.1	111.8	594.4	148.8	29.5	291.1
78	152.7	43.9	108.8	699.0	123.7	44.6	248.3
79	152.7	35.7	117.0	659.0	142.6	49.8	228.6
80	151.0	36.7	114.3	527.7	152.2	23.0	224.5
81	147.0	101.3	45.7	1642.5	177.9	47.3	832.5
82	141.1	28.8	112.3	308.5	136.5	20.6	209.3
83	140.8	12.0	128.8	660.3	153.2	25.8	255.7
84	140.3	0.0	140.3	794.1	188.9	26.0	383.2
85	138.2	5.0	133.2	1018.9	202.7	32.2	296.8
86	137.1	12.2	124.9	386.4	147.4	9.7	22.6
87	135.5	81.9	53.7	728.1	128.7	25.6	321.0
88	132.1	51.1	81.0	610.5	119.5	21.5	377.0
89	131.3	14.9	116.4	764.5	137.4	23.8	193.3
90	129.4	28.3	101.1	481.1	145.2	15.2	312.8
91	126.8	0.0	126.8	692.6	194.6	28.3	494.7
92	126.5	38.4	88.2	980.8	157.9	35.6	435.1
93	125.8	1.6	124.2	496.5	148.6	20.2	191.6
94	124.1	15.9	108.2	976.2	118.2	33.4	245.8
95	123.4	26.9	96.5	284.6	126.4	16.3	157.1
96	118.6	21.1	97.4	468.6	118.9	25.7	152.6
97	117.9	54.9	63.0	420.1	87.3	20.5	128.1
98	115.7	114.2	1.4	541.6	87.2	31.8	218.6
99	115.0	36.9	78.1	414.8	99.6	18.9	20.7
100	110.6	38.7	71.9	457.3	111.5	20.4	186.7
101	102.2	90.4	11.8	307.2	25.5	6.5	24.6
102	98.2	22.8	75.4	742.6	128.7	36.3	241.4
103	89.4	13.8	75.6	385.7	104.9	28.1	148.3
104	88.6	59.1	29.5	586.9	116.3	32.3	416.6
105	88.2	0.0	88.1	735.2	131.8	37.0	215.8
106	84.6	23.1	61.5	170.2	89.7	16.0	128.9
107	83.2	67.2	16.0	561.5	82.4	19.9	311.5
108	80.7	9.7	71.0	250.8	79.6	15.3	160.8
109	78.6	7.9	70.7	198.5	77.5	9.9	15.8
110	78.4	13.6	64.7	390.7	101.7	21.7	255.5
111	77.0	78.1	-1.0	424.6	39.2	13.2	128.9
112	73.6	126.2	-52.5	171.2	3.0	16.8	145.1
113	72.6	17.4	55.1	1233.2	167.0	36.8	259.0
114	72.2	33.2	39.0	623.4	103.0	25.7	177.9
115	71.7	20.7	51.0	328.0	78.2	13.4	104.6

116	68.8	92.9	-24.1	326.0	25.7	23.7	211.9
117	68.4	25.7	42.7	194.7	63.8	9.0	21.0
118	68.3	33.1	35.2	431.8	67.5	19.4	193.8
119	67.9	1.3	66.6	415.7	90.3	13.5	164.1
120	67.1	86.1	-19.1	448.6	59.4	28.1	232.7
121	66.8	25.3	41.4	292.3	77.0	15.6	265.7
122	66.7	13.4	53.4	416.7	89.8	17.1	156.3
123	63.2	4.4	58.8	240.7	83.9	12.4	311.0
124	62.2	25.6	36.7	157.5	38.5	4.8	11.8
125	61.9	20.3	41.6	457.5	60.7	17.9	207.4
126	60.9	17.8	43.1	452.5	68.4	12.6	161.3
127	57.6	9.9	47.8	507.1	70.6	14.9	152.4
128	57.2	8.5	48.7	429.2	80.8	24.7	169.2
129	55.6	23.2	32.4	394.0	36.1	19.9	136.2
130	53.9	85.2	-31.2	485.2	80.7	29.7	151.3
131	51.7	8.9	42.8	160.0	51.0	7.6	12.0
132	51.4	44.4	7.0	385.1	51.0	14.7	169.2
133	51.1	39.0	12.1	201.7	27.0	11.1	18.5
134	50.5	6.4	44.1	197.1	39.1	9.3	17.0
135	50.5	3.5	47.0	220.8	61.2	9.4	11.5
136	50.1	57.0	-6.9	568.7	52.9	33.0	203.4
137	50.0	123.5	-73.5	570.4	-1.3	11.1	14.2
138	48.7	32.6	16.1	133.8	32.1	5.7	14.6
139	47.3	13.9	33.3	191.5	46.5	11.4	90.5
140	46.9	68.7	-21.8	478.6	64.5	28.1	476.5
141	46.4	11.7	34.7	335.4	53.6	19.2	140.7
142	45.9	45.8	0.1	304.8	42.7	10.2	157.5
143	44.4	29.4	15.0	262.1	39.8	7.2	10.8
144	43.7	30.7	13.1	234.4	33.3	7.6	17.5
145	43.3	12.8	30.5	78.0	37.6	3.9	9.6
146	42.8	16.9	25.9	295.3	54.4	11.1	17.6
147	41.6	17.4	24.2	160.2	37.6	7.2	11.4
148	41.3	71.9	-30.6	536.2	-13.5	16.4	135.6
149	40.5	12.6	27.9	117.6	41.9	4.2	10.0
150	39.5	11.0	28.5	172.6	40.9	4.4	13.4
151	39.1	5.4	33.7	168.6	38.6	6.1	13.7
152	38.4	6.2	32.2	80.7	38.5	3.8	10.8
153	37.8	16.0	21.8	46.2	8.0	2.7	7.5
154	37.7	24.3	13.5	380.5	44.7	14.5	148.8
155	37.6	13.7	23.9	169.4	37.3	4.7	11.6
156	37.0	57.3	-20.3	306.5	-7.8	7.3	14.3
157	36.9	7.0	29.9	164.7	34.3	9.8	10.1
158	36.2	31.1	5.2	495.4	134.0	19.4	385.4
159	35.0	28.5	6.5	108.5	15.4	3.7	10.5
160	34.5	12.1	22.3	237.3	34.7	8.9	14.0
161	34.0	20.0	14.0	186.0	22.8	4.6	12.4
162	33.3	30.3	3.0	262.3	16.5	8.0	15.1
163	33.1	10.6	22.5	136.6	25.9	3.3	12.9
164	31.2	11.7	19.6	131.1	34.0	5.3	11.5
165	31.0	62.5	-31.5	183.2	-14.6	9.3	12.3
166	31.0	55.3	-24.3	309.6	3.3	11.0	8.7
167	30.4	15.5	14.9	165.0	30.8	8.6	15.3
168	30.3	11.7	18.6	130.1	30.5	5.6	13.3
169	29.6	26.1	3.5	241.5	32.2	14.9	152.1
170	28.7	0.0	28.7	81.3	31.6	4.4	7.9
171	27.5	19.2	8.3	110.9	30.5	5.5	14.3
172	27.5	37.1	-9.6	44.2	-0.7	4.5	11.6
173	26.5	11.1	15.4	109.5	18.6	2.6	10.6
174	26.4	18.0	8.4	322.6	32.5	19.0	144.4
175	26.2	77.5	-51.3	394.8	-11.3	10.7	29.4
176	26.0	29.8	-3.8	189.6	7.4	3.6	13.9
177	25.5	0.3	25.2	193.4	37.7	5.3	11.3
178	25.1	16.5	8.6	149.4	24.5	4.6	16.3
179	25.0	28.7	-3.6	199.1	18.7	7.7	17.6
180	24.7	24.6	0.2	280.2	40.6	16.2	125.6

181	24.7	13.0	11.7	124.1	26.2	5.1	12.9
182	24.6	27.4	-2.8	266.0	22.5	14.2	17.6
183	24.3	6.2	18.2	181.7	31.3	5.7	10.8
184	24.1	22.3	1.8	316.7	8.5	6.6	15.7
185	23.9	0.1	23.7	134.0	28.5	4.5	11.8
186	23.8	2.1	21.8	110.2	23.2	2.6	6.2
187	23.6	13.9	9.7	119.7	29.6	9.1	18.5
188	23.6	0.7	22.9	70.8	25.7	5.8	9.5
189	23.5	13.2	10.4	180.0	14.3	4.5	10.0
190	23.1	10.4	12.7	112.8	22.4	11.7	19.0
191	22.7	29.1	-6.4	225.5	4.6	6.1	12.9
192	22.6	4.3	18.3	115.1	24.9	4.8	9.4
193	22.5	69.9	-47.3	22.2	-23.8	4.6	18.7
194	22.4	2.2	20.2	137.2	26.8	3.8	8.2
195	22.2	35.1	-12.8	396.4	13.2	8.1	14.6
196	22.2	14.2	8.0	169.0	21.4	3.6	9.1
197	22.2	9.3	12.9	235.4	23.1	6.7	13.9
198	22.1	1.7	20.4	61.2	20.0	1.7	5.6
199	21.9	21.6	0.2	64.1	20.7	4.3	10.4
200	21.5	4.6	16.9	73.6	20.4	5.5	12.0
201	21.2	6.7	14.6	158.5	20.1	4.5	12.1
202	20.9	16.8	4.2	89.0	4.7	3.0	9.6
203	20.8	6.5	14.3	106.5	21.0	7.3	9.1
204	20.7	0.1	20.6	160.0	27.1	10.4	12.6
205	20.5	8.6	11.8	138.0	19.2	4.9	12.4
206	20.2	6.2	14.0	53.9	20.5	3.9	9.4
207	19.9	25.4	-5.5	126.6	10.9	6.4	20.1
208	19.6	22.7	-3.1	185.1	11.2	10.4	15.6
209	18.7	48.7	-30.0	394.1	-12.1	8.0	9.2
210	18.4	12.3	6.1	63.0	22.7	1.9	8.0
211	18.3	43.9	-25.6	21.7	-21.5	4.4	12.1
212	18.1	29.0	-10.9	458.2	15.9	8.6	22.2
213	18.1	7.5	10.6	110.2	20.3	4.6	9.0
214	18.1	17.5	0.6	189.8	17.5	6.8	16.4
215	17.9	34.7	-16.8	156.4	13.9	6.7	17.1
216	17.6	86.3	-68.7	88.8	-22.7	6.0	9.5
217	17.4	1.5	15.9	95.1	25.8	3.1	15.3
218	17.4	39.1	-21.7	177.6	-3.1	4.0	12.5
219	17.3	43.8	-26.5	37.4	-5.6	2.2	11.0
220	17.3	25.1	-7.8	76.4	5.8	2.9	9.3
221	17.1	15.7	1.5	126.3	10.9	1.3	10.2
222	17.1	8.8	8.3	103.3	17.2	4.0	16.6
223	17.0	17.5	-0.5	144.4	15.7	4.0	9.2
224	16.7	2.5	14.2	141.2	19.8	5.2	12.3
225	16.5	7.6	8.9	255.2	31.1	13.5	121.6
226	16.5	20.3	-3.8	98.0	16.4	4.5	10.8
227	16.4	49.1	-32.7	11.6	-22.0	3.3	8.7
228	16.4	18.0	-1.6	174.2	-3.5	8.2	10.6
229	15.8	0.0	15.8	84.4	19.5	2.2	8.0
230	15.8	3.1	12.7	111.3	23.1	3.1	8.8
231	15.7	30.7	-15.0	51.9	3.2	3.2	11.7
232	15.5	22.1	-6.6	269.0	5.2	4.1	15.6
233	15.4	9.1	6.3	63.9	14.7	1.7	7.8
234	15.4	0.3	15.2	76.4	18.3	4.7	23.2
235	15.2	13.6	1.6	92.5	8.8	4.9	11.1
236	15.1	16.5	-1.4	155.1	8.1	4.7	12.2
237	14.7	8.4	6.3	151.3	14.5	4.0	11.0
238	14.5	26.5	-12.0	205.7	13.9	7.2	10.6
239	14.3	22.3	-7.9	76.4	11.2	3.7	8.2
240	14.3	27.5	-13.3	188.7	10.8	5.2	11.1
241	14.1	9.3	4.7	82.5	14.3	6.2	10.9
242	14.0	15.3	-1.3	102.7	12.3	2.7	7.5
243	13.8	9.4	4.4	62.5	7.2	1.0	4.9
244	13.8	15.7	-1.9	118.5	12.0	5.8	9.3
245	13.7	9.6	4.1	70.1	14.1	3.7	9.9

246	13.3	23.1	-9.8	136.5	7.3	6.7	12.8
247	13.1	38.6	-25.5	24.0	-8.3	3.8	9.6
248	12.8	25.4	-12.5	17.3	-1.1	3.5	11.1
249	12.5	41.9	-29.4	308.3	4.4	12.1	19.0
250	12.5	32.5	-20.0	53.0	2.7	6.8	13.5
251	12.4	35.8	-23.4	360.9	11.8	12.9	123.7
252	12.3	9.2	3.1	93.7	3.8	3.5	11.3
253	11.7	10.0	1.7	28.2	-4.8	4.6	11.4
254	11.6	42.3	-30.8	30.1	-4.3	4.8	13.6
255	11.3	0.7	10.6	151.2	10.2	5.4	12.9
256	11.0	31.4	-20.5	69.7	-3.9	3.7	11.8
257	10.9	19.6	-8.7	146.9	4.9	8.1	17.1
258	10.8	8.2	2.6	48.6	11.9	2.0	3.8
259	10.5	27.4	-16.9	163.4	4.0	6.5	18.3
260	10.4	2.2	8.3	50.8	13.8	10.7	14.2
261	9.9	1.0	8.9	113.1	13.3	9.2	9.3
262	9.8	9.2	0.5	35.0	7.0	1.5	7.2
263	9.6	76.6	-67.0	1426.9	0.0	32.2	537.0
264	9.5	67.2	-57.6	165.5	-25.4	7.1	13.0
265	9.4	43.4	-34.1	14.8	-15.5	10.7	6.7
266	9.2	51.9	-42.7	33.4	-17.9	2.7	9.0
267	9.1	48.3	-39.2	43.2	19.6	11.9	15.9
268	9.1	1.1	7.9	147.8	12.1	3.9	10.5
269	9.0	26.4	-17.4	13.1	1.8	4.7	9.0
270	8.9	7.7	1.3	62.9	6.6	2.1	6.7
271	8.7	13.3	-4.7	94.8	4.9	4.2	8.5
272	8.4	6.5	1.9	73.4	6.5	1.2	9.4
273	7.6	3.4	4.3	37.3	8.0	2.3	6.2
274	7.6	7.9	-0.3	87.2	7.0	4.9	8.5
275	7.5	4.4	3.2	98.8	9.6	3.2	8.2
276	7.5	8.6	-1.1	13.6	8.2	5.4	8.0
277	7.4	13.4	-6.0	185.4	6.1	4.7	15.1
278	7.1	20.1	-12.9	87.8	0.0	3.1	10.2
279	7.0	0.0	7.0	113.7	9.4	2.9	10.2
280	6.9	19.9	-12.9	160.6	3.1	4.5	7.5
281	6.9	1.0	5.9	144.8	46.0	4.9	10.1
282	6.9	4.4	2.5	101.7	7.0	3.6	9.9
283	6.7	4.4	2.3	43.8	7.4	1.4	4.8
284	6.7	25.3	-18.6	111.7	6.2	6.2	9.6
285	6.7	15.9	-9.2	143.0	5.6	7.2	12.2
286	6.5	45.3	-38.8	33.5	-18.1	10.1	10.2
287	6.4	4.4	2.0	33.9	7.8	1.6	5.0
288	6.3	0.0	6.3	19.9	6.1	0.6	3.1
289	6.2	2.7	3.5	52.1	5.6	4.3	28.8
290	6.1	23.7	-17.6	9.6	-6.3	1.8	4.9
291	6.1	20.0	-13.9	245.6	0.0	8.9	12.8
292	6.1	25.9	-19.8	19.8	-3.6	2.2	11.6
293	5.6	14.0	-8.4	25.6	-0.9	2.8	9.9
294	5.6	60.8	-55.3	35.4	-26.6	8.1	11.6
295	5.4	0.4	5.0	40.2	11.4	2.9	5.4
296	4.7	12.2	-7.5	158.6	5.0	4.1	11.5
297	4.4	5.2	-0.8	88.4	10.8	5.9	11.1
298	4.3	4.6	-0.3	53.2	11.0	2.1	7.3
299	4.3	12.2	-7.9	152.0	10.2	4.5	11.7
300	4.0	3.1	1.0	31.2	7.5	2.9	5.9
301	3.9	8.3	-4.4	44.9	4.9	3.3	7.7
302	3.8	10.5	-6.7	63.1	0.8	1.4	5.4
303	3.5	13.7	-10.2	95.4	-1.1	5.1	11.9
304	3.5	34.7	-31.2	332.8	-47.3	26.5	133.9
305	3.3	3.5	-0.3	55.8	2.3	1.3	3.5
306	3.2	17.3	-14.1	8.8	-3.4	0.8	6.2
307	3.0	6.4	-3.3	231.1	2.9	3.7	14.6
308	3.0	17.7	-14.7	153.4	-7.1	5.0	9.2
309	2.8	120.0	-117.2	516.2	-38.8	25.2	260.1
310	2.5	38.7	-36.2	31.1	-21.4	3.7	11.2

311	2.4	5.3	-2.8	80.3	4.0	3.1	7.6
312	2.4	38.9	-36.5	316.5	-9.0	4.4	11.9
313	2.3	2.8	-0.5	48.7	5.6	1.2	7.7
314	2.2	5.9	-3.7	75.0	7.2	3.0	13.3
315	2.0	0.0	2.0	27.9	6.2	1.6	5.0
316	1.9	22.5	-20.6	13.6	13.6	1.0	6.7
317	1.7	8.2	-6.5	226.3	8.7	3.9	13.8
318	1.7	20.3	-18.7	299.6	1.4	4.1	13.1
319	1.5	8.6	-7.1	59.1	6.4	3.2	8.5
320	1.3	7.1	-5.8	121.3	5.5	4.4	11.9
321	1.1	29.5	-28.5	90.7	-5.1	13.1	11.4
322	1.0	82.3	-81.3	334.9	-3.1	20.6	290.3
323	0.9	13.0	-12.1	8.2	-6.8	3.1	10.1
324	0.8	8.6	-7.8	13.3	-0.2	1.5	6.8
325	0.7	22.5	-21.7	19.3	-14.2	4.0	7.4
326	0.5	33.4	-32.9	105.0	-2.5	3.3	6.7
327	0.5	27.7	-27.2	169.6	0.9	6.3	12.9
328	0.3	100.3	-100.0	196.2	-25.4	18.6	17.6
329	0.3	15.0	-14.7	21.1	-5.8	2.3	8.2
330	0.3	10.9	-10.6	89.5	-1.0	5.1	7.3
331	0.2	18.9	-18.7	137.6	3.6	7.6	7.2
332	0.2	49.3	-49.2	341.5	-5.7	14.2	143.4
333	0.1	86.3	-86.2	23.6	-55.5	9.5	11.0
334	0.1	47.8	-47.7	42.4	-7.0	16.7	12.6
335	0.1	41.1	-41.0	30.5	-5.3	9.1	14.1
336	0.1	16.9	-16.8	29.2	-7.2	5.7	17.0
337	0.1	27.3	-27.2	160.6	-8.6	13.7	12.1
338	0.0	32.4	-32.3	7.6	-19.0	2.1	6.9
339	0.0	45.3	-45.2	359.5	-18.3	20.8	16.1
340	0.0	45.0	-45.0	41.5	0.0	4.3	13.1
341	0.0	13.8	-13.8	112.1	-6.8	16.3	6.4
342	0.0	46.0	-46.0	33.0	-34.7	3.8	10.9
343	0.0	40.3	-40.3	8.1	-17.5	1.9	8.0
344	0.0	109.5	-109.5	752.4	-13.8	37.3	198.0
345	0.0	45.0	-45.0	84.9	-13.2	10.5	23.0
346	0.0	89.0	-89.0	588.2	-28.6	16.1	91.5
347	0.0	17.0	-17.0	20.5	-2.4	5.2	9.1
348	0.0	11.9	-11.9	31.1	-6.8	3.6	4.4
349	0.0	896.7	-896.7	779.4	-9.4	132.7	105.0
350	0.0	11.9	-11.9	138.2	-0.2	6.3	6.8
351	0.0	48.1	-48.1	18.0	-32.3	9.7	9.1
352	0.0	41.8	-41.8	171.5	-3.6	2.7	9.1
353	0.0	14.6	-14.6	12.7	-4.7	5.5	7.4
354	0.0	11.4	-11.4	18.0	-2.3	2.9	7.7
355	0.0	20.1	-20.1	8.7	-13.7	3.9	5.8
356	0.0	27.9	-27.9	44.6	-9.2	6.2	7.3
357	0.0	36.9	-36.9	27.3	-9.0	3.3	6.6
358	0.0	13.0	-13.0	21.9	-10.3	4.0	8.1
359	0.0	10.1	-10.1	34.7	-4.5	6.0	14.8
360	0.0	41.5	-41.5	16.2	-41.1	5.2	8.8
361	0.0	26.8	-26.8	17.3	-13.2	2.8	9.0
362	0.0	13.5	-13.5	13.9	-8.2	na	na
363	0.0	28.7	-28.7	166.7	-33.8	5.8	12.0
364	0.0	16.5	-16.5	54.0	-2.4	4.6	12.6
365	0.0	23.2	-23.2	126.7	-2.0	3.4	9.3
366	0.0	17.8	-17.8	12.2	-17.8	3.3	6.2
367	0.0	22.4	-22.4	39.9	-10.1	13.0	14.3
368	0.0	12.1	-12.1	302.4	15.5	12.3	114.5
369	0.0	31.1	-31.1	140.3	-3.5	9.1	6.8
370	0.0	33.2	-33.2	59.3	-14.1	4.9	9.9
371	0.0	28.9	-28.9	14.8	-15.8	6.0	6.0
372	0.0	41.3	-41.3	151.5	-4.8	8.8	11.6
373	0.0	24.7	-24.7	110.0	-5.2	6.3	6.5
374	0.0	98.2	-98.2	23.6	-60.5	10.1	11.4
375	0.0	4.8	-4.8	13.4	-0.4	2.2	5.0

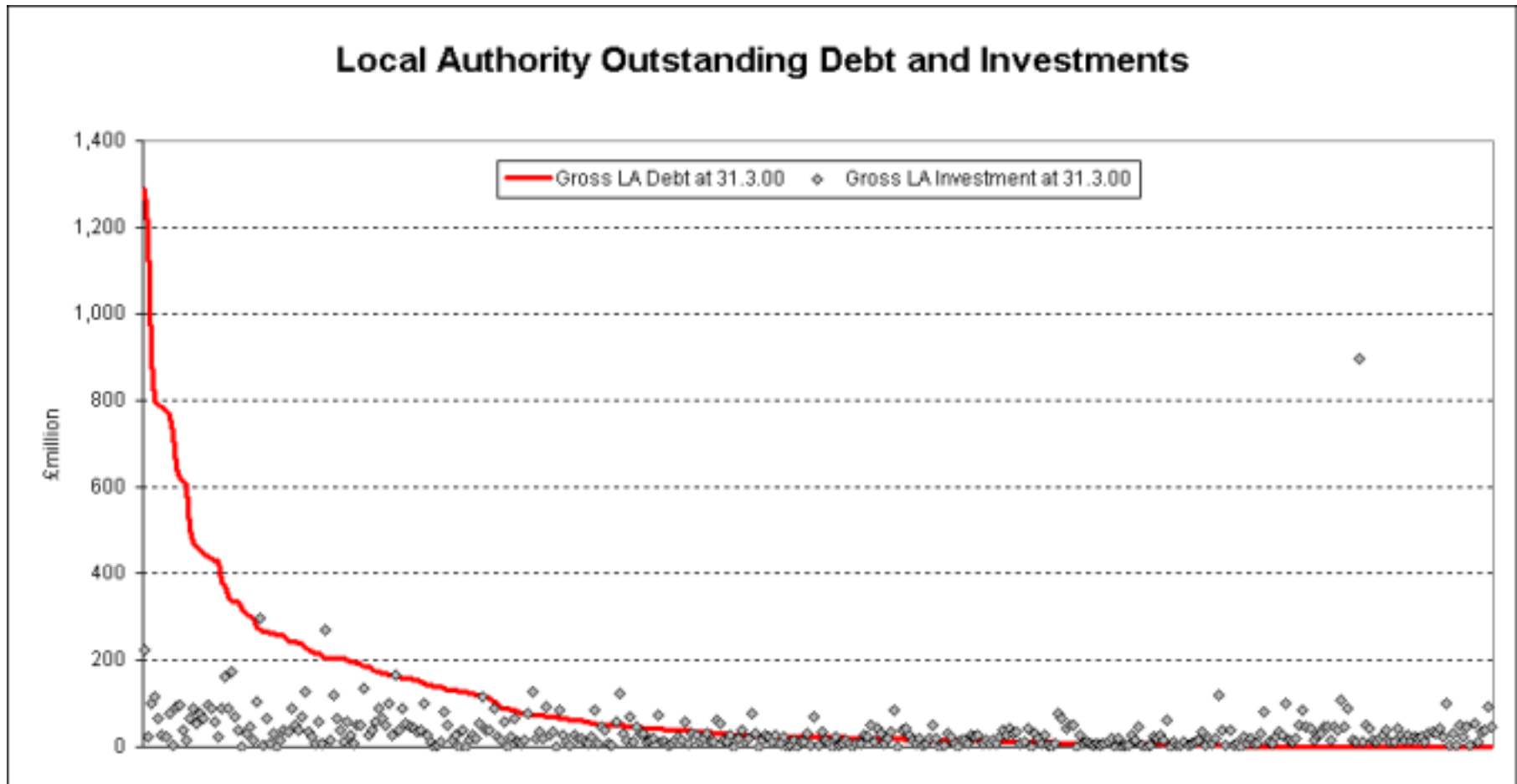
376	0.0	30.8	-30.8	184.9	-1.3	7.5	10.4
377	0.0	5.6	-5.6	73.8	1.6	2.5	9.6
378	0.0	50.0	-50.0	29.4	-19.7	5.1	10.3
379	0.0	21.4	-21.4	38.9	-3.8	6.3	13.0
380	0.0	44.5	-44.5	34.3	-14.6	4.6	8.2
381	0.0	4.0	-4.0	88.7	-2.1	3.9	7.4
382	0.0	52.6	-52.6	63.1	-18.0	8.0	9.6
383	0.0	13.1	-13.1	121.1	-1.2	2.9	7.0
384	0.0	33.9	-33.9	37.9	3.8	9.6	10.8
385	0.0	38.0	-38.0	181.6	-2.4	6.3	8.7
386	0.0	93.3	-93.3	367.2	-7.4	28.3	114.3
387	0.0	45.8	-45.8	17.9	-23.1	7.4	10.9

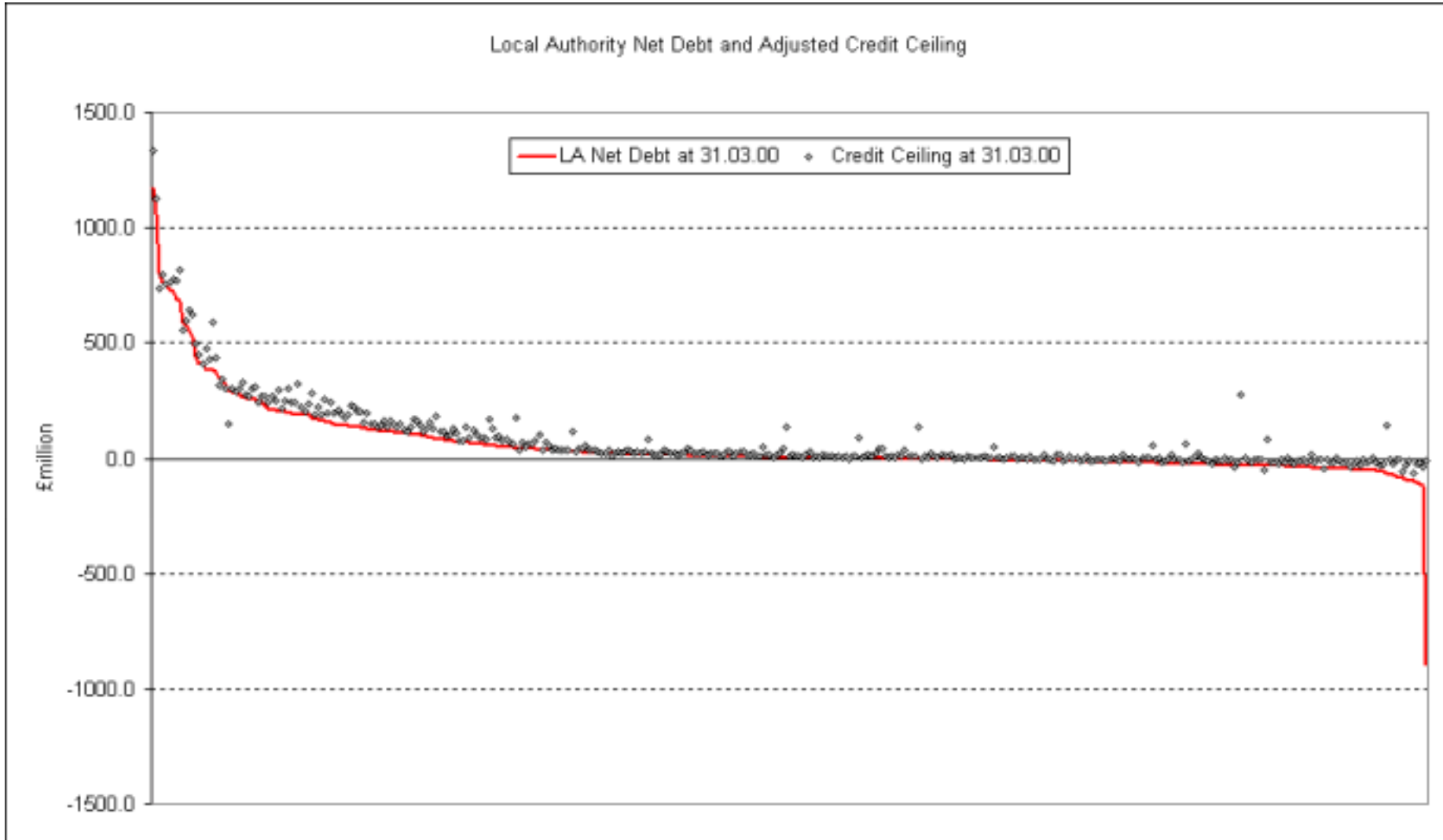
Notes: na = not available

This table does not include single service authorities (such as fire, police etc)

Nor does it include Isles of Scilly or the GLA.

In a few cases fixed asset and credit ceiling data for 31.3.99 has been included in the absence of later figures





**Local Authority Outstanding Debt and Fixed Assets in Wales as at 31 March 2000**

All figures  
£m

Authority	(a)	(b)		(b)	(b)					(b)	(a)	(a)	(a)	(a)
	Total Debt (Long term)	Investments (Long term)	Net debt (Long term)	Total Debt (Short term)	Investments (Short term)	Net debt (Short term)	Total Debt	Total Investments	Net Debt	Fixed Assets (Operational)	Total Credit Ceiling	Adjusted Credit Ceiling	Capital Expenditure (Accruals) 1999/2000	Gross Revenue Exp. 2000/01
	as at 31.3.00	as at 31.3.00	as at 31.3.00	as at 31.3.00	as at 31.3.00	as at 31.3.00	as at 31.3.00	as at 31.3.00	as at 31.3.00	as at 31.3.00	as at 31.3.00	as at 31.3.00	as at 31.3.00	as at 31.3.00
1	91,209	51	91,158	0	12,000	-12,000	91,209	12,051	79,158	147,429	90,147	64,692	11,427	85,498
2	129,284	893	128,391	2,731	26,550	-23,819	132,015	27,443	104,572	260,249	136,635	101,662	24,760	150,635
3	116,668	79	116,589	2,323	18,335	-16,012	118,991	18,414	100,577	162,914	107,257	82,655	13,349	131,176
4	108,862	27	108,835	17,469	7,725	9,744	126,331	7,752	118,579	209,378	100,982	83,187	15,199	116,156
5	173,351	?		?	?					?	163,498	114,119	17,861	163,612
6	140,789	13	140,776	1,973	7,500	-5,527	142,762	7,513	135,249	524,674	146,851	91,321	21,519	138,212
7	132,896	134	132,762	14,000	14,580	-580	146,896	14,714	132,182	389,958	151,875	121,272	24,733	159,066
8	73,442	0	73,442	9,254	7,269	1,985	82,696	7,269	75,427	154,843	77,558	60,955	18,528	88,981
9	131,307	78	131,229	0	38,689	-38,689	131,307	38,767	92,540	289,332	128,921	102,351	23,390	141,118
10	203,148	1,452	201,696	14,612	33,900	-19,288	217,760	35,352	182,408	437,661	202,734	137,133	38,295	213,481
11	298,473	31,584	266,889	15,282	11,351	3,931	313,755	42,935	270,820	621,436	315,374	207,062	28,492	277,633
12	150,479	?		?	?					?	176,390	115,796	26,279	177,994
13	115,138	20	115,118	18,819	500	18,319	133,957	520	133,437	380,999	142,643	101,519	17,200	153,761
14	68,591	35	68,556	0	17,350	-17,350	68,591	17,385	51,206	325,249	101,793	84,469	14,505	138,016
15	308,208	?		?	?					?	331,622	186,613	40,489	305,273
16	91,687	606	91,081	432	250	182	92,119	856	91,263	194,738	91,493	50,124	14,876	78,904
17	186,001	16,304	169,697	23,594	23,170	424	209,595	39,474	170,121	584,024	198,606	111,225	29,858	205,361
18	103,972	250	103,722	14,974	14	14,960	118,946	264	118,682	263,075	128,853	63,259	18,379	94,193
19	103,130	17	103,113	0	63,680	-63,680	103,130	63,697	39,433	311,428	116,252	82,845	13,385	108,811
20	65,013	62	64,951	500	13,382	-12,882	65,513	13,444	52,069	247,357	66,587	50,862	11,559	89,880
21	154,798	301	154,497	93	41,865	-41,772	154,891	42,166	112,725	479,189	184,468	115,315	25,378	172,191
22	339,505	56,563	282,942	25,288	18,001	7,287	364,793	74,564	290,229	908,288	353,739	246,314	59,534	376,635

Source (a) NAW Statistical Returns

## Borrowing and investments by Local Authority in Scotland

£ thousands

(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(b)	(c)
Local Authority	External borrowing as at 31.03.00	Internal Borrowing as at 31.03.00	Total Borrowing as at 31.03.00	Total Approved Investments (externally and internally managed) 99/00	Total capital income from fixed assets 1999-00 (accruals basis)	Total capital expenditure on fixed assets 1999-00	CLF Advances	Non-Housing Revenue Expenditure 1999-00	Housing Revenue Expenditure 1999-00
1	359,576	14,970	374,546	1,300	18,213	30,063	10,806	260,255	61,395
2	326,866	0	326,866	800	8,903	22,083	15,435	280,053	37,625
3	108,568	26,007	134,575	13,163	1,380	12,782	9,507	138,965	17,619
4	215,554	8,077	223,631	100	2,954	12,235	11,509	143,380	17,564
5	75,610	74,682	150,292	713	823	6,981	4,691	61,996	14,305
6	260,187	0	260,187	3,743	6,257	17,895	8,233	202,277	33,908
7	265,315	21,879	287,194	0	5,637	25,034	15,070	225,984	44,416
8	202,661	0	202,661	0	7,635	11,681	9,779	158,016	29,948
9	125,938	0	125,938	3,550	5,557	10,408	7,457	131,753	12,151
10	135,019	0	135,019	0	5,463	10,917	3,135	111,516	19,255
11	80,638	7,738	88,376	1,545	2,413	7,447	4,070	105,351	7,401
12	898,671	0	898,671	173,241	17,605	85,447	22,066	585,963	82,006
13	177,992	5,668	183,660	525	619	12,267	13,021	79,386	8,319
14	185,492	0	185,492	0	10,929	21,460	7,514	171,169	47,734
15	550,149	0	550,149	0	17,979	41,187	13,544	442,707	77,454
16	2,142,890	160,692	2,303,582	4,950	32,428	94,310	38,619	1,040,542	243,030
17	534,830	4,765	539,595	12,264	13,192	35,159	15,263	313,362	44,374
18	207,779	10,689	218,468	0	5,039	13,232	5,479	128,326	26,122
19	84,126	8,002	92,128	0	4,726	9,987	6,443	106,590	13,288
20	117,574	149,188	266,762	6,400	4,053	8,894	3,470	109,705	14,376
21	201,370	612	201,982	3,800	7,680	13,251	5,213	179,841	32,404

22	492,687	6	492,693	33,033	26,794	36,629	23,897	415,026	95,068
23	0	18,523	18,523	129,199	1,278	3,729	3,560	44,817	1,785
24	140,202	17,080	157,282	8,910	5,469	17,209	17,371	169,569	25,439
25	276,529	15,527	292,056	19,400	9,117	24,479	11,657	232,177	43,999
26	190,228	817	191,045	0	0	10,510	9,793	144,765	14,776
27	16,500	0	16,500	360,350	9,205	3,306	2,197	61,367	9,437
28	162,856	2,772	165,628	1,100	6,668	14,223	8,742	149,410	22,608
29	481,439	0	481,439	2,157	18,606	46,473	18,818	390,616	78,638
30	136,254	15,741	151,995	740	15,774	19,427	9,872	115,167	17,150
31	195,159	8,898	204,057	345	4,535	15,135	11,604	146,977	28,947
32	203,665	199,903	403,568	11,552	18,430	27,884	8,984	197,638	33,216

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<b>Scotland Total</b>	<b>9,552,324</b>	<b>772,236</b>	<b>10,324,560</b>	<b>792,880</b>	<b>295,361</b>	<b>721,724</b>	<b>356,819</b>	<b>7,044,666</b>	<b>1,255,757</b>
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Source:

(a) CIPFA capital Expenditure and Treasury Management Statistics 1999-2000

(b) POBE forms - provisional outturn 1999-00

(c) Statistical Bulletin HSG/2000/6

## APPENDIX C THE BALANCE SHEET AND LONG TERM LIABILITIES

### EXTRACT FROM CIPFA'S COMMENTS TO THE CONSULTATIONS IN 2000 ON LOCAL AUTHORITY FINANCE FROM THE (THEN) DETR, NAW AND SCOTTISH PARLIAMENT

#### ACCOUNTING STANDARDS AND BALANCE SHEET TREATMENT VIS-À-VIS CREDIT ARRANGEMENT PROVISIONS OF THE LOCAL GOVERNMENT AND HOUSING ACT 1989

##### 1 INTRODUCTION

1.1 CIPFA's view is that reliance can be placed on accounting standards for the recognition of assets and liabilities on local authority balance sheets. Indeed, this is one of the primary purposes of the published statements of accounts of local authorities. The following is an extract from the section on the purpose of the statement of accounts from the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom 2000* (the SORP – statement of recommended practice):

“The Code of Practice has been prepared on the basis that the purpose of a local authority's published Statement of Accounts is to give electors, those subject to locally levied taxes and charges, members of the authority, employees and other interested parties clear information about the authority's finances. It should answer such questions as:

- What did the authority's services cost in the year of account?
- Where did the money come from?
- What were the authority's assets and liabilities at the year-end?”

(underlining added).

1.2 The remainder of this appendix looks primarily at the requirements of SSAP 21 (Accounting for leases and hire purchase contracts) and FRS 5 (Reporting the substance of transactions) and how these are incorporated in the SORP, since these are the two accounting standards most closely aligned to the issues through which the LGHA 1989 sought to address what it termed credit arrangements. The report also looks at the recent ASB discussion paper on leases, which presents a position paper that has been developed internationally by the G4 + 1<sup>3</sup>. Finally, the report looks briefly at FRS 15, Tangible fixed assets.

1.3 Two points must be kept in mind when considering this matter:

- (a) whilst balance sheet requirements and the credit arrangement provisions of the 1989 Act address the same issue – long term liabilities – it must not be expected (or necessarily desirable) that

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<sup>3</sup> The G4 + 1 comprises members of the accounting standard-setting bodies from Australia, Canada, New Zealand, the UK and the USA. Representatives of the International Accounting Standards Committee attend as observers.

the two will result in exactly the same results. Whilst the results will be broadly similar, details will vary. For example, the detailed rules on whether or not a lease constitutes a credit arrangement are not always the same as the differences made in accordance with accounting standards between an operating and a finance lease, notably for buildings (see paragraph 2.6 below)

(b) this appendix deals with the balance sheet treatment of assets and liabilities, where reliance can be placed on accounting standards in local authority's statements of account. Currently, the charges to the consolidated revenue account for fixed assets and liabilities – the equivalent of the profit and loss account in the private sector for local authorities – in many cases do not follow the requirements of accounting standards because of the current statutory regime. Most notably, the consolidated revenue account is charged with MRP (minimum revenue provision) as defined by statute rather than depreciation as calculated in accordance with accounting standards. Also, the profit or loss on the disposal of fixed assets is treated differently from what would be required by accounting standards because of statutory requirements. Longer term, CIPFA recommends that these revenue aspects are further researched and examined. However, reliance can be placed now on the balance sheet for the identification of assets and liabilities.

1.4 This appendix does not consider the situation in respect of local authority companies, which would also need to be specifically examined in the context of the proposed new framework for capital controls.

## 2 SSAP 21, ACCOUNTING FOR LEASES AND HIRE PURCHASE CONTRACTS

2.1 Credit arrangements are forms of credit which do not involve the borrowing, as defined by the 1989 Act, of money by a local authority. There are two main types of credit arrangements, leases and any other contract under which land, goods services or other benefits are received by an authority more than a full financial year in advance of payment. Certain types of leases are specifically excluded from the definition of credit arrangements.

2.2 SSAP 21, which was issued in 1984, introduced the accounting distinction between finance and operating leases. It led to some assets that had previously been regarded as off balance sheet being recognised on balance sheet.

2.3 SSAP 21 differentiates operating and finance leases by the principle that with a finance lease most of the risks and rewards of ownership are passed to the lessee. A finance lease is viewed as an outright purchase by the lessee which is financed by borrowing from the lessor and an operating lease is viewed as the provision of a service. One indication of whether the risk of the use of the asset has passed to the lessee (and hence a finance lease) is given by comparing the present value of the minimum lease payments with the fair value of the asset. If the lease payments are greater than 90% of the fair value then it is likely that the arrangement is a finance lease. However, the 90% test cannot be applied in a mechanistic way. The

overriding principle is to establish whether the purchaser has substantially all the risks and rewards of ownership.

- 2.4 Assets acquired under finance leases have to be capitalised and the liability to pay future rental recognised in the balance sheet. The asset is recorded on the balance sheet at its fair value. The fair value is based on the market value, ie the open market price that other assets similar in type and condition are bought and sold for. The fair value may not be the same value as the total amount of rental payments that an authority has to make under the lease agreement. For example, an authority leases a vehicle for five years with total lease payments of £26k, but the fair value is assessed at £20k. Upon inception, a fixed asset value of £20k is recognised together with a liability for £20k. When lease payments are made, they have to be analysed (in accordance with methods stipulated in SSAP 21) between principal and interest elements. The interest element will be charged to revenue and the principal element will be matched against the balance sheet liability.
- 2.5 In contrast, with operating leases, the authority does not recognise the asset on its balance sheet, but merely records the rental payments when made to the lessor as a revenue cost.
- 2.6 The criteria for establishing whether assets should be recognised under capital accounting and those for determining that a credit arrangement exists are not identical. For example most leases of land and buildings will be operating leases according to the definitions in SSAP 21, but the statutory framework allows only operating leases of vehicles, vessels, plant, machinery and apparatus.
- 2.7 The local authority accounting SORP includes the requirements of SSAP 21.

### 3 FRS 5 REPORTING THE SUBSTANCE OF TRANSACTIONS

- 3.1 SSAP 21 and FRS 5 both deal with the same fundamental question of substance over form, but they adopt different approaches, reflecting the development of thinking by standard setters since the introduction of SSAP 21. What is meant by substance over form is that accounting statements should be prepared so as to reflect the reality or substance of the transactions and activities underlying them, rather than only their formal legal character.
- 3.2 FRS 5 states that where a transaction falls not only within the scope of FRS 5 but also directly within the scope of another standard, "the standard..... that contains the more specific provisions should be applied". For simple stand alone leases, SSAP 21 contains the more specific provisions and should be applied, although in determining whether a lease is an operating or finance lease, the principles of FRS 5 must be followed.
- 3.3 FRS 5 was produced in response to concern over "off balance sheet finance" in the private sector. It was issued in 1994. The purpose of the standard is to ensure that reporting entities report the substance of transactions in their accounts. The FRS sets out how to determine the substance of a transaction (including how to identify its effect on the assets

and liabilities of the entity). The FRS sets out general principles, rather than give hard and fast rules for every situation.

- 3.4 Unconventional finance such as deferred purchase arrangements and PFI are covered by FRS 5. In September 1998 the ASB published an amendment to FRS 5 as an application note 'Reporting the substance of transactions : private finance initiative and similar contracts'. This was prepared by the ASB in response to the need for clarification of how the principles and requirements of FRS 5 should apply to PFI transactions. It is also appropriate for other contracts of a similar nature.
- 3.5 A key step in determining the substance of any transaction is to identify whether it has given rise to new assets or liabilities for the entity and whether it has increased or decreased an entity's existing assets or liabilities. Assets are, broadly, rights or other access to future economic benefits controlled by an entity. The FRS highlights risk as evidence of whether or not an entity has an asset. Liabilities are broadly an entity's obligation to transfer benefits. Evidence that an entity has an obligation is if there is some circumstance in which the entity is unable to avoid an outflow of benefits. Once identified, an asset or liability should be recognised in the balance sheet, provided that there is sufficient evidence that an asset or liability exists and that it can be measured as a monetary amount with sufficient reliability.

**3.6** The local authority accounting SORP includes the principal requirement of FRS 5 as a basic and fundamental concept, emphasising the need to look beyond the formal legal character of transactions. The ASB application note on the private finance initiative and similar contracts is included as an appendix to the SORP. In addition, CIPFA's consolidated guidance notes on the application of the SORP provide a number of practical examples relevant to local authorities.

**3.7** CIPFA's guidance notes on capital accounting include the following:

**"All assets acquired with financing that does not take the simple form of borrowing should be reflected as fixed assets in the balance sheet, together with the future financing liability. Assets acquired without cash consideration should be capitalised at fair value. Assets acquired under deferred purchase arrangements must be capitalised and the related loans accounted for as a liability under the substance over form concept, even if they are not strictly debts of the authority."**

**4** ASB DISCUSSION PAPER, LEASES : IMPLEMENTATION OF A NEW APPROACH

**4.1** This discussion paper was issued in December 1999. It presents a discussion paper which has been developed internationally. The main recommendations are:

- (a)** For lessees, the objective should be to record, at the beginning of the lease term, the fair value of the rights and obligations that are conveyed by the lease.
- (b)** Leases that are at present characterised as operating leases (and therefore not included in the balance sheet) would give rise to assets and liabilities – but only to the extent of the fair values of the rights and obligations that are conveyed by the lease. Thus where a lease is for a small part of an asset's economic life, only that part would be reflected in the lessee's balance sheet.
- (c)** The fair value of the rights obtained by a lessee would in general be measured as the present value of the minimum payments required by the lease, plus any other liabilities incurred.
- (d)** Lessors should report financial assets (representing amounts receivable from the lessee) and residual interests as separate assets, since they are subject to quite different risks. The amounts reported as financial assets by lessors would, in general, be the converse of the amounts reported as liabilities by lessees.

**4.2** In the press notice which introduced the discussion paper the ASB's Chairman, Sir David Tweedie, said:

**“Leases provide a huge source of finance. For some time users have expressed support for treating operating leases and finance leases more consistently in accounts. Leasing is a particularly flexible form of asset financing; the challenge is to capture the effects of flexibility in the assets and liabilities recorded by lessees and lessors. The approach proposed in this Paper is quite simple: lessees and lessors would each account for the rights and obligations that arise from the contracts they have entered into. There is no need to resort to artificial (and easily avoidable) thresholds.”**

**4.3 All the organisations that participate in the G4 + 1 have agreed to publish the Position Paper in their own jurisdictions. They will consider, in the light of comments received in response to the Position Paper, whether its proposals should form a basis for developing new accounting standards. In the UK, it is intended that these proposals should lead to a revision of SSAP 21. Before this can happen, the ASB would issue a financial reporting exposure draft (FRED). Once approved, the resultant financial reporting standard (FRS) would be incorporated into the SORP in a manner appropriate to the local authority sector and taking into consideration any relevant statutory provisions then in force.**

## **5 FRS 15, TANGIBLE FIXED ASSETS**

**5.1 FRS 15 was issued in 1999. Its objectives are to ensure that:**

- (a) consistent principles are applied to the initial measurement of tangible fixed assets**
- (b) where an entity chooses to revalue tangible fixed assets the valuation is performed on a consistent basis and kept up to date, and that gains and losses on revaluation are recognised on a consistent basis**
- (c) depreciation of tangible fixed assets is calculated in a consistent manner and recognised as the economic benefits are consumed over the assets' useful economic lives**
- (d) sufficient information is disclosed in the financial statements to enable users to understand the impact of the entity's accounting policies regarding initial measurement, valuation and depreciation of tangible fixed assets on the financial position and performance of the entity.**

**5.2 The requirements of FRS 15 have been incorporated within the local authority accounting SORP, in many cases by including the precise wording of the FRS. Significant exceptions, and the reasons for them, are detailed in paragraphs 5.3 to 5.5 which follow.**

**5.3 In one very important respect, the SORP is more onerous in its requirements than the FRS. The FRS codifies the practice in the private sector whereby the valuation of tangible fixed assets is optional – assets**

may be carried at either current or historical value. However, where a revaluation policy is adopted, the FRS imposes conditions to prevent 'cherry picking' which assets are revalued and when. In contrast, the local authority accounting SORP requires that all fixed assets with the exception of infrastructure and community assets must be subject to revaluation. Infrastructure and community assets are required to be carried on the balance sheet on an historical basis. These have been requirements of the SORP since the 1994/95 accounts.

5.4 FRS 15 specifies that for cost/benefit reasons, the details on valuation specified in paragraphs 45-52 of the FRS may not be appropriate for charities and other not-for-profit and public sector organisations adopting a revaluation policy, in which case alternative approaches may be acceptable; and that generally these approaches will be addressed in the relevant sector-specific guidance and SORPs. In this connection, and accordingly, the SORP requires:

- when an asset is included in the balance sheet at current value, it should formally be revalued at intervals of not more than five years and the revised amount should be included in the balance sheet
- a full valuation may be performed on a rolling basis to cover all properties over a five year cycle
- a full valuation of a property is conducted by either a qualified external valuer or a qualified internal valuer.

5.5 The SORP therefore implements the balance sheet aspects of FRS 15. However, two significant revenue aspects of FRS 15 are not incorporated:

- (a) gains and losses on sales of fixed assets are not taken to revenue because statute requires the proceeds of sales to be transferred to specific capital receipt reserves
- (b) a charge is made to services which is equivalent to depreciation calculated in accordance with FRS 15 but this is replaced in the consolidated revenue account with the statutory MRP.

## 6 CONCLUSION

6.1 The overall conclusion of this report is that reliance may be placed on accounting standards for the recognition of assets and liabilities on local authorities' balance sheets.

6.2 More specifically, accounting standards, and in particular FRS 5, ensure that unconventional finance deals such as deferred purchase agreements and others that section 48 of the 1989 Act sought to capture are properly reflected in the balance sheets of local authorities.

## **APPENDIX D CAPITAL EXPENDITURE UNFINANCED**

- D.1 Capital expenditure already made (ie cash basis) but not yet financed (plus in England and Wales credit arrangements) play an important role in the current capital control frameworks. Capital expenditure unfinanced (accruals basis) plays an important role in the draft Code (see particularly paragraphs 15, 18 and 33 of the Code and paragraphs A.55 and A.56 of Appendix A).**
- D.2 In respect of any statutory replacement for the minimum revenue provision (England and Wales) / loans fund debt charges (Scotland), CIPFA would recommend that further consideration is given either instead or at a later date, to making a proper provision for depreciation rather than having such a statutory replacement. CIPFA is preparing a separate paper on this subject. However, if a statutory replacement is created, it is recommended that this should use capital expenditure unfinanced (accruals basis), either at the start or the end of the financial year, as its base line for the authority to calculate the amount to be charged to revenue.**
- D.3 CIPFA further recommends that other long term liabilities be dealt with separately in a prudential system. It is recommended that these are defined as being other long term liabilities identified on the balance sheet and that these should be charged to the bottom line in accordance with proper practice. The arrangement in the current system in England and Wales whereby repayments in relation to (most) credit arrangements is that these are effectively reversed out from the bottom line and replaced with the amount required for the minimum revenue provision. The logic behind this is understood (to put credit arrangements onto an equal footing with borrowing) but it has led to some very odd results in practice.**
- D.4 Capital expenditure unfinanced cannot on practical grounds be calculated on an ongoing basis but only at a period end. Traditionally in local authorities this is done once a year, after the year end. In particular, financing is only undertaken after the year end and this can have significant advantages in resource optimisation. It can be argued that a more frequent calculation would assist control. However, this would have a substantial cost.**
- D.5 It will be important to have a clear and consistent method for the calculation of capital expenditure unfinanced. A method of**

calculating capital expenditure unfinanced from the balance sheet is possible and is proposed. A balance sheet method is transparent and has a clear audit trail.

**D.6** The balance sheet method proposed in the draft Code is that capital expenditure unfinanced is calculated by consolidating

- fixed assets
- deferred charges
- fixed asset restatement reserve
- capital finance reserve
- government grants deferred.

**D.7** It is recognised that some of the accounts in the balance sheet calculation are those where concerns have been raised about consistency of treatment. However, these have been concerns such as whether to make a contra entry to the capital financing reserve or to the fixed asset restatement reserve, and any such uncertainties will be cancelled out by totalling all of the accounts listed.

**D.8** It is also recognised that it is possible to total the 'cash' elements of the balance sheet rather than the 'capital' elements to reach the same answer. This, by definition, must be true. However, the method proposed is preferred as it relates directly to capital items. Its intention is to identify all the capital related balances in the balance sheet and to bring them together in a capital 'imbalance' sheet, ie it gives a figure for the cash deficit/surplus on capital transactions. The same figure would result by starting with external debt and adding or subtracting revenue balances. Either approach can be used in practice for in-year estimates, but the capital approach is recommended for the formal calculation.

**D.9** A simple exemplification is shown on the following four pages.

Assume no brought forward balances, although they can be slotted in if needs be.

<b>Capital Expenditure</b>	Year One	Offices for £10m and vehicles and plant for £2m		
	Year Two	Leisure centre for £3m and improvement grants of £4m		
	Year Three	Swimming pool for £5m and more vehicles and plant for £1m		
<b>Financed by</b>	Year One	Credit approvals £5m Capital Receipts £6m Revenue £1m		
	Year Two	Credit approvals £3m Capital Receipts £1m Grants £3m (£1m for IGs, £2m for other)		
	Year Three	Credit approvals £4m Capital Receipts £2m		
<b>Capital Receipts</b>	Year One	Usable £8m Reserved £2m	<b>unfinanced historical cost (aka credit ceilings):</b>	
	Year Two	Usable £2m Reserved £1m	Year One	£2m      £5m CAs - £2m RRs - £1m MRP
	Year Three	none	Year Two	£2m      £3m CAs - £1m RRs - £2m MRP
<b>Depreciation and MRP</b>	Year One	Depreciation £2m MRP £1m	Year Three	£2m      £4m CAs - £4m MRP
	Year Two	Depreciation £3m MRP £2m	<b>balance sheet analysis:</b>	
	Year Three	Depreciation £3m GGD £1m MRP £4m	Year One	2
<b>Revaluation and Imprts</b>	Year One	Upwards £3m	Year Two	2
	Year Two	Upwards £4m plus £1m impairment	Year Three	2
	Year Three	Upwards £2m	(consolidates - FA, DC, FARR, CFR, and GG-D - omits revenue account, cash and UCRs)	

Debits as positives - credits as negatives

(nb, capital creditors and capital debtors would also need to be counted in to the analysis)

<b>Fixed Assets</b>		<b>Deferred Charges</b>		<b>FARR</b>		<b>CFR</b>		<b>Usable Capital Recs</b>	
Offices	10					Reserved receipts	-2	Receipts	-8
Vehicles/Plant	2					UCR applied	-6	Applied	6
Depreciation	-2					MRP recn	1		
Revals	3			Revals	-3	RCCO	-1		
carried forward:	13		0		-3		-8		-2
Leisure centre	3	Improvement grants	4	Revals	-4	Reserved receipts	-1	Receipts	-2
Depreciation	-3	Write-off	-4			UCR applied	-1	Applied	1
Revals	4					MRP recn	5		
Impairment	-1								
carried forward:	16		0		-7		-5		-3
Swimming pool	5			Revals	-2	UCR applied	-2	Applied	2
Vehicles and plant	1					MRP recn	-2		
Depreciation	-3								
Revals	2								
carried forward:	21		0		-9		-9		-1

<b>GG-D</b>	<b>Revenue Account</b>	<b>Cash</b>
	Depreciation	2
	MRP recn	-1
	RCCO	1
	0	2
Receipts	-2	3
	Depreciation	3
	MRP recn	-5
	Def Charge	4
	write-off	
	Igs grant	-1
	Impairment	1
	-2	4
Write-out	1	3
	Depreciation	3
	MRP recn	2
	GG-D	-1
	-1	8
		-12
		10
		-7
		3
		3
		-3
		-6
		-9

	Year One	Year Two	Year Three
MRP reconciliations:			
Depreciation	2	3	3
Impairment	0	1	0
Govt grants deferred	0	0	-1
Improvement grants	0	4	0
IG subsidy	0	-1	0
	<u>2</u>	<u>7</u>	<u>2</u>
versus MRP	<u>-1</u>	<u>-2</u>	<u>-4</u>
MRP recn	<u>1</u>	<u>5</u>	<u>-2</u>

MRP reconciliation matches ...

Depreciation (net of government grants def write-outs) and impairments charged to revenue  
Deferred charges (net of subsidy) charged to revenue

against

MRP

## **PARTICULAR ISSUES ON WHICH COMMENTS ARE INVITED**

**Your comments on any aspect of the draft Code are requested, and particularly on the questions listed below.**

- Qu.1 Does the [draft] Code achieve the objectives set out in paragraph 1?**
- Qu.2 Do you have comments on the detail of any of the prudential indicators proposed in the draft Code?**
- Qu.3 Are there further matters that should be taken into account when setting or revising prudential indicators, over and above those specified in the draft Code?**
- Qu.4 Do you agree with the view taken in the draft Code with respect to the need to ensure that over the medium term net borrowing will only be for a capital purpose?**
- Qu.5 Do you have any comments on the processes proposed for setting and revising prudential indicators and for monitoring against prudential indicators?**
- Qu.6 Do you have any comments on the detail of the definitions proposed? Views with respect to the definition proposed for capital expenditure unfinanced would be particularly welcome – does this, as intended, include all capital items or are there items elsewhere on the balance sheet that ought to be included that may be specific to individual local authorities (eg relating to deferred purchase agreements entered into in England and Wales prior to the 1989 Act)?**

**The new prudential framework will mean some significant operational changes and it is CIPFA's intention to initiate piloting of the requirements in the draft Code during 2002. Further details will follow, but if you would be interested in considering being involved in piloting the Code please would you indicate this with your response.**

**Your comments will be regarded as being on the public record unless you specifically request confidentiality, and may be copied for consideration by CIPFA committees and groups.**

**Comments on the exposure draft of the Code should be sent to CIPFA by [date and detailed address contact points to be inserted here].**