

D2 Changes to English local government capital finance systems

Between the mid-nineteenth century and 1972, local government capital finance remained much the same with only minor amendments to its detail. Capital projects were financed by government grants, revenue, sales of capital assets or loans. Central control operated only on the loans. A local authority needed a sanction in order to use a loan, first giving approval for the project itself and secondly authorising the use of a loan. Loans were available from a variety of sources; the **Public Works Loan Board** (PWLB) was a major source.

- 1933 Local Government Act. It consolidated the legislation of the previous 50 years. Set out the type of expenditure which could be financed by borrowing (effectively anything a Minister considered proper) and detailed types of borrowing open to local authorities.
- 1945 The Local Authorities Loans Act. Virtually all borrowing had to come from the PWLB until 1952.
- 1955 The PWLB became lender of last resort.
- 1963 Controls were imposed on temporary borrowing. Access to the PWLB was relaxed. The Local Government (Financial Provisions) Act allowed authorities to borrow by issuing bonds.
- 1970 Capital expenditure was dealt with in three classes. Those in the Key Sector, covering the great majority of services, continued to require specific loan sanction; the Subsidiary Sector had general consent to borrow; and the Locally Determined Sector had block borrowing approval.
- 1972 The Local Government Act consolidated all previous legislation into one act but made no significant changes to the system. Loan sanctions were replaced by borrowing approvals.
- 1976 The Layfield Committee on Local Government Finance concluded that current arrangements were not conducive to proper planning, management and control of local authorities' capital programmes.
- 1981 New system set up under the Local Government, Planning and Land Act 1980. Capital expenditure was defined and controlled through annual capital expenditure allocations. Expenditure was monitored quarterly from 1978. Limits on capital expenditure were set partly by reference to a prescribed proportion of an authority's capital receipts.
- 1986 The government published a Green Paper, *Paying for Local Government*, which considered ways of improving the system.

- 1990 Part IV of the Local Government and Housing Act 1989 introduced the broad framework of the present capital finance system. Detailed provisions were set out in regulations. The main effect was to control capital expenditure funded by borrowing (and all other forms of credit) through the issue of credit approvals. The spending of capital receipts was regulated by the requirement for authorities to set aside part of their receipts as provision for credit liabilities.
- 1995 The Local Authorities (Companies) Order 1995 extended the system to the finances of companies controlled or influenced by local authorities.
- 1997 The Local Authorities (Capital Finance) Regulations 1997 consolidated the changes to the system made since 1990 and contained new provisions to encourage the use of the Private Finance Initiative.
- 1998 The Capital Finance Regulations were amended for most non-housing capital receipts, from 1 September 1998 removing the requirement for authorities to set aside part of the receipts.
- 2000 In 1998, the White Paper *Modern Local Government - In Touch with the People* announced a review of the capital finance system. A consultation paper *Modernising Local Government Finance: A Green Paper* was issued in September 2000. It suggested replacing the existing credit approval system for controlling capital expenditure with a prudential approach to determine what is affordable.
- 2002 In December 2001, the White Paper *Strong Local Leadership – Quality Public Services* put forward proposals for a new **prudential capital finance system**, which would mean the end of credit approvals. On 2 April 2002, the Government abolished the **Receipts Taken Into Account (RTIAs)** mechanism, which was used to distribute local authorities' **Basic Credit Approval** allocations under the Single Capital Pot.
- 2003 The Local Government Act 2003 put in place the broad legislative framework for the new prudential regime for borrowing by local authorities, which is supplemented by the *Prudential Code* developed and published by **CIPFA** and secondary legislation. This new system replaced that set out in Part IV of the Local Government and Housing Act 1989.
- 2004 From 1 April local authorities were, under the new Act and the CIPFA *Prudential Code*, free to finance capital spending from self-financed borrowing without the need to have government approval as long as it is affordable and prudent to do so.
- 2009 Changes in accounting practice brought most PFI schemes on to local authority balance sheets from 1 April 2009, and hence formally within the prudential capital finance system. However, DCLG continue to publish capital expenditure data on the previous basis (leaving most schemes off balance sheet) because that is the basis on which National Accounts are prepared.

2010

From 1 April 2010 local authority accounts are based on International Financial Reporting Standards. This alters the accounting classification of some leases, though protection is provided for existing leases by DCLG regulation allowing them to be accounted for in accordance with the old rules.