Department for Communities and Local Government

Local Authority Borrowing and Investments, UK 2012-13

- Total gross borrowing of the local government sector in the UK rose by 2.9%, from £81.8bn to £84.2bn in the year to the end of 2012-13. Of this £2.4bn national increase, £1.5bn was due to increased borrowing by the GLA and TfL.

- Total local authority borrowing has increased by £22.8bn (37%), from £61.4bn to £84.2bn, since March 2007. However, excluding the one-off HRA settlement in March 2012 (£8.1bn) and the increased borrowing by the two big all-London authorities mentioned above (£8.6bn), borrowing by the rest of the local authority sector has increased by only £6.1bn (10%) from £60.0bn to £66.1bn over these six years.

- Total investments rose 13.8% from £26.1bn to £29.7bn in the year to the end of 2012-13. Of this £3.6bn national increase, £1.9bn was due to increased investments by the GLA and TfL.

- Within investments, there was a £537m decrease in resources invested in money market funds, of which £422m was from TfL alone. Similarly, £1.6bn of the £2.3bn increase in Other Securities was from TfL.

Local Government Finance

Statistical Release

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Introduction

The information for local authority borrowing and investments is collected from a sample of 160 local authorities (covering all types of authorities and all administrations) monthly and from all 517 local authorities in the UK every quarter.

The borrowing and lending inquiry covers all external borrowing, lending and transactions in financial assets by local authorities in the United Kingdom.

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

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

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

Borrowing from and loans to other local government bodies have not been included in the national figures supplied in this statistical release.

The Greater London Authority (GLA) and its sister body Transport for London (TfL) are both involved in major infrastructure projects such as Crossrail and modernising London Underground. Their investments, and borrowing to fund future investment, is often much greater and in different asset categories than most of the other local authorities in the UK. As a result, failure to pay attention to them can give a false picture of the national totals, and it is sometimes worthwhile to consider them and the rest of UK local authorities separately.

Borrowing

Total Local Authority Borrowing, 2006-07 to 2012-13

Total UK local authority borrowing increased from £81.8bn as at 31 March 2012, to £84.2bn as at 31 March 2013. This represents an increase of £2.3bn, or 2.9% over the year.

The majority of this increase in borrowing is due to only two authorities, the London-wide Greater London Authority (GLA) and Transport for London (TfL). These two between them increased their borrowing by £1.5bn (18%), the remaining 515 UK local authorities together only increased their borrowing by £0.8bn (1.3%).

The size of the GLA and TfL, and the fact that they tend to issue more debt as securities than the rest of the UK's local authorities (£3.6bn to £0.4bn issued by other authorities), mean that it is worth considering the trend in borrowing both including and excluding these two authorities.

There is a discontinuity in the series in 2011-12, when reform of the Housing Revenue Account (HRA) required local authorities to increase their net borrowing to cover housing assets they received. This one-off increase in borrowing amounted to a net £8.1bn across all local authorities.

Since 2006-07, excluding the one-off HRA reform settlement, GLA and TfL together have increased their borrowing by £8.6bn (640%) in six years. The rest of UK local government has increased their borrowing by £6.1bn (10%) over the same period.

Temporary loans were only 0.6% of total borrowing in 2012-13, the same proportion as in 2011-12, although down on the 2.2% to 2.5% between 2006-07 and 2008-09. Longer-term loans and securities make up the other 99.4%.

Table 1: Total Local Authority Borrowing, 2006-07 to 2012-13

						£m as at 31 Mar		% change
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2013**
Total borrowing	**61,382**	**65,886**	**66,770**	**67,862**	**70,563**	**81,818**	**84,190**	**2.9%**
HRA settlement	-	-	-	-	-	8,069	-	
Total excluding HRA settlement	**61,382**	**65,886**	**66,770**	**67,862**	**70,563**	**73,749**	**76,121**	**3.2%**
TfL & GLA	1,350	1,950	3,018	4,118	5,583	8,472	9,993	18.0%
Total excluding HRA settlement, TfL & GLA	**60,033**	**63,936**	**63,752**	**63,744**	**64,980**	**65,278**	**66,129**	**1.3%**

Source: Monthly Borrowing (MB) and Quarterly Borrowing (QB) returns.

Local Authority Temporary Borrowing, 2006-07 to 2012-13

Temporary borrowing was only 0.6% of total borrowing at 31 March 2013, a slight increase on 0.5% a year earlier. While always much smaller than long-term borrowing as a proportion of the total, this represents a fall from a level of 2.2% to 2.5% between 2006-07 and 2008-09.

Temporary loans from building societies reached zero by 31 March 2013. This has fallen from an annual level of hundreds of millions before the financial crisis, and as much as £457m in 2008-09.

Although temporary loans from private non-financial corporations and those classified as the households sector saw large percentage increases, this was largely due to their low base. For instance, the households sector increase was entirely due to separate increases of around £20m in two small authorities, while the large percentage increase in temporary loans from private non-financial corporations was driven by only a £5m rise in a single authority.

While temporary loans from other financial intermediaries rose by £69m, this was largely due to a £40m increase in a single authority.

Overall, although seeing a 16.1% increase on the previous year, the level of borrowing through temporary loans by local authorities was still well below its peak in 2008-09 and the annual increase could be accounted for by relatively small changes in a handful of authorities rather than representing a broad-based trend.

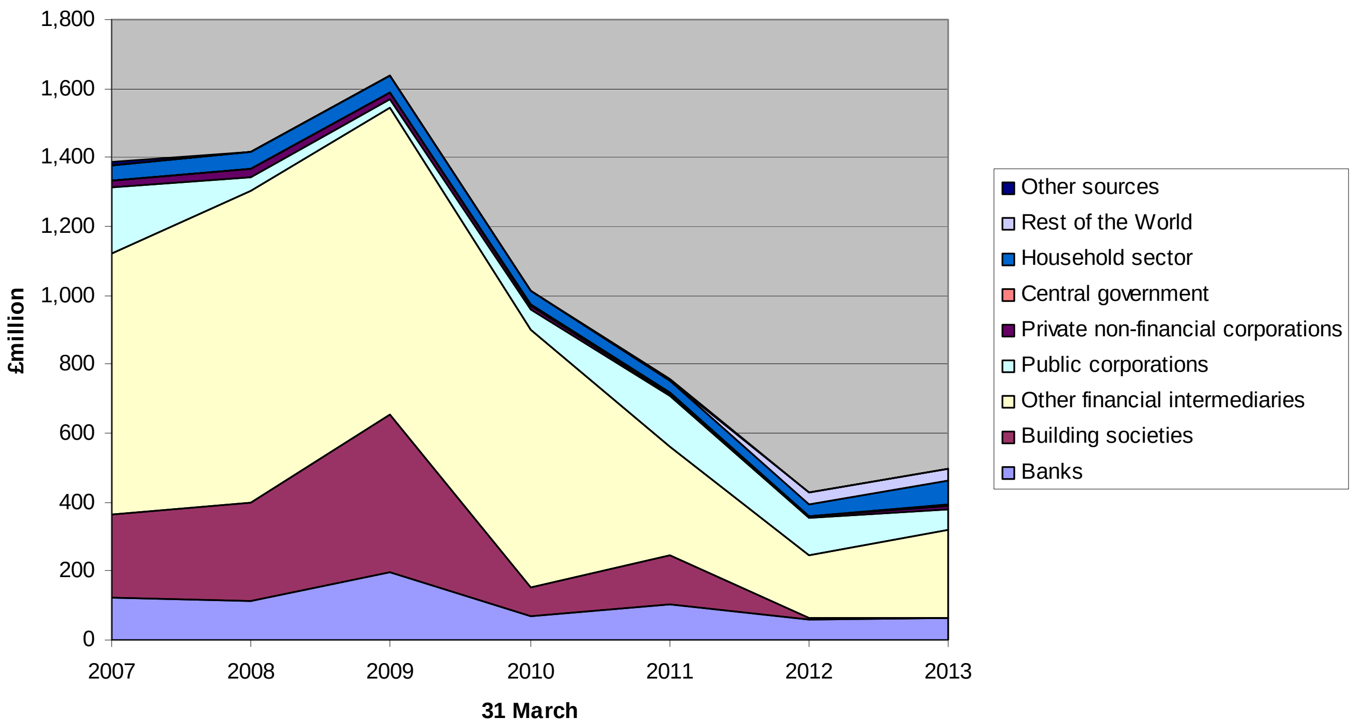
Table 2: Local Authority Temporary Borrowing, 2006-07 to 2012-13

	£m as at 31 Mar							% change
	2007	2008	2009	2010	2011	2012	2013	2013
Banks	124	111	195	69	106	59	66	12.5%
Building societies	242	286	457	82	141	4	0	-100.0%
Other financial intermediaries	755	904	891	750	315	183	252	37.7%
Public corporations	193	39	24	60	146	106	60	-43.8%
Private non-financial corporations	18	28	23	10	8	5	12	146.7%
Central government	0	0	0	0	2	1	2	141.4%
Household sector	47	48	45	42	36	35	71	100.6%
Rest of the World[(a)]	0	0	0	0	1	35	35	0.0%
Other sources	8	2	4	1	1	1	1	-26.4%
Total	**1,387**	**1,419**	**1,639**	**1,014**	**755**	**428**	**497**	**16.1%**

Source: Monthly Borrowing (MB) and Quarterly Borrowing (QB) returns.

(a) Rest of the World comprises institutions that may establish branches but not accept deposits in the UK.

Chart A: Temporary Borrowing by Type



Local Authority Longer-term Borrowing, 2006-07 to 2012-13

Local authorities' longer-term borrowing has increased in each year since 2006-07, to a total of £83.7bn as at 31 March 2013.

As in 2011-12, 75% of longer-term borrowing was with the Public Works Loan Board.

Of the £8.5bn increase in borrowing from the PWLB in 2011-12, £8.1bn was to finance the one-off HRA settlement. Excluding this factor, PWLB borrowing increased by £385m (1%) in that year.

The notable year-on-year changes in categories of longer-term borrowing during 2012-13 were largely caused by the GLA and TfL. The £3.0bn increase in negotiable bonds and commercial paper since 2009-10 is entirely accounted for by TfL and the GLA. These authorities also contributed £970m of the £1,835m increase in Rest of the World borrowing over the two years. The 2012-13 increase in negotiable bonds and decrease in commercial paper is solely due to changes in TfL's borrowing, while the GLA made up £1.1bn of the £1.8bn national increase in borrowing from the PWLB.

Excluding the activity of the GLA and TfL, longer-term borrowing from the PWLB by other UK local authorities rose by only £664m (1%), borrowing from the Rest of the World rose £545m (20%), while that from UK banks fell £468m (4%).

Table 3: Local Authority Longer-term Borrowing, 2006-07 to 2012-13

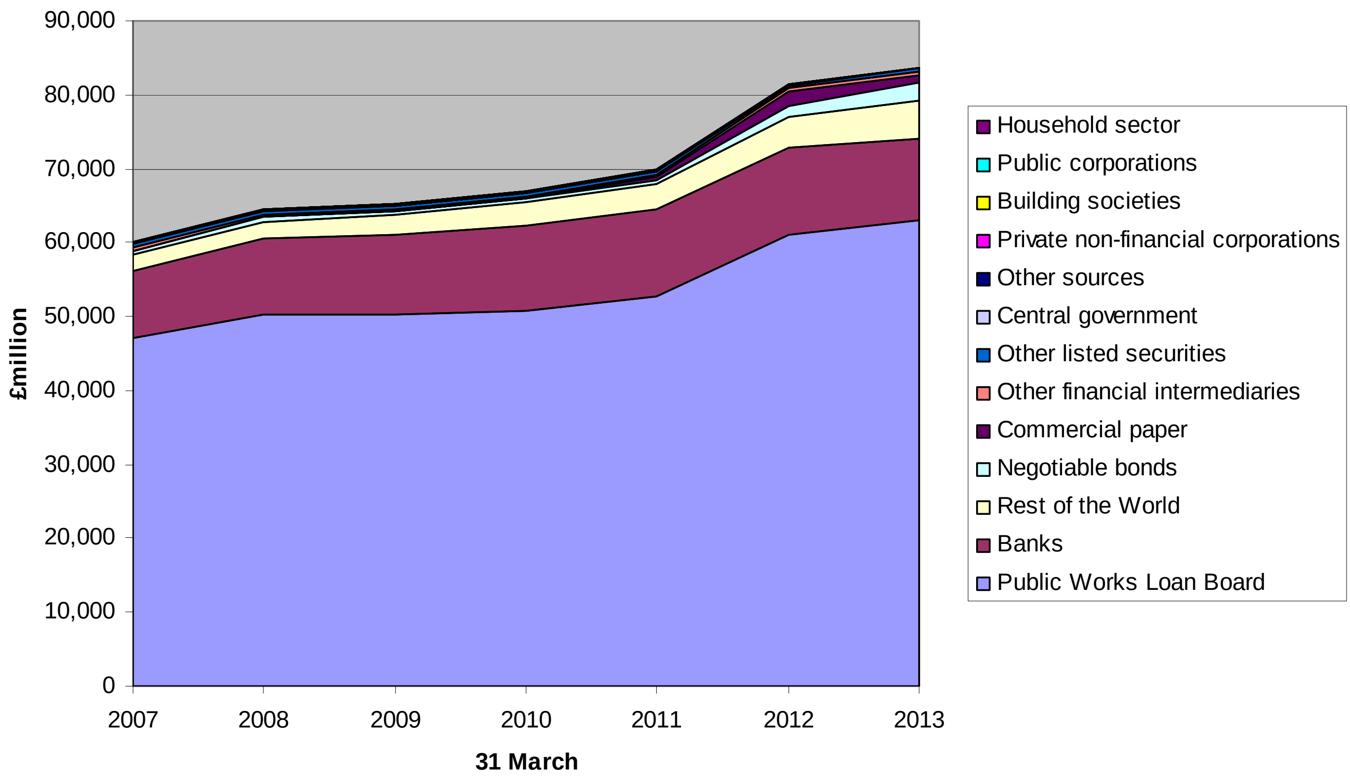
	£m as at 31 Mar							% change
	2007	2008	2009	2010	2011	2012[b]	2013	2013
Negotiable bonds	656	594	597	597	594	1,494	2,501	67.4%
Commercial paper	0	0	0	0	432	1,854	1,098	-40.8%
Other listed securities	532	524	430	430	413	412	401	-2.6%
Public Works Loan Board	47,136	50,194	50,274	50,816	52,701	61,155	62,920	2.9%
Banks	9,063	10,305	10,703	11,382	11,802	11,635	11,167	-4.0%
Building societies	67	59	40	63	16	12	9	-19.3%
Other financial intermediaries	342	291	263	254	326	411	433	5.2%
Public corporations	2	1	2	2	4	3	8	124.7%
Private non-financial corporations	2	2	2	2	2	13	12	-7.7%
Central government	90	92	106	105	86	84	102	20.6%
Household sector	9	8	8	8	6	6	5	-10.7%
Rest of the World[a]	2,079	2,383	2,695	3,177	3,414	4,297	5,013	16.6%
Other sources	18	15	12	12	12	13	24	91.4%
Total	**59,995**	**64,467**	**65,130**	**66,847**	**69,808**	**81,390**	**83,692**	**2.8%**

Source: Monthly Borrowing (MB) and Quarterly Borrowing (QB) returns.

(a) Rest of the World comprises institutions that may establish branches but not accept deposits in the UK.

(b) HRA reform in March 2012 saw local authorities take on a net £8.1bn of debt from the PWLB to finance transfer of housing assets to them.

Chart B: Longer-term Borrowing by Type



Investments

Local Authority Investments 2006-07 to 2012-13

Total investments rose from £26.1bn at 31 March 2012 to £29.7bn at March 2013, a 13.8% increase. This continued the recovery in local authority investments since the financial crisis, and the £3.6bn increase was greater than the corresponding £2.3bn increase in total local authority borrowing.

In the makeup of investments, 63% of all investments as at 31 March 2013 were held in banks or building societies, a slight increase from 62% the previous year, but still well down from the 84% they represented as at 31 March 2008, before the Icelandic banks crisis.

Against this general increase, investments in money market funds fell £537m (12.9%), £422m of this was due to TfL; British government securities fell £681m (76.8%), $430m due to TfL; Treasury bills fell £123m (10.6%), TfL reduced their holdings by £131m so other local authorities together saw a £7m increase; and deposits with Rest of the World fell £111m (24.0%), where neither TfL nor GLA were involved. Note that none of these falls was enough to wipe out the increase each of these had seen in the previous year.

There were large increases in deposits with banks (£2.4bn, or 16.6%, £800m of which was due to the GLA) and Other Investments (£2.4bn, representing 875.2 % year-on-year).

This latter was due to a large increase in “other securities” (a component of Other Investments). This in turn was partly due to a £190m increase by Lancashire, but the great majority was caused by a rise of £2.1bn in the investment category by TfL. This represents investment by TfL in commercial paper and near-to-maturity bonds of sovereigns, supranationals and other government agencies. TfL expect to run these investments down as spending commitments on the Crossrail project come due.

Altogether, TfL and GLA increased their investments by £1.9bn (64.7%) year-on-year. Even without the effect of these two bodies, the rest of the local authority sector also saw an increase of £1.8bn (7.4%) in their investments, still well ahead of the increase in their total borrowing of £0.8bn.

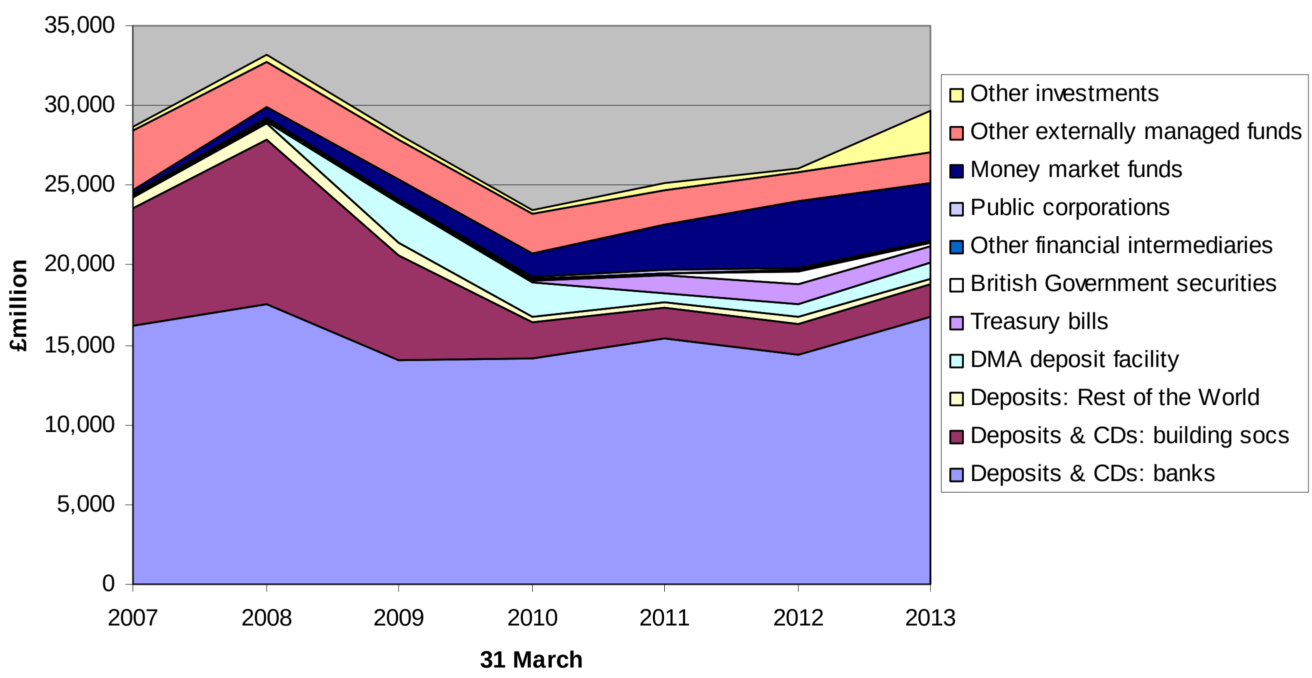
Table 4: Local Authority Investments, 2006-07 to 2012-13

						£m as at 31 Mar		% change
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2013**
Deposits & CDs: banks	16,222	17,538	14,003	14,127	15,391	14,403	16,790	16.6%
Deposits & CDs: building socs	7,357	10,361	6,659	2,323	1,970	1,884	1,989	5.6%
Deposits: Rest of the World[(a)]	674	1,007	754	273	273	463	352	-24.0%
DMA deposit facility	11	82	2,528	2,172	658	836	975	16.7%
Treasury bills	64	6	0	131	1,028	1,164	1,041	-10.6%
British Government securities	4	0	24	80	135	887	206	-76.8%
Other financial intermediaries	46	154	39	41	46	42	38	-9.6%
Public corporations	103	104	107	153	156	153	156	1.7%
Money market funds	226	607	1,221	1,384	2,847	4,152	3,614	-12.9%
Other externally managed funds	3,715	2,903	2,525	2,524	2,220	1,835	1,882	2.5%
Other investments	258	462	300	294	411	272	2,652	875.2%
Total investments	**28,679**	**33,225**	**28,160**	**23,503**	**25,137**	**26,091**	**29,696**	**13.8%**
TfL & GLA	2,006	2,037	1,928	1,531	2,028	2,914	4,799	64.7%
Total excluding TfL & GLA	**26,674**	**31,187**	**26,231**	**21,972**	**23,109**	**23,178**	**24,897**	**7.4%**

Source: Monthly Borrowing (MB) and Quarterly Borrowing (QB) returns.

(a) Rest of the World comprises institutions that may establish branches but not accept deposits in the UK.

Chart C: Investments by Type



Definitions

Banks

Where a joint account is maintained with a pension fund, the balance is recorded minus amounts attributable to the pension fund. Alternatively, where an authority is holding money on loan from a pension fund, the amount of the loan is recorded as borrowing from "Other financial intermediaries"

Data from Banks are reported on the same basis as on local authority bank statements. When a Local Authority has more than one account with the same bank and there is a formal agreement or legal right to treat the accounts as a single entity (i.e. set-off), the accounts are treated as one account and only the overall balance or overdraft is entered.

Deposits or loans with bank branches outside the UK are recorded as being with “Other investment sources”.

Building Societies

Building societies, and only building societies, may have the words "Building Society" in their title. As with banks, deposits/loans with branches outside of the UK are recorded as being with “Other investment sources”.

Capital receipts

Income from the sale of capital assets. Such income may only be used to repay loan debt or to finance new capital expenditure.

Central Government

Includes all transactions with central government, its departments and agencies, and non-departmental public bodies.

Debt Management Office

The UK Debt Management Office (DMO), was established on 1 April 1998. The DMO is responsible for carrying out the Government’s debt management policy of minimizing financing costs over the long term, taking account of risk, and managing the aggregate cash needs of the Exchequer in the most cost-effective way, in both cases consistently with the objectives of monetary and any wider policy considerations.

Externally managed funds

Funds placed with a fund manager to invest on behalf of the local authority.

Greater London Authority (GLA)

The Greater London Authority (GLA) was established by the GLA Act 1999. It is led by the elected Mayor and the Assembly. It has overall responsibility for fire and rescue, police and transport, services in London, each administered through a separate constituent organisation.

Household Sector

As well as private individuals, this sector includes housing associations, churches, universities, examination boards, clubs, trade unions and other non-profit-making bodies. Unincorporated businesses are included, except co-operative societies and partnerships.

Money Market Funds

Pooled investments where all unitholders in the fund jointly own all the investments in the fund.

Negotiable bonds

Negotiable bonds include: bonds issued under the Stocks and Bonds Regulations, which have same-day transferability in London; commercial papers with a maturity between 90 and 364 days and Medium-term Notes which have a maturity of between 1 and 5 years.

Other financial intermediaries

These are UK institutions specialising in granting credit and/or investing in securities, which are not banks or building societies. This sector includes amongst other things, pension funds, bank holding companies, certain mortgage and finance companies, Local Authority Mutual Investment Trust and insurance companies.

Other Investments / Sources

In some cases, such as borrowing from bank nominees, the source may not be identifiable. It also includes any transactions made directly with households or institutions with an address outside the UK.

Other Stock Issues

This includes other securities negotiable or tradable on secondary markets. Local bonds and mortgages, sometimes called Town Hall or over-the-counter bonds, are recorded as loans to the sector(s) holding the bonds, where possible, usually the households sector.

Public Corporations

These are wholly or majority owned by institutions in central or local government and include: Royal Mail, British Broadcasting Corporation, British Waterways, The Civil Aviation Authority, London Underground Ltd, The Commonwealth Development Corporation and National Health Service Trust hospitals. Also included are wholly or majority owned local authority companies, the New Towns Commission, Urban Development Corporations and Passenger Transport Executives. (But note that the Housing Corporation is classified to Central Government).

Public Works Loan Board (PWLB)
A statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Private non-financial corporations
This sector includes all UK non-financial commercial businesses. Minority-owned local authority companies, co-operative societies and partnerships are included as well as legally incorporated companies.

Rest of the World
Banks incorporated in the United Kingdom are classed as UK banks (e.g. Lloyds plc). Banks incorporated inside or outside the European Economic Area (EEA) but authorised or entitled to accept deposits through a branch in the UK' are classed as UK banks (e.g. Dresdner Bank AG). Banks authorised in the EEA entitled to establish branches in the UK but not to accept deposits in the UK' are classed as rest of the world banks (e.g. Depfa Bank plc).
A list of banks can be found at:
www.bankofengland.co.uk/pra/Pages/authorisations/banksbuildingsocietieslist.aspx

Temporary/longer-term
Temporary means an original maturity of up to 364 days. Instruments with a 364-day break clause, or similar, where local authorities can insist on repayment or be compelled to repay after each 364-day period are classified as temporary. Longer-term loans reaching the last year of their maturity should continue to be classified as longer-term.

Transport for London (TfL)

TfL is a statutory corporation regulated under local government finance rules. Governed by the GLA Act, TfL was created in 2000 and is the integrated body responsible for the London's transport system. Its main role is to implement the Mayor's Transport Strategy for London and manage transport services across the Capital.

Treasury Bills
A treasury bill is a short-term (less than one year) government zero-coupon bond.

Technical notes

Symbols

(R)	=	some data have been revised since the last statistical release
…	=	not available
–	=	not relevant
-	=	Negative
0	=	zero or negligible
||	=	discontinuity in data

Rounding
Where figures have been rounded, there may be a slight discrepancy between the total and the sum of constituent items

Data collection

The information in this release is based on data returned to the Department for Communities and Local Government by 517 local authorities in the United Kingdom, comprising all levels of local government, on borrowing and investment for the financial year 2012-13 on the Monthly Borrowing (MB) and Quarterly Borrowing (QB) forms. A sample of 160 authorities return data every month, while all authorities complete returns on quarterly basis.

The series start in 2006-07 to provide a view of the position before the financial crisis in 2008-09, which triggered many changes in the makeup and levels of borrowing and investment.

Data quality

Figures are subjected to rigorous pre-defined validation tests both within the form itself, while the form is being completed by the authority and also in the Department for Communities and Local Government as the data are received and stored.

Finally, the release document, once prepared, is also subject to intensive peer review before being cleared as fit for the purposes of publication.

Revisions policy

This policy has been developed in accordance with the UK Statistics Authority Code of Practice for Official statistics and the Department for Communities and Local Government Revisions Policy (found at https://www.gov.uk/government/publications/statistical-notice-dclg-revisions-policy). There are two types of revisions that the policy covers:

Non-Scheduled Revisions

Where a substantial error has occurred as a result of the compilation, imputation or dissemination process, the statistical release, live tables and other accompanying releases will be updated with a correction notice as soon as is practical.

Scheduled Revisions

At time of publication there are no scheduled revisions for this series

Uses of the data

The figures provided by local authorities are used by the ONS to compile key financial statistics such as Public Sector Net Borrowing and Public Sector Net Debt. These are used by HM Treasury and Bank of England when setting fiscal and monetary policy for the UK, and are published in the Public Sector Finances First Release, by HM Treasury and the ONS each month, which can be found on the Internet at:
http://www.ons.gov.uk/ons/publications/all-releases.html?definition=tcm%3A77-223986

User engagement

Users are encouraged to provide feedback on how these statistics are used and how well they meet user needs. Comments on any issues relating to this statistical release are welcomed and encouraged. Responses should be addressed to the "Public enquiries" contact given in the "Enquiries" section below.

The Department's engagement strategy to meet the needs of statistics users is published here: https://www.gov.uk/government/publications/engagement-strategy-to-meet-the-needs-of-statistics-users

Notes

For a fuller picture of recent trends in local government finance readers are directed to *Local Government Financial Statistics The UK No.23 2013* which is available in hard copy from TSO at: http://www.tsoshop.co.uk/bookstore.asp?FO=1215312&Action=Book&ProductID=9780108512469&From=SearchResults
It is also available electronically in PDF format via the Department's web site: https://www.gov.uk/government/publications/local-government-financial-statistics-england-2013

Devolved administration statistics

The data in this release cover the entire UK.

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Information on Official Statistics is available via the UK Statistics Authority website: www.statistics.gov.uk/hub/browse-by-theme/index.html

Timings of future releases are placed on the Department's website at https://www.gov.uk/government/organisations/department-for-communities-and-local-government/about/statistics#forthcoming-publications, and on the UK Statistics Authority website http://www.statistics.gov.uk/hub/release-calendar/index.html.

Information about statistics at DCLG is available via the Department's website: www.gov.uk/government/organisations/department-for-communities-and-local-government/about/statistics

This document/publication is also available on our website at www.gov.uk/dclg

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