

PUBLIC SERVICES AND GOVERNMENT

Capital Expenditure and Financing: Provisional Outturn - 2014-15

Economy (Local Government Finance)

6th October 2015

This publication contains provisional outturn information on local authority capital expenditure and how that expenditure was financed in 2014-15. It includes prudential indicators on local authority external debt and the capital financing requirement.

Experimental Statistics: data being developed

These statistics are currently being developed and have been published to involve users and stakeholders in their development, and to build in quality and understanding at an early stage.

These statistics have not yet been assessed by the UK Statistics Authority. They have not been designated as National Statistics¹.

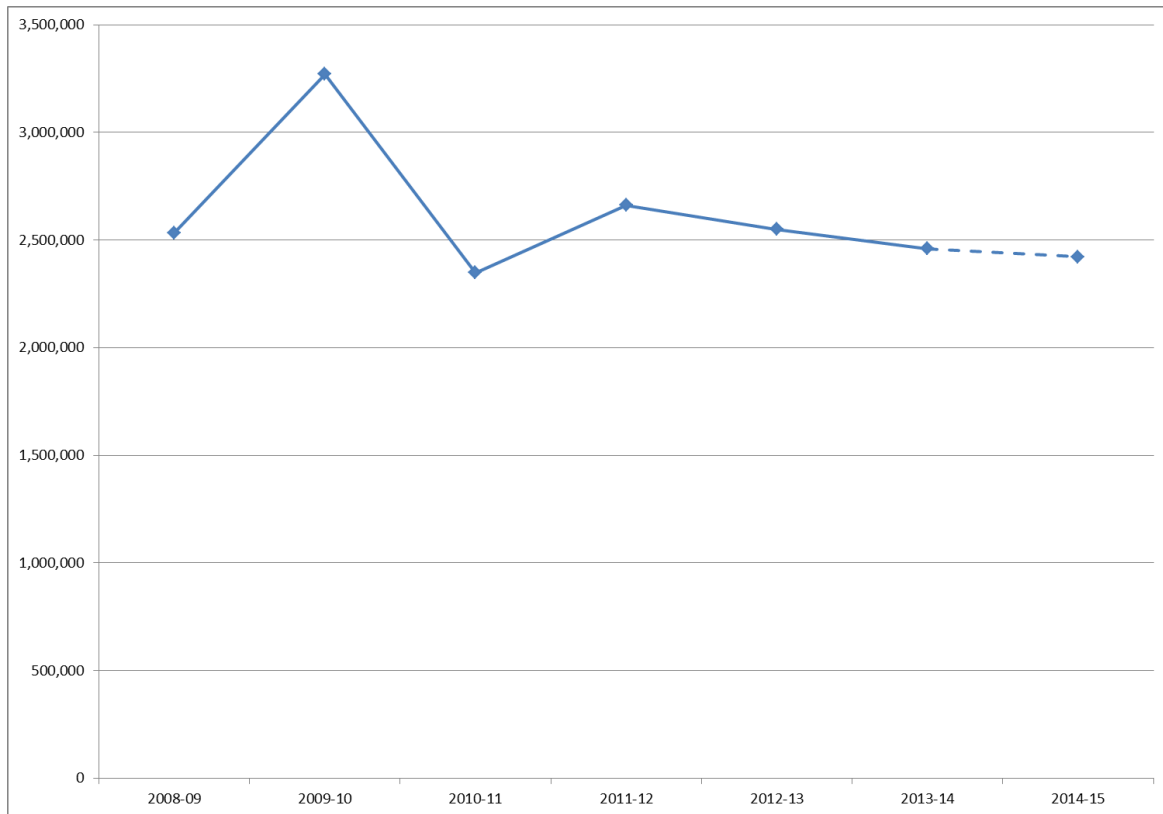
The capital returns submitted to the Scottish Government were reviewed with a view to bringing them more into line with the data collected on revenue expenditure. The main change was that the quarterly capital returns would cease in their current format and be replaced by a new Capital Provisional Outturn and Budget Estimates (CPOBE) data collection. This publication uses the Provisional Outturn data from this new data collection.

Budget Estimates data (2015-16 to 2017-18) is available in the background data published alongside this publication, but are not presented in the publication due to concerns about data quality. Users of the Budget Estimates data should note the data quality issues set out in the background notes of this publication.

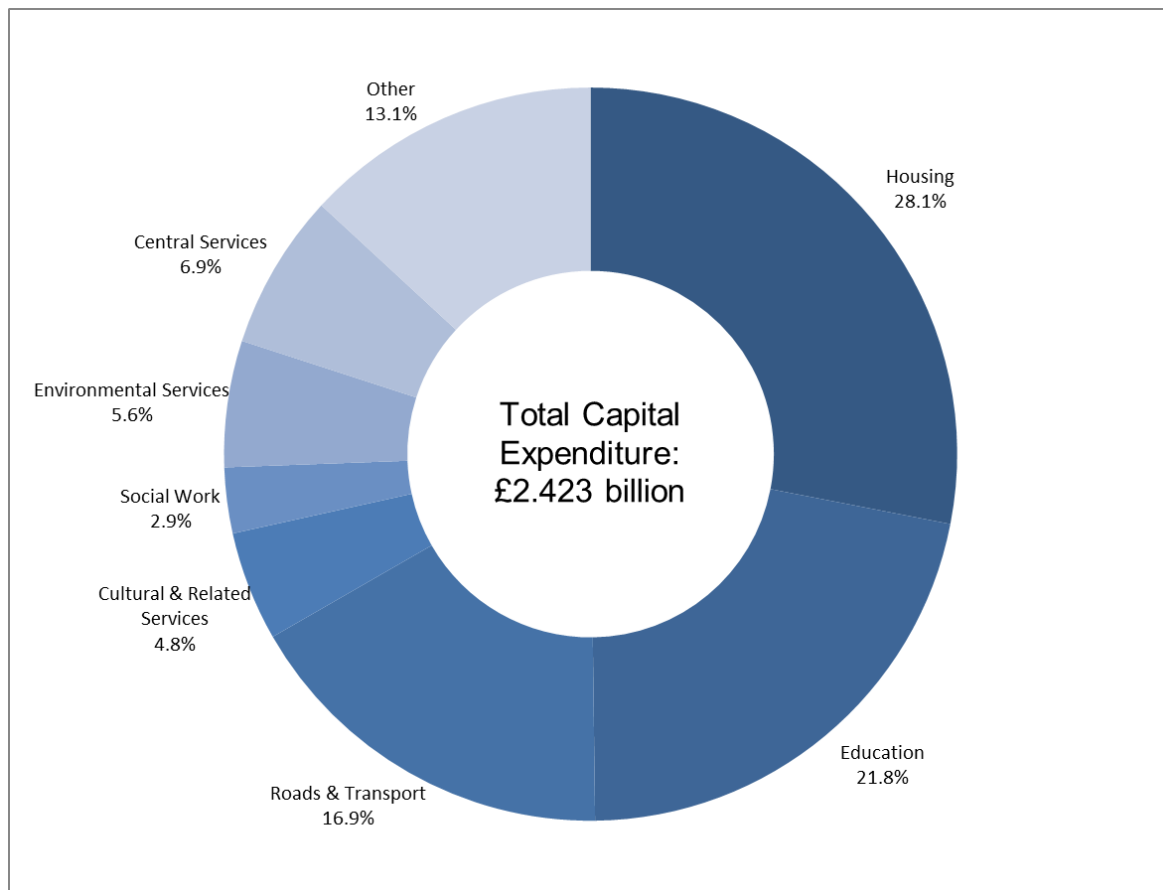
¹ For more information on experimental statistics please see:

<http://www.statisticsauthority.gov.uk/news/assessment-and-designation-of-experimental-statistics.html>

Total Capital Expenditure (£thousands): 2008-09 to 2014-15



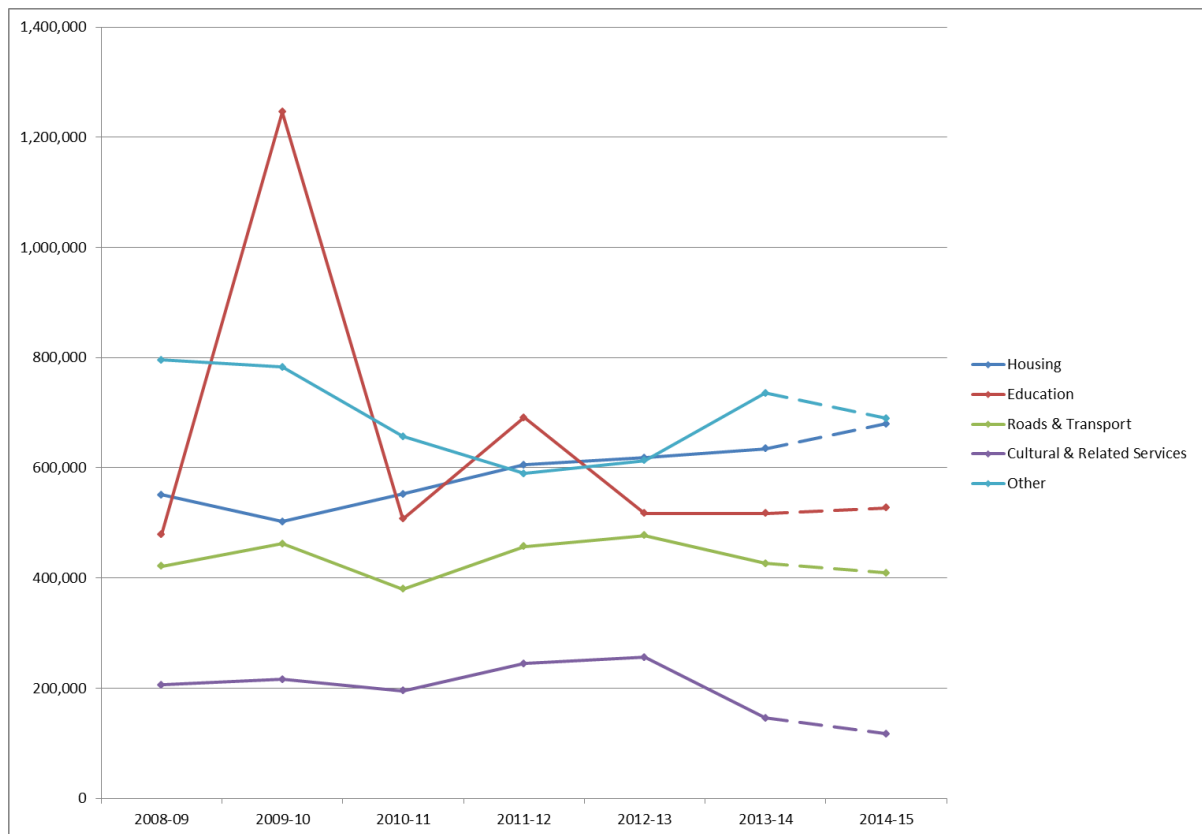
Capital Expenditure by Service, Provisional Outturn: 2014-15



In 2014-15 Scottish local authorities capital expenditure is anticipated to be **£2.423 billion**. This is a **provisional outturn**, with final audited values being available later in the year. Of this figure, £0.680 billion (28%) is on Housing (with the Housing Revenue Account accounting for 98% of the Housing expenditure) and £0.527 billion (22%) is on Education. These two services account for half of the total capital expenditure.

Provisional outturn for other main services is: Roads & Transport £0.409 billion (17%), Environmental Services £0.135 billion (6%) and Culture and Related Services £0.117 billion (5%). All other expenditure, including Social Work, Planning and Economic Development, Trading Services, Central Services and Other Services (including consent to borrow) totals £0.555 billion, 23% of the total provisional outturn capital expenditure.

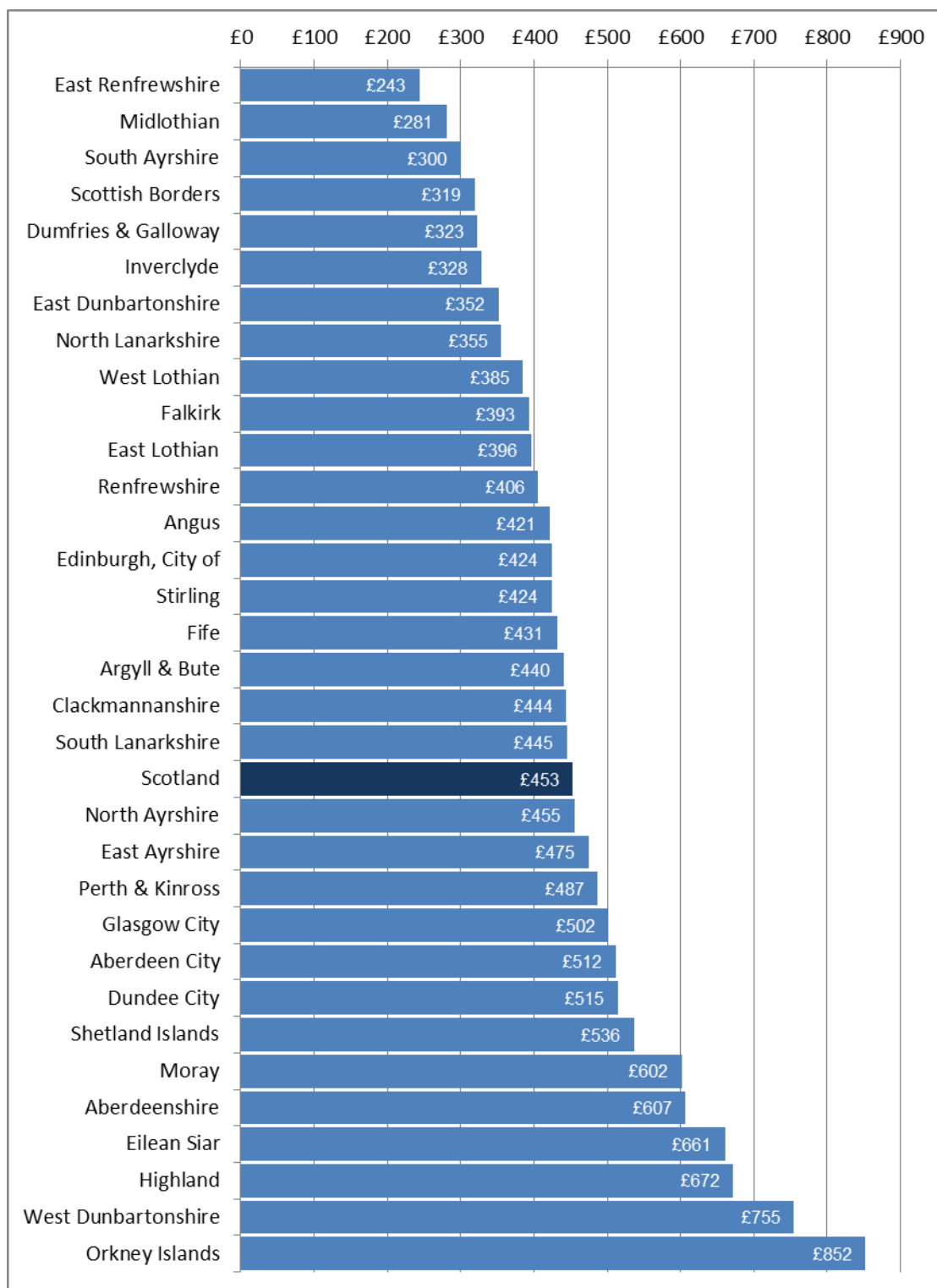
Capital Expenditure (£thousands) by Service: 2008-09 to 2014-15



The Provisional Outturn on capital expenditure in 2014-15 (£2.423 billion) is 1.5% lower than the actual capital expenditure in 2013-14 of £2.460 billion. Capital expenditure on **Housing has increased** by 7.1% from £0.634 billion in 2013-14 to £0.680 billion in 2014-15. Capital expenditure on **Education has increased** by 1.8% from £0.517 billion in 2013-14 to £0.527 billion in 2014-15. Service areas showing a fall in capital expenditure between 2013-14 and 2014-15 are Roads & Transport (-4%), Culture and Related Services (-19.9%) and Other (-6.2%).

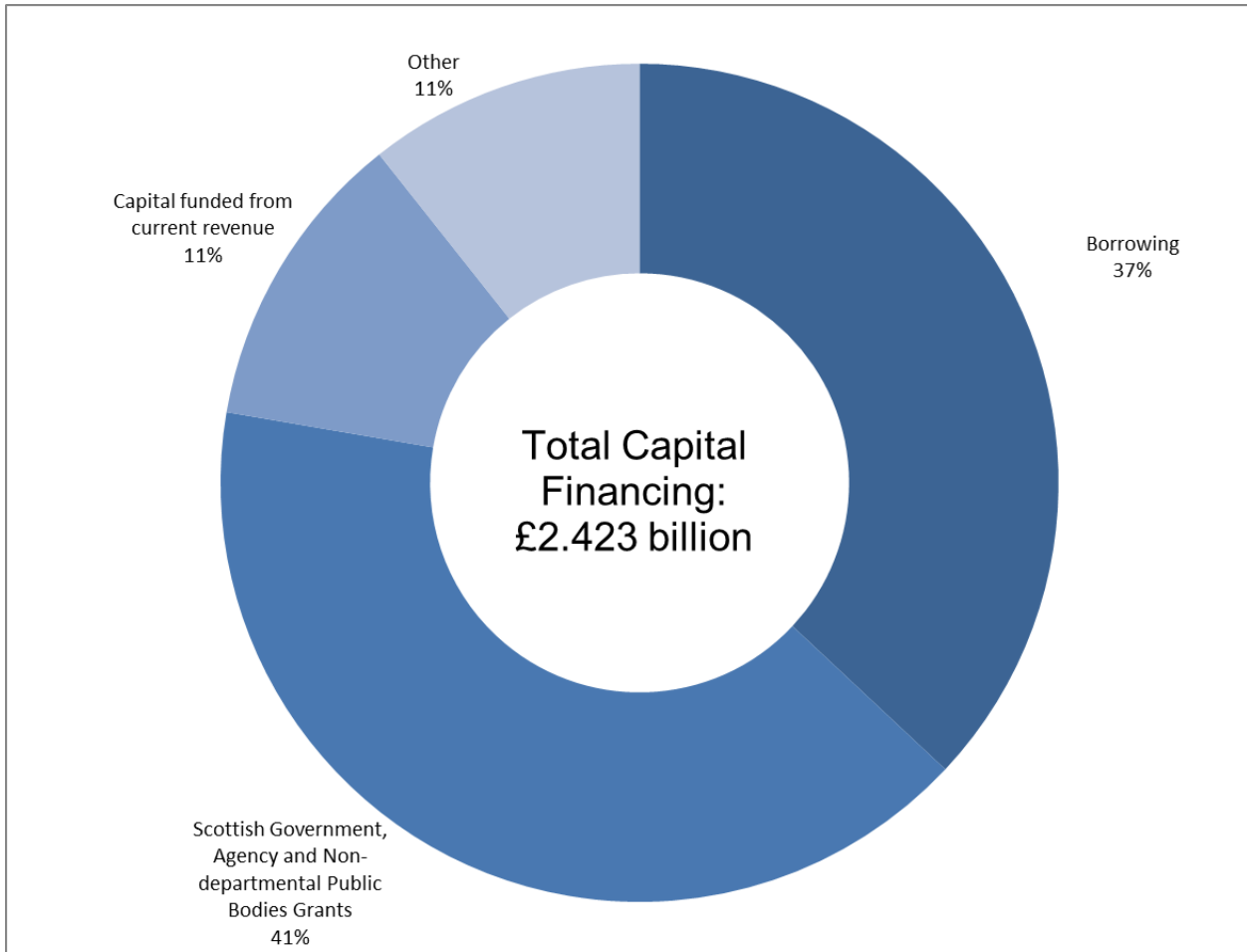
Revised accounting standards for Private Finance Initiatives (PFI) and Public Private Partnerships (PPP) applied from 1st April 2009. The change in accounting mostly affected schools, requiring a local authority to recognise a school as an asset of the authority and the construction costs as local authority capital expenditure. The sharp increase in Education expenditure in 2009-10 reflects the one –off adjustment required for this change in accounting.

Capital Expenditure per head of population by Local Authority Area, Provisional Outturn 2014-15



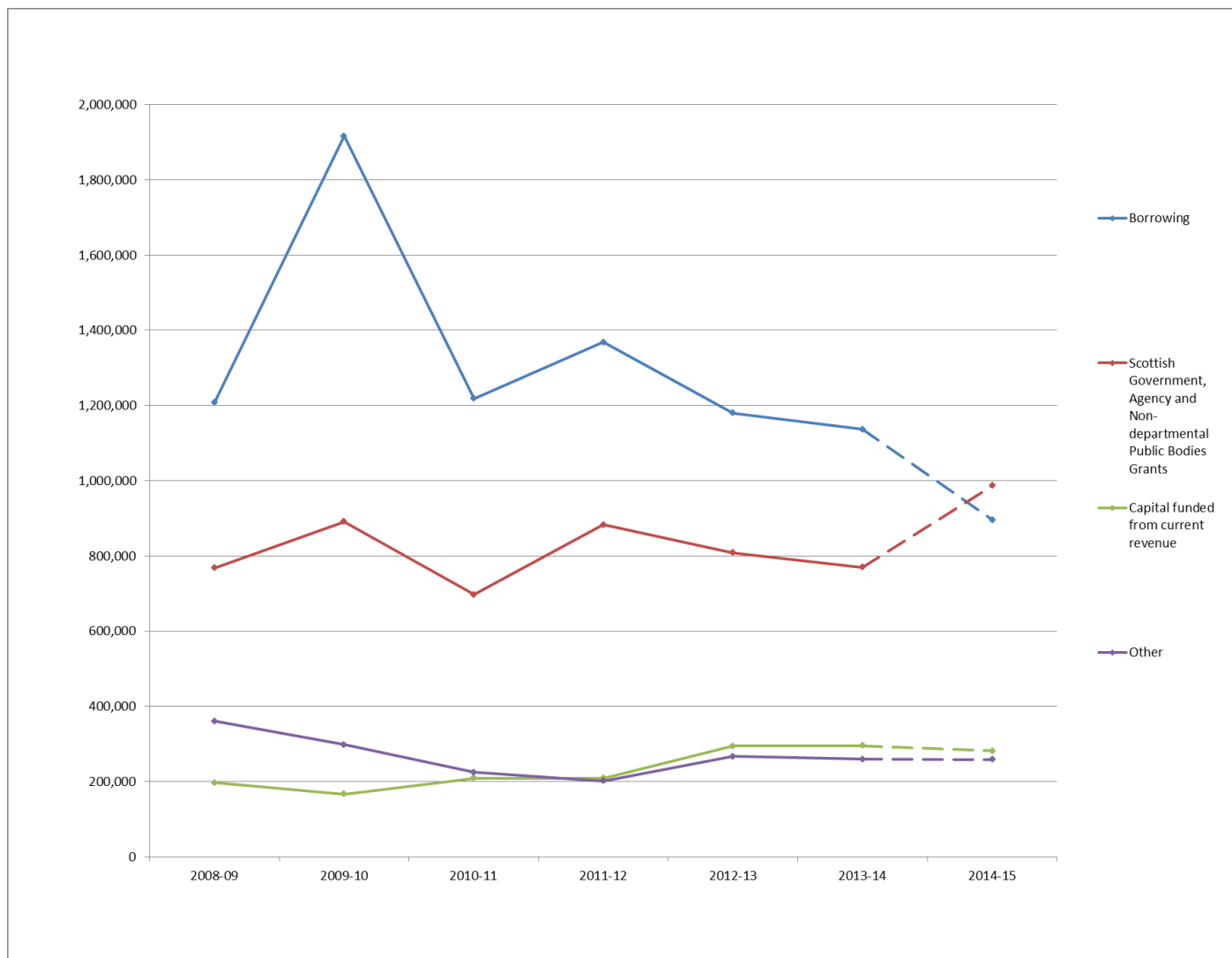
Local authority capital expenditure per head averaged £453, with values ranging from £243 per head in East Renfrewshire to £852 per head in Orkney Islands.

Financing of Capital Expenditure, Provisional Outturn: 2014-15



Local Authorities financed the expenditure of £2.423 billion from Scottish Government, Agency and Non-departmental Public Bodies Grants (£0.987 billion, 41% of financing), Borrowing (Advances from Loans Fund and Credit Arrangements) (£0.896 billion, 37%) and contributions from revenue (£0.282 billion, 12%). All other financing accounted for 11% of the total and included Capital Receipts, Capital Fund Applied and Other Grants.

Financing of Capital Expenditure by Source, 2008-09 to 2014-15



The amount of capital expenditure that is financed by grants from the Scottish Government, including Scottish Government Agencies and Non-Departmental Public Bodies has increased by 28% between 2013-14 and 2014-15. This is mainly due to the profiling of capital grant allocations over the whole spending review period. (-£120m in 2012-13, -£100m in 2013-14 and +£120m in 2014-15 with the remaining £94.2m allocated in 2015-16). Although the sum to be added back was originally £100 million this was reduced proportionately to £94.2 million following the transfer of the police and fire functions to the Scottish Government.

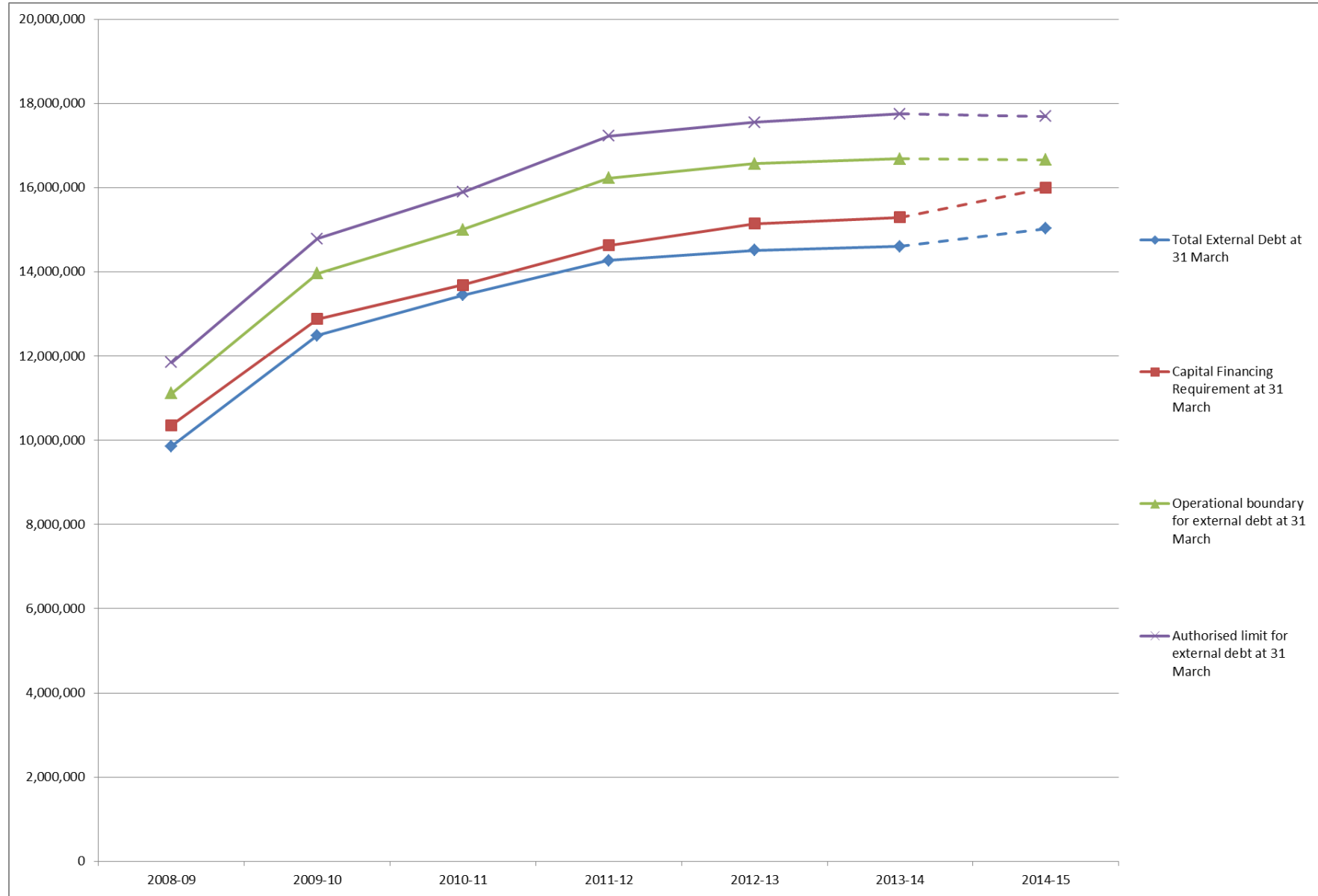
The amount of capital expenditure financed through borrowing (Advances from the Loans Fund and credit arrangements) has decreased by 21% between 2013-14 and 2014-15.

From 2011-12 all borrowing undertaken by local authorities became self-financed. Prior to this the first £305 million of local authority borrowed was supported by the Scottish Government through grant included within the local government revenue settlement.

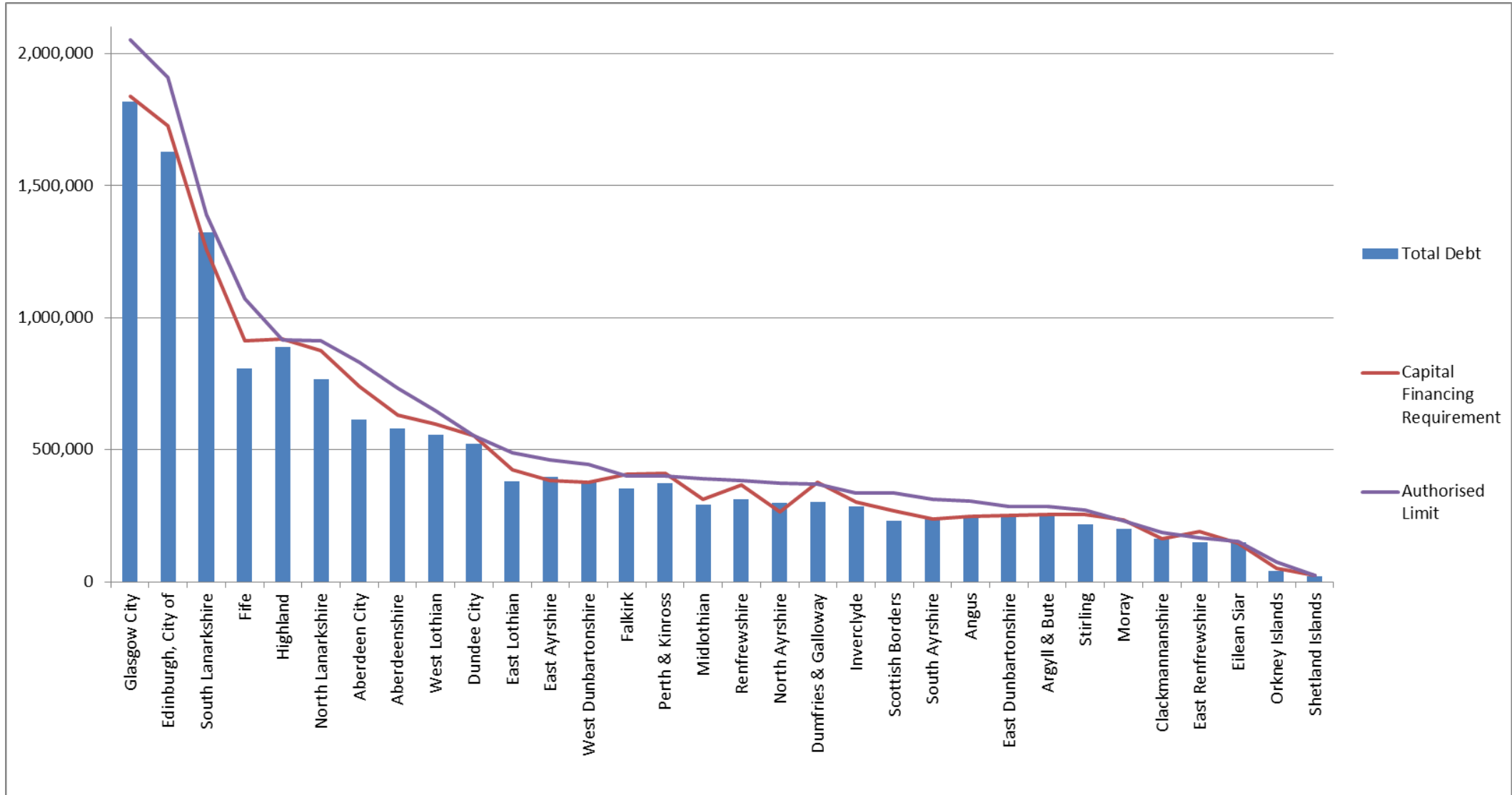
The sharp spike in 'Borrowing' in 2009-10 reflects historic schools capital expenditure required to be recognised for the first time as a local authority asset and the financing of that asset through a PPP/PFI financing arrangement.

Prudential Indicators

Total External Debt, Authorised Limit, Operational Boundary and Capital Financing Requirement (£thousands), 2008-09 to 2014-15



Total Debt, Capital Financing Requirement and Authorised limit (£thousands) by Local Authority, Provisional Outturn at 31st March 2015



CIPFA's Prudential Code for Capital Finance requires local authorities to prepare Prudential Indicators for their capital spending plans. The indicators collected by the Scottish Government are:

- Capital Financing Requirement;
- Total External Debt;
- Operational Boundary;
- Authorised Limit.

The Capital Financing Requirement (CFR) represents the amount of capital expenditure which a local authority has chosen to fund from borrowing with the repayment of that borrowing to be met from future local authority budgets. Each year the CFR will increase by the amount of new capital expenditure which a local authority has determined should be met by borrowing (which includes both borrowing money and credit arrangements such as PPP/PFI) and decrease by the amounts repaid. The CFR only represents an authority's underlying need to borrow to finance capital expenditure. The actual Total External Debt may be less than the CFR where a local authority has chosen to utilise internal cash reserves rather than borrow externally. The Total External Debt may exceed the CFR where a local authority has chosen to borrow in advance of actual capital expenditure. The Prudential Code limits borrowing in advance to the CFR plus up to 2 years planned capital expenditure to be funded from borrowing.

Local authorities are also required to set limits on external debt. The Operational Boundary (Annex B) is based on the authority's capital spending plans and should reflect the most likely, i.e. prudent, but not worst case scenario for borrowing. In general, it is not significant if an authority breaches the operational boundary for a short period, however a sustained or regular trend above the operational boundary would be significant.

The authorised limit represents the maximum amount that the authority may borrow and is set at a level that reflects capital expenditure plans but includes headroom to allow for unusual cash movements i.e. treasury management.

Local Authority **Total External Debt** increased by £0.438 billion (3%) during 2014-15, from £14.620 billion at the 1st April 2014 to £15.058 billion at the 31st March 2015. At the 31st March 2015, total external debt as a percentage of the Operational Boundary was 90% and total external debt as a percentage of the authorised limit was 85%. Local Authorities are slightly under-borrowed, with total external debt at 96% of the Capital Financing Requirement.

No authority had debt greater than their operational boundary on the 31st March 2015, although Shetland's total external debt reached, but did not exceed, their operational boundary.

Annex A – Summary of Capital Expenditure and Financing, Provisional Outturn (£thousands), 2014-15

	General Fund	HRA	Total
Expenditure:			
Housing	14,413	665,295	679,708
Roads and Transport	409,351	-	409,351
Education	527,047	-	527,047
Social Work	70,247	-	70,247
Environmental Services	135,077	-	135,077
Culture and Related Services	116,914	-	116,914
Planning and Economic Development	71,105	-	71,105
Trading Services	6,855	-	6,855
Central Services	129,915	-	129,915
Other Services	36,603	-	36,603
Capital Expenditure of the Authority	1,517,527	665,295	2,182,822
Other Expenditure capitalised under statute	240,154	-	240,154
Total Capital Expenditure	1,757,681	665,295	2,422,976
Financing:			
Scottish Government General Capital Grant	674,843	-	674,843
Scottish Government Specific Capital Grants	155,558	69,756	225,314
Grants from Scottish Government Agencies & NDPBs	86,424	-	86,424
Total Scottish Government, Agency and NDPB Grants	916,825	69,756	986,581
Advances from Loans Fund	546,127	308,868	854,995
Assets acquired under PPP/PFI/NPD (in year)	33,847	-	33,847
Assets acquired under other credit arrangements (e.g. finance leases (in year))	7,172	-	7,172
Total Borrowing	587,146	308,868	896,014
Capital expenditure financed from revenue	89,375	192,452	281,827
Capital receipts used from asset sales and disposals	42,028	66,130	108,158
Capital fund applied	35,348	-	35,348
Use of Council Tax discounts on second homes / long term empty properties	-	7,819	7,819
Capital funded from other sources	86,958	20,270	107,228
Other	164,334	94,219	258,553
Total Financing	1,757,681	665,295	2,422,976

Annex B – Summary of Borrowing and Debt (£thousands), 2008-09 to 2014-15

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	Final	Final	Final	Final	Final	Final	Provisional
Capital Financing Requirement at 1 April	9,622,873	11,520,318	13,094,369	13,988,396	14,674,452	14,893,146	15,795,907
Capital Expenditure to be financed by borrowing or credit arrangements	1,207,055	1,915,990	1,217,901	1,368,356	1,179,442	1,136,151	896,014
Capital Expenditure to be financed by borrowing							854,995
Capital Expenditure to be financed by credit arrangements							41,019
Loans Fund principal repayments	418,451	371,306	529,416	553,509	572,427	597,408	577,544
Credit arrangements principal repayments	3,733	96,565	85,420	100,952	88,335	92,969	84,072
Additional voluntary contributions of principal repayments	53,648	92,379	13,689	75,961	48,219	44,502	39,847
Change in Capital Financing Requirement	731,223	1,355,740	589,376	637,934	470,461	401,272	194,551
Capital Financing Requirement at 31 March	10,354,096	12,876,058	13,683,745	14,626,330	15,144,913	15,294,418	15,990,458
Borrowing at 1 April	9,687,142	9,822,831	9,897,347	10,800,370	11,290,176	11,558,504	11,897,475
Other long term liabilities at 1 April	36,502	1,812,660	2,723,559	2,920,001	2,875,632	2,852,975	2,690,905
Total External Debt at 1 April	9,723,644	11,635,491	12,620,906	13,720,371	14,165,808	14,411,479	14,588,380
Borrowing at 31 March	9,820,890	9,950,570	10,702,661	11,340,431	11,706,550	11,816,384	12,386,047
Other long term liabilities at 31 March	32,976	2,540,537	2,742,111	2,925,936	2,801,352	2,790,631	2,641,910
Total External Debt at 31 March	9,853,866	12,491,107	13,444,772	14,266,367	14,507,902	14,607,015	15,027,957
Operational boundary for external debt at 31 March	11,113,597	13,964,743	15,002,188	16,223,733	16,571,358	16,684,872	16,656,263
Authorised limit for external debt at 31 March	11,844,422	14,785,261	15,896,793	17,223,932	17,553,906	17,749,541	17,690,618

BACKGROUND NOTES

1. DATA SOURCES

- 1.1 The Scottish Government's Capital Provisional Outturn and Budget Estimates (CPOBE) has been collected with the help of the 32 unitary local authorities. The continued co-operation of these bodies in completing these returns is gratefully acknowledged.
- 1.2 This is a new data collection, brought in following a review of the data collected by the Scottish Government on capital expenditure and financing. As this is a new data collection and the publication has not yet been assessed by the UK Statistics Authority, they are being published as "data in development" rather than as official statistics. They are published in order to involve users and stakeholders in their development and as a means to build in quality at an early stage.
- 1.3 The provisional outturn 2014-15 capital expenditure are provisional figures, the final outturn 2014-15 capital expenditure figures will be published in the Scottish Local Government Financial Statistics (SLGFS) 2014-15, scheduled for publication in February 2016. Previous SLGFS publications can be found here: <http://www.gov.scot/Topics/Statistics/Browse/Local-Government-Finance/PubScottishLGFStats>

2. BACKGROUND

- 2.1 Local Government expenditure is split between revenue and capital expenditure. This publication covers capital expenditure only. Capital expenditure undertaken is mainly for purchasing, constructing or enhancing physical assets, such as buildings (e.g. schools), land (e.g. playing fields), infrastructure (e.g. roads), and vehicles, plant and machinery. Capital expenditure also includes expenditure that the Scottish Ministers have permitted the local authorities to treat as capital expenditure and is met from capital resources.
- 2.2 Unlike revenue expenditure, capital expenditure can be financed by borrowing. Borrowing includes both the borrowing of money and from credit arrangements such as Private Finance Initiatives (PFI) and Public Private Partnerships (PPP) including the Scottish Non Profit Distributing (NPD) model. Capital projects create an asset that provides a service over a period of years (e.g. buildings). As the authority gain the benefit of the asset over time, it is reasonable to spread the cost of the creating that asset over the life of that asset. Debt costs are met from a local authorities annual revenue budget – both the repayment of the borrowing and the interest cost of the debt.

2.3 When comparing the Provisional Outturn figures with Capital data for previous years, please be aware of the following:

- Across years, changes in accounting standards may require a local authority to change how it accounts for capital expenditure or an asset. This can lead to discontinuity in the data collected between financial years. For example, Revised accounting arrangements for Private Finance Initiatives (PFI) and Public Private Partnerships (PPP) were introduced from 1st April 2009. This changed the criteria for asset recognition and, from 2009-10 onwards, local authorities recognised PFI assets, such as schools, as assets of the local authority (on-balance sheet).
- Provisional Outturn is unaudited data. The final, audited figures will be published in the Scottish Local Government Financial Statistics compendium in February 2016.

3. DATA QUALITY

- 3.1 As this is the first time that the Provisional Outturn data has been collected, it is difficult to determine how accurate the figures are. Once the final audited data becomes available, we'll be able to compare them with these figures to determine their quality. Data quality here is expected to be good, as it is collected late enough in the financial year that there is little scope for unplanned projects to begin or for existing projects to be unexpectedly delayed.
- 3.2 There are more substantial concerns about the data quality of the Budget Estimates (not included in this publication, but included in the background data). There are several issues:
- Little estimation of project slippage in future years;
 - Limited estimation for future projects not yet approved;
 - Prudent estimates of future grant income.
- 3.3 The issue of slippage will overestimate the budget estimates for all expenditure items.
- 3.4 Underestimating the amount of future projects that have still to go ahead will underestimate the level of expenditure in the 2016-17 and 2017-18 estimates. As we have not collected budget estimates this far ahead before, it is not possible to estimate the level underestimating that this will bring.
- 3.5 Prudent estimates of future grant income will underestimate the amount of grant income authorities will receive in 2016-17 and 2017-18.
- 3.6 As the data collection continues it will be possible to estimate the expected level of bias that these issues bring and adjust the figures accordingly to get more accurate estimates of future expenditure and financing. In the

meantime, the unadjusted background data is being made available for information with appropriate health warnings.

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How to access background or source data

The data collected for this statistical bulletin:

are available in more detail through Scottish Neighbourhood Statistics

are available via an alternative route

<http://www.gov.scot/Topics/Statistics/Browse/Local-Government-Finance>

may be made available on request, subject to consideration of legal and ethical factors. Please contact lgfstats@scotland.gsi.gov.uk for further information.

cannot be made available by Scottish Government for further analysis as Scottish Government is not the data controller.

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