

PUBLIC SERVICES AND GOVERNMENT

Capital Expenditure and Financing: Provisional Outturn (2016-17) and Budget Estimates (2017-18)

Economy (Local Government Finance)

10th July 2017

This publication contains Provisional Outturn (2016-17) and Budget Estimates (2017-18) for local authority capital expenditure, its financing and 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 is based on data from this new collection.

¹ For more information on experimental statistics please see:

<https://www.statisticsauthority.gov.uk/monitoring-and-assessment/assessment/guidance-about-assessment/>

2016-17 – Provisional Outturn

- Scotland's local authorities' Capital Provisional Outturn has **increased by £260 million** (10.0%) to £2,869 million in 2016-17.
- £751 million of the Provisional Outturn in 2016-17 is on **Education**, an increase of £102 million (15.8%) on 2015-16.
- £475 million is on **Roads and Transport**, an increase of £55 million (13.0%).
- Capital Expenditure on the **Housing Revenue Account** was £682 million, an increase of 4.4%.
- Local Authorities **financed** their capital expenditure through Scottish Government Grants (£864 million, 30% of financing), Other Grants (£122 million, 4%) and Borrowing (£1,276 million, 44%). All other forms of financing, including capital receipts, capital fund and current revenue provided 21% (£608 million) of total financing.
- The CFR increased by £707 million in 2016-17, from £16,134 million at the 1st April 2016 to £16,842 million at the 31st March 2017. Total External Debt increased by £706 million (4.7%), from £15,176 million to £15,882 million over the same period. Local Authorities are therefore under-borrowed, with Total External Debt at 94% of the CFR, indicating that their treasury policy is to utilise cash reserves to fund borrowing at this time.

2017-18 – Budget Estimates

- Scotland's local authorities' **have increased their budget** for capital expenditure by £73 million (2.2%) to £3,451 million in 2017-18.
- £705 million of the Capital budget in 2017-18 is for **Education**, a decrease of £126 million (15.1%) on the 2016-17 budget.
- £554 million is for **Roads and Transport**, an increase of £70 million (14.4%).
- The local authority Capital budget for the **Housing Revenue Account** is £814 million, an increase of 1.2% on 2016-17.
- Local Authorities are planning to **finance** their 2017-18 capital programmes from Scottish Government Grants (£1,025 million, 30%), Other Grants (£133 million, 4%) and Borrowing (£1,769 million, 51%). All other forms of financing, including capital receipts, capital fund and current revenue, form 15% (£524 million) of total financing.
- The Budget Estimates mean that the Capital Financing Requirement (CFR) will increase by 6.9% (£1,155 million) in 2017-18, from £16,842 million as at the 1st April 2017 to £17,997 million at the 31st March 2018. Total External Debt will increase by £930 million (a 5.9% increase) from £15,882 million to £16,813 million over the same period. Local Authorities are planning to continue to be under-borrowed, with Total External Debt at 93% of the CFR.

2016-17 – Provisional Outturn

- Scotland's local authorities' Provisional Outturn total capital expenditure is £2,869 million. This is an increase of £260 million (10.0%) compared with Provisional Outturn for 2015-16.
- £751 million of the Provisional Outturn in 2016-17 is on Education, an increase of £102 million (15.8%) on 2015-16. £475 million is on Roads and Transport, an increase of £55 million (13.0%). Capital Expenditure on the Housing Revenue Account was £682 million, an increase of 4.4%. These three services account for around two thirds of capital expenditure, with the Housing Revenue Account accounting for 24% of capital expenditure, Education accounting for 26% and Roads and Transport accounting for 17%.
- Provisional Outturn for other main services: Culture and Related Services £192 million (7%), Environmental Services £116 million (4%), Planning and Economic Development £182 million (6%). All other expenditure, including Central Services, Social Work and non-HRA Housing totals £472 million (16%).
- Local Authorities financed this expenditure through Scottish Government Grants (£864 million, 30% of financing), Other Grants (£122 million, 4%) and Borrowing (£1,276 million, 44%). All other forms of financing, including capital receipts, capital fund and current revenue provided 21% (£608 million) of total financing.
- The CIPFA Prudential Code sets out a framework for a local authority to demonstrate its capital investment plans are affordable, prudent and sustainable. One of the prudential indicators is the Capital Financing Requirement (CFR). The Capital Financing Requirement (CFR) represents the amount of capital expenditure which a local authority has determined should be met from borrowing with the repayment of that borrowing to be met from future local authority budgets. 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 CFR increased by £707 million in 2016-17, from £16,134 million at the 1st April 2016 to £16,842 million at the 31st March 2017. Total External Debt increased by £706 million (4.7%), from £15,176 million at the 1st April 2016 to £15,882 million at the 31st March 2017. Local Authorities are therefore under-borrowed, with Total External Debt at 94% of the CFR, indicating that their treasury policy is to utilise cash reserves to fund borrowing at this time. Should their cash requirement increase a local authority can borrow externally to meet that need, utilising the under-borrowed position against the CFR.

Chart 1: Provisional Outturn by Service, 2016-17

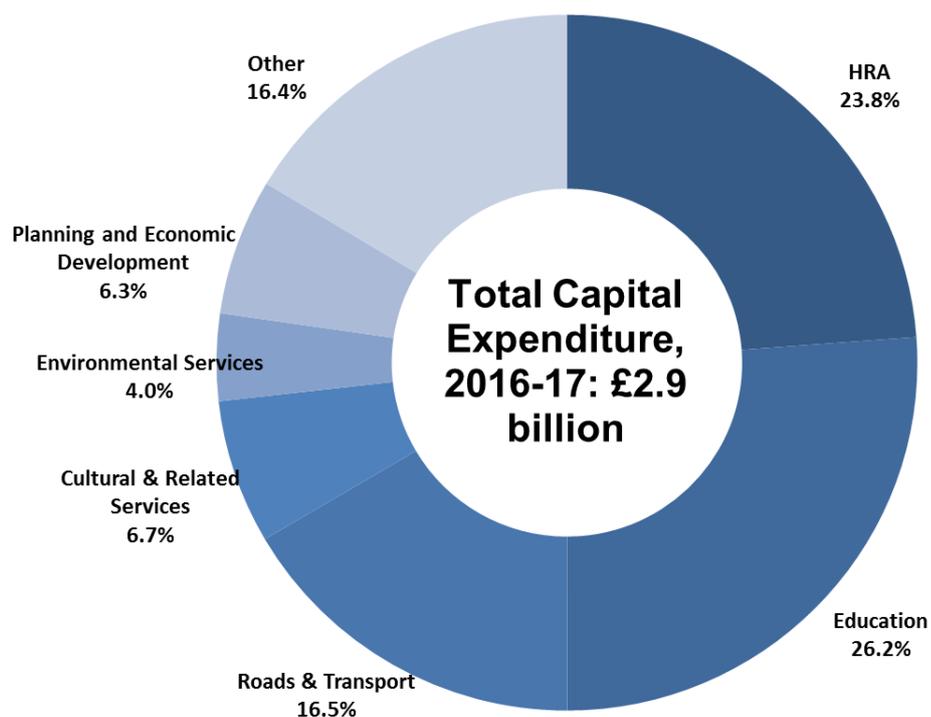
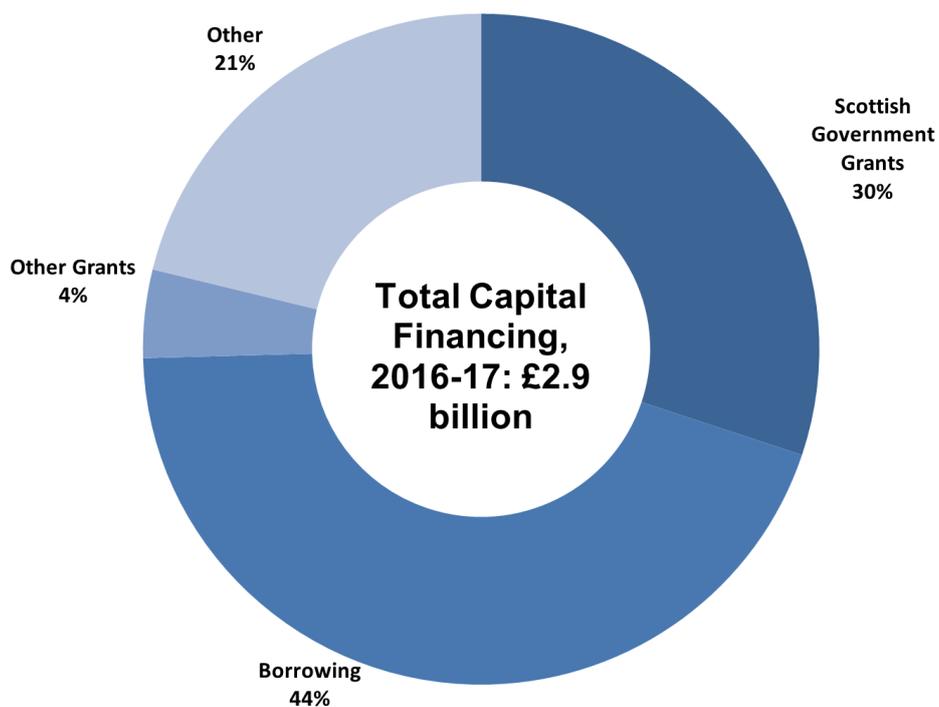


Chart 2: Financing by Source, 2016-17



2017-18 – Budget Estimates

- Scotland's local authorities' have set a budget for capital expenditure of £3,451 million. The budget for 2017-18 is an increase of £73 million (2.2%) compared with the budget set in 2016-17.
- £705 million of the Capital budget in 2017-18 is for Education, a decrease of £126 million (15.1%) on the 2016-17 budget. £554 million is for Roads and Transport, an increase of £70 million (14.4%). The local authority Capital budget for the Housing Revenue Account is £814 million, an increase of 1.2% on 2016-17. These three services account for just under two thirds of the capital budget, with Education accounting for 20% of the capital budget, the Housing Revenue Account accounting for 24% and Roads and Transport accounting for 16%.
- Budget Estimates for other main services are: Culture and Related Services £195 million (6%), Environmental Services £144 million (4%), Planning and Economic Development £374 million (11%). All other capital Budget Estimates, including Central Services, Social Work and non-HRA Housing total £664 million (19%).
- Local Authorities are planning to finance their 2017-18 capital programmes from Scottish Government Grants (£1,025 million, 30%), Other Grants (£133 million, 4%) and Borrowing (£1,769 million, 51%). All other forms of financing, including capital receipts, capital fund and current revenue, form 15% (£524 million) of total financing.
- The Budget Estimates mean that the Capital Financing Requirement (CFR) will increase by 6.9% (£1,155 million) in 2017-18, from £16,842 million as at the 1st April 2017 to £17,997 million at the 31st March 2018. Between the 1st April 2017 and 31st March 2018, Total External Debt would increase by £930 million (a 5.9% increase) from £15,882 million at the 1st April 2017 to £16,813 million at the 31st March 2018. Local Authorities are planning to continue to be under-borrowed, with Total External Debt at 93% of the CFR (see chart 5).

Chart 3: Budget Estimates Expenditure by Service, 2017-18

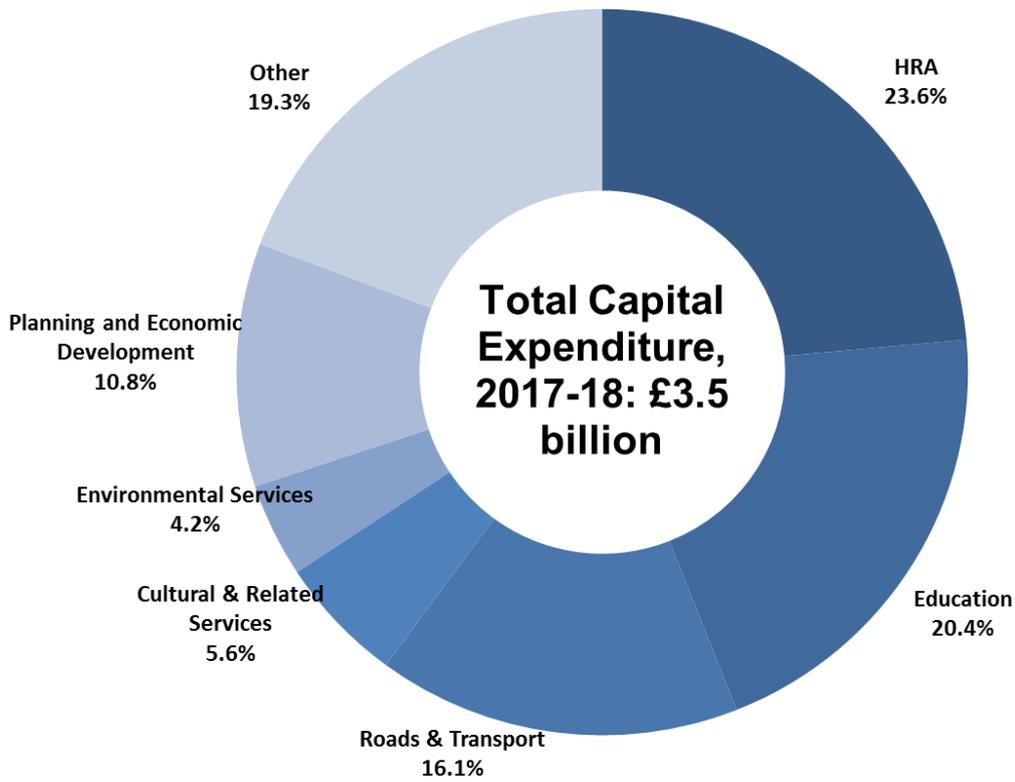


Chart 4: Budget Estimate Financing by Source, 2017-18

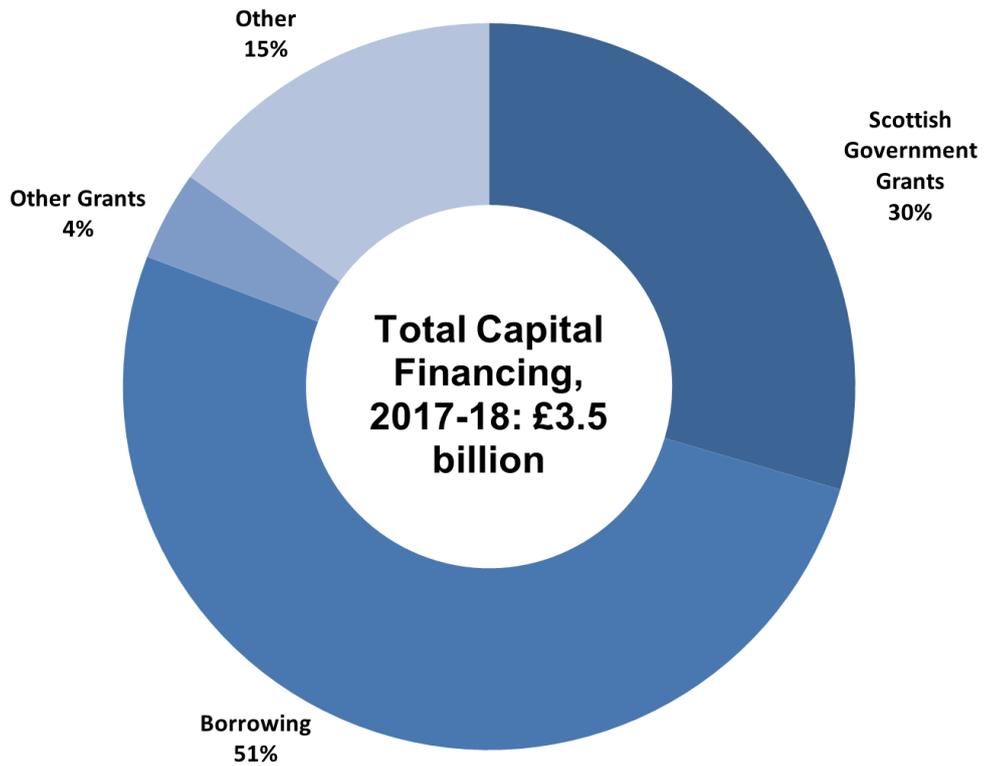
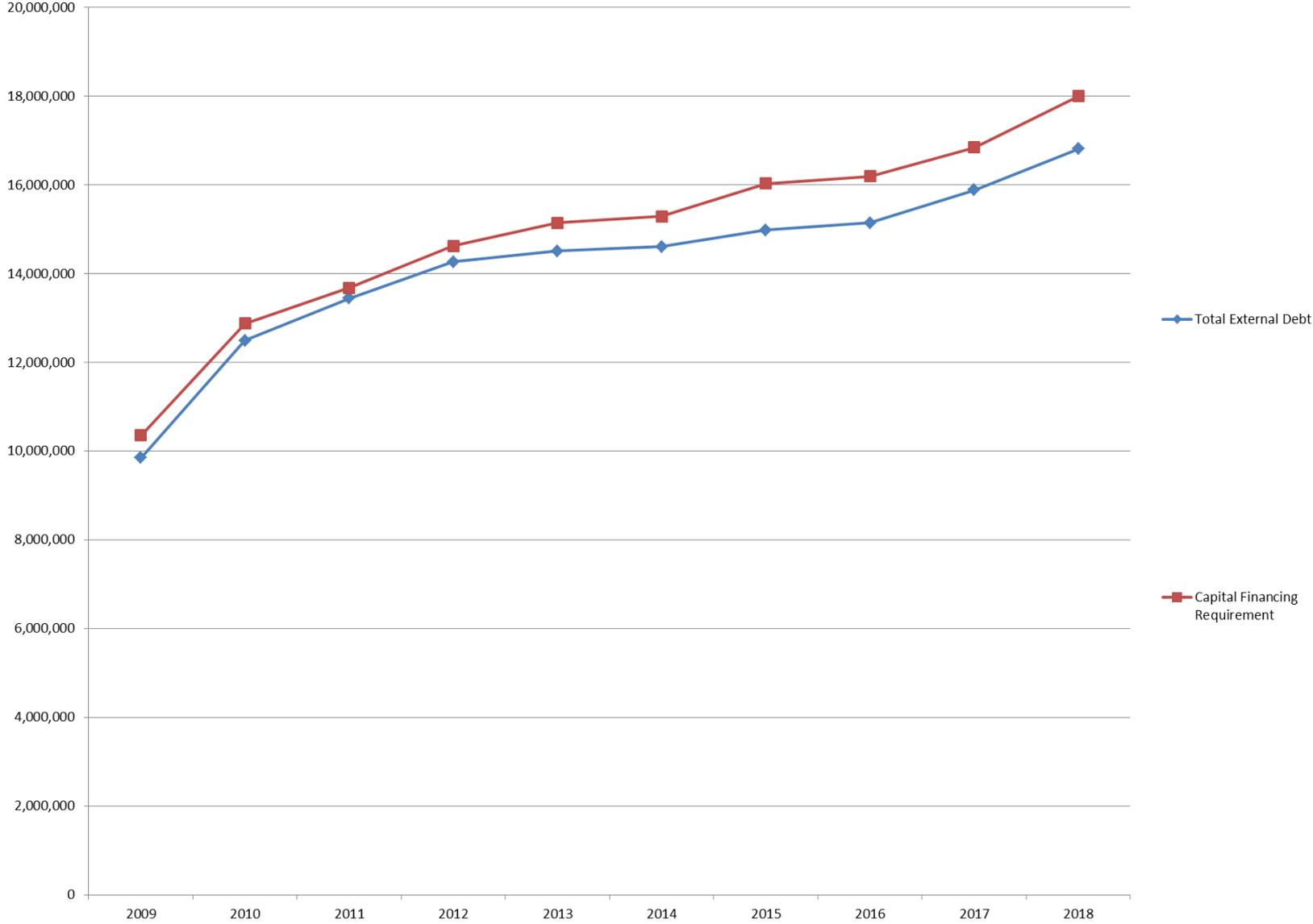


Chart 5: Capital Financing Requirement and Total External Debt at 31st March, 2009 to 2018, £thousands



Annex A – Summary of Capital Expenditure and Financing, Provisional Outturn (£thousands), 2014-15 to 2016-17

	2014-15 Provisional Outturn	2015-16 Provisional Outturn	2016-17 Provisional Outturn
Expenditure:			
Non-HRA Housing	14,413	23,596	36,882
Roads and Transport	409,351	420,055	474,686
Education	527,047	648,450	750,629
Social Work	70,247	59,180	66,201
Environmental Services	135,077	117,826	116,116
Culture and Related Services	116,914	147,457	192,154
Planning and Economic Development	71,105	103,707	181,728
Trading Services	6,855	9,835	4,263
Other Services	166,518	157,845	183,712
Gross Capital Expenditure - General Fund	1,517,527	1,687,951	2,006,371
Gross Capital Expenditure - HRA	665,295	653,695	682,300
Other Expenditure capitalised under statute	240,154	268,114	180,791
Total Expenditure to be met from Capital Resources	2,422,976	2,609,760	2,869,462
Financing:			
Scottish Government General Capital Grant	674,843	695,717	504,030
Scottish Government Specific Capital Grants	225,314	257,162	279,862
Grants from Scottish Government Agencies and NDPBs	86,424	100,837	80,047
Other Grants and Contributions	94,777	112,436	121,831
Borrowing	854,995	900,754	1,275,981
Capital receipts used from asset sales/disposals	108,158	174,936	178,326
Capital Fund applied	35,348	67,699	66,217
Capital funded from current revenue	281,827	265,671	272,562
Assets acquired under credit arrangements (e.g. finance leases, PPP/PFI)	41,019	0	63,607
Capital Funded from other sources	20,270	34,548	26,999
Total Financing from Capital Resources	2,422,976	2,609,760	2,869,462

Annex B – Summary of Capital Expenditure and Financing, Budget Estimates (£thousands), 2015-16 to 2017-18

	2015-16 Budget Estimates	2016-17 Budget Estimates	2017-18 Budget Estimates
Expenditure:			
Non-HRA Housing	30,735	34,484	89,649
Roads and Transport	473,997	484,751	554,424
Education	785,933	830,690	704,987
Social Work	106,059	92,564	76,858
Environmental Services	165,858	154,378	144,398
Culture and Related Services	193,958	223,026	194,815
Planning and Economic Development	136,234	229,999	374,153
Trading Services	10,264	10,384	15,105
Other Services	215,081	279,838	265,692
Gross Capital Expenditure - General Fund	2,118,119	2,340,114	2,420,081
Gross Capital Expenditure - HRA	772,279	804,342	813,592
Other Expenditure capitalised under statute	267,765	233,253	217,138
Total Expenditure to be met from Capital Resources	3,158,163	3,377,709	3,450,811
Financing:			
Scottish Government General Capital Grant	670,722	467,743	655,269
Scottish Government Specific Capital Grants	233,309	199,409	253,382
Grants from Scottish Government Agencies and NDPBs	82,225	100,183	116,487
Other Grants and Contributions	110,035	126,969	132,610
Borrowing	1,550,461	1,875,171	1,768,575
Capital receipts used from asset sales/disposals	102,429	121,741	158,385
Capital Fund applied	103,146	147,675	41,143
Capital funded from current revenue	287,796	285,217	291,279
Assets acquired under credit arrangements (e.g. finance leases, PPP/PFI)	0	0	13,789
Capital Funded from other sources	18,041	53,601	19,892
Total Financing from Capital Resources	3,158,163	3,377,709	3,450,811

Annex C – Prudential Information, Provisional Outturn 2013-14 and Budget Estimates 2017-18 (£thousands)

	2013-14	2014-15	2015-16	2016-17	2017-18
	Final Outturn	Final Outturn	Final Outturn	Provisional Outturn	Budget Estimate
Capital Financing Requirement at 1 April	14,893,146	15,863,207	16,020,231	16,134,297	16,841,694
Capital Expenditure to be financed by borrowing or credit arrangements	1,136,151	872,402	853,053	1,339,588	1,782,364
Capital Expenditure to be financed by borrowing	n/c	829,701	831,327	1,246,433	1,715,480
Capital Expenditure to be financed by credit arrangements	n/c	n/c	n/c	63,607	13,789
Third party capital grants to be financed by borrowing	n/c	42,701	21,726	29,548	53,095
Less Loans Fund principal repayments	597,408	568,548	568,953	546,688	549,997
Less Credit arrangements principal repayments	92,969	94,391	88,723	74,707	76,425
Less Additional voluntary contributions of principal repayments	44,502	39,848	25,865	10,796	1,075
Change in Capital Financing Requirement	401,272	169,615	169,512	707,397	1,154,867
Capital Financing Requirement at 31 March	15,294,418	16,032,822	16,189,743	16,841,694	17,996,562
Borrowing at 1 April	11,558,504	11,897,475	12,378,022	12,464,835	13,300,862
Other long term liabilities at 1 April	2,852,975	2,690,905	2,648,120	2,711,241	2,581,278
Total External Debt at 1 April	14,411,479	14,588,380	15,026,142	15,176,076	15,882,140
Borrowing at 31 March	11,816,384	12,332,169	12,465,804	13,300,862	14,197,101
Other long term liabilities at 31 March	2,790,631	2,645,977	2,680,311	2,581,278	2,615,521
Total External Debt at 31 March	14,607,015	14,978,146	15,146,115	15,882,140	16,812,622
Operational boundary for external debt at 31 March	16,684,872	16,779,418	16,982,303	17,797,302	18,762,399
Authorised limit for external debt at 31 March	17,749,541	17,787,296	17,733,442	19,085,997	20,354,760
Total External debt at 31 March as a percentage of Capital Financing Requirement	96%	93%	94%	94%	93%
Total External debt at 31 March as a percentage of Operational Boundary	88%	89%	89%	89%	90%
Total External debt at 31 March as a percentage of Authorised Limit	82%	84%	85%	83%	83%

BACKGROUND NOTES

1. DATA SOURCES

- 1.1 The Scottish Government's Capital Provisional Outturn and Budget Estimates (CPOBE) return 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 relatively new data collection, brought in following a review in 2015 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 2016-17 capital expenditure are provisional figures, the final outturn 2016-17 capital expenditure figures will be published in the Scottish Local Government Financial Statistics (SLGFS) 2016-17, scheduled for publication in February 2018. 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 as it 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 authority's 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 2017.

3. DATA QUALITY

3.1 The Provisional Outturn figures in this publication were provided on a unaudited basis before the authority's accounts were compiled. As such, they are subject to revision in the final audited accounts and small percentage changes should be interpreted with caution. The 'lumpy' nature of capital expenditure means that delays or changes to large capital projects at the end of the financial year can have a large impact on the final figures. This publication makes comparisons between Provisional Outturn in 2015-16 with Provisional Outturn in 2016-17. This is to ensure that we are comparing like with like. It would not be unreasonable to compare Final Outturn to the Provisional Outturn to draw conclusions, however this data collection is still relatively new and there isn't enough data available to conclude whether any differences are random variation or if there is a systematic bias in the data collection that would need adjusted for.

3.2 The Budget Estimates should not be compared with the Provisional Outturn. There are substantial differences between Budget Estimates and Provisional Outturn which mean that these comparisons would not be valid. As such, analysis of budget estimates should be done on a budget to budget basis to ensure the comparisons are like for like.

An Experimental Statistics: Data Being Developed publication for Scotland

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Correspondence and enquiries

For enquiries about this publication please contact:

Euan Smith,

Local Government Finance Statistics,

Telephone: 0131 244 7033,

e-mail: lgfstats@gov.scot

For general enquiries about Scottish Government statistics please contact:

Office of the Chief Statistician, Telephone: 0131 244 0442,

e-mail: statistics.enquiries@gov.scot

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are available via an alternative route

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

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