

PUBLIC SERVICES AND GOVERNMENT

Capital Expenditure and Financing: Provisional Outturn (2017-18) and Budget Estimates (2018-19)

Economy (Local Government Finance)

19th June 2018

This publication contains Provisional Outturn (2017-18) and Budget Estimates (2018-19) 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/>

2017-18 – Provisional Outturn

- Scotland's local authorities' budgeted to spend £3,451 million on capital expenditure in 2017-18, the provisional outturn being reported as £2,903 million. This is an underspend of £548 million. When compared to the Provisional Outturn for 2016-17 this is an increase of £33 million (+1.2%).
- £769 million of capital expenditure in 2017-18 is expected to be on **Education**, an increase of £19 million (+2.5%) on 2016-17.
- £457 million is expected to be on **Roads and Transport**, a fall of £18 million (-3.7%).
- Capital Expenditure on the **Housing Revenue Account** is expected to be £691 million, an increase of +1.3%.
- Local Authorities expect to **finance** this capital expenditure by Scottish Government Grants (£990 million, 34% of financing), Other Grants (£161 million, 6%) and Borrowing (£1,031 million, 36%). All other forms of financing, including capital receipts, capital fund and current revenue are expected to provide 25% (£720 million) of total financing.
- The Capital Financing Requirement (CFR) is anticipated to increase by £631 million in 2017-18, from £16,915 million at the 1st April 2017 to £17,546 million at the 31st March 2018. Total External Debt is expected to increase by £489 million (+3.1%), from £15,939 million to £16,428 million over the same period. Local Authorities are therefore expected to remain 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.

2018-19 – Budget Estimates

- Scotland's local authorities' **have increased their budget** for capital expenditure by £24 million (+0.7%) to £3,475 million in 2018-19.
- £678 million of the Capital budget in 2018-19 is for **Education**, a decrease of £27 million (-3.8%) on the 2017-18 budget.
- £556 million is for **Roads and Transport**, an increase of £1 million (+0.2%).
- The local authority Capital budget for the **Housing Revenue Account** is £875 million, an increase of 7.5% on 2017-18.
- Local Authorities plan to **finance** the 2018-19 capital budget from Scottish Government Grants (£1,011 million, 29% of financing), Other Grants (£166 million, 5%) and Borrowing (£1,795 million, 52%). All other forms of financing, including capital receipts, capital fund and current revenue, form 14% (£503 million) of total financing.
- The capital budget would increase the CFR by 6.8% (£1,191 million) in 2018-19, from £17,546 million at the 1st April 2018 to £18,737 million at the 31st March 2019. Total External Debt would increase by £1,113 million (+6.8%) from £16,428 million to £17,541 million over the same period. Local Authorities are planning to continue to be under-borrowed, with Total External Debt at 94% of the CFR.

2017-18 – Provisional Outturn

- Scotland's local authorities' budgeted to spend £3,451 million on capital expenditure in 2017-18, the provisional outturn being reported as £2,903 million. This is an underspend of £548 million. When compared to the Provisional Outturn for 2016-17 this is an increase of £33 million (+1.2%).
- £769 million of the Provisional Outturn in 2016-17 is on Education. This is £64.4 million more than planned budgeted expenditure on Education in 2017-18. When compared with the Provisional Outturn for 2016-17 this is an increase of £19 million (+2.5%). £457 million is on Roads and Transport, a underspend of £97 million from the planned budgeted spend in 2017-18. When compared with the Provisional Outturn for 2016-17 this is a decrease of £18 million (-3.7%). Capital Expenditure on the Housing Revenue Account (HRA) is expected to be £691 million, being 23.8% of the total, an underspend of £122 million from planned budgeted expenditure in 2017-18. When compared with the Provisional Outturn for 2016-17 this is an increase of 1.3%. 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 27% and Roads and Transport accounting for 16%.
- Provisional Outturn for other main services: Culture and Related Services £169 million (6%), Environmental Services £88 million (3%), Planning and Economic Development £266 million (9%). All other expenditure, including Central Services, Social Work and non-HRA Housing totals £461 million (16%).
- Local Authorities expect to finance this expenditure by Scottish Government Grants (£990 million, 34% of financing), Other Grants (£161 million, 6%) and Borrowing (£1,031 million, 36%). All other forms of financing, including capital receipts, capital fund and current revenue provided 25% (£720 million) of total financing.
- The Chartered Institute of Public Finance and Accountancy (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 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 revenue 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.
- Scottish local authorities are reporting that their CFR will increase by £631 million during 2017-18, from £16,915 million at the 1st April 2017 to £17,546 million at the 31st March 2018. Total External Debt is expected to increase by £489 million (+3.1%), from £15,939 million at the 1st April 2017 to £16,428 million at the 31st March 2018. 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, 2017-18

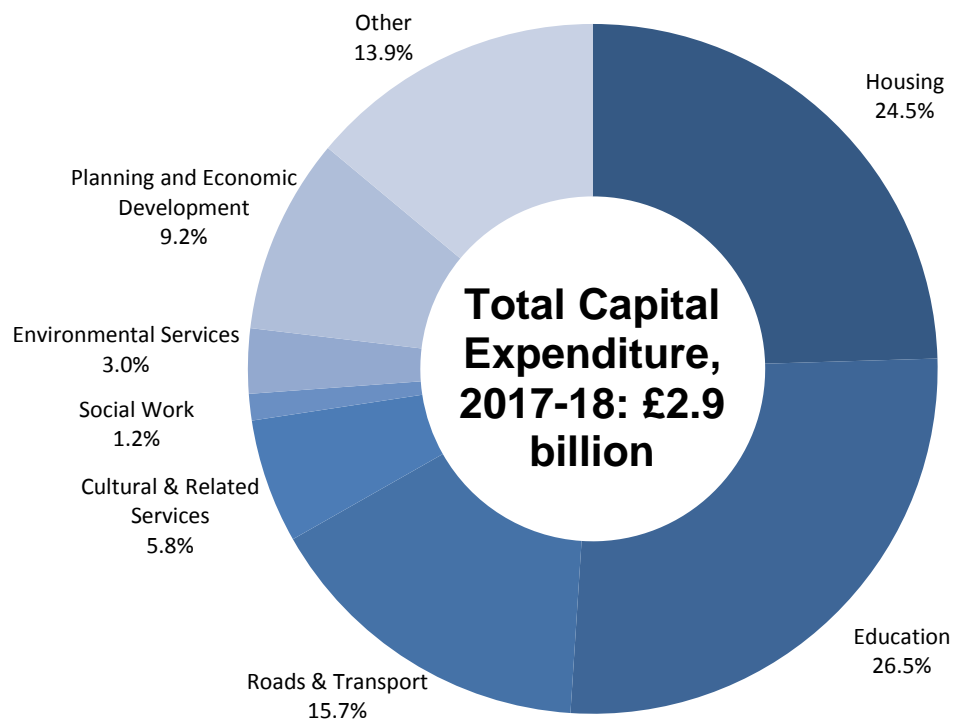
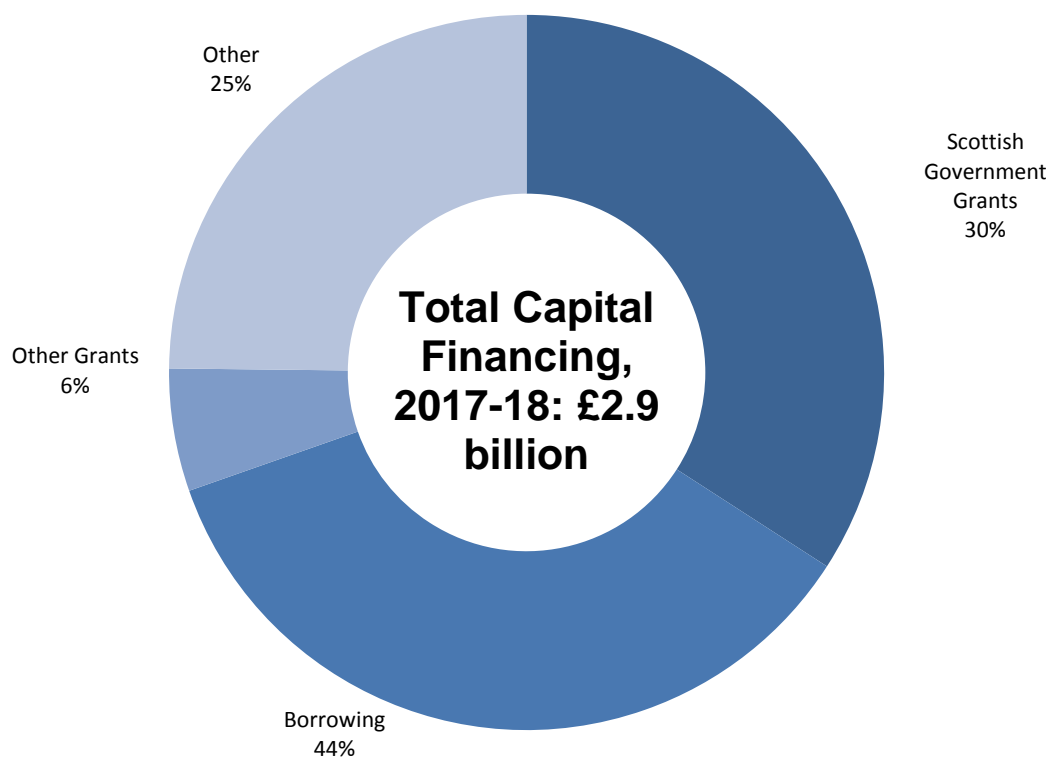


Chart 2: Financing by Source, 2017-18



2018-19 – Budget Estimates

- Scotland's local authorities' have set a budget for capital expenditure of £3,475 million. The budget for 2018-19 is £24 million (+0.7%) higher than the budget set in 2017-18.
- £678 million of the Capital budget in 2018-19 is for Education, a decrease of £27 million (-3.8%) on the 2017-18 budget. £555 million is for Roads and Transport, an increase of £1 million (+0.2%). The local authority Capital budget for the HRA is £875 million, an increase of 7.5% on 2017-18. These three services account for just under two thirds of the capital budget, with Education accounting for 20% of the capital budget, the HRA accounting for 25% and Roads and Transport accounting for 16%.
- Budget Estimates for other main services are: Culture and Related Services £190 million (5%), Environmental Services £140 million (4%), Planning and Economic Development £390 million (11%). All other capital Budget Estimates, including Central Services, Social Work and non-HRA Housing total £646 million (19%).
- Local Authorities are planning to finance their 2017-18 capital programmes from Scottish Government Grants (£1,011 million, 29%), Other Grants (£166 million, 5%) and Borrowing (£1,795 million, 52%). All other forms of financing, including capital receipts, capital fund and current revenue, form 14% (£503 million) of total financing.
- This budget would increase the CFR by 6.8% (£1,191 million) over 2018-19, from £17,546 million at the 1st April 2018 to £18,737 million at the 31st March 2019. Between the 1st April 2018 and 31st March 2019, Total External Debt would increase by £1,113 million (a 6.8% increase) from £16,428 million at the 1st April 2018 to £17,541 million at the 31st March 2019. Local Authorities are planning to continue to be under-borrowed, with Total External Debt at 94% of the CFR (see chart 5).

Chart 3: Budget Estimates by Service, 2018-19

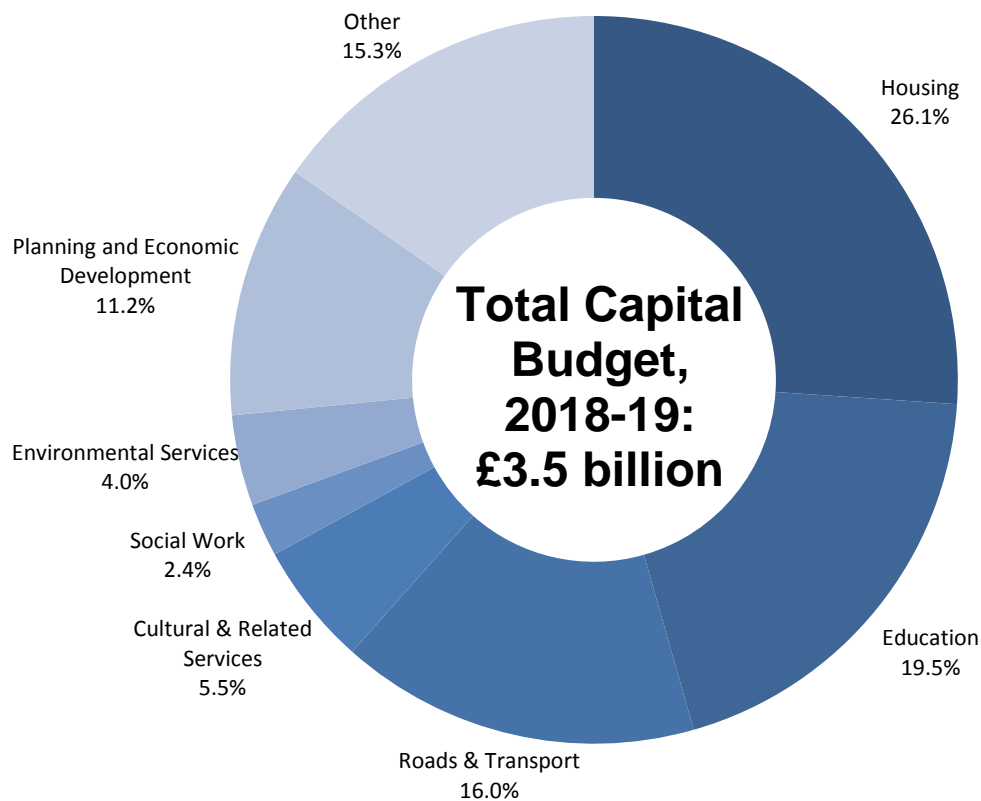


Chart 4: Budget Financing by Source, 2018-19

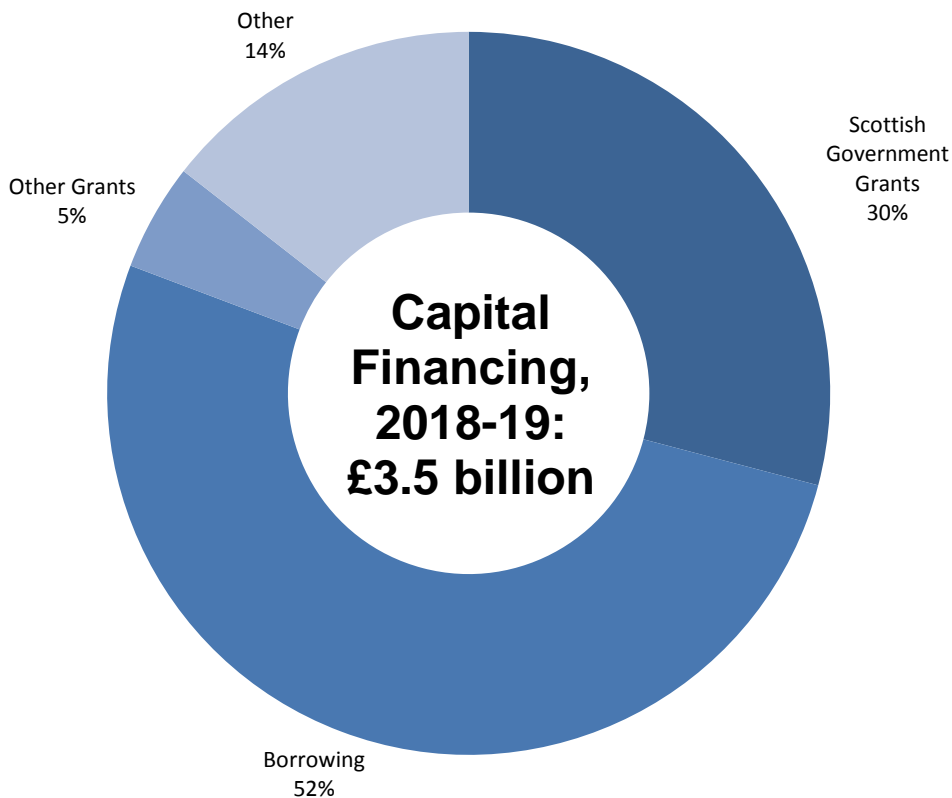
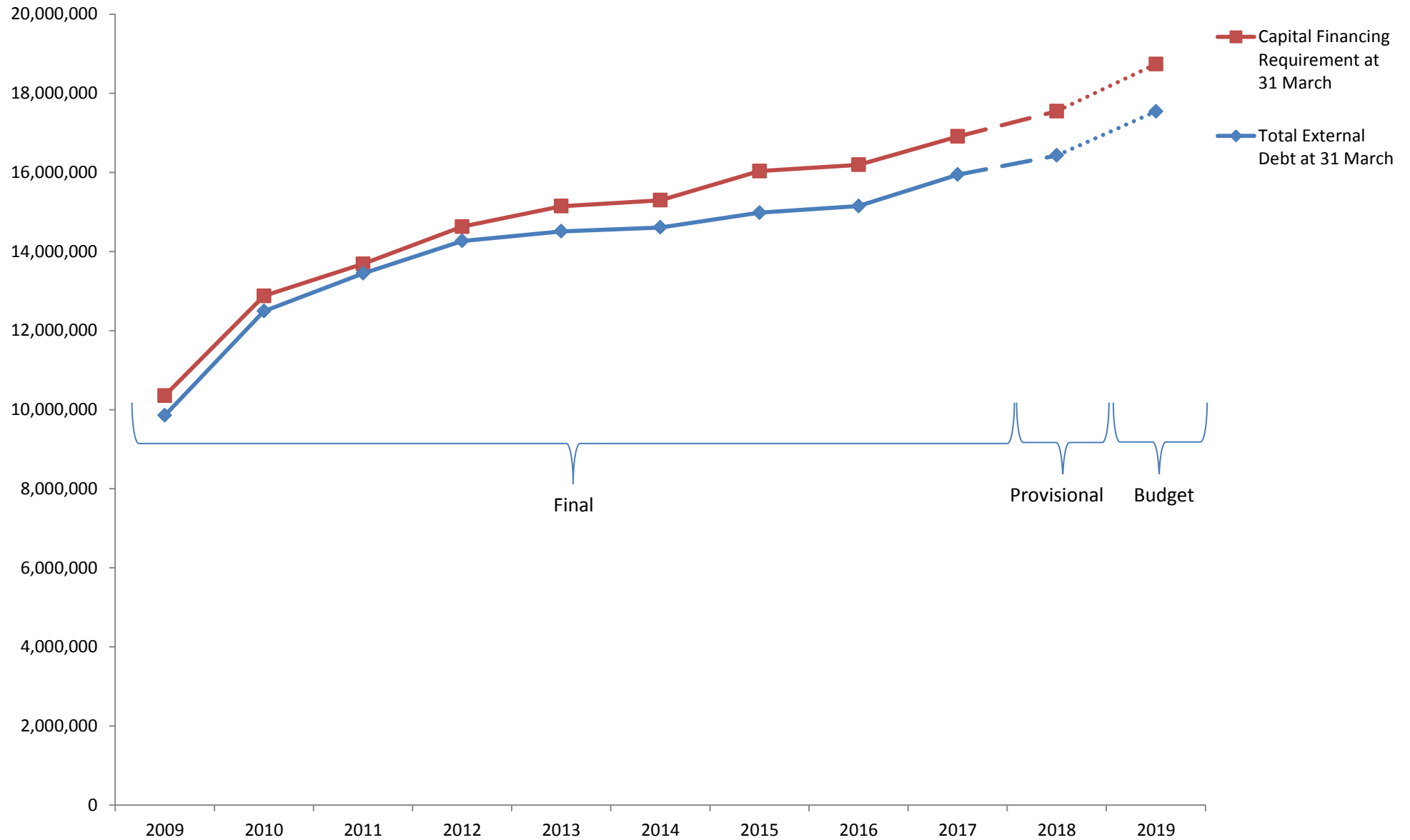


Chart 5: Capital Financing Requirement and Total External Debt at 31st March, 2009 to 2019, £thousands



Annex A – Summary of Capital Expenditure and Financing, Provisional Outturn (£thousands), 2014-15 to 2017-18

	2014-15	2015-16	2016-17	2017-18
Expenditure:				
Non-HRA Housing	14,413	23,596	36,882	20,577
Roads and Transport	409,351	420,055	474,686	457,088
Education	527,047	648,450	750,629	769,432
Social Work	70,247	59,180	66,201	36,071
Environmental Services	135,077	117,826	116,116	88,272
Culture and Related Services	116,914	147,457	192,154	169,052
Planning and Economic Development	71,105	103,707	181,728	266,376
Trading Services	6,855	9,835	4,263	11,964
Other Services	166,518	157,845	183,781	231,426
Gross Capital Expenditure - General Fund	1,517,527	1,687,951	2,006,440	2,050,258
Housing Revenue Account (HRA)	665,295	653,695	682,300	691,214
Other Expenditure capitalised under statute	240,154	268,114	180,791	161,151
Total Expenditure to be met from Capital Resources	2,422,976	2,609,760	2,869,531	2,902,623
Financing:				
Scottish Government General Capital Grant	674,843	695,717	504,030	662,820
Scottish Government Specific Capital Grants	225,314	257,162	279,862	222,369
Grants from Scottish Government Agencies and NDPBs	86,424	100,837	80,047	105,273
Other Grants and Contributions	94,777	112,436	121,900	160,965
Borrowing	854,995	900,754	1,275,981	1,030,710
Capital receipts used from asset sales/disposals	108,158	174,936	178,326	125,276
Capital Fund applied	35,348	67,699	66,217	30,437
Capital funded from current revenue	281,827	265,671	272,562	292,344
Assets acquired under credit arrangements (e.g. finance leases, PPP/PFI)	41,019	0	63,607	230,815
Capital Funded from other sources	20,270	34,548	26,999	41,614
Total Financing from Capital Resources	2,422,976	2,609,760	2,869,531	2,902,623

Annex B – Summary of Capital Expenditure and Financing, Budget Estimates (£thousands), 2015-16 to 2018-19

	2015-16	2016-17	2017-18	2018-19
<u>Expenditure:</u>				
Non-HRA Housing	30,735	34,484	89,649	30,787
Roads and Transport	473,997	484,751	554,424	555,624
Education	785,933	830,690	704,987	677,936
Social Work	106,059	92,564	76,858	82,452
Environmental Services	165,858	154,378	144,398	139,881
Culture and Related Services	193,958	223,026	194,815	190,194
Planning and Economic Development	136,234	229,999	374,153	390,344
Trading Services	10,264	10,384	15,105	25,261
Other Services	215,081	279,838	265,761	296,956
Gross Capital Expenditure - General Fund	2,118,119	2,340,114	2,420,150	2,389,435
Housing Revenue Account (HRA)	772,279	804,342	813,592	874,875
Other Expenditure capitalised under statute	267,765	233,253	217,138	210,201
Total Expenditure to be met from Capital Resources	3,158,163	3,377,709	3,450,880	3,474,512
<u>Financing:</u>				
Scottish Government General Capital Grant	670,722	467,743	655,269	602,384
Scottish Government Specific Capital Grants	233,309	199,409	253,382	267,651
Grants from Scottish Government Agencies and NDPBs	82,225	100,183	116,487	140,930
Other Grants and Contributions	110,035	126,969	132,679	166,453
Borrowing	1,550,461	1,875,171	1,768,575	1,794,555
Capital receipts used from asset sales/disposals	102,429	121,741	158,385	117,008
Capital Fund applied	103,146	147,675	41,143	49,494
Capital funded from current revenue	287,796	285,217	291,279	279,587
Assets acquired under credit arrangements (e.g. finance leases, PPP/PFI)	0	0	13,789	42,417
Capital Funded from other sources	18,041	53,601	19,892	14,032
Total Financing from Capital Resources	3,158,163	3,377,709	3,450,880	3,474,512

Annex C – Prudential Information, 2013-14 to 2018-19 (£thousands)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	Final	Final	Final	Final	Provisional	Budget
Capital Financing Requirement at 1 April	14,893,146	15,863,207	16,020,231	16,197,880	16,915,452	17,546,426
Capital Expenditure to be financed by borrowing or credit arrangements	1,136,151	872,402	853,053	1,385,828	1,261,525	1,836,602
Capital Expenditure to be financed by borrowing	n/c	829,701	831,327	1,178,810	1,024,240	1,748,069
Capital Expenditure to be financed by credit arrangements	n/c	n/c	n/c	207,018	230,815	42,417
Third party capital grants to be financed by borrowing	n/c	42,701	21,726	n/c	6,470	46,116
Less Loans Fund principal repayments	597,408	568,548	568,953	558,595	536,042	560,709
Less Credit arrangements principal repayments	92,969	94,391	88,723	90,401	81,255	83,905
Less Additional voluntary contributions of principal repayments	44,502	39,848	25,865	26,359	13,254	1,075
Change in Capital Financing Requirement	401,272	169,615	169,512	710,473	630,974	1,190,912
Capital Financing Requirement at 31 March	15,294,418	16,032,822	16,189,743	16,908,353	17,546,426	18,737,338
Borrowing at 1 April	11,558,504	11,897,475	12,378,022	12,465,897	13,160,676	13,672,807
Other long term liabilities at 1 April	2,852,975	2,690,905	2,648,120	2,674,322	2,778,718	2,755,108
Total External Debt at 1 April	14,411,479	14,588,380	15,026,142	15,140,219	15,939,394	16,427,915
Borrowing at 31 March	11,816,384	12,332,169	12,465,804	13,159,196	13,672,807	14,785,400
Other long term liabilities at 31 March	2,790,631	2,645,977	2,680,311	2,782,628	2,755,108	2,755,356
Total External Debt at 31 March	14,607,015	14,978,146	15,146,115	15,941,824	16,427,915	17,540,755
Operational boundary for external debt at 31 March	16,684,872	16,779,418	16,982,303	17,519,099	18,487,672	19,526,390
Authorised limit for external debt at 31 March	17,749,541	17,787,296	17,733,442	19,083,076	19,992,577	21,131,927
Total External debt at 31 March as a percentage of Capital Financing Requirement	96%	93%	94%	94%	94%	94%
Total External debt at 31 March as a percentage of Operational Boundary	88%	89%	89%	91%	89%	90%
Total External debt at 31 March as a percentage of Authorised Limit	82%	84%	85%	84%	82%	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 data collection was brought in following a review in 2015 of the data collected by the Scottish Government on capital expenditure and financing. The publication has not yet been assessed by the UK Statistics Authority and is under review. These statistics are 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 2017-18 capital expenditure are provisional and subject to revision. The final outturn 2017-18 capital expenditure figures will be published in the Scottish Local Government Financial Statistics (SLGFS) 2017-18, scheduled for publication in February 2019. 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 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, such as third party capital grants.
- 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 authorities use to provide services over a period of more than one year (e.g. a school). As the authority gains the benefit of the asset over a number of years, it is reasonable to spread the cost of creating that asset over the life of that asset and authorities do this by

borrowing. 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 created a discontinuity in 2009-10 when 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 2018.

3. DATA QUALITY

3.1 The Provisional Outturn figures in this publication were provided on an unaudited basis before the authority's accounts were compiled. As such, they are subject to revision in the final audited accounts and small changes over time 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 2016-17 and Provisional Outturn in 2017-18 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 to be adjusted for.

An Experimental Statistics: Data Being Developed publication for Scotland

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

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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The data collected for this statistical bulletin:

are available in more detail through www.statistics.gov.scot

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@gov.scot for further information.

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