

## PUBLIC SERVICES AND GOVERNMENT

# Capital Expenditure and Financing: Provisional Outturn (2015-16) and Budget Estimates (2016-17)

### Economy (Local Government Finance)

21<sup>st</sup> June 2016

This publication contains Provisional Outturn (2015-16) and Budget Estimates (2016-17) 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 Statistics<sup>1</sup>.

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.

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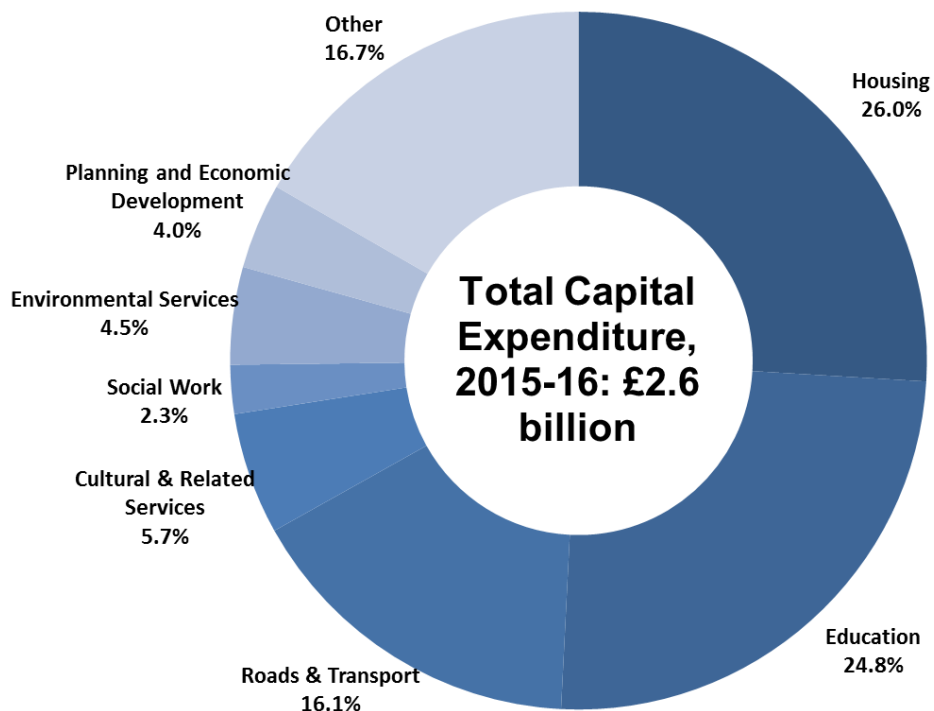
<sup>1</sup> For more information on experimental statistics please see:

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

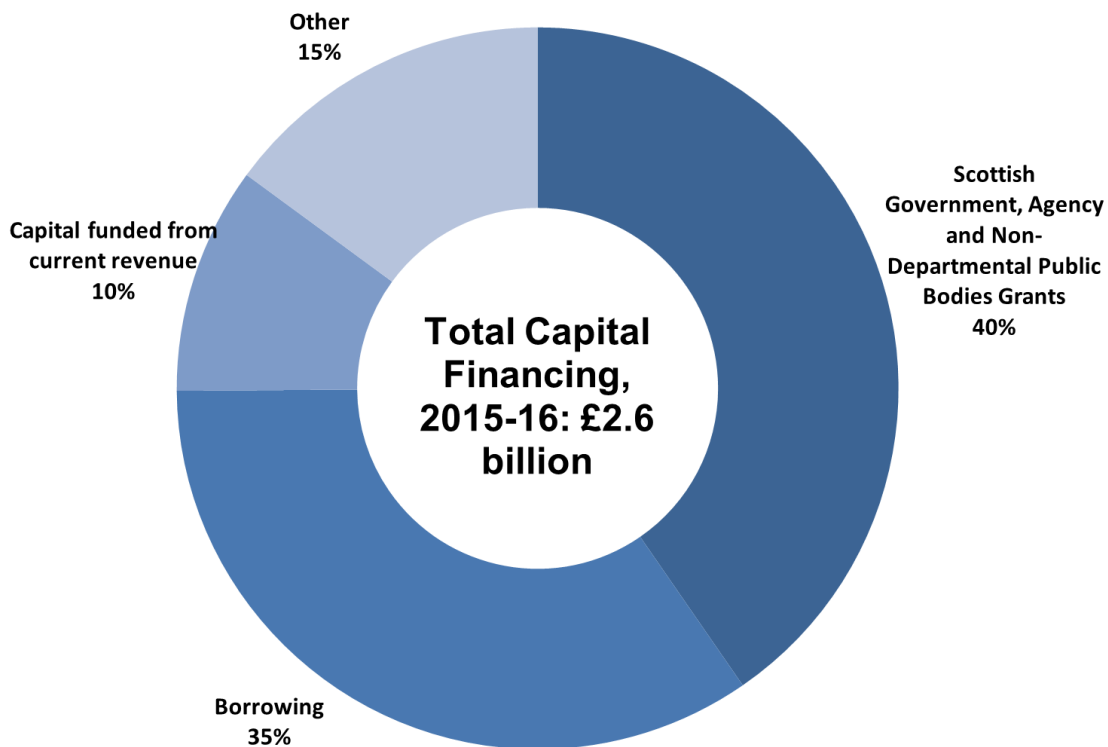
## 2015-16 – Provisional Outturn

- Scotland's local authorities' Provisional Outturn total capital expenditure is £2.6 billion. This is an increase of £187 million (7.7%) compared with Provisional Outturn for 2014-15.
- £648 million of the Provisional Outturn in 2015-16 is on Education, an increase of £121 million (23%) on 2014-15. £420 million is on Roads and Transport, an increase of £11 million (2.6%). Capital Expenditure on the Housing Revenue Account was £654 million, a decrease of 1.7%. These three services account for around two thirds of capital expenditure, with the Housing Revenue Account accounting for 25% of capital expenditure, Education accounting for 25% and Roads and Transport accounting for 16%.
- Provisional Outturn for other main services: Culture and Related Services £147 million (6%), Environmental Services £118 million (5%), Planning and Economic Development £104 million (4%). All other expenditure, including Central Services and non-HRA Housing totals £519 million (20%).
- Local Authorities financed this expenditure through Scottish Government Grants (£1,054 million, 40% of financing), Other Grants (£112 million, 4%) and Borrowing (£900 million, 35%). All other forms of financing, including capital receipts, capital fund and current revenue provided 21% (£543 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 £251 million in 2015-16, from £16.0 billion at the 1<sup>st</sup> April 2015 to £16.3 billion at the 31<sup>st</sup> March 2016. Total External Debt increased by £19 million (0.1%), from £15.02 billion at the 1<sup>st</sup> April 2015 to £15.04 billion at the 31<sup>st</sup> March 2016. Local Authorities are therefore under-borrowed, with Total External Debt at 92% 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, 2015-16**



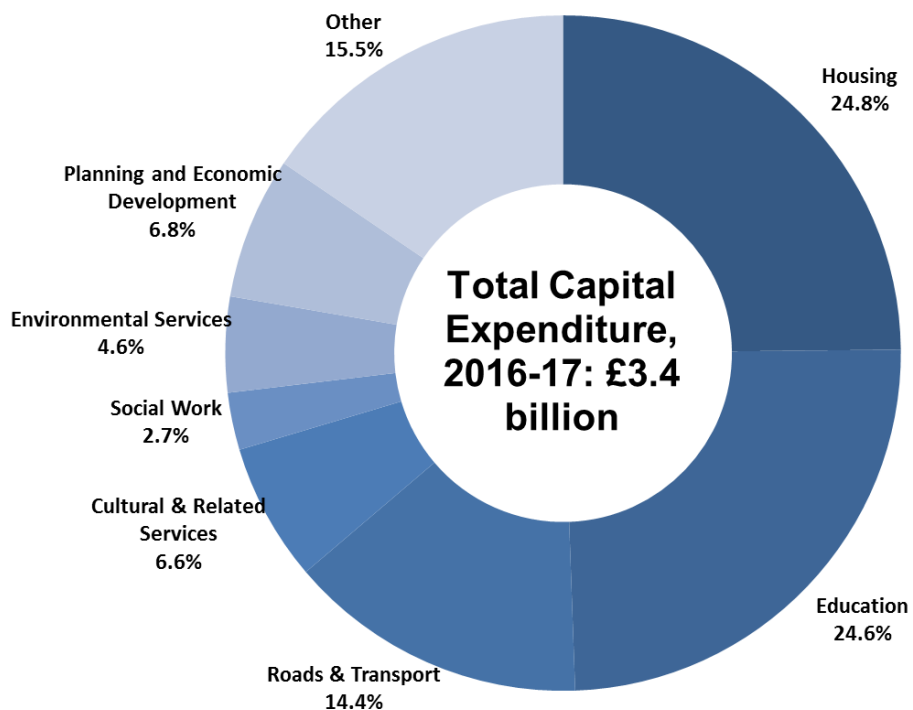
**Chart 2: Financing by Source, 2015-16**



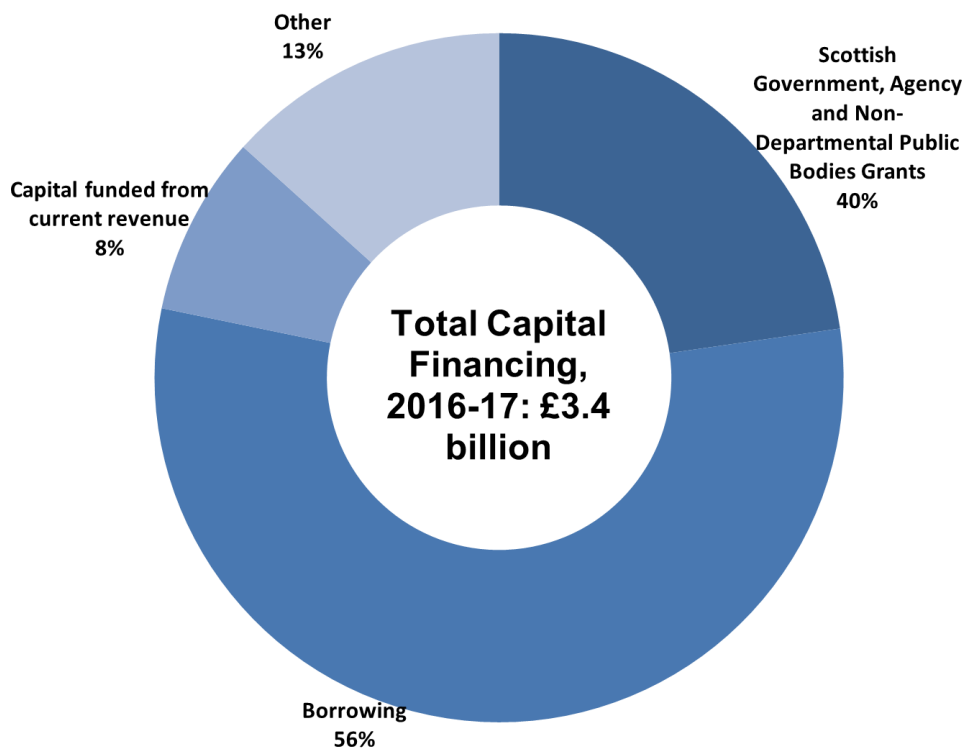
## 2016-17 – Budget Estimates

- Scotland's local authorities' have set a budget for capital expenditure of £3.4 billion. The budget for 2016-17 is an increase of £220 million (7%) compared with the budget set in 2015-16.
- £831 million of the Capital budget in 2016-17 is for Education, an increase of £45 million (5.7%) on the 2015-16 budget. £485 million is for Roads and Transport, an increase of £11 million (2.3%). The local authority Capital budget for the Housing Revenue Account is £804 million, an increase of 4.2% on 2016-17. These three services account for just under two thirds of the capital budget, with Education accounting for 25% of the capital budget, the Housing Revenue Account accounting for 24% and Roads and Transport accounting for 14%.
- Budget Estimates for other main services are: Culture and Related Services £223 million (7%), Environmental Services £154 million (5%), Planning and Economic Development £230 million (7%). All other capital Budget Estimates, including Central Services and non-HRA Housing total £651 million (19%).
- Local Authorities are planning to finance their 2016-17 capital programmes from Scottish Government Grants (£767 million, 23%), Other Grants (£127 million, 4%) and Borrowing (£1.9 billion, 56%). All other forms of financing, including capital receipts, capital fund and current revenue, form 18% (£608 million) of total financing.
- The Budget Estimates mean that the the Capital Financing Requirement (CFR) would increase by 7.2% (£1.2 billion) in 2016-17, from £16.280 billion as at the 1<sup>st</sup> April 2016 to £17.5 billion at the 31<sup>st</sup> March 2017. Between the 1<sup>st</sup> April 2016 and 31<sup>st</sup> March 2017, Total External Debt would increase by £891 million (a 5.9% increase) from £15.04 billion at the 1<sup>st</sup> April to £15.93 billion at the 31<sup>st</sup> Marhc. Local Authorities are therefore budgeting to continue to be under-borrowed, with Total External Debt at 91% of the CFR.

**Chart 3: Provisional Outturn by Service, 2016-17**



**Chart 4: Financing by Source, 2016-17**



## Annex A – Summary of Capital Expenditure and Financing, Provisional Outturn (£thousands), 2014-15 to 2015-16

	2014-15 Provisional Outturn	2015-16 Provisional Outturn
<u>Expenditure:</u>		
Non-HRA Housing	14,413	23,596
Roads and Transport	409,351	420,055
Education	527,047	648,450
Social Work	70,247	59,180
Environmental Services	135,077	117,826
Culture and Related Services	116,914	147,457
Planning and Economic Development	71,105	103,707
Trading Services	6,855	9,835
Other Services	166,518	157,845
<b>Gross Capital Expenditure - General Fund</b>	<b>1,517,527</b>	<b>1,687,951</b>
Gross Capital Expenditure - HRA	665,295	653,695
Other Expenditure capitalised under statute	240,154	268,114
<b>Total Expenditure to be met from Capital Resources</b>	<b>2,422,976</b>	<b>2,609,760</b>
<u>Financing:</u>		
Scottish Government General Capital Grant	674,843	695,717
Scottish Government Specific Capital Grants	225,314	257,162
Grants from Scottish Government Agencies and NDPBs	86,424	100,837
Other Grants and Contributions	94,777	112,436
Borrowing	854,995	900,754
Capital receipts used from asset sales/disposals	108,158	174,936
Capital Fund applied	35,348	67,699
Capital funded from current revenue	281,827	265,671
Assets acquired under credit arrangements (e.g. finance leases, PPP/PFI)	41,019	0
Capital Funded from other sources	20,270	34,548
<b>Total Financing from Capital Resources</b>	<b>2,422,976</b>	<b>2,609,760</b>

## Annex B – Summary of Capital Expenditure and Financing, Budget Estimates (£thousands), 2015-16 to 2016-17

	2015-16 Budget Estimates	2016-17 Budget Estimates
<u>Expenditure:</u>		
Non-HRA Housing	30,735	34,484
Roads and Transport	473,997	484,751
Education	785,933	830,690
Social Work	106,059	92,564
Environmental Services	165,858	154,378
Culture and Related Services	193,958	223,026
Planning and Economic Development	136,234	229,999
Trading Services	10,264	10,384
Other Services	215,081	279,838
<b>Gross Capital Expenditure - General Fund</b>	<b>2,118,119</b>	<b>2,340,114</b>
Gross Capital Expenditure - HRA	772,279	804,342
Other Expenditure capitalised under statute	267,765	233,253
<b>Total Expenditure to be met from Capital Resources</b>	<b>3,158,163</b>	<b>3,377,709</b>
<u>Financing:</u>		
Scottish Government General Capital Grant	670,722	467,743
Scottish Government Specific Capital Grants	233,309	199,409
Grants from Scottish Government Agencies and NDPBs	82,225	100,183
Other Grants and Contributions	110,035	126,969
Borrowing	1,550,461	1,875,171
Capital receipts used from asset sales/disposals	102,429	121,741
Capital Fund applied	103,146	147,675
Capital funded from current revenue	287,796	285,217
Assets acquired under credit arrangements (e.g. finance leases, PPP/PFI)	0	0
Capital Funded from other sources	18,041	53,601
<b>Total Financing from Capital Resources</b>	<b>3,158,163</b>	<b>3,377,709</b>

## Annex C – Prudential Information, Provisional Outturn 2015-16 and Budget Estimates 2016-17 (£thousands)

	2015-16 Provisional Outturn	2016-17 Budget Estimate
<b>Capital Financing Requirement at 1 April</b>	<b>16,029,239</b>	<b>16,280,592</b>
Capital Expenditure to be financed by borrowing or credit arrangements	900,754	1,875,171
Capital Expenditure to be financed by borrowing	809,416	1,807,687
Capital Expenditure to be financed by credit arrangements		
Third party capital grants to be financed by borrowing	91,338	67,484
Less Loans Fund principal repayments	558,345	567,682
Less Credit arrangements principal repayments	74,003	74,132
Less Additional voluntary contributions of principal repayments	17,053	1,207
Change in Capital Financing Requirement	251,353	1,232,150
<b>Capital Financing Requirement at 31 March</b>	<b>16,280,592</b>	<b>17,512,742</b>
Borrowing at 1 April	12,373,841	12,461,249
Other long term liabilities at 1 April	2,642,317	2,574,234
<b>Total External Debt at 1 April</b>	<b>15,016,158</b>	<b>15,035,483</b>
Borrowing at 31 March	12,461,249	13,440,250
Other long term liabilities at 31 March	2,574,234	2,485,954
<b>Total External Debt at 31 March</b>	<b>15,035,483</b>	<b>15,926,204</b>
Operational boundary for external debt at 31 March	17,113,837	17,916,204
Authorised limit for external debt at 31 March	17,941,747	18,767,751
Total External debt at 31 March as a percentage of Capital Financing Requirement	92%	91%
Total External debt at 31 March as a percentage of Operational Boundary	88%	89%
Total External debt at 31 March as a percentage of Authorised Limit	84%	85%



## 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 2015-16 capital expenditure are provisional figures, the final outturn 2015-16 capital expenditure figures will be published in the Scottish Local Government Financial Statistics (SLGFS) 2015-16, scheduled for publication in February 2017. 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 2014-15 with Provisional Outturn in 2015-16. 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.

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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](mailto:lgfstats@scotland.gsi.gov.uk) for further information.

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