



PUBLIC SERVICES AND GOVERNMENT

Local Government Capital Expenditure & Financing – 2018-19 Provisional Outturn and 2019-20 Budget Estimates

Economy (Local Government Finance)

18 June 2019

Executive Summary

2018-19 Provisional Outturn

- Provisional outturn on capital expenditure is **expected to total £2,884 million in 2018-19** for Scotland – a decrease of £18 million (-0.6%) on 2017-18.
- **Housing Revenue Account (HRA), Education and Roads & Transport** account for just over three-fifths (62%) of total capital expenditure in 2018-19.
- Local authorities will **fund** almost two-fifths (38%) of capital expenditure by borrowing and just over one-third (36%) using Scottish Government Grants.
- **Total External Debt** is expected to increase by £1,471 million (+9.3%) during 2018-19 which is 95 per cent of their Capital Financing Requirement. This means local authorities are expected to remain under-borrowed in 2018-19.

2019-20 Budget Estimates

- Local authorities have **increased their budget for capital expenditure by £730 million (+21.0%)** to £4,204 million in 2019-20.
- **Housing Revenue Account (HRA), Education and Roads & Transport** account for around three-fifths (61%) of the capital budget.
- Local authorities are **planning to finance** almost half (47%) of their 2019-20 capital programme by borrowing, and around three-tenths (30%) using Scottish Government Grants.
- **Total External Debt** is budgeted to increase by £1,449 million (+8.4%) in 2019-20 which will be 95 per cent of the Capital Financing Requirement. This means local authorities are expected to remain under-borrowed in 2019-20.

Introduction

This publication contains the 2018-19 provisional outturn and 2019-20 budget estimates for local authority capital expenditure, financing and prudential indicators on local authority external debt and the capital financing requirement.

The information in this publication is collected via the Capital Provisional Outturn and Budget Estimates (CPOBE) return with the help of the 32 unitary local authorities. The continued co-operation of these bodies in completing these returns is gratefully acknowledged.

The CPOBE return was brought in following a review in 2015 of the data collected by the Scottish Government on capital expenditure and financing. The CPOBE form has been designed to be in line with the data collected via the revenue POBE return and is also sent to all local authorities annually for completion.

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), vehicles, plants and machinery. Capital expenditure also includes expenditure that the Scottish Ministers have permitted local authorities to treat as capital expenditure as it is met from capital resources, such as third party capital grants.

Unlike revenue expenditure, capital projects create an asset that authorities use to provide services over a period of more than one year. 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 (which they cannot do to fund revenue expenditure).

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. Debt costs – both the repayment of the borrowing and the interest cost of the debt – are met from a local authority's annual revenue budget.

The commentary within this publication focuses on high-level Scotland figures only. An excel file containing more detailed figures, including time series, and the workbook containing the local authority source data from the return will be available at www2.gov.scot/Topics/Statistics/Browse/Local-Government-Finance/POBEStats.

Experimental Statistics: Data being developed

These statistics are currently being developed and have been published to involve users and stakeholders in their development, as well as to build in quality and understanding at an early stage. This publication has not yet been assessed by the UK Statistics Authority and is under review. These statistics are therefore published as experimental statistics, rather than as official statistics.

2018-19 Provisional Outturn

All local authorities were asked to provide provisional outturn capital expenditure figures on an unaudited basis before their accounts were compiled. As such, these figures are subject to revision in the final audited accounts and small changes over time should be interpreted with caution.

Scotland's local authorities **provisional outturn for capital expenditure is £2,884 million**. This is a decrease of £18 million (-0.6%) compared with 2017-18 provisional outturn. Local authorities had budgeted to spend £3,475 million on capital expenditure in 2018-19 which means they have underspent by £590 million.

Housing Revenue Account (HRA), Education and Roads & Transport account for just over three-fifths (62%) of total capital expenditure in 2018-19. Table 1 shows the full breakdown of capital expenditure by service.

Table 1: Provisional Outturn 2018-19 by Service, £ millions

Service	Provisional Outturn 2018-19	% of total capital expenditure	Change from Prov. Outturn 2017-18	% change from Prov. Outturn 2017-18	Change from Budget Estimate 2018-19
Housing Revenue Account (HRA)	738	26%	47	6.8%	-137
Education	578	20%	-191	-24.8%	-100
Roads & Transport	484	17%	27	5.8%	-72
Planning & Development	338	12%	71	26.7%	-53
Culture & Related Services	148	5%	-21	-12.7%	-43
Environmental Services	114	4%	25	28.8%	-26
All other expenditure ¹	485	17%	24	5.2%	-160
Total Capital Expenditure	2,884	100%	-18	-0.6%	-590

As shown in Table 2, local authorities expect to finance almost two-fifths (38%) of this expenditure by borrowing, and just over one-third (36%) using Scottish Government Grants. The remaining expenditure will be financed by a combination of other grants, capital receipts, capital fund and current revenue.

¹ This includes Central Services, Social Work and non-HRA Housing.

Table 2: Financing of capital expenditure in 2018-19, £ millions

Source of financing	Amount of financing	% of total capital expenditure financed
Borrowing	1,093	38%
Scottish Government Grants	1,032	36%
Other Grants	179	6%
All other financing ²	580	20%
Total Capital Financing	2,884	100%

Scottish local authorities reported that their **Capital Financing Requirement (CFR)** is expected to increase by £530 million (+3.0%), from £17,646 million on 1 April 2018 to £18,176 million on 31 March 2019. **Total External Debt** is expected to increase by £1,471 million (+9.3%) during 2018-19, from £15,783 million on 1 April 2018 to £17,254 million on 31 March 2019.

Total External Debt is 95 per cent of the CFR which means that local authorities are under-borrowed, see Figure 1. This indicates their treasury policy is to utilise cash reserves to fund borrowing at this time. Should their cash requirements increase, a local authority can borrow externally to meet that need, utilising their under-borrowed position.

² This includes capital receipts, capital fund and current revenue.

2019-20 Budget Estimates

All local authorities were also asked to provide their budget estimates for capital expenditure in 2019-20, 2020-21 and 2021-22. The commentary in this publication will focus on the budget estimates for 2019-20 only, however the budget estimates for 2020-21 and 2021-22 are available in the workbook containing local authority source data from the return which will be made available at www2.gov.scot/Topics/Statistics/Browse/Local-Government-Finance/Publications/CPOBE.

Local authorities have **set a budget for capital expenditure of £4,204 million in 2019-20**. This is £730 million (21.0%) higher than the budget set for 2018-19.

As shown in Table 3, Housing Revenue Account (HRA), Education and Roads & Transport account for around three-fifths (61%) of the capital budget.

Table 3: Budget Estimates for 2019-20 by Service, £ millions

Service	Budget Estimate 2019-20	% of total capital expenditure	Change from Budget Estimate 2018-19	% change from Budget Estimate 2018-19
Housing Revenue Account (HRA)	1,107	26%	232	26.5%
Education	869	21%	191	28.2%
Roads & Transport	607	14%	51	9.2%
Planning & Development	395	9%	5	1.2%
Culture & Related Services	161	4%	-29	-15.2%
Environmental Services	386	9%	246	175.7%
All other expenditure ³	679	16%	34	5.2%
Total Capital Expenditure	4,204	100%	730	21%

Local authorities are planning to finance almost half (47%) of their 2019-20 capital programme by borrowing, and three-tenths (30%) using Scottish Government Grants. The remaining expenditure will be financed by a combination of other grants, capital receipts, capital fund and current revenue (Table 4).

³ This includes Central Services, Social Work and non-HRA Housing.

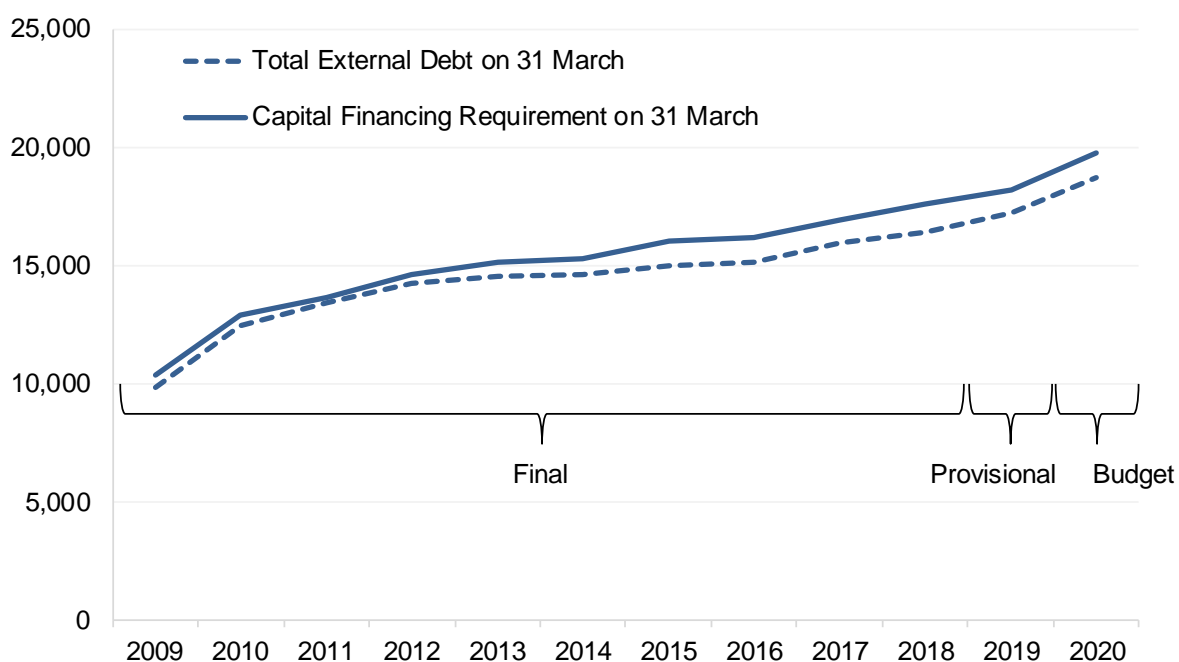
Table 4: Budgeted financing of capital expenditure in 2019-20, £ millions

Source of financing	Amount of financing	% of total capital expenditure financed
Borrowing	1,982	47%
Scottish Government Grants	1,275	30%
Other Grants	232	6%
All other financing ⁴	715	17%
Total Capital Financing	4,204	100%

This budget would increase the **Capital Financing Requirement (CFR)** by £1,590 million (8.7%) over 2019-20, from £18,176 on 1 April 2019 to £19,766 million on 31 March 2020. **Total External Debt** is budgeted to increase by £1,449 million (8.4%), from £17,254 million on 1 April 2019 to £18,703 million on 31 March 2020.

Total External Debt is therefore budgeted to be 95% of CFR which suggests that local authorities are planning to continue to be under-borrowed, see Figure 1.

Figure 1: CFR and Total External Debt on 31 March, 2009 to 2020, £ millions



⁴ This includes capital receipts, capital fund and current revenue.

Data Interpretation

Scottish Government Grant figures are the provisional amounts of expenditure funded by grants received from Scottish Government and estimates used by the local authorities when setting their budget. Full details of the capital allocations to local authorities from Scottish Government for 2018-19 and 2019-20 are given in [The Local Government Finance Circular 2/2019: Settlement for 2019-2020](#).

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 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; or the Total External Debt may exceed the CFR where a local authority has chosen to borrow in advance of actual capital expenditure.

When looking at **trends over time**, comparisons should be made on a like for like basis. 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. Other factors to consider when interpreting the data are:

- 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 PFI and PPP were introduced from 1 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.
- 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.

Related Publications

Revenue Provisional Outturn and Budget Estimates are published through the Revenue Expenditure and Financing publication, available at www2.gov.scot/Topics/Statistics/Browse/Local-Government-Finance/POBEStats.

The final, audited 2018-19 capital expenditure figures will be published in the Scottish Local Government Financial Statistics (SLGFS) 2018-19, scheduled for publication in February 2020. Previous SLGFS publications are available at www2.gov.scot/Topics/Statistics/Browse/Local-Government-Finance/PubScottishLGFStats.

An Experimental Statistics: Data being developed Publication for Scotland

These statistics are currently being developed and have not yet been assessed by the UK Statistics Authority. They have been published to involve users and stakeholders in their development, and to build in quality and understanding at an early stage.

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How to access background or source data

The data collected for this statistical bulletin are available in more detail at www2.gov.scot/Topics/Statistics/Browse/Local-Government-Finance/POBEStats.

Complaints and suggestions

If you are not satisfied with our service or have any comments or suggestions, please contact the Chief Statistician by:

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