

# Finance and Resources Committee

10.00am, Thursday, 3 November 2016

## Capital Monitoring 2016/17 – Half year position

Item number	7.3
Report number	
Executive/routine	
Wards	

### Executive Summary

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The month five position shows that the Council is projecting to borrow £63.698m and will be in receipt of grants and capital income amounting to £100.877m. Together this will fund projected capital investment of £164.575m. The level of borrowing is projected to be £1.235m less than budget based on both the net impact of a small deficit in capital receipts / grant income and slight slippage on gross expenditure.

### Links

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Coalition Pledges	<a href="#">P3</a> ; <a href="#">P8</a> ; <a href="#">P30</a> ; <a href="#">P31</a> ; <a href="#">P33</a> ; <a href="#">P42</a>
Council Priorities	CO1; CO16; CO20; CO23; CO25
Single Outcome Agreement	<a href="#">SO3</a> ; <a href="#">SO4</a>

## Capital Monitoring 2016/17 – Half year position

### 1. Recommendations

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- 1.1 Members of the Finance and Resources Committee are requested to:
- 1.1.1 Note the projected capital outturn positions on the General Fund and HRA at month five;
  - 1.1.2 Note the prudential indicators at month five;
  - 1.1.3 Note the proposed prudential borrowing for Mortonhall Crematorium refurbishment investment, and remit to Council for approval on 24 November 2016; and
  - 1.1.4 Refer the report to the Governance, Risk and Best Value Committee as part of its work-plan.

### 2. Background

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- 2.1 This report sets out the overall position of the Council's capital budget at the half year position (based on month five data) and the projected outturn for the year.

### 3. Main report

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- 3.1 The position at month five is summarised in the table below, while further details can be seen in Appendix 1.

	<b>Outturn Variance at Month Five £000</b>	<b>Outturn Variance at Month Three £000</b>	<b>Movement from Month Three £000</b>
Net (slippage)/acceleration in gross expenditure	(1,485)	0	(1,485)
Net (surplus)/deficit in capital receipts/grant income	250	0	250
<b>Net increase/(decrease) in borrowing requirement</b>	<b>(1,235)</b>	<b>0</b>	<b>(1,235)</b>

- 3.2 As presented in the table at 3.1 above, the month five position reports £1.485m of slippage in gross expenditure, compared to a balanced position at month three. At month five, capital receipt income projects a net deficit of £0.250m compared to a balanced position at month three. The net effect of the variances projected at month five is a reduction of £1.235m in the amount the Council requires to borrow corporately to support its capital programme relative to budgeted assumptions.
- 3.3 Explanations for significant slippage and accelerations projected at month five are presented in Appendix 2.

#### **Capital receipts/grant income**

- 3.4 A review of capital receipts from asset sales undertaken by Corporate Property and Finance estimates that net receipts of £18.743m will be realised in 2016/17, compared to a budget of £18.993m resulting in a receipts deficit of £0.250m. The decrease from the month three position relates to estimated fees in relation to these disposals such as associated marketing and legal costs.
- 3.5 Excluding costs of disposal and transfers to capital fund, receipts are projected to balance against budget in 2016/17. However, it should be noted that this is based on a small number of high value receipts that are due in the second half of the year. Therefore, there remains a risk that unforeseen and uncontrollable factors delay settlement of these and that this gross balanced position is not achieved. Colleagues within Corporate Property are closely monitoring the capital receipts position.

#### **Prudential Indicators**

- 3.6 The prudential indicator monitoring at month five is shown in Appendix 3.

#### **Housing Revenue Account (HRA)**

- 3.7 The Housing Revenue Account is forecasting to balance to budget (no move from month three) as shown in Appendix 4. At month five, the forecast is gross expenditure of £44.334m (£44.334m at month three), capital receipts / grant income of £22.461m (£21.304m at month three) and prudential borrowing of £21.873m (£23.030m at month three). The 2016/17 borrowing requirement has reduced since month three due to an increase in capital receipt income based on an upsurge in sales as the Right to Buy scheme concludes.
- 3.8 Performance against budget is being closely monitored across the HRA capital programme. In order to mitigate against the potential of slippage, opportunities are currently being assessed to accelerate two contracts from the 2017/18 programme, should this be necessary.

### **Prudential borrowing**

- 3.9 Prudential borrowing of £0.3m is proposed to fund additional costs relating to the approved Mortonhall Crematorium refurbishment programme. The borrowing will directly part fund a package of two new cremators and an associated mercury abatement system improving operational resilience of the crematorium. The associated loan charges over a five year period will result in a cost of £0.071m per annum to be funded by income generated by Scientific, Bereavement and Registration Services. As such, the cost of this prudential borrowing can be contained within existing Place revenue resources.

## **4. Measures of success**

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- 4.1 Completion of capital projects as budgeted for in the 2016/17 capital programme.
- 4.2 Identifying slippage at the earliest opportunity and accelerating projects where possible to ensure best use of available resources.

## **5. Financial impact**

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- 5.1 The projected 2016/17 general fund outturn outlines capital borrowing of £63.698m. The overall loan charges associated with this borrowing over a 20 year period would be a principal amount of £63.698m, interest of £41.466m, resulting in a total cost of £105.164m based on a loans fund interest rate of 5.1%. The loan charges will be interest only in the first year, at a cost of £1.644m, followed by an annual cost of £5.176m for 20 years. The borrowing required is carried out in line with the Council's approved Treasury Management Strategy.
- 5.2 The loan charge costs outlined above can be met from this year's revenue budget for loan charges.

## **6. Risk, policy, compliance and governance impact**

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- 6.1 Significant budget virements have complied with relevant financial rules and regulations.
- 6.2 Capital monitoring and budget setting processes adopted ensure effective stewardship of resources. The processes applied aim to ensure projects are delivered on time and budget whilst fulfilling the financial criteria of value for money.
- 6.3 Monitoring of major capital projects including risk assessment is carried out by colleagues within the Strategy and Insight division.

## 7. Equalities impact

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- 7.1 The Council's capital expenditure contributes to the delivery of the public sector equality duty to advance equality of opportunity and foster good relations e.g. enhancement works related to the Disability Discrimination Act, works on Communities and Families establishments and capital expenditure on Council housing stock.
- 7.2 There is little contribution with regard to capital expenditure and the duty to eliminate unlawful discrimination, harassment or victimisation.

## 8. Sustainability impact

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- 8.1 The impacts of the projects set out within the appendices of this report in relation to the three elements of the Climate Change (Scotland) Act 2009 Public Bodies Duties have been considered, and the outcomes are summarised below. Relevant Council sustainable development policies have been taken into account.
- 8.2 The proposals in this report will help achieve a sustainable Edinburgh because they are ensuring funding for key strategic projects that will enhance facilities and infrastructure in the city. A carbon impact assessment shall be carried out on each new project to achieve the most sustainable outcome for the city in each case.
- 8.3 The proposals in this report will increase the city's resilience to climate change impacts because they are securing funding for flood prevention projects.

## 9. Consultation and engagement

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- 9.1 Consultation on the capital budget will be undertaken as part of the budget process.

## 10. Background reading/external references

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- 10.1 None

### **Hugh Dunn**

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## 11. Links

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<b>Coalition Pledges</b>	<p>P3 – Rebuild Portobello High School and continue progress on all other planned school developments, while providing adequate investment in the fabric of all schools</p> <p>P8 – Make sure the city’s people are well-housed, including encouraging developers to build residential communities, starting with brownfield sites</p> <p>P30 – Continue to maintain a sound financial position including long-term financial planning</p> <p>P31 – Maintain our City’s reputation as the cultural capital of the world by continuing to support and invest in our cultural infrastructure</p> <p>P33 – Strengthen Neighbourhood Partnerships and further involve local people in decisions on how Council resources are used</p> <p>P42 – Continue to support and invest in our sporting infrastructure</p>
<b>Council Priorities</b>	<p>CO1 – Our children have the best start in life, are able to make and sustain relationships and are ready to succeed</p> <p>CO16 – Edinburgh draws new investment in development and regeneration</p> <p>CO20 – Culture, sport and major events – Edinburgh continues to be a leading cultural city where culture and sport play a central part in the lives and future of citizens</p> <p>CO23 – Well-Engaged and Well-Informed – Communities and individuals are empowered and supported to improve local outcomes and foster a sense of community</p> <p>CO25 – The Council has efficient and effective services that deliver on objectives</p>
<b>Single Outcome Agreement</b>	<p>SO3 - Edinburgh’s children and young people enjoy their childhood and fulfil their potential</p> <p>SO4 - Edinburgh’s communities are safer and have improved physical and social fabric</p>
<b>Appendices</b>	<p>1 – Capital Monitoring 2016/17 – General Fund</p> <p>2 – Slippage / Acceleration on capital projects 2016/17</p> <p>3 – Prudential Indicators 2016/17</p> <p>4 – Capital Monitoring 2016/17 - HRA</p>

## Capital Monitoring 2016/17

### General Fund Summary

#### Period 5

Expenditure	Revised Budget £000	Adjusts £000	Total Budget £000	Actual to Date £000	Projected Outturn £000	Projected Variance	
						£000	%
Chief Executive	15,789	-	15,789	-	15,789	-	0.00%
City Strategy and Economy	397	-	397	91	397	-	0.00%
Communities and Families	45,781	-	45,781	16,453	44,296	(1,485)	-3.24%
Edinburgh Integration Joint Board Place	4,167	-	4,167	2,622	4,167	-	0.00%
Resources - Asset Management Works	83,362	5,628	88,990	18,891	88,990	-	0.00%
	10,936	-	10,936	4,708	10,936	-	0.00%
<b>Total Gross Expenditure</b>	<b>160,432</b>	<b>5,628</b>	<b>166,060</b>	<b>42,765</b>	<b>164,575</b>	<b>(1,485)</b>	<b>-0.89%</b>

#### Resources

<i>Capital Receipts</i>							
General Services	19,634	-	19,634	5,017	19,634	-	0.00%
Less additional receipt income to capital fund	(5,559)	-	(5,559)	-	(5,559)	-	0.00%
Ring-fenced asset sales	4,895	23	4,918	23	4,918	-	0.00%
Less Fees Relating to Receipts	-	-	-	-	(250)	(250)	
<i>Total Capital Receipts from Asset Sales</i>	<i>18,970</i>	<i>23</i>	<i>18,993</i>	<i>5,040</i>	<i>18,743</i>	<i>(250)</i>	<i>-1.32%</i>
Developer and other Contributions	7,468	2,444	9,912	1,675	9,912	-	0.00%
Capital Grants Unapplied Account drawdown	808	-	808	546	808	-	0.00%
<i>Total Capital Receipts</i>	<i>27,246</i>	<i>2,467</i>	<i>29,713</i>	<i>7,261</i>	<i>29,463</i>	<i>(250)</i>	<i>-0.84%</i>
<i>Grants</i>							
Scottish Government General Capital Grant	41,626	-	41,626	17,344	41,626	-	0.00%
Cycling, Walking and Safer Streets	540	-	540	-	540	-	0.00%
Management Development Funding	29,248	-	29,248	2,885	29,248	-	0.00%
<i>Total Grants</i>	<i>71,414</i>	<i>-</i>	<i>71,414</i>	<i>20,229</i>	<i>71,414</i>	<i>-</i>	<i>0.00%</i>
<b>Total Resources</b>	<b>98,660</b>	<b>2,467</b>	<b>101,127</b>	<b>27,490</b>	<b>100,877</b>	<b>(250)</b>	<b>-0.25%</b>

<b>Balance to be funded through borrowing</b>	<b>61,772</b>	<b>3,161</b>	<b>64,933</b>		<b>63,698</b>	<b>(1,235)</b>	<b>-1.90%</b>
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**CAPITAL MONITORING 2016/2017 - Period 5****Slippage and Acceleration on Projects**

Slippage on projects is shown as a negative value, while acceleration or overspends are shown as positive values.

**Key to variance category***Type*

1. Slippage due to unforeseen delays

2. Slippage due to optimistic budget

3. Slippage due to timing of payments

4. Acceleration on a project

*Explanation*

Slippage that has occurred due to unforeseen circumstances or delays that for the most part, are out with the Council's control.

Slippage that has occurred due to optimism bias when budget was set. Issues include projecting spend on block budgets when a programme of works has not been considered or designed, not applying a discount factor for adverse weather / risk issues, providing for too much contingency and predicting an optimistic works timetable.

Slippage that has occurred where a project is on time and schedule but is as a result of the timing of cash flows.

Represents accelerated spend on a project i.e. due to better than anticipated progress.

Note that a project will exhibit an element of all of the above but the over riding reason has been considered when applying a variance category.

	Period 5 £000	Period 3 £000	Movement between periods £000	Explanations for Significant Slippage / Acceleration	Variance Category
<b><u>Communities and Families</u></b>					
Early learning and childcare estate improvements	-1,085	0	-1,085	Due to tender submission stage taking longer than originally envisaged.	2
Duncan Place improvement	-400	0	-400	Delay in contract start due to requirement for value engineering exercise to bring project in line with available budget.	1
<b>Total Communities and Families</b>	<b>-1,485</b>	<b>0</b>	<b>-1,485</b>		

	Period 5 £000	Period 3 £000	Movement between periods £000	Explanations for Significant Slippage / Acceleration	Variance Category
<b>Total for all Services</b>	<b>-1,485</b>	<b>0</b>	<b>-1,485</b>		
<b>Summary of Variance Category</b>					
			Movement between periods		
1. Slippage due to unforeseen delays	-400	0	-400		
2. Slippage due to optimistic budget	-1,085	0	-1,085		
3. Slippage due to timing of payments	0	0	0		
4. Acceleration on a project	0	0	0		
	<b>-1,485</b>	<b>0</b>	<b>-1,485</b>		

**PRUDENTIAL INDICATORS 2016/17 - Period 5****Indicator 1 - Estimate of Capital Expenditure**

	2015/16 Estimate £000	2015/16 Actual £000	2016/17 Estimate £000	2016/17 Forecast £000	2017/18 Estimate £000	2017/18 Forecast £000	2018/19 Estimate £000	2018/19 Forecast £000	2019/20 Estimate £000	2019/20 Forecast £000	2020/21 Estimate £000	2020/21 Forecast £000
Children & Families	46,877	48,181	0	0	0	0	0	0	0	0	0	0
Corporate Governance	2,729	7,407	0	0	0	0	0	0	0	0	0	0
Economic Development	58	42	0	0	0	0	0	0	0	0	0	0
Health & Social Care	6,328	5,680	0	0	0	0	0	0	0	0	0	0
Services for Communities	76,616	77,149	0	0	0	0	0	0	0	0	0	0
SfC - Asset Management Programme	13,224	14,516	0	0	0	0	0	0	0	0	0	0
Other Capital Projects	259	3,014	0	0	0	0	0	0	0	0	0	0
Unallocated funding - indicative 5 year plan 2019-2023 funding	0	0	0	0	0	0	0	0	7,000	7,000	7,000	7,000
Chief Executive	0	0	17,291	15,789	1,125	1,125	0	0	0	0	0	0
City Strategy and Economy	0	0	508	397	363	1,230	0	0	0	0	0	0
Communities and Families	0	0	50,436	44,296	7,595	24,549	10,184	12,984	14,766	6,709	558	165
Edinburgh Integration Joint Board Place	0	0	4,229	4,167	114	152	0	0	0	0	0	0
Resources - Asset Management Works	0	0	98,896	88,990	72,101	92,026	30,719	32,154	24,201	72,698	19,834	19,835
	0	0	24,044	10,936	11,035	12,944	8,436	8,334	19,173	29,097	14,000	14,000
Total General Services	146,091	155,989	195,404	164,575	92,333	132,026	49,339	53,472	65,140	115,504	41,392	41,000
Housing Revenue Account	38,253	35,626	48,508	44,334	65,708	65,708	76,500	76,500	84,794	84,794	85,022	85,022
Total	184,344	191,615	243,912	208,909	158,041	197,734	125,839	129,972	149,934	200,298	126,414	126,022

The 'estimate' figures relate to those reported in the prudential indicators as part of the budget motion in January 2016. Differences between these and the 'forecast' figures relate to further realignment and rephasing that has taken place as part of the revised budget process. Note that 2015/16 is presented in the former council structure whilst 2016/17 onwards represents the most up to date structure based on Council transformation.

**Indicator 2 - Ratio of Financing Costs to Net Revenue Stream**

	2015/16 Estimate %	2015/16 Actual %	2016/17 Estimate %	2016/17 Forecast %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
General Services	12.03	11.51	12.00	12.00	11.94	11.66	11.55	N/A
Housing Revenue Account	35.40	37.31	36.64	34.11	39.33	40.73	42.49	44.60

Figures for 2017/18 onwards are indicative as the Council has not set a General Services or HRA budget for these years. The figures for General Services are based on the current long term financial plan that ends to 2019/20. HRA figures are based on the current business plan.

### Indicator 3 - Capital Financing Requirement

	2015/16 Estimate £000	2015/16 Actual £000	2016/17 Estimate £000	2016/17 Forecast £000	2017/18 Estimate £000	2017/18 Forecast £000	2018/19 Estimate £000	2018/19 Forecast £000	2019/20 Estimate £000	2019/20 Forecast £000	2020/21 Estimate £000	2020/21 Forecast £000
General Services (including finance leases)	1,317,584	1,275,213	1,297,933	1,269,014	1,260,004	1,268,917	1,191,945	1,205,843	1,133,225	1,198,283	1,064,001	1,130,286
Housing Revenue Account	374,029	357,602	377,947	362,890	387,821	375,552	406,950	397,684	437,419	431,267	474,861	470,427
Total	1,691,613	1,632,815	1,675,880	1,631,904	1,647,825	1,644,469	1,598,895	1,603,527	1,570,644	1,629,550	1,538,862	1,600,713

Forecasts include the capital financing requirement relating to PPP assets. Note that the difference between the estimated and actual figure in 15/16 is due to the EICC Atria receipt settling in 15/16 rather than in 16/17 as envisaged, leading to repayment of the outstanding capital advance on this and a reduction in the Capital Financing Requirement.

### Indicator 4 - Authorised Limit for External Debt

	2016/17 Estimate £000	2016/17 Rev Est £000	2017/18 Estimate £000	2017/18 Rev Est £000	2018/19 Estimate £000	2018/19 Rev Est £000	2019/20 Estimate £000	2019/20 Rev Est £000	2020/21 Estimate £000	2020/21 Rev Est £000
Borrowing	1,591,015	1,591,015	1,617,379	1,617,379	1,630,954	1,630,954	1,558,749	1,558,749	1,507,508	1,507,508
Credit Arrangements	226,589	226,600	215,777	215,787	205,412	205,420	195,958	195,965	187,755	187,763
Total	1,817,604	1,817,615	1,833,156	1,833,166	1,836,366	1,836,374	1,754,707	1,754,714	1,695,263	1,695,271

Credit Arrangements includes both the short and long term liabilities relating to finance leases and PFI assets.

### Indicator 5 - Operational Boundary for External Debt

	2016/17 Estimate £000	2016/17 Rev Est £000	2017/18 Estimate £000	2017/18 Rev Est £000	2018/19 Estimate £000	2018/19 Rev Est £000	2019/20 Estimate £000	2019/20 Rev Est £000	2020/21 Estimate £000	2020/21 Rev Est £000
Borrowing	1,491,015	1,491,015	1,487,329	1,487,329	1,520,904	1,520,904	1,478,699	1,478,699	1,457,458	1,457,458
Credit Arrangements	226,589	226,600	215,777	215,787	205,412	205,420	195,958	195,965	187,755	187,763
Total	1,717,604	1,717,615	1,703,106	1,703,116	1,726,316	1,726,324	1,674,657	1,674,664	1,645,213	1,645,221

Credit Arrangements includes both the short and long term liabilities relating to finance leases and PFI assets.

**Indicator 6 - Impact on Council Tax and House Rents**

	<b>2016/17</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2020/21</b>
	<b>Estimate</b>	<b>Forecast</b>	<b>Estimate</b>	<b>Forecast</b>	<b>Estimate</b>	<b>Forecast</b>	<b>Estimate</b>	<b>Forecast</b>	<b>Estimate</b>	<b>Forecast</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
for the band "D" Council Tax	2.46	-1.86	9.17	-0.81	13.68	13.07	18.02	24.06	N/A	N/A
for the average weekly housing rents	-0.19	-0.22	-0.68	-0.78	-0.50	-0.60	0.55	0.44	3.50	3.39

In calculating the incremental impact of capital investment decisions on the band "D" Council Tax, investment decisions relating to National Housing Trust Phases have been omitted. As agreed with the Scottish Government, the borrowing and associated interest costs related to this expenditure are directly rechargeable to the Limited Liability Partnerships (LLPs) at agreed periods in the future. As such, there is no cost to the Council in relation to this element of borrowing and therefore it has been omitted in calculating the incremental impact of capital investment decisions.

The changes between the forecast and the original estimate reflect the realignment of the Capital Investment Programme reported to Finance and Resources Committee in August 2016.

**CAPITAL MONITORING 2016/17****Housing Revenue Account Summary****Period 5**

	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Variance	
				£000	%
Gross Expenditure	44,334	12,032	44,334	0	0.0%
Total Gross Expenditure	44,334	12,032	44,334	0	0.0%

<b>Resources</b>					
Capital Receipts	-4,183	-983	-7,444	-3,261	78.0%
Developers and Other Contributions	-11,847	-743	-6,572	5,275	0.0%
Specific Capital Grant	-5,274	-2,485	-8,445	-3,171	0.0%
Total Resources	-21,304	-4,211	-22,461	-1,157	5.4%

<b>Borrowing</b>					
Borrowing	23,030	7,821	21,873	-1,157	-5.0%
Total	23,030	7,821	21,873	-1,157	-5.0%