

Finance and Resources Committee

10.00am, Tuesday 5 September 2017

Capital Monitoring 2017/18 – Three-month position

Item number	7.7
Report number	
Executive/routine	
Wards	

Executive summary

The month three position shows that the Council is projected to require to borrow £40.843m and will be in receipt of grants and capital income amounting to £104.169m. Together this will fund projected capital investment of £145,.012m. The level of borrowing requirement is projected to be £5.098m lower than the revised budget as a result of anticipated slippage in the delivery of the capital investment programme partly offset by delayed receipts from asset sales.

The HRA capital investment programme is expected to be delivered in line with the revised budget with a projected borrowing requirement of £42.992m and will be in receipt of grants and capital income amounting to £35.012m. Together this will fund projected capital investment of £78.004m.

Capital Monitoring 2017/18 – Three Month Position

Recommendations

- 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 three;
 - 1.1.2 Note the prudential indicators at month three; and
 - 1.1.3 Refer the report to the Governance, Risk and Best Value Committee as part of its work-plan.

Background

- 2.1 This report sets out the overall position of the Council's capital budget at the three month stage and the projected outturn for the year.

Main report

- 3.1 The month three budget position is based on the revised 2017-2022 Capital Investment Programme incorporating slippage / acceleration from 2016/17 (the detail of which can be seen in Appendix 7 of the Capital Monitoring 2016/17 – Outturn and Receipts report which is elsewhere on the agenda).
- 3.2 The position at month three can be seen in Appendix 1, which shows expenditure on the Capital Investment programme of £145.012m funded by grants and other capital income of £104.169m and borrowing requirement of £40.843m.
- 3.3 The Water of Leith Phase 2 flood prevention project is expected to be completed in 2017/18 with forecast expenditure £4.5m under the budget provision. Officers proposals will be brought to Members for approval to transfer the resources available from this underspend to other capital expenditure priorities (see paragraph 3.8).
- 3.4 Members should note that in any given year, variance against budget will occur due to delays or unforeseen circumstances outwith the control of the Council. Whilst known variances to the delivery of the programme advised by Executive Directors have been incorporated into the revised Programme referred to in 3.1, an assumption of further slippage in the Programme of 2.5% of the revised budget, amounting to £3.834m has been made at this early stage in the financial year. This general provision and specific project variances will be kept under review throughout the remainder of the year and amended as appropriate.

Capital receipts/grant income

- 3.5 Projected capital receipts from the sale of surplus assets of £15.7m are lower than budget by £3.236m for 2017/18 as a result of changes in anticipated settlement dates for receipts which are now expected to be received in 2018/19.
- 3.6 Members should also be aware that the value and timing of capital receipts can be impacted by a number of factors including abnormal costs arising from survey results and offers contingent on planning approvals. Any further revisions to the receipts programme will be reported within future capital monitoring reports.
- 3.7 An overall balanced net underspend position of £5.098m is projected currently reflecting up to date re-phasing and realignment of the revised capital programme 2017-2022.

Impact in Future Years

- 3.8 As members may be aware from the briefing paper that the North Bridge refurbishment project is currently estimated to be under funded by £5.262m. The existing budget provision of £12m has been accelerated in line with the feasibility report and cost estimate provided. The shortfall in the project funding of £4.411m in 2019/20 and £0.851m in 2020/21 will require to be considered as part of the budget setting process.
- 3.9 There may be a shortfall in the anticipated capital receipt from the sale of the current Boroughmuir High School as the result of the rejection of planning permission for the development proposed by the prospective purchaser. The receipt has been earmarked towards funding for the replacement Boroughmuir High School, Duncan Place nursery and the new South Edinburgh Primary School. Any shortfall in the funding for these projects will require to be considered as part of the budget setting process.

Prudential Indicators

- 3.10 In considering its programme for capital investment, Members are required within the Prudential Code to have regard to:
- Affordability, e.g. implications for Council Tax/House Rents;
 - Prudence and sustainability, e.g. implications for external borrowing;
 - Value for money, e.g. option appraisal;
 - Stewardship of assets, e.g. asset management planning;
 - Service objectives, e.g. strategic planning for the Council; and
 - Practicality, e.g. achievability of the forward plan.
- 3.11 The Prudential Indicator monitoring attached in Appendix 2 provides information for six indicators.
- 3.12 Indicator 1 shows the actual capital expenditure that was incurred in 2016/17, the previously approved capital programme and the forecast capital expenditure to be incurred for the current and future years. The difference between 2017/18 estimates and forecast is due to rephasing of the capital programme and project slippage in 2016/17.

- 3.13 Indicator 2 shows the estimates of the ratio of financing costs to net revenue streams for the Council and the HRA for the actual for 2016/17 and current and future years. Figures for 2018/19 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. HRA figures are based on the business plan which was reported to Finance and Resources Committee on 19 January 2017.
- 3.14 Indicator 3 shows the Capital Financing Requirement. The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Council does not associate borrowing with particular items or types of expenditure. The authority has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction is made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.
- 3.15 Indicator 4 shows the Authorised Limit for External Debt. These authorised limits are consistent with the authority's current commitments, existing plans and the proposals in this budget for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.
- 3.16 Indicator 5 shows the Operational Boundary for External Debt. The Council is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary equates to the estimated maximum of external debt. It is based on the same estimates as the authorised limit but reflects directly the estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements. The operational boundary represents a key management tool for in year monitoring. Within the operational boundary, figures for borrowing and credit arrangements are separately identified. The Council delegate authority to the Head of Finance, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and credit arrangements, in a similar fashion to the authorised limit. Any such changes will be reported to the Council at its next meeting following the change.

- 3.17 Indicator 6 shows the impact on Council Tax and House rents from changes to the capital investment programme since it was previously reported. The estimate of the incremental impact of capital investment decisions proposed in this budget, together with changes in projected interest rates, over and above capital investment decisions that have previously been taken by the Council are.

Housing Revenue Account (HRA)

- 3.18 The Housing Revenue Account is forecasting to spend in line with its revised budget. The full HRA capital investment budget position is shown in Appendix 3. At month three, the forecast is gross expenditure of £78.004m, capital receipts and grant income of £35.012m and prudential borrowing of £42.992m.

Measures of success

- 4.1 Completion of capital projects as budgeted for in the revised 2017/18 capital programme.
- 4.2 Identifying slippage at the earliest opportunity and accelerating projects where possible to ensure best use of available resources.

Financial impact

- 5.1 The projected 2017/18 general fund outturn outlines capital borrowing of £40.843m. The overall loan charges associated with this borrowing over a 20-year period would be a principal amount of £40.843m, interest of £26.588m, resulting in a total cost of £67.431m 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 £1.051m, followed by an annual cost of £3.493m for 20 years.
- 5.2 The projected 2017/18 HRA outturn outlines capital borrowing of £42.992m. The overall loan charges associated with this borrowing over a 20-year period would be a principal amount of £42.992m, interest of £27.987m, resulting in a total cost of £70.979m based on a loans fund rate of 5.1%. The loan charges will be interest only in the first year, at a cost of £1.119m followed by an annual cost of £3.493m for 20 years.
- 5.3 The borrowing required is carried out in line with the Council's approved Treasury Management Strategy.
- 5.4 The loan charge costs outlined above will be met from this year's general fund and HRA revenue budgets for loan charges.

Risk, policy, compliance and governance impact

- 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 the Council's Strategy and Insight service.
- 6.4 The nature of capital projects means that there is an inherent risk of delays or unforeseen circumstances outwith the control of the Council.

Equalities impact

- 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 Children and Families establishments and capital expenditure on Council housing stock.

Sustainability impact

- 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.

Consultation and engagement

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

Background reading/external references

[Capital investment programme plan 2017-18 to 2025-26](#) - City of Edinburgh Council, 9 February 2017

Stephen S. Moir

Executive Director of Resources

Contact: Denise Pryde, Senior Accountant

E-mail: denise.pryde@edinburgh.gov.uk | Tel: 0131 469 3195

11. Appendices

Appendix 1 - Capital Monitoring 2017/18 – General Fund

Appendix 2 - Prudential Indicators 2017/17

Appendix 3 - Capital Monitoring 2017/18 - HRA

Capital Monitoring 2017/18

General Fund Summary

Period 3

	Approved Budget £000	Adjusts £000	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Variance £000 %	
Expenditure							
Communities and Families	33,368	2,750	36,118	5,329	36,118	-	0.00%
Edinburgh IJB	134	168	302	71	302	-	0.00%
Place	127,259	(36,688)	90,571	7,760	86,071	(4,500)	0.00%
Resources - Asset Management Works	11,132	(247)	10,885	2,239	10,885	-	0.00%
Resources - Other	-	15,470	15,470	191	15,470	-	0.00%
General slippage across programme			-		(3,834)	(3,834)	n/a
Total Gross Expenditure	171,893	(18,547)	153,346	15,590	145,012	(8,334)	-5.43%
Income							
<i>Capital Receipts</i>							
General Services	18,936	-	18,936	742	15,700	(3,236)	-17.09%
Ringfenced Asset Sales	7,880	(4,410)	3,470	118	3,470	-	0.00%
Less additional receipt income to capital fund	(5,559)	-	(5,559)	-	(5,559)	-	0.00%
Asset Sales to reduce Corporate borrowing	1,406	484	1,890		1,890	-	0.00%
Less Fees Relating to General Receipts	-	-	-		-	-	n/a
<i>Total Capital Receipts from Asset Sales</i>	<i>22,663</i>	<i>(3,926)</i>	<i>18,737</i>	<i>860</i>	<i>15,501</i>	<i>(3,236)</i>	<i>-17.27%</i>
Developer and other Contributions	174	571	745	(945)	662	-	0.00%
Capital Grants Unapplied Account drawdown	-	9	9	-	9	-	0.00%
<i>Total Capital Receipts</i>	<i>22,837</i>	<i>(3,346)</i>	<i>19,491</i>	<i>(85)</i>	<i>16,172</i>	<i>(3,236)</i>	<i>-16.60%</i>
<i>Grants</i>							
Scottish Government General Capital Grant	53,708	-	53,708	13,427	53,708	-	0.00%
Cycling, Walking and Safer Streets	683	-	683	171	683	-	0.00%
Management Development Funding	29,115	-	29,115	7,279	29,115	-	0.00%
Early Years and Childcare - Expansion	-	2,504	2,504	-	2,504	-	0.00%
Other Specific Government Grants	-	2,660	2,660	-	1,987	-	0.00%
<i>Total Grants</i>	<i>83,506</i>	<i>5,164</i>	<i>88,670</i>	<i>20,877</i>	<i>87,997</i>	<i>-</i>	<i>0.00%</i>
Total Capital Income	106,343	1,818	108,161	20,792	104,169	(3,236)	-2.99%
Balance to be funded through borrowing	65,550	(20,365)	45,185		40,843	(5,098)	-11.28%

Appendix 2

PRUDENTIAL INDICATORS 2017/18 - Period 3

Indicator 1 - Estimate of Capital Expenditure

	2016/17	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22
	Actual	Estimate	Forecast	Estimate	Forecast	Estimate	Forecast	Estimate	Forecast	Estimate	Forecast
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Council Wide / Corporate Projects	1,184	0	0	0	0	0	0	0	0	0	0
Unallocated funding - indicative 5 year plan 2016/17	0	0	0	0	0	0	0	0	0	7,000	7,000
Chief Executive	838	0	0	0	0	0	0	0	0	0	0
Communities and Families	41,816	33,368	36,118	23,404	28,895	17,850	17,850	2,485	2,485	165	165
Edinburgh Integration Joint Board	4,527	134	302	69	2,069	1,528	1,528	0	0	0	0
Place	90,704	127,259	86,071	33,554	86,315	77,398	76,622	24,535	85,277	20,285	19,835
Resources	0	0	15,470	0	0	0	0	0	0	0	0
Resources - Asset Management Works	18,908	11,132	10,885	7,229	7,706	27,107	25,360	14,000	14,000	14,000	14,000
General slippage across programme (2.5%)	0	0	-3,834	0	3,834	0	0	0	0	0	0
Total General Services	157,977	171,893	145,012	64,256	128,819	123,883	121,360	41,020	101,762	41,450	41,000
Housing Revenue Account	43,627	79,459	79,459	100,933	100,933	97,414	97,414	105,849	105,849	147,388	147,388
Total	201,604	251,352	224,471	165,189	229,752	221,297	218,774	146,869	207,611	188,838	188,388

The 'estimate' figures relate to those reported in the prudential indicators as part of the budget approved in February 2017. Differences between these and the 'forecast' figures relate to further realignment and rephasing that has taken place as part of the revised budget process.

Indicator 2 - Ratio of Financing Costs to Net Revenue Stream

	2016/17	2017/18	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Estimate	Forecast	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%	%
General Services	11.63	11.53	11.96	11.72	11.61	11.41	N/A
Housing Revenue Account	35.21	37.61	36.33	39.58	42.28	44.79	46.76

Forecast and estimates include the financing cost relating to the Tram (phase 1) project.

Figures for 2018/19 onwards are indicative as neither the Council nor HRA has set a budget for these years. The figures for General Services are based on the current long term financial plan that ends in 2020/21. HRA figures are based on the current business plan.

Appendix 2

Indicator 3 - Capital Financing Requirement

	2016/17 Actual £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	2021/22 Estimate £000	2021/22 Forecast £000
General Services (including finance leases)	1,250,818	1,272,527	1,222,218	1,210,923	1,213,964	1,202,508	1,208,834	1,134,855	1,201,943	1,061,110	1,128,198
Housing Revenue Account	364,934	398,199	391,106	435,864	428,771	486,728	479,635	523,509	516,416	583,289	576,196
Total	<u>1,615,752</u>	<u>1,670,726</u>	<u>1,613,324</u>	<u>1,646,787</u>	<u>1,642,735</u>	<u>1,689,236</u>	<u>1,688,469</u>	<u>1,658,364</u>	<u>1,718,359</u>	<u>1,644,399</u>	<u>1,704,394</u>

Forecasts include the capital financing requirement relating to PPP assets and Trams (Phase 1) project

Indicator 4 - Authorised Limit for External Debt

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Borrowing	1,970	1,960	1,990	1,900	1,800
Credit Arrangements	<u>220</u>	<u>200</u>	<u>200</u>	<u>230</u>	<u>220</u>
Total	<u>2,190</u>	<u>2,160</u>	<u>2,190</u>	<u>2,130</u>	<u>2,020</u>

Other Long-Term Liabilities includes finance lease repayments for PPP assets

Indicator 5 - Operational Boundary for External Debt

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Borrowing	1,580	1,570	1,610	1,600	1,590
Other Long-Term Liabilities	<u>220</u>	<u>200</u>	<u>200</u>	<u>230</u>	<u>220</u>
Total	<u>1,800</u>	<u>1,770</u>	<u>1,810</u>	<u>1,830</u>	<u>1,810</u>

Other Long-Term Liabilities includes finance lease repayments for PPP assets

Appendix 2

Indicator 6 - Impact on Council Tax and House Rents

	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22
	Estimate	Forecast	Estimate	Forecast	Estimate	Forecast	Estimate	Forecast	Estimate	Forecast
	£	£	£	£	£	£	£	£	£	£
for the band "D" Council Tax	9.17	-0.05	13.68	2.58	18.02	8.92	N/A	8.46	N/A	N/A
for the average weekly housing rents	-0.68	0.23	-0.50	1.17	0.55	2.62	3.50	3.60	N/A	5.78

In calculating the incremental impact of capital investment decisions on the band "D" Council Tax, investment decisions relating to National Housing Trust Phases and the St James GAM have been omitted. As agreed with the Scottish Government, the borrowing and associated interest costs related to this expenditure are directly rechargeable to developers 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 2017.

Appendix 3

CAPITAL MONITORING 2017/18

Housing Revenue Account Summary

Period 3

	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Variance	
				£000	%
Gross Expenditure	78,004	8,360	78,004	0	0.0%
Total Gross Expenditure	78,004	8,360	78,004	0	0.0%

Income					
Capital Receipts	-11,400	-766	-11,400	0	0.0%
Developers and Other Contributions	-16,537	-120	-16,537	0	0.0%
Specific Capital Grant	-7,075	-2,119	-7,075	0	0.0%
Total Income	-35,012	-3,005	-35,012	0	0.0%

Borrowing					
Borrowing	42,992		42,992	0	0.0%
Total	42,992		42,992	0	0.0%