

Finance and Resources Committee

10.00am, Friday, 27 October 2017

Capital Investment Framework 2018/19 – 2026/27

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Executive Summary

This report sets out the assumptions underpinning the Council's capital budget framework. It outlines the expenditure already approved and describes the funding available to the Council. It also highlights capital expenditure priorities to which members may wish to allocate additional funding, should this become available.

This report should be read in conjunction with the report on the revenue budget framework, also on this agenda, as the ability to finance additional capital expenditure, outwith grant funding, is dependent on the achievement of a balanced and sustainable revenue budget.

Capital Investment Framework 2018/19 – 2026/27

1. Recommendations

- 1.1 Members of the Finance and Resources Committee are asked to:
 - 1.1.1 note the contents of this report in the context of considering the Council's capital budget framework;
 - 1.1.2 note that there is currently £7m of unallocated capital funding in 2021/22 and 2022/23;
 - 1.1.3 note that, in the absence of firm proposals to deliver a balanced position over the period of the 2018/23 revenue budget framework, no additional capital expenditure may be supported at present, where this creates revenue implications;
 - 1.1.4 note the priorities for additional capital investment, should additional grant funding become available; and
 - 1.1.5 note that a further report on the capital investment framework will be considered by Finance and Resources Committee in January 2018.

2. Background

- 2.1 The Council budgets for capital expenditure are based on a rolling 5-year capital investment programme which is set within a high-level 10-year capital plan. This allows for a strategic approach to investment in the Council's assets.
- 2.2 The Council set its current capital investment programme on 9 February 2017 for the period 2017-2022 and rolled forward its high-level capital plan to cover the period up to 2025/2026. This was based on a report considered by Finance and Resources Committee on 19 January 2017. The programme was subsequently revised to take account of slippage and acceleration from 2016/17 and approved by Finance and Resources Committee on 5 September 2017.
- 2.3 This report details the issues members need to consider when rolling forward the capital budget.

3. Main report

Existing Capital Plans

- 3.1 The Council plans to spend £430m on capital projects over the next five years. Of this, there is £7m of unallocated funding in each of 2021/22 and 2022/23. The table below sets out the planned allocation of general fund capital budgets, based on the current capital investment programme and the capital plan. This presentation excludes expenditure relating to the Housing Revenue Account (HRA) which will be subject to separate reports on the HRA business plan.

Planned General Fund Capital Expenditure 2018/19 to 2022/2023¹

Service	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Place	86.3	76.6	85.3	19.8	19.8	287.9
Communities and Families	28.9	17.9	2.5	0.2	0.2	49.6
Resources	7.7	25.4	14.0	14.0	14.0	75.1
Edinburgh IJB	2.1	1.5	0.0	0.0	0.0	3.6
Unallocated	0.0	0.0	0.0	7.0	7.0	14.0
Total	125.0	121.4	101.8	41.0	41.0	430.1

- 3.2 Expenditure in 2021/22 and 2022/23 is not committed and is based on the capital plan which allocates an annual budget of £41m to the following priorities:

Priority	£'000
Asset Management Works	14,000
Carriageway and Footway Improvements	13,585
Lighting Column Replacements	1,500
Tram Lifecycle Replacements	1,000
Other Transport Infrastructure Projects	2,750
Statutory Home Owner Adaptations	1,000
Edinburgh Leisure	165
Unallocated	7,000
Total	41,000

¹ Capital budget figures presented have been subject to rounding

Should members wish to reprioritise this allocation (or indeed any uncommitted expenditure within the capital programme), this may be done as part of the budget-setting process.

- 3.3 The majority of this expenditure is funded from a combination of government grant, planned sale of Council assets and loans fund advances. In addition, some capital investment related to schools and transport infrastructure is funded from developers' contributions.

Government Grant

- 3.4 The capital budget assumes £206.7m in government grant over the 5-year period. This is based on a prudent estimate of Scotland-wide funding, adjusted for a £10.3m allocation for 2016/17 which was to be paid over a three-year period.
- 3.5 The next Scottish Local Government Finance Settlement will be announced on 14 December 2017. As in recent years, it is anticipated that this will most likely be a one year settlement. As no firm indications have been received, a general capital grant award of £44.5m has been estimated for 2018/19. Should Scottish Ministers choose to increase the general capital grant, any additional funding will be available for members to allocate to projects. However, any consequential revenue implications of additional an increase in the general capital grant will need to be carefully considered as part of the overall budget setting process.
- 3.6 Since the setting of the capital budget in February, the Council signed heads of terms for the Edinburgh and South-East Scotland City Deal on 19 July 2017. This provides £600m of investment for the city region, including over £65m of funding towards Council capital projects. The Council's contribution towards these projects is detailed in paragraph 3.16 below.
- 3.7 The Council will require additional nursery facilities to provide 30 hours a week of free pre-school education to all 3 and 4-year olds by 2020. It is currently in the process of applying for specific Scottish Government grant to enable the necessary works to go ahead.
- 3.8 The Council also receives capital grants from a variety of different bodies for specific schemes. Examples of grants received include contributions from Historic Environment Scotland and Creative Scotland towards the redevelopment of Calton Hill and grants from Sustrans towards cycling improvements.

Capital Receipts

- 3.9 The capital programme relies on income of £27.7m from asset sales over the next five years and a £20m drawdown from the capital fund, which was created from previous asset sales. Timings and values of sales can be impacted by several factors, including planning conditions, the results of detailed ground investigation surveys and the underlying performance of the economy. In view of this, the level of receipts assumed in the budget has been set at a prudent level.

3.10 Members should note that this level of capital receipts is required to support the existing capital programme. Any loss or ring-fencing of specific receipts towards other priorities will create a funding shortfall in the core programme, which will need to be addressed as part of the budget process.

3.11 As reported to Finance and Resources Committee on 5 September 2017, 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 need to be considered as part of the budget setting process.

Prudential Borrowing

3.12 £175.5m of the capital programme is funded from loans fund advances, serviced from Council revenue budgets. This level of investment is included in the Council's treasury management strategy and in directorate revenue budget assumptions.

Developers' contributions

3.13 As Edinburgh is a growing city, additional infrastructure is required to meet the needs of new developments and their occupants. Developers' contributions are collected through the planning process, which enable the Council to invest in new or extended schools, additional green space, health and transport infrastructure.

3.14 The capital budget currently only takes account of developers' contributions which have been secured, so does not reflect the level of contribution which could be received over the next five years.

3.15 A report on the financial implications of the Local Development Action Plan was considered by Finance and Resources Committee on 19 January 2017, which identified a funding requirement of £407m over a ten-year period. It was noted that, while changes to planning guidance would provide more clarity for section 75 agreements, it was unlikely to lead to full cost recovery. An update will be provided in January 2018 which will reassess the overall funding requirement and cashflow implications as well as assessing the extent to which it could be funded from developers' contributions and other sources.

Additional Funding from Revenue Budget Framework

3.16 The 2018/23 budget framework progress update report considered by the Finance and Resources Committee on 5 September 2017 referred to the inclusion, subject to the achievement of a balanced overall position across the period of the framework, of corresponding revenue provision to support the following capital investment:

- (i) **Infrastructure** – around £56m to address part of the planned maintenance backlog across the Council's estate;

- (ii) **Local Development Plan** – around £35m to contribute towards the element of LDP-related infrastructure not met by means of developers' contributions and other sources;
- (iii) **City Region Deal** – around £20m, representing the anticipated Council contribution in respect of the West Edinburgh Transport Appraisal improvements and a new concert venue off St. Andrew Square over the period of the framework.

3.17 Given that the revenue budget framework update report contained elsewhere on today's agenda indicates a significant savings requirement still to be identified over the period to 2022/23, then these proposed investments remain conditional subject to the identification of clear savings proposals.

Priorities for Additional Capital Expenditure

3.18 In allocating any additional or currently unallocated Capital funding, members may wish to consider the following priorities:

- (i) **North Bridge Refurbishment** – It is currently estimated that this project will cost around £17m, compared to the existing £12m budget. Investigative work is nearing completion and a greater level of cost certainty will be achieved by December 2017 to inform the budget-setting process. It is envisaged that additional expenditure could be met from an anticipated £4.5m underspend in the Water of Leith (phase 2) project.
- (ii) **Additional Schools** – The Council Business Plan includes a commitment to deliver 10 new primary schools and 2 new secondary schools by 2021. In order to meet this target, a number of projects need to be considered as part of the 2018/19 budget process.
- (iii) **Backlog Maintenance** – An estate-wide programme of condition surveys was completed in September 2017. This has identified a requirement for circa £150m of capital and revenue works to bring the estate to an acceptable condition.
- (iv) **Boroughmuir receipt shortfall** – As outlined in paragraph 3.9, the consequences arising from any reduction in the level of receipt from the sale of the former Boroughmuir High School will need to be considered when allocating additional funding.

3.19 Against a backdrop of increasing pressures on both the capital and revenue budgets, members need to ensure that additional projects are affordable to the council. In doing so, members must not only consider the capital costs of each project, but also its impact on revenue budgets. Work is currently underway to calculate the full revenue implications of all capital investment options so that they can be properly considered.

4. Measures of success

- 4.1 The City of Edinburgh Council sets a capital budget which supports service objectives and is affordable, prudent and sustainable.

5. Financial impact

- 5.1 The revenue funding required to support the loan charges associated with the approved capital programme is included in the revenue budget framework, also being considered by this committee.
- 5.2 The Council can only commit to further capital expenditure if revenue expenditure plans are affordable and sustainable. The inclusion of any additional investment within the budget framework is contingent upon the development, and subsequent delivery, of corresponding savings, alongside the effective management of risks and pressures.

6. Risk, policy, compliance and governance impact

- 6.1 The 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.
- 6.2 The monitoring of major capital projects, including risk assessment, is the responsibility of the relevant senior responsible officers and is reported to the Governance, Risk and Best Value Committee.
- 6.3 The risk of not adequately investing in infrastructure means that it does not meet Council's and stakeholders' needs and does not remain fit for purpose in the future.
- 6.4 Investing in infrastructure is essential to meet the Council's health and safety obligations.
- 6.5 There is a potential legal and reputational risk arising from failure to consider and evidence due regard of the Climate Change (Scotland) Act 2009 Public Bodies Duties and Equality Act 2010 Public Sector Equality Duties in capital projects.

7. 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 Communities and Families establishments and capital expenditure on Council Housing stock.

8. 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 capital plans in this report will increase the city's resilience to climate change impacts because they provide funding for flood prevention projects.

9. Consultation and engagement

- 9.1 Engagement relating to the capital budget will take place as part of a wider budget engagement process.
- 9.2 Individual capital projects will be subject to consultation as part of the statutory planning process.

10. Background reading/external references

[Capital Investment Programme-Plan 2017-18 to 2025-26, Council 9 February 2017, referral from Finance and Resources Committee](#)

[Capital Monitoring 2016/17 – Outturn and Receipts, Finance and Resources Committee, 5 September 2017](#)

[Edinburgh Local Development Plan Action Programme - Financial Assessment, Finance and Resources Committee, 19 January 2017](#)

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11. Appendices

None.