

Finance and Resources Committee

10.00am, Tuesday 7 November 2017

Capital Monitoring 2017/18 – Half Year Position

Item number	7.6
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive Summary

The month five position shows that the Council is projected to require loans fund advances of £40.600m and will be in receipt of grants and capital income amounting to £106.170m. Together this will fund projected capital investment of £146.770m. Loans fund advances are projected to be £4.601m 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 projecting to require loans fund advances of £36.329m and will be in receipt of grants and capital income amounting to £35.012m. Together this will fund projected capital investment of £71.341m. Loans fund advances are projected to be £6.663m lower than the revised budget as a result of anticipated slippage in the delivery of the capital investment programme.

Capital Monitoring 2017/18 – Half-Year Position

1. Recommendations

- 1.1 Members of the Finance and Resources Committee are requested to:
- 1.1.1 Note the projected capital outturn position on the General Fund and HRA at month five;
 - 1.1.2 Note the prudential indicators at month five; and
 - 1.1.3 Refer the report to the Governance, Risk and Best Value Committee as part of its work-plan.

2. Background

- 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

Existing Capital Plans

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

	Outturn Variance at Month Five	Outturn Variance at Month Three	Movement from Month Three
	£000	£000	£000
Net (slippage) / acceleration in gross expenditure	(11,860)	(8,334)	(3,526)
Net (surplus) / deficit in capital receipts and grant income	7,259	3,236	4,023
Net increase / (decrease) in loans fund advances	(4,601)	(5,098)	497

- 3.2 The position at month five can be seen in Appendix 1, which shows expenditure on the Capital Investment programme of £146.770m funded by grants and other capital income of £106.17m and loans fund advances of £40.600m.
- 3.3 The forecast currently includes an anticipated payment of £14.21m for ICT assets under the Council's contract with CGI. A detailed exercise is currently underway to determine the appropriate contractual arrangements and accounting treatment for these assets.
- 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 £3.966m 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.
- 3.5 Explanations for significant slippage and accelerations projected at month five are presented in Appendix 2.

Capital receipts / grant income

- 3.6 Projected capital receipts from the sale of surplus assets of £11.337m are lower than budget by £7.536m for 2017/18 as a result of changes in anticipated settlement dates and the phasing of receipts which are now expected to be received in future years.
- 3.7 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.

Prudential Indicators

- 3.8 The Prudential Indicator monitoring at month 5 is shown in Appendix 3.

Housing Revenue Account (HRA)

- 3.9 The Housing Revenue Account is forecasting slippage in gross expenditure of £6.663m (8.5%) at month five (balance position at month three). The full HRA capital investment budget position is shown in Appendix 4. At month five, the forecast is gross expenditure of £71.341m, capital receipts and grant income of £35.012m and loans fund advances of £36.329m.
- 3.10 The projected outturn at month five is based on an assessment of the various risks identified and their impact on in-year delivery. The annual expenditure on the House Building Programme is projected to be £5.436m less than originally forecast, primarily due to delays in securing statutory consents for construction work at North

Sighthill, small sites and Greendykes. Greendykes was also subject to a value engineering exercise due to high tender price. Despite the delay, the budgets for individual house building projects will still be spent in full as part of the three year rolling programme. The remainder of the slippage is linked to the extensive engagement of owners and legal process for buybacks under the Regeneration Programme taking longer than initially projected.

4. 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.

5. Financial impact

- 5.1 The projected 2017/18 general fund outturn outlines loans fund advances of £40.600m. The overall loan charges associated with this over a 20-year period would be a principal amount of £40.600m, interest of £26.430m, resulting in a total cost of £67.030m 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 £1.050m, followed by an annual cost of £3.299m for 20 years.
- 5.2 The projected 2017/18 HRA outturn outlines loans fund advances of £36.329m. The overall loans charges associated with this over a 20-year period would be a principal amount of £36.329m, interest of £23.650m, resulting in a total cost of £59.979m based on a loans fund rate of 5.1%. The loan charges will be interest only in the first year, at a cost of £0.939m followed by an annual cost of £2.952m for 20 years.
- 5.3 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.

6. 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.

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 Children 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.
- 8.1 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.
- 8.2 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

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

10. Background reading/external references

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

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11. Appendices

Appendix 1 - Capital Monitoring 2017/18 – General Fund

Appendix 2 - Slippage and Acceleration on Projects

Appendix 3 - Prudential Indicators 2017/18

Appendix 4 - Capital Monitoring 2017/18 - HRA

Capital Monitoring 2017/18

General Fund Summary

Period 5

Expenditure	Approved Budget £000	Adjusts £000	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Variance £000 %	
Communities and Families	32,243	4,660	36,903	11,307	34,866	(2,037)	0.00%
Chief Executive	1,125		1,125	-	1,125	-	0.00%
Edinburgh IJB	134	(18)	116	13	116	-	0.00%
Place	127,259	(33,128)	94,131	26,551	88,274	(5,857)	0.00%
Resources - Asset Management Works	11,132	(247)	10,885	4,475	10,885	-	0.00%
Resources - Other	-	15,470	15,470	538	15,470	-	0.00%
City Wide / Corporate Projects				2	-	-	0.00%
General slippage across programme			-		(3,966)	(3,966)	
Total Gross Expenditure	171,893	(13,263)	158,630	42,886	146,770	(11,860)	-7.48%
Capital Income							
<i>Capital Receipts</i>							
General Services	18,936	(63)	18,873	34	11,337	(7,536)	-39.93%
Ringfenced Asset Sales	7,880	(4,410)	3,470	257	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	-	-	-	(22)	-	-	#DIV/0!
<i>Total Capital Receipts from Asset Sales</i>	<i>22,663</i>	<i>(3,989)</i>	<i>18,674</i>	<i>269</i>	<i>11,138</i>	<i>(7,536)</i>	<i>-40.36%</i>
Developer and other Contributions	174	2,417	2,591	2,292	2,868	277	10.69%
Capital Grants Unapplied Account drawdown	-	9	9	-	9	-	0.00%
Total Capital Receipts	22,837	(1,563)	21,274	2,561	14,015	(7,259)	-34.12%
<i>Grants</i>							
Scottish Government General Capital Grant	53,708	(12)	53,696	22,373	53,696	-	0.00%
Cycling, Walking and Safer Streets	683	-	683	-	683	-	0.00%
Management Development Funding	29,115	-	29,115	5,997	29,115	-	0.00%
Early Years and Childcare - Expansion	-	2,504	2,504	-	2,504	-	0.00%
Other Specific Government Grants	-	6,157	6,157	-	6,157	-	0.00%
Total Grants	83,506	8,649	92,155	28,370	92,155	-	0.00%
Total Capital Income	106,343	7,086	113,429	30,931	106,170	(7,259)	-6.40%
Balance to be funded through loans fund advances	65,550	(20,349)	45,201		40,600	(4,601)	-10.18%

CAPITAL MONITORING 2017/18 - 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	Explanation
1. Slippage due to unforeseen delays	Slippage that has occurred due to unforeseen circumstances or delays that for the most part, are out with the Council's control.
2. Slippage due to optimistic budget	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.
3. Slippage due to timing of payments	Slippage that has occurred where a project is on time and schedule but is as a result of the timing of cash flows.
4. Acceleration on a project	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 overriding 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
<u>Communities and Families</u>					
Early years 2020	-2,591	0	-2,591	Programme has slipped due to working to reach agreement from Scottish Government re total available funding to meet extended nursery hours	2
Hunter Hall Cycle Hub And Pitch	-1,017	0	-1,017	Programme has slipped due to working to reach a decision on what is going to happen to the Jack Kane centre	2
New Queensferry HS	103	0	103	External fees for HUB -decision as to how funded is still being negotiated	4
St John's PS	1,500	0	1,500	Reflects latest cash flow from QS- school progressing better than anticipated	4
Portobello Demolition	43	0	43	Overspend to be met for future years budgets	4
New Primary schools	10	0	10	Initial fees for new Primary schools to be met from future years budget	4
Net (slippage) / acceleration on various projects	-85	0	-85		4
Total Communities and Families	-2,037	0	-2,037		
<u>Place</u>					
Water of Leith Phase 2	-4,500	-4,500	0	Projected underspend on delivery of the project	2
Leith Improvement Programme - Core	-1,126	0	-1,126	Realignment to fit with the tram project	3
St Andrew Square Bus Station	-176	0	-176	Delays to the tender process and appointment expected to extend to next financial year	3
Bus Priority Schemes/Bus Shelters	-249	0	-249	Installation works of bus shelters to be delivered over financial years, with full payment not being made until works are complete.	3
Net (slippage) / acceleration on various projects	194	0	194		2
Total Place	-5,857	-4,500	-1,357		

		Period 5 £000	Period 3 £000	Movement between periods £000	Explanations for Significant Slippage / Acceleration	Variance Category
<u>Council Wide / Corporate Projects</u>						
Net (slippage) / acceleration on various projects		0				
General Slippage across the programme (2.5%)		-3,966	-3,834	-132		1
Total Council Wide / Corporate Projects		-3,966	-3,834	-132		
Total for all Services		-11,860	-8,334	-3,526		
Summary of Variance Category						
1	Slippage due to unforeseen delays	-3,966	-3,834	-132		
2	Slippage due to optimistic budget	-7,914	-4,500	-3,414		
3	Slippage due to timing of payments	-1,551	0	-1,551		
4	Acceleration on a project	1,571	0	1,571		
		-11,860	-8,334	-3,526		

Appendix 3

PRUDENTIAL INDICATORS 2017/18 - Period 5

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 2019/20	0	0	0	0	0	0	0	0	0	7,000	7,000
Chief Executive	838	1,125	1,125	0	0	0	0	0	0	0	0
Communities and Families	41,816	34,993	34,866	28,895	30,932	17,850	17,850	2,485	2,485	165	165
Edinburgh Integration Joint Board	4,527	302	116	2,069	2,069	1,528	1,528	0	0	0	0
Place	90,704	90,571	88,274	86,315	87,672	76,622	76,622	85,277	85,277	19,835	19,835
Resources	0	15,470	15,470	0	0	0	0	0	0	0	0
Resources - Asset Management Works	18,908	10,885	10,885	7,706	7,706	25,360	25,360	14,000	14,000	14,000	14,000
General slippage across programme (2.5%)	0	0	-3,966	0	3,966	0	0	0	0	0	0
Total General Services	157,977	153,346	146,770	124,985	132,345	121,360	121,360	101,762	101,762	41,000	41,000
Housing Revenue Account	43,627	78,004	71,341	100,933	107,596	97,414	97,414	105,849	105,849	147,388	147,388
Total	201,604	231,350	218,111	225,918	239,941	218,774	218,774	207,611	207,611	188,388	188,388

The 'estimate' figures relate to those reported in the prudential indicators as part of the rolled forward CIP approved in September 2017. Differences between these and the 'forecast' figures relate to slippage or acceleration detailed on Appendix 1, 2 and 4.

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	11.72	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 3

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	1,252,162	1,221,975	1,240,074	1,209,711	1,233,444	1,204,581	1,225,033	1,197,670	1,149,788	1,123,925
Housing Revenue Account	364,934	398,199	382,988	436,411	427,316	487,275	478,180	524,056	514,961	583,836	574,741
Total	<u>1,615,752</u>	<u>1,650,361</u>	<u>1,604,963</u>	<u>1,676,485</u>	<u>1,637,027</u>	<u>1,720,719</u>	<u>1,682,761</u>	<u>1,749,089</u>	<u>1,712,631</u>	<u>1,733,624</u>	<u>1,698,666</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 3

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	0.02	13.68	-0.44	18.02	-1.38	N/A	-1.30	N/A	N/A
for the average weekly housing rents	-0.68	-0.21	-0.50	-0.54	0.55	-0.10	3.50	-0.09	N/A	N/A

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 4

CAPITAL MONITORING 2017/18

Housing Revenue Account Summary

Period 5

	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Variance	
				£000	%
Gross Expenditure	78,004	16,154	71,341	-6,663	-8.5%
Total Gross Expenditure	78,004	16,154	71,341	-6,663	-8.5%

Income					
Capital Receipts	-11,400	0	-11,400	0	0.0%
Developers and Other Contributions	-16,537	-133	-16,537	0	0.0%
Specific Capital Grant	-7,075	-2,119	-7,075	0	0.0%
Total Income	-35,012	-2,252	-35,012	0	0.0%

Funding					
Loans Fund Advances	42,992		36,329	-6,663	-15.5%
Total	42,992		36,329	-6,663	-15.5%