

Finance and Resources Committee

10.00am, Thursday 16 August 2018

Capital Monitoring 2018/19 – Month Three Position

Item number	7.4
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive Summary

The month three position shows that the Council is projected to require loans fund advances of £92.210m and will be in receipt of grants and capital income amounting to £128.434m. Together this will fund projected capital investment of £220.664m. Loans fund advances are projected to be lower than the revised budget as a result of an anticipation of general slippage in the programme.

The HRA capital investment programme is projecting to require loans fund advances of £20.742m and will be in receipt of grants and capital income amounting to £60.192m. Together this will fund projected capital investment of £80.934m. Loans fund advances are projected to be £1.672m lower than the revised budget as a result of changes to timescales for new homes developed through the Council's housebuilding programme being purchased by Edinburgh Living LLP.

Capital Monitoring 2018/19 – Month Three 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 three;
 - 1.1.2 Note the prudential indicators at month three;
 - 1.1.3 Note that the Head of Finance is closely monitoring the capital receipts position, and
 - 1.1.4 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 three-month position (based on month two data) and the projected outturn for the year.

3. Main report

Existing Capital Plans

- 3.1 The month three budget position is based on the revised 2018-2023 Capital Investment Programme (CIP) incorporating slippage / acceleration from 2017/18. The detailed Capital Investment Programme can be seen in Appendix 5 of the Capital Monitoring 2017/18 – 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 General Fund of £220.644m funded by grants and other capital income of £128.434m and loans fund advances of £92.210m.
- 3.3 In May 2018, the Scottish Government confirmed the additional awards to the Council for Management Development Funding for 2018-2019 and a multi-year funding package for the delivery of the Expansion of Early Learning and Childcare in Scotland – Action Plan which have been included in the revised CIP.
- 3.4 The Management Development Funding for 2018-2019 has increased by £13.319m to £41.269m.

- 3.5 The Expansion of Early Learning and Childcare in Scotland – Action Plan included capital funding of £39.480m. The grant allocations are profiled over 4 years, 2017/18 £2.58m, 2018/19 £12.40m, 2019/20 £14.50m and 2020/21 £10m and have been included in the revised CIP accordingly.
- 3.6 The Executive Director of Communities and Families reported his plans for the delivery of the expansion plan to the Education, Children and Families Committee on 14 August 2018. Appendix 2 of the report advised the Committee of the intended detailed capital investment plan. At this early stage, capital expenditure of £0.955m is anticipated for 2018/19 resulting in slippage against budget of £14.025m which is reflected in Appendix 1. There is also an assumption that the grant funding will also be carried forward.
- 3.7 Members should note that in any given year, variance against budget will occur due to delays or unforeseen circumstances out with 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 5% of the revised budget, amounting to £11.613m 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

- 3.8 Projected capital receipts from the sale of surplus assets, including those ringfenced for specific projects, are anticipated to be achieved at the budgeted level of £18.11m.
- 3.9 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

- 3.10 The Prudential Indicator monitoring at month three is shown in Appendix 2.

Housing Revenue Account (HRA)

- 3.11 The Housing Revenue Account is not forecasting any slippage in gross expenditure at month three.
- 3.12 As reported to Finance and Resources on 12 June 2018, the HRA will receive capital receipts from Edinburgh Living LLP for the sale of completed homes of £15.18m in 2018/19, which exceeds the revised budget by £1.672m. This represents a change of profile of the pipeline of delivery and the total receipts achieved across the programme remain the same.
- 3.13 The full HRA capital investment budget position is shown in Appendix 3. At month three, the forecast is gross expenditure of £80.934m, capital receipts and grant income of £60.192m and loans fund advances of £20.742m.

4. Measures of success

- 4.1 Completion of capital projects as budgeted for in the revised 2018/19 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 2018/19 general fund outturn outlines loans fund advances of £92.210m. The overall loan charges associated with this over a 20-year period would be a principal amount of £92.210m, interest of £60.040m, resulting in a total cost of £152.250m 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 £2.370m, followed by an annual cost of £7.494m for 20 years.
- 5.2 The projected 2018/19 HRA outturn outlines loans fund advances of £20.742m. The overall loans charges associated with this over a 20-year period would be a principal amount of £20.742m, interest of £13.505m, resulting in a total cost of £34.247m based on a loans fund rate of 5.1%. The loan charges will be interest only in the first year, at a cost of £0.547m followed by an annual cost of £1.685m 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.

The nature of capital projects means that there is an inherent risk of delays or unforeseen circumstances out with 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.
- 8.2 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

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

10. Background reading/external references

- 10.1 [Capital investment programme 2018-19 - 2022-23](#) – City of Edinburgh Council, 22 February 2018
- 10.2 [City deal new housing delivery partnership acquisition of homes 2018/19](#) - Finance and Resources Committee, 12 June 2018
- 10.3 [Expansion of Early Learning and Childcare from 600 – 1140 hours by 2020. Current progress and next steps, report to Education, Children and Families Committee](#)

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11. Appendices

Appendix 1 - Capital Monitoring 2018/19 – General Fund

Appendix 2 - Prudential Indicators 2018/19

Appendix 3 - Capital Monitoring 2018/19 – HRA

Capital Monitoring 2018/19

General Fund Summary

Period 3

Expenditure	Approved Budget £000	Adjusts £000	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Variance £000	%
Communities and Families	34,378	20,219	54,597	8,862	40,572	(14,025)	-25.69%
Edinburgh IJB	2,069	658	2,727	50	2,727	0	0.00%
Place	99,640	10,444	110,084	18,019	110,084	0	0.00%
Resources - Asset Management Works	18,537	(962)	17,575	1,236	17,575	0	0.00%
Resources - Other	10,830	5,391	16,221	321	16,221	0	0.00%
Lending	32,208	12,870	45,078	0	45,078	0	0.00%
General slippage in programme 5%					(11,613)	(11,613)	n/a
Council Wide Projects			0		0	0	0.00%
Total Gross Expenditure	197,662	48,620	246,282	28,488	220,644	(25,638)	-10.41%

Income

<i>Capital Receipts</i>							
General Services	11,630	85	11,715	40	11,715	0	0.00%
Ringfenced Asset Sales	4,895	1,500	6,395	101	6,395	0	0.00%
<i>Total Capital Receipts from Asset Sales</i>	<i>16,525</i>	<i>1,585</i>	<i>18,110</i>	<i>141</i>	<i>18,110</i>	<i>0</i>	<i>0.00%</i>
Less additional receipt income to capital fund	(809)	0	(809)	0	(809)	0	0.00%
Drawdown from Capital Fund	15,439	(657)	14,782	0	14,782	0	0.00%
Developer and other Contributions	40	2,279	2,319	1,394	2,319	0	0.00%
Capital Grants Unapplied Account drawdown	2,504	0	3,451	0	1,902	(1,549)	-44.89%
<i>Total Capital Receipts</i>	<i>33,699</i>	<i>3,207</i>	<i>37,853</i>	<i>1,535</i>	<i>36,304</i>	<i>(1,549)</i>	<i>-4.09%</i>
<i>Grants</i>							
Scottish Government General Capital Grant	49,405	0	49,405	12,351	49,405	0	0.00%
Cycling, Walking and Safer Streets	691	0	691	0	691	0	0.00%
Management Development Funding	27,950	13,319	41,269	0	41,269	0	0.00%
Early Years and Childcare - Expansion	0	12,400	12,400	0	12,400	0	0.00%
Other Specific Government Grants	0	765	765	676	765	0	0.00%
Less Early Years Grant Carried Forward	0	0	0		(12,400)	(12,400)	n/a
<i>Total Grants</i>	<i>78,046</i>	<i>26,484</i>	<i>104,530</i>	<i>13,027</i>	<i>92,130</i>	<i>(12,400)</i>	<i>-11.86%</i>
Total Income	111,745	29,691	142,383	14,562	128,434	(13,949)	-9.80%

Balance to be funded through Loans Fund Advance	85,917	18,929	103,899		92,210	(11,689)	-11.25%
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Appendix 2

PRUDENTIAL INDICATORS 2017/18 - Period 3

Indicator 1 - Estimate of Capital Expenditure

	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22	2022/23	2022/23
	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	364	0	0	0	0	0	0	0	0	0	0
Unallocated funding - LDP priorities	0	0	0	16,682	16,682	0	0	0	0	0	0
Lending	6,470	45,078	45,078	25,618	25,618	57,542	57,542	73,665	73,665	117,879	117,879
Communities and Families	35,989	54,597	40,572	53,550	67,575	31,167	31,167	14,207	14,207	165	165
Edinburgh Integration Joint Board	496	2,727	2,727	1,528	1,528	5,000	5,000	5,000	5,000	0	0
Place	85,267	110,084	110,084	98,368	98,368	96,235	96,235	29,535	29,535	31,785	31,785
Resources	3,503	16,221	16,221	0	0	0	0	0	0	0	0
Resources - Asset Management Works	10,990	17,575	17,575	30,000	30,000	30,000	30,000	25,516	25,516	20,450	20,450
Trams	2,383	0	0	0	0	0	0	0	0	0	0
General slippage / acceleration across programme (5%)	0	0	(11,613)	0	(376)	0	991	0	3,601	0	(1,118)
Total General Services	145,462	246,282	220,644	225,746	239,395	219,944	220,935	147,923	151,524	170,279	169,161
Housing Revenue Account	72,816	80,934	80,934	165,278	165,278	144,967	144,967	150,617	150,617	167,179	167,179
Total	218,278	327,216	301,578	391,024	404,673	364,911	365,902	298,540	302,141	337,458	336,340

The 'estimate' figures relate to those reported as part of the revised Capital Investment Programmes reported elsewhere on this agenda incorporating the final slippage and realignment after the outturn for 2017/18 . Differences between these and the 'forecast' figures relate to slippage or acceleration in the programmes for the General Fund and HRA detailed in Appendices 1 and 3.

The 'Lending' figures relate to lending by the Council to National Housing Trust (NHT) bodies and Edinburgh LLP. The LLP figures are based on a pipeline of development and will be subject to annual approval from Finance and Resources Committee and Council. The figures shown are indicative.

Indicator 2 - Ratio of Financing Costs to Net Revenue Stream

	2017/18	2018/19	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Estimate	Forecast	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%	%
General Services	11.63	11.38	11.44	11.65	11.68	N/A	N/A
Housing Revenue Account	37.88	39.64	38.69	41.76	42.28	45.28	47.53

Figures for 2019/20 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 2022/23. HRA figures are based on the current business plan.

Appendix 2

Indicator 3 - Capital Financing Requirement

	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22	2022/23	2022/23
	Actual	Estimate	Forecast	Estimate	Forecast	Estimate	Forecast	Estimate	Forecast	Estimate	Forecast
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
General Services (including finance leases)	1,128,518	1,123,368	1,111,679	1,217,813	1,205,824	1,259,886	1,248,889	1,215,639	1,208,243	1,148,746	1,140,232
Edinburgh Living LLP	0	12,870	12,870	33,614	33,614	86,647	86,647	159,189	159,189	275,105	275,105
NHT LLPs	66,725	98,933	98,933	103,651	103,651	107,693	107,693	107,693	107,693	107,693	107,693
Housing Revenue Account	380,621	377,505	375,833	431,583	431,583	460,266	460,266	482,172	482,173	483,252	483,252
Total	1,575,864	1,612,676	1,599,315	1,786,661	1,774,672	1,914,492	1,903,495	1,964,693	1,957,298	2,014,796	2,006,282

Forecasts include the capital financing requirement relating to PPP assets and advances to NHT and Edinburgh Living LLPs

Indicator 4 - Authorised Limit for External Debt

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Borrowing	1,955	1,999	2,054	2,014	1,961
Credit Arrangements	196	229	220	210	201
Total	2,151	2,228	2,274	2,224	2,162

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

Indicator 5 - Operational Boundary for External Debt

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Borrowing	1,475	1,599	1,744	1,804	1,861
Other Long-Term Liabilities	196	229	220	210	201
Total	1,671	1,828	1,964	2,014	2,062

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

Appendix 2

Indicator 6 - Loans Charges Associated with net Capital Investment expenditure plans

	2018/19	2019/20	2020/21	2021/22	2022/23
	Forecast	Forecast	Forecast	Forecast	Forecast
	£000	£000	£000	£000	£000
Loans Fund Pooled Interest Rate 5.1017%					
General Fund Services (excluding Lending)					
Loans Fund Advances in year	47,798	116,684	112,393	36,859	10,282
Year 1 - interest only	1,220	2,979	2,869	941	262
Year 2 - principal and interest	3,878	9,457	9,119	2,991	834
Housing Revenue Account (HRA)					
Loans Fund Advances in year (excluding borrowing for LLP programme **)	9,048	51,829	41,454	49,893	73,693
Year 1 - interest only	233	1,336	1,058	1,274	4,285
Year 2 - Core Programme - principal and interest	736	1,404	1,355	1,826	2,754
Year 2 - House Building Programme - principal and interest	0	2,286	1,625	2,236	3,216

The cost of servicing capital advances shown in this Indicator excludes those attributable to the advances to NHT and Edinburgh Livings LLPs as these are fully recoverable from those bodies.

Appendix 3

CAPITAL MONITORING 2018/19**Housing Revenue Account Summary****Period 3**

	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Variance	
				£000	%
Core Programme	39,408	4,087	39,408	0	0.0%
House Building	41,526	7,335	41,526	0	0.0%
Total Gross Expenditure	80,934	11,422	80,934	0	0.0%

Income					
Capital Receipts	(19,431)	(632)	(21,103)	(1,672)	8.6%
Developers and Other Contributions	(27,740)	(24)	(27,740)	0	0.0%
Specific Capital Grant	(11,349)	(225)	(11,349)	0	0.0%
Total Income	(58,520)	(881)	(60,192)	(1,672)	2.9%

Loans Fund Advances					
Loans Fund Advances	22,414		20,742	(1,672)	-7.5%
Total	22,414		20,742	(1,672)	-7.5%