

Finance and Resources Committee

3.00pm, Tuesday 4 December 2018

Capital Monitoring 2018/19 – Half-Year Position

Item number	7.7
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 £73.766m and will be in receipt of grants and capital income amounting to £129.182m. Together this will fund projected capital investment of £202.948m. 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. As reported at period three, 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 – 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;
 - 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 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.

	Outturn Variance at Month Five	Outturn Variance at Month Three	Movement from Month Three
	£000	£000	£000
Net (slippage) / acceleration in gross expenditure	(23,558)	(25,638)	2,080
Net (surplus) / deficit in capital receipts and grant income	(13,949)	(13,949)	0
Net increase / (decrease) in loans fund advances	(9,609)	(11,689)	2,080

- 3.2 The position at month five can be seen in Appendix 1, which shows the Capital Investment Programme gross expenditure budget of £226.506m funded by grants and other capital income of £143.131m and loans fund advances of £83.375m.
- 3.3 The revised budget reflects gross expenditure movements of £19.776m, which reflects the rephrasing of £20.229m of budgets to better reflect the delivery of major projects yet to commence. Details are set out in Appendix 2.
- 3.4 The projected slippage in gross expenditure has decreased by £2.080m. This relates mainly to acceleration in depot rationalisation projects (£3.439m) and Saughton Park (£4.430m) partially offset by slippage identified in highways, street lighting and transportation projects (£9.470m). Projected general slippage against the programme has reduced by £5.476m, reflecting the budget rephrasing referred to in paragraph 3.3 above.
- 3.5 Slippage of £14.025m of expenditure on the delivery of infrastructure projects under the Early Years Initiative is still projected. The associated specific capital grant received to date will be matched to actual expenditure and any grant unapplied in 2018/19 will be transferred to the Capital Grants Unapplied Account and drawn down in future years. Further work is being undertaken in conjunction with Communities and Families to develop delivery and expenditure profiles for each project within in the Early Years Initiative which will be incorporated in the revised Capital Investment programme which will be reported to this committee in January 2019.
- 3.6 Explanations for significant slippage and acceleration for General Fund projects projected at month five are presented in Appendix 3.
- 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. An assumption of further slippage in the Programme of 5% of the revised budget excluding lending and the Management Development Funding which is specifically grant supported. This slippage assumption amounts to £6.137m has been made at this 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 £18.237m.
- 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.

Housing Revenue Account (HRA)

- 3.10 The Housing Revenue Account is not forecasting any slippage in gross expenditure at month five.
- 3.11 As reported to Finance and Resources on 16 August 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.
- 3.12 The full HRA capital investment budget position is shown in Appendix 4. At month five, the forecast is gross expenditure of £80.934m, capital receipts and grant income of £60.192m and loans fund advances of £20.742m.

Prudential Indicators

- 3.13 The Prudential Indicator monitoring at month five is shown in Appendix 5.

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 £73.766m. The overall loan charges associated with this over a 20-year period would be a principal amount of £73.766m, interest of £46.977m, resulting in a total cost of £120.743m based on a loans fund interest rate of 5.0%. The loan charges will be interest only in the first year, at a cost of £1.863m, followed by an annual cost of £5.944m 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 £13.209m, resulting in a total cost of £33.951m based on a loans fund rate of 5.0%. The loan charges will be interest only in the first year, at a cost of £0.531m followed by an annual cost of £1.671m 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 been undertaken and these 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 considered.
- 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 Monitoring 2018-19 - month three position](#) – Finance and Resources Committee, 16 August 2018

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11. Appendices

Appendix 1 - Capital Monitoring 2018/19 – General Fund

Appendix 2 – Movements in Revised Budget 2018/19 – General Fund

Appendix 3 - Slippage and Acceleration on Projects – General Fund

Appendix 4 - Capital Monitoring 2018/19 – HRA

Appendix 5 - Prudential Indicators 2018/19

Capital Monitoring 2018/19

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	54,597	(3,589)	51,008	23,216	36,081	(14,927)	0.00%
Edinburgh IJB	2,727	(2,711)	16	160	16	-	0.00%
Place	110,084	(5,277)	104,807	39,927	103,811	(996)	0.00%
Resources - Asset Management Works	17,575	4	17,579	5,454	16,081	(1,498)	0.00%
Resources - Other	16,221	(8,203)	8,018	864	8,018	-	0.00%
Lending	45,078	-	45,078	4,583	45,078	-	0.00%
General slippage in programme 5% (excluding lending and TMDF)					(6,137)	(6,137)	0.00%
Council Wide Projects			-	-	-	-	0.00%
Total Gross Expenditure	246,282	(19,776)	226,506	74,204	202,948	(23,558)	-10.40%
Income							
<i>Capital Receipts</i>							
General Services	11,715		11,715	814	11,715	-	0.00%
Ringfenced Asset Sales	6,395	137	6,532	218	6,532	-	0.00%
Less Fees Relating to Receipts	-	(10)	(10)	(10)	(10)	-	0.00%
<i>Total Capital Receipts from Asset Sales</i>	<i>18,110</i>	<i>127</i>	<i>18,237</i>	<i>1,022</i>	<i>18,237</i>	<i>-</i>	<i>0.00%</i>
Less additional receipt income to capital fund	(809)	-	(809)	-	(809)	-	0.00%
Drawdown from Capital Fund	14,782	-	14,782		14,782	-	0.00%
Developer and other Contributions	2,319	247	2,566	9,609	2,566	-	0.00%
Capital Grants Unapplied Account drawdown	3,451	374	3,825	1,037	2,276	(1,549)	-40.50%
<i>Total Capital Receipts</i>	<i>37,853</i>	<i>748</i>	<i>38,601</i>	<i>11,668</i>	<i>37,052</i>	<i>(1,549)</i>	<i>-4.01%</i>
<i>Grants</i>							
Scottish Government General Capital Grant	49,405	-	49,405	24,702	49,405	-	0.00%
Cycling, Walking and Safer Streets	691	-	691	-	691	-	0.00%
Management Development Funding	41,269	-	41,269	13,134	41,269	-	0.00%
Early Years and Childcare - Expansion	12,400	-	12,400	12,400	12,400	-	0.00%
Other Specific Government Grants	765	-	765	106	765	-	0.00%
Less Early Years Carried Forward					(12,400)	(12,400)	
<i>Total Grants</i>	<i>104,530</i>	<i>-</i>	<i>104,530</i>	<i>50,342</i>	<i>92,130</i>	<i>(12,400)</i>	<i>-11.86%</i>
Total Income	142,383	748	143,131	62,010	129,182	(13,949)	-9.75%
Balance to be funded through Loans Fund Advance	103,899	(20,524)	83,375		73,766	(9,609)	-11.52%

CAPITAL MONITORING 2018/19 - Period 5

Project budget reprofiled into future years

	£000	Comments
New Meadowbank Sport Centre	1,395	Revised expenditure profile based on tender award
CCTV	1,125	Awaiting business case
New South Edinburgh PS	1,070	Revised expenditure profile based on tender award
New Care Home	2,711	Awaiting EIJB strategic commissioning plans.
Burnshot Bridge reinstatement	800	Niddrieburn Provision underspend allocated to Burnshot to fund future years funding pressure
Parks - Cammo	628	Ringfenced funding for Cammo Estate, awaiting business case
Kings Theatre - Prudentially supported	5,000	Awaiting external funding decision
ICT	7,500	Reset of contract
	<u>20,229</u>	

CAPITAL MONITORING 2018/19 - 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

<i>Type</i>	<i>Explanation</i>
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.
5. Projected Underspend on a project	Projects where the final outturn is expected to be below budget.

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	-14,025	-14,025	0	Delays resulting from the late announcement of complete funding package	1
St Crispins	-309	0	-309		2
Queensferry PS	-304	0	-304		2
Leith Victoria PS	-207	0	-207		2
Oxgangs YPC	-82	0	-82	The contractor has now been appointed and the project is scheduled to complete in Summer 2019	2
Net (slippage) / acceleration on various projects	0		0		4
Total Communities and Families	<u>-14,927</u>	<u>-14,025</u>	<u>-902</u>		
<u>Edinburgh Integrated Joint Board</u>					
Net (slippage) / acceleration on various projects	0	0	0		
Total Edinburgh Integrated Joint Board	<u>0</u>	<u>0</u>	<u>0</u>		
<u>Place</u>					
North Bridge major refurbishment	-6,835	0	-6,835	The appointment of the contractor has allowed for a reprofiling of the budget to reflect the phasing of works	3
Street Lighting LED - rephasing	-119	0	-119	The appointment of the contractor has allowed for a reprofiling of the budget to reflect the phasing of works	3
St Andrews Square	-433	0	-433	Delays in the programme to align with the work being planned for George St	2

	Period 5 £000	Period 3 £000	Movement between periods £000	Explanations for Significant Slippage / Acceleration	Variance Category
Walking Projects	-583	0	-583	Projects on hold to a lack of internal staff	2
Seafield depot - Phase 2	500	0	500	The project has accelerated due to better than expected progress by the contractor	4
Bankhead Waste Transfer Station depot	2,939	0	2,939	The project has accelerated due to better than expected progress by the contractor	4
Cycle projects	-449	0	-449	Some projects on hold due to a lack of internal staff. The successful application for Community Links funding grants has also deferred the requirement to utilise CIP budgets until future years.	2
Water of Leith - phase 2	-1,051	0	-1,051	Final account of the project is being finalised and and may result in a further underspend which will be returned to the Roads block for use in 2019/20.	5
Saughton Park - HLF	4,430	0	4,430	Expenditure incurred in advance of receipt of grant income support	4
Net (slippage) / acceleration on various projects	605	0	605		4
Total Place	-996	0	-996		
<u>Resources - Asset Management Works</u>					
Slippage across the Asset Management Works programme	-1,498	0	-1,498		2
Total Resources - Asset Management Works	-1,498	0	-1,498		
<u>Resources - Other</u>					
Net (slippage) / acceleration on various projects	0	0	0		2
Total Resources - Other	0	0	0		
<u>Council Wide / Corporate Projects</u>					
Net (slippage) / acceleration on various projects	-6,137	-11,613	5,476		2
Total Council Wide / Corporate Projects	-6,137	-11,613	5,476		
Total for all Services	-23,558	-25,638	2,080		
Summary of Variance Category					
1	Slippage due to unforeseen delays	-14,025	-14,025	0	
2	Slippage due to optimistic budget	-10,002	-11,613	1,611	
3	Slippage due to timing of payments	-6,954	0	-6,954	
4	Acceleration on a project	8,474	0	8,474	
5	Projected final underspend	-1,051	0	-1,051	
		-23,558	-25,638	2,080	

Appendix 4

CAPITAL MONITORING 2018/19**Housing Revenue Account Summary****Period 5**

	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Variance	
				£000	%
Expenditure					
Core Programme	39,408	12,806	39,408	0	0.0%
House Building	41,526	17,578	41,526	0	0.0%
Total Gross Expenditure	80,934	30,384	80,934	0	0.0%

Income					
Capital Receipts	-19,431	-2,181	-21,103	-1,672	8.6%
Developers and Other Contributions	-27,740	-130	-27,740	0	0.0%
Specific Capital Grant	-11,349	-1,946	-11,349	0	0.0%
Total Income	-58,520	-4,257	-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%

Appendix 5

PRUDENTIAL INDICATORS 2017/18 - Period 5

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	12,525	12,525	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	51,008	36,081	61,297	76,224	31,167	31,167	14,207	14,207	165	165
Edinburgh Integration Joint Board	496	16	16	4,240	4,240	5,000	5,000	5,000	5,000	0	0
Place	85,267	104,807	103,811	104,796	105,792	96,235	96,235	29,535	29,535	31,785	31,785
Resources	3,503	8,018	8,018	7,500	7,500	0	0	0	0	0	0
Resources - Asset Management Works	10,990	17,579	16,081	30,000	31,498	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	-6,137	0	-7,030	0	2,173	0	3,601	0	-1,118
Total General Services	145,462	226,506	202,948	245,976	256,367	219,944	222,117	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	307,440	283,882	411,254	421,645	364,911	367,084	298,540	302,141	337,458	336,340

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	43.85	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 5

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)	1,128,069	1,102,395	1,092,985	1,217,070	1,206,060	1,259,143	1,252,665	1,214,896	1,217,155	1,148,003	1,152,566
Edinburgh Living LLPs	0	12,870	12,870	33,614	33,611	86,647	86,685	159,189	159,298	275,105	275,280
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	381,070	384,112	382,355	438,190	436,836	466,873	461,476	488,779	477,131	489,859	467,863
Total	1,575,864	1,598,310	1,587,143	1,792,525	1,780,158	1,920,356	1,908,519	1,970,557	1,961,277	2,020,660	2,003,402

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 5

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 5.0%					
General Fund Services (excluding Lending)					
Loans Fund Advances in year	28,688	134,319	113,575	36,859	10,282
Year 1 - interest only	725	3,395	2,871	932	260
Year 2 - principal and interest	2,312	10,823	9,152	2,970	829
Housing Revenue Account (HRA)					
Loans Fund Advances in year	20,742	76,268	50,416	44,927	24,100
Year 1 - interest only	524	1,928	894	1,136	804
Year 2 - Core Programme - principal and interest	1,254	1,392	1,349	2,225	3,200
Year 2 - House Building Programme - principal and interest	338	3,858	2,202	1,491	0

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.