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# Notice of meeting and agenda

## Finance and Resources Committee

**10.00am Thursday, 3rd February, 2022**

Virtual Meeting - via Microsoft Teams

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### Contacts


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## 1. Order of business

**1.1** Including any notices of motion and any other items of business submitted as urgent for consideration at the meeting.

## 2. Declaration of interests

**2.1** Members should declare any financial and non-financial interests they have in the items of business for consideration, identifying the relevant agenda item and the nature of their interest.

## 3. Deputations

**3.1** If any.

## 4. Minutes

**4.1** None.

## 5. Forward Planning

**5.1** None.

## 6. Business Bulletin

**6.1** None.

## 7. Executive decisions

Executive Director of Corporate Services

| | | |
|---|---|---|
| **7.5** | Corporate Services Directorate: Revenue Budget Monitoring 2021/22 – Month Eight position – Report by the Executive Director of Corporate Services | 73 - 80 |
| **7.6** | Housing Revenue Account (HRA) Budget Strategy (2022-32) – Report by the Executive Director of Place | 81 - 98 |

## 8. Motions

**8.1** None.

### Nick Smith

Service Director, Legal and Assurance

## Committee Members

Councillor Rob Munn (Convener), Councillor Joan Griffiths (Vice-Convener), Councillor Chas Booth, Councillor Graeme Bruce, Councillor George Gordon, Councillor Graham Hutchison, Councillor Andrew Johnston, Councillor Alasdair Rankin, Councillor Neil Ross, Councillor Alex Staniforth and Councillor Mandy Watt

## Information about the Finance and Resources Committee

The Finance and Resources Committee consists of 11 Councillors and is appointed by the City of Edinburgh Council.

This meeting of the Finance and Resources Committee is being held virtually by Microsoft Teams.

## Further information

If you have any questions about the agenda or meeting arrangements, please contact Rachel Gentleman, Committee Services, City of Edinburgh Council, Business Centre 2.1, Waverley Court, 4 East Market Street, Edinburgh EH8 8BG, Tel 0131 529 4107, email rachel.gentleman@edinburgh.gov.uk / emily.traynor@edinburgh.gov.uk.

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# Finance and Resources Committee

## 10.00am, Thursday, 3 February 2022

# Sustainable Capital Budget Strategy 2022-2032

| | |
|---|---|
| **Executive/routine** | **Executive** |
| **Wards** | **All** |
| **Council Commitments** | |

## 1. Recommendations

1.1 To note the priorities for capital expenditure outlined in this report which are aligned to the Council Business Plan and refer to Council's budget meeting on 24 February 2022;

1.2 To note proposed funding solutions and that the plan is now balanced, subject to the risks set out in this report;

1.3 To note the continued pressure on the capital programme and the various unfunded pressures within the 2022-2032 Sustainable Capital Budget Strategy, detailed in paragraph 4.30-4.42;

1.4 To note that the strategy proposes funding to progress with an initial 'Pathfinder' project that involves implementing an EnerPHit informed approach for 12 Council operational buildings;

1.5 To note that delivery of funded capital expenditure priorities is dependent on the achievement of a balanced medium-term revenue budget; and

1.6 To refer the report to the Governance Risk and Best Value Committee as part of its work programme.

**Stephen S. Moir**
Executive Director of Corporate Services

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Finance and Procurement, Corporate Services Directorate
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# Report

## Sustainable Capital Budget Strategy 2022-2032

### 2. Executive Summary

2.1 The Sustainable Capital Budget Strategy sets out priorities for £1,459.874m of council capital investment, in alignment with the Council Business Plan, over the medium to long-term.

2.2 As the overall funding position of the Sustainable Capital Budget Strategy in Appendix 3 shows, the programme is now funded over the 10-year period. However, if a funding gap in the strategy emerges through failure to deliver revenue savings or project cost pressures increase, then further re-profiling of priorities, reduction in scope of projects or additional revenue savings to fund the borrowing costs to deliver the Capital Budget Strategy will be required ahead of future budget setting to comply with the terms of the Prudential Code. This could potentially mean that later phases of the programme could not be delivered within the ten-year strategy.

2.3 The Strategy is expected to come under significant financial pressure as a result of higher tender prices caused by external factors including COVID-19 and Brexit. The extent of the impact is likely to differ between programmes and projects and it is still too early to understand the full cost impact to the Council. Currently it is most notable in the scarcity and cost pressures in various key construction materials, i.e. steel and timber, which is leading to slippage on delivery of projects.

2.4 The strategy assumes that some priorities, such as the City Centre Transformation and wider transport initiatives, will need to be funded primarily from external funding unless significant realignment of existing budgets is undertaken. The wider financial implications of City Plan 2030 infrastructure requirements are also likely to have a further impact on the 2022-32 Capital Budget Strategy which has yet to be fully understood and reflected in the assumptions of this report. Detailed financial modelling is underway to understand these requirements but will not be finalised until the City Plan 2030 is approved.

## 3. Background

3.1 The Sustainable Capital Budget Strategy 2021-2031 was reported to Finance and Resources Committee on 2 February 2021. This report detailed priorities for council capital investment of £1,492.494m, in alignment with the new Council Business Plan, over the medium to long-term and set out a plan on how they could be funded. However, there was a funding gap of £171.779m which needed to be addressed in subsequent updates. The report also emphasised the Council's commitment to end poverty in Edinburgh and become a Carbon Neutral city by 2030. While the plan was affordable in the short-term, thereafter a funding gap developed from 2024/25 onwards, which future budgets needed to address.

3.2 The Council is required to ensure that it creates a sustainable capital budget strategy, from an environmental, financial and service delivery perspective. COVID-19 and the costs of creating Carbon Neutral infrastructure will have an impact on what the Council can afford. Consequently, with more limited resources, it needs to ensure that the projects taken forward are the right choices. It also needs to consider a total place approach where new buildings are not built in isolation but consider the full range of services offered, their role and accessibility within the local community.

3.3 The Sustainable Capital Budget Strategy 2022-2032 reported to Finance and Resources Committee on 7 October 2021 eliminated the previously reported funding gap, highlighted the capital investment priorities for the next 10 years and the corresponding proposed funding solutions.

3.4 This report should be read in parallel with the revenue budget report elsewhere on this agenda as the revenue impact of additional capital expenditure needs to be contained within a balanced medium-term revenue budget.

3.5 The three-year Business Plan: *Our Future Council; Our Future City* brings together the Council's strategic priorities into a single plan responding to these needs for change and should also be read alongside this strategy and the wider capital and revenue budgets.

3.6 This report only covers the general fund capital investment programme. The capital expenditure requirements for the Housing Revenue Account are included elsewhere on this agenda as part of the budget setting process.

## 4. Main report

**Latest 2021/22 Capital Monitoring Position**

4.1 Projected slippage in the 2021/22 programme is included in the Capital Monitoring 2021/22 – Month Eight Position report elsewhere on the agenda and has been built into the revised programme in Appendix 1. This slippage will be further amended after the final outturn for the financial year and thereafter reported to Finance and Resources Committee in summer 2022.

**Local Government Finance Settlement**

4.2 The provisional one-year Local Government Finance Settlement was announced on 20 December 2021. Within Appendix 1, it is assumed;

- General Capital Grant is expected to increase at slightly lower than previously expected levels with; £40.221m in 2022/23, £39.080m in 2023/24, £41.287m in 2024/25 and £41.849m in 2025/26 based on the Scottish Government Capital Spending Review and latest allocation. The core funding received in 2022/23 is £1.038m lower than anticipated but is offset by an award of £2.019m from the Local Bridge Maintenance Fund. However, this funding has been allocated to new capital expenditure, so the benefit is unrealised across the capital budget strategy. The years from 2026/27 onwards are based on a more optimistic trend, however, this may have to be revisited in future;
- the Early Years grant for 1140 hours ended in 2020/21 but grant which has been unused has been carried forward and will be drawn down to match expenditure;
- Cycling, Walking and Safer Routes (CWSR) is confirmed at £2.310m and this is expected to continue at this funding level until 2025/26, which is £0.011m higher than the 2021/22 allocation;
- Transfer of Management of Development Funding (TMDF) was expected to continue at the funding level of £27.950m until 2025/26 per the Scottish Government Capital Spending Review. However, the Resource Planning Assumption of the Affordable Housing Supply Programme provided by the Scottish Government includes the following allocations which have been recognised in Appendix 1 – 2022/23 £45.182m, 2023/24 £45.053m, 2024/25 £45.211m and 2025/26 £45.960m;
- Roll-out of universal primary school lunches for Primary four and Primary five is expected to be funded in 2022/23 but the Scottish Government will meet with Local Government partners in the new year to agree the distribution of the £30m capital allocation for 2022-23. This funding will be recognised in the budget when it is received, as expenditure will be aligned to funding provided; and
- Place Based Investment Programme (PBIP) funding is expected to continue, with £1.735m expected in 2022/23 and £1.209m expected annually in 2023/24 to 2025/26.

**Proposed Capital Expenditure**

4.3 The Sustainable Capital Budget Strategy 2022-32 sets out priorities for £1,459.874m of council capital investment, in alignment with the Council Business Plan, over the medium to long-term. The level of capital expenditure required has changed from the amount previously reported, as it takes account of confirmed grant funding for specific projects, and revised expenditure forecasts. The proposed capital expenditure is intended to ensure Council infrastructure reaches the proposed standards in that area, e.g. Passivhaus certified standard for new learning estate projects and EnerPHit informed approach for existing operational buildings. The specific unfunded pressures on the EnerPHit informed approach are referenced in paragraph 4.32. The proposed capital expenditure is set out in Appendix 1 by project area and split by relevant financial year.

4.4 There is a significant opportunity for the learning estate buildings across the city to become anchor facilities for wider joined up service delivery in local communities aligned with the principles of the 20-minute neighbourhood concept. For all new learning estate projects currently in development, options for wider service delivery from the facility are being considered during the design phase with flexible working space included as budgets allow. This process is most advanced at the replacement Currie High School and Liberton High School projects and the new Maybury Primary School project. The Passivhaus certified standard will also be adopted.

4.5 Furthermore, funding has been provided for library and employability services to be included within the Macmillan Hub project in Pennywell. This is addition to Scottish Government Early Years funding for a new nursery and the recently announced Scottish Government Regeneration Capital Grant Fund award for wider community facilities. The Hub will provide an opportunity to create a building shared between the Council and the North Edinburgh community to provide education, lifelong learning, arts, culture and employment support for this area of the city, which all strongly aligns with the Council's 20 minute neighbourhood principles.

4.6 This process will continue as the remainder of the planned projects included in the Sustainable Capital Budget Strategy are progressed. These projects are: Trinity Academy Phase 2; Wester Hailes High School Phase 2; LDP primary and secondary schools. It is essential to ensure the strategic briefs for these projects outline the teaching, learning and wider community requirements from the outset to ensure the buildings constructed are fit for purpose.

4.7 There is also an opportunity for existing learning estate facilities to be adapted in order that wider services can be delivered from these locations. In order to ensure this is successful detailed suitability assessment of the physical changes required to the learning estate should be progressed. A new Edinburgh's Learning Estate Strategy 2021 'Investing in New Buildings: Guiding Principles' was approved by Education, Children and Families Committee on 12 October 2021.

4.8 The Council has a significant role to play in supporting the city to transition to net-zero carbon by tackling major infrastructure challenges – particularly in respect of transport. Investing in active travel infrastructure provides the city's residents, visitors and businesses a means of transport that is low carbon and can efficiently move people and goods around the city. To work towards the target of being net-zero by 2030 there is Council capital funding of £69.921m to deliver Public Transport, Road Safety and Active Travel infrastructure which will be augmented by external funding.

4.9 Heat and energy use in Council buildings accounts for 68% of the Council's own emissions footprint. The Sustainable Development service have been actively looking into other funding streams including any Scottish Government funding which could be used for the Council's future EnerPhit informed investments as part of the Council Emissions Reduction Plan. The service has been successful in a bid for £10.120m of revenue funding for CEC's EnerPHit informed works under the Scottish Government's 'Green Growth Accelerator' funding programme. This is a new national programme that unlocks £200 million of additional investment in infrastructure projects to support Scotland's transition to an inclusive net-zero emissions economy with the funding subject to the achievement of pre-agreed project outcomes. The revised 2022-32 Capital Budget Strategy provides £60.850m of Council capital investment to progress with an initial 'Pathfinder' project that involves implementing an EnerPHit informed approach for 12 Council operational buildings.

4.10 The Capital Budget Strategy also includes £57.101m for completion of the Trams to Newhaven project, which will increase public transport capacity and help to reduce transport emissions. Although there is expected to be some minor reprofiling between financial years, the project is anticipated to be delivered within its original approved budget of £207.3m.

4.11 In order to continue to deliver high-quality services, the Council needs to continue to invest in the condition and suitability of its assets. The Sustainable Capital Budget Strategy 2022-32, as set out in Appendix 1, includes £149.967m for the existing operational estate to continue the positive impact of the Asset Management Works Programme as most recently reported to Finance and Resources Committee on 12 August 2021. There is also a further £177.836m allocated towards carriageways and footways as well as continuing investment in specific assets such as the completion of the North Bridge Refurbishment.

4.12 While additional social housing provision is financed by the Housing Revenue Account, the general fund capital programme provides £202.712m for lending to Edinburgh Living LLPs which is included within this Strategy. These projects are self-financing as a result of income from affordable rents. Further information on the risks of this on-lending are included in paragraph 4.29.

**Proposed Capital Expenditure Savings**

4.13 There are no new capital expenditure savings proposed at this stage, however, if a funding gap in the strategy emerges through failure to deliver previous savings or project cost pressures then further re-profiling of priorities, reduction in scope of projects or additional revenue savings to fund the borrowing costs to deliver the Capital Budget Strategy will be required ahead of future budget setting to comply with the terms of the Prudential Code.

4.14 In the previous updates on the Sustainable Capital Budget Strategy in February and October 2021, it was proposed that a business plan would be developed and through receipts and savings a total of £63.160m was removed from the strategy as a result of the proposed review of the learning estate programme. The ongoing pandemic, delays to capital projects that are already being constructed, the continuing market cost increases and material shortages being experienced in the construction sector have made it impossible to progress a detailed capital programme savings exercise for the learning estate. However, it remains essential to assess opportunities for reducing the overall level of investment over time and utilise existing capacity in the best possible manner.

4.15 Year-on-year there is also slippage in the capital programme and a slippage assumption has been applied over the latest cashflows into the Strategy which has reduced the funding pressure by £7.263m in the 10-year programme.

**Proposed Capital Funding**

4.16 The Sustainable Capital Budget Strategy 2022-2032 funding was thoroughly reviewed line by line following the setting of the previous strategy in February 2021 as reported to Finance and Resources Committee on 7 October 2021. This was undertaken to consider any opportunities to address the previously reported funding gap. Alignment of the Long-Term Financial Plan and Resource Allocation for revenue with the revised Capital Budget Strategy timescales and expenditure concluded that the Capital Budget Strategy was affordable as it stood at that point in time.

4.17 Detail on the Local Government Finance Settlement assumptions are outlined in paragraph 4.2 above.

4.18 There have been no further changes to Developer Contributions assumed within the strategy, but this funding stream will be kept under review as the Wave 4 schools, Local Development Plan and subsequently City Plan infrastructure progress.

4.19 The Capital Budget Strategy assumes Capital Receipts from Asset Sales of £3m per year which will be closely monitored. There is a risk that if capital receipts are not received, or not received in the same financial year as the expenditure is incurred, additional funding pressures will occur which would increase the revenue pressures with higher than anticipated revenue loan charges.

4.20 Within the Council's reserves, there is the Capital Fund which has £27m set aside to be drawn down to support capital investment. In addition to this, £2m had been ring-fenced within the Capital Fund from a previous capital receipt to support a mobile workforce solution (Total mobile) for improving capacity for reablement and home-based care services and enabling delivery of the bed-based care strategy. There is also £3.800m held in contingency for pressures on priority projects, £3.924m for LDP primary schools and £1.801m for Communal Bins.

4.21 There is also a further £47.949m in the Capital Grants Unapplied Account to be drawn down against the relevant expenditure, including £43.827m for completion of the Early Years infrastructure using the previously awarded grant funding and £2.400m for Maybury Primary School as NHS Lothian's contribution to the construction for their GP practice. This is held in Reserve outwith the capital expenditure and funding in Appendix 1 and will be drawn down as income to offset expenditure when it is incurred.

4.22 The Council continues to actively seek additional external capital funding for key projects and priorities and has recently been successful in securing Scottish Government and UK Government funding for projects such as Granton Waterfront, Pennywell Hub, EnerPHit, Active Travel and the Learning Estate. Further successful funding bids awarded will be added to future iterations of the strategy.

4.23 The funding changes are summarised in Appendix 2, along with summarised details of the other expenditure movements since the Sustainable Capital Budget Strategy 2022-32 update was reported to Finance and Resources Committee on 7 October 2021.

**Funding Pressure and Risks**

4.24 There is still a potential risk of expenditure exceeding budget on projects and these will be reviewed as part of the quarterly capital monitoring.

4.25 If the Council is unable to make the revenue savings required to support the loan charges assumed, then capital expenditure will need to be reduced, potentially meaning that later phases of the programme could not be delivered within the ten-year strategy.

4.26 In response to the increased construction sector volatility, two framework cost advisors have provided market assessments, drawing upon projects delivered across the wider market, as well as their knowledge of Council projects to inform their opinion. As a result, the capital budget strategy has been reviewed to provide for some additional inflationary uplifts and these assumptions will be reviewed at least twice a year in future. Consideration may also be needed to review the case for taking any non-essential projects to tender during the current period of volatile pricing. As a consequence of labour and materials shortages, provision needs to be made in planning for extended construction periods to minimise slippage reported in the quarterly capital monitoring updates and delays to projects. Appendix 1 includes a total provision of £74.401m to mitigate the impact of inflationary pressures across the strategy.

4.27 Scottish Government funding will be available through the outcomes-based funding (OBF) model for Wave 4 schools included in the Learning Estate Investment Programme Phases 1 and 2. The funding will be released on evidence of the achievement of four agreed key outcomes. These are maintaining asset condition A and/or B for 25 years, achieving Energy Efficiency targets, being Digitally enabled learning hubs and delivering Economic Growth through meeting a target number of jobs per the Construction Industry Training Board (CITB). There is a risk that if these future Council assets fail to meet the requirement criteria, funding would be reduced, resulting in a revenue funding pressure for the Council.

4.28 The Scottish Government has also indicated that it wishes Local Authorities to change from the annuity method for Loans Fund Advances and align more closely with accounting standards by using a depreciation method for debt charges over the asset life. This change towards an equal instalment of principal approach would result in increasing the annual costs of borrowing once repayment of principal and interest are considered, especially in the earlier years after the asset becomes operational. The financial impact of any change in accounting treatment will be kept under review.

4.29 At present the City of Edinburgh Council has consent to borrow from the Scottish Government for Edinburgh Living LLP up to 2023-24 for a total of £248.000m. Both the Housing Revenue Account (HRA) Business Plan and General Fund on-lending assume continuation of the consent beyond this point, in the form of capital receipts in the HRA and borrowing in the General Fund. Work is underway to understand future viable models for mid-market and market rent; considering development costs, availability of grant funding and consents.

**Unfunded Capital Priorities and Pressures**

4.30 Representations from stakeholders regarding City Plan 2030 are currently being considered and Members will discuss these at a future Planning Committee. The Plan has significant infrastructure requirements and the financial impact of these to the Council is currently unfunded. Discussions between Planning and Finance teams to explore this challenge are ongoing.

4.31 Edinburgh Trams have been in discussions with the Public Transport team and Finance about Tram lifecycle requirements for the existing line. The plan is being reviewed and the Council is seeking an independent expert assessment to confirm the extent of the works required.

4.32 Whilst some funding has been provided for EnerPHit through the 'Pathfinder' project as outlined in paragraph 4.9 above, the remaining funding requirement is likely to be significantly higher than currently provided for. The initial 'Pathfinder' project will however inform the funding gap for consideration as part of future budget setting. Moreover, the full capital cost associated with achieving the Council's 2030 net-zero carbon target and mitigating the impact of climate change is likely to be significant but is still to be funded. Discussions are ongoing with partners as part of delivering the 2030 Climate Strategy and the Council Emissions Reduction Plan. Council is working in partnership with the Scottish Government to explore potential funding solutions and opportunities whilst developing a Strategic Investment Plan for the net-zero transition. Any funding gaps identified would be considered as part of future budgets.

4.33 A permanent solution to the current Calton Hill road temporary make safe solution could cost in the region of £1.200m. Any permanent solution will need to be considered as part of wider City Centre Transformation proposals.

4.34 The Annual Status and Options Report for the Council's bridges and structures highlights a funding requirement of a minimum of £3m per annum. This would allow for a more effective preventative approach to bridge stock management. There is currently an allocation of £0.8m for this purpose, leaving a shortfall of £2.2m. In addition, as has been seen in recent years with the North Bridge and the Burnshot Bridge, there is likely to be additional funding required above and beyond the required increase investment of £2.2m per annum over the life of the Capital

Strategy for more significant investments where bridges or structures have exceeded their expected lifespan.

4.35 As well as our bridge stock, there is also a requirement for a preventative budget for our flood prevention and coastal protection measures. It is estimated that an annual budget of £1.5m would be appropriate to fulfil this requirement. At this moment in time there is no capital allocation for flood prevention and coastal protection assets management.

4.36 Council officers are reviewing several potential sites and requirements for both permanent and temporary hostile vehicle mitigation measures. This is currently unfunded within the strategy with work underway to review what funding is required. It is highly unlikely that external funding can be secured for this important public safety requirement.

4.37 Universal primary school lunches had been expected to be rolled out to Primary 6 and 7 pupils, but this has been delayed, however, is still expected to be delivered by the end of the parliamentary term. Decisions on the allocation of the £30.000m capital funding for Primary 4 and Primary 5 children will go to the Settlement and Distribution Group, and subsequently COSLA Leaders, early in the new year. It is anticipated that this funding could be used for additional tables and equipment but there will be no large-scale refurbishment or extension work required at this stage. It is understood that further capital investment will be required in 2023-24 which the Scottish Government could contribute funding towards but there is a risk that it becomes at least partially an unfunded pressure if large scale refurbishment or extension work is required to support the full rollout to Primary 6 and Primary 7 pupils as well.

4.38 An update on Gaelic Medium Education (GME) statutory consultation went to 7 December 2021 Education, Children and Families Committee and within that there was mention that there was no provision within the 2022-2032 Capital Budget Strategy for future GME infrastructure provision. A statutory consultation is due to be progressed and appropriate capital budgets to deliver any option approved as the outcome of the consultation would need to be considered. Scottish Government capital grants could be available for GME infrastructure investment, but these would not cover all infrastructure costs.

4.39 As part of the ambition to create inclusion and wellbeing hubs in all secondary schools, alterations and/or additional accommodation will be required. This ambition aligns with the Council Business Plan objective to create 20-minute neighbourhoods as reported to the Policy and Sustainability Committee on 30 November 2021. There are a number of opportunities to co-ordinate investment with the suitability improvements highlighted in paragraph 4.7 above and £0.400m per year is currently available within the strategy for this purpose.

4.40 In addition to the existing programme and additional priorities, a funding strategy to deliver future phases of the City Centre Transformation and the wider City Mobility Plan is being developed. A contractor for City Centre Transformation Phase 2 has been commissioned and fully funded revenue work is currently being taken forward on various tasks. The Council are actively bidding for grant funding that becomes available to take forward specific commitments in the City Mobility Plan.

4.41 An outline business case for the Granton Waterfront regeneration programme was presented to Policy and Sustainability Committee on 5 October 2021. Detailed analysis of costs and funding reveal a significant funding gap for the programme of £381.2m. Based on the extent of the shortfall, it is concluded that a phased approach towards delivery should be adopted and it was agreed that further business case development should proceed for the first phase of regeneration, 'The Heart of Granton'. This first phase has a funding gap of £70.1m across the General Fund and HRA. Over the next 18 months a final business case for phase 1 will be developed by bringing in a development partner skills and expertise, developing a case for a low carbon energy solution, progressing designs, achieving further cost certainty to reduce optimism bias and creating a deliverable phase 1 that aims to secure a package of government grant funding to close any remaining viability gap. Should the Council be successful in securing the £70.1m required to close the funding gap, phase 1 could proceed and further detailed work could commence to obtain funding for the remaining three phases.

4.42 The list of unfunded capital priorities and pressures above is not exhaustive and there are no further changes to the proposed capital investment which was previously approved on 18 February 2021.

## 5. Next Steps

5.1 This report will be referred to Governance, Risk and Best Value Committee to consider as part of its programme of work.

5.2 Finance staff will continue work with project and programme managers to monitor capital budgets.

5.3 The capital budget strategy will also be referred to Council ahead of setting its budget in February 2022.

## 6. Financial impact

6.1 This report sets out capital expenditure and funding of £1,459.873m based on the assumptions set out above, including the generation of savings and additional income in revenue budgets. These assumptions will be kept under review, and capital expenditure plans remain contingent on the strategy continuing to be affordable.

6.2 Investment in additional assets is likely to result in increased running costs borne by the Council's service areas. There is therefore a need to provide for the additional revenue costs of several demand- and condition-led school replacements and new-builds. Based on the latest cost projections and sums provided within the budget framework in respect of known rising school rolls projects, the Wave Four schools programme (as set out in the original 2018 business case) and additional, or expanded, facilities linked to the Local Development Plan, this level of provision was anticipated to be sufficient to meet, in full, these additional costs at that time.

6.3 There is, however, a continuing need to assess, based on best-available expenditure and income projections for the projects concerned, the adequacy of sums provided within the budget framework in respect of known and emerging potential commitments  As a result, all projects will be required to produce a detailed business case, setting out both capital and revenue costs and demonstrating how they will be funded prior to project commencement as part of the wider Gateway process requirement.

## 7. Stakeholder/Community Impact

7.1 Consultation on the capital budget will be undertaken as part of the Council's wider budget setting process.

7.2 The stakeholder and community impact of individual projects within the Council's capital programme is considered as part of the business cases for those projects.

## 8. Background reading/external references

8.1 Edinburgh Tram – York Place to Newhaven Final Business Case, The City of Edinburgh Council, 14 March 2019

8.2 Loans Fund Review, Finance and Resources Committee, 14 February 2020

8.3 Sustainable Capital Budget Strategy 2021-2031, Finance and Resources Committee, 2 February 2021

8.4 Sustainable Capital Strategy 2021-31 – Annual Report, Finance and Resources Committee, 4 March 2021

8.5 Updated Housing Revenue Account (HRA) Capital Programme, Housing, Homelessness and Fair Work, 3 June 2021

8.6 Treasury Management: Annual Report 2020/21, Finance and Resources Committee, 12 August 2021

8.7 Asset Management Works Programme – 2020/2021 Update, Finance and Resources Committee, 12 August 2021

8.8 2021-31 Sustainable Capital Budget Strategy – Outturn 2020/21 and Revised Budget 2021/22, Finance and Resources Committee, 12 August 2021

8.9 Granton Waterfront Regeneration – Outline Business Case, Policy and Sustainability Committee, 5 October 2021

8.10 Sustainable Capital Budget Strategy 2022/32, Finance and Resources Committee, 7 October 2021

8.11 Delivering the 20-Minute Neighbourhood Strategy, Policy and Sustainability Committee, 30 November 2021

8.12 Council Emissions Reduction Plan, Policy and Sustainability Committee, 30 November 2021

8.13 2030 Climate Strategy and Implementation Plan, Policy and Sustainability Committee, 30 November 2021

8.14 Update on Gaelic Medium Education Statutory Consultation, Education, Children and Families Committee, 7 December 2021

## 9. Appendices

9.1 Appendix 1 – Sustainable Capital Budget Strategy 2022-32 - Summary

9.2 Appendix 2 – Changes from 7 October 2021 Finance and Resources Committee

9.3 Appendix 3 – Capital Budget Strategy 2022-32 – Funding Position

**A Sustainable Capital Budget Strategy 2022-2032**
**Capital Investment Programme Summary**

**Expenditure**

| Directorate | Project Area | Total | Forecast Slippage from 2021/22 £m | Indicative Budget 2022/23 £m | Re-profile to/from Later Years 2022/23 £m | Revised Budget 2022/23 £m | Indicative Budget 2023/24 £m | Indicative Budget 2024/25 £m | Indicative Budget 2025/26 £m | Indicative Budget 2026/27 £m | Indicative Budget 2027/28 £m | Indicative Budget 2028/29 £m | Indicative Budget 2029/30 £m | Indicative Budget 2030/31 £m | Indicative Budget 2031/32 £m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Education and Children's Services | Early Years | **0.000** | -0.007 | 3.593 | -3.586 | 0.000 | - | - | - | - | - | - | - | - | - |
| Education and Children's Services | Primary Schools | **14.513** | -4.394 | - | 5.394 | 1.000 | 0.826 | 7.183 | 5.504 | - | - | - | - | - | - |
| Education and Children's Services | Wave 3 Schools | **3.576** | 2.297 | - | 1.279 | 3.576 | - | - | - | - | - | - | - | - | - |
| Education and Children's Services | Wave 4 Schools | **277.887** | -18.000 | 38.358 | -13.817 | 6.541 | 45.499 | 68.039 | 54.714 | 18.323 | 9.402 | 36.997 | 36.893 | 1.479 | - |
| Education and Children's Services | Libraries | **3.327** | 1.597 | 0.500 | 0.730 | 2.827 | 0.500 | - | - | - | - | - | - | - | - |
| Education and Children's Services | Sports Facilities | **2.513** | 0.863 | 0.165 | - | 1.028 | 0.165 | 0.165 | 0.165 | 0.165 | 0.165 | 0.165 | 0.165 | 0.165 | 0.165 |
| Education and Children's Services | Properties for House Share | **0.891** | 0.891 | - | - | 0.891 | - | - | - | - | - | - | - | - | - |
| Education and Children's Services | Other Communities and Families | **0.603** | 0.603 | - | - | 0.603 | - | - | - | - | - | - | - | - | - |
| Education and Children's Services | Infrastructure for Population Growth | **157.844** | 12.670 | 15.510 | -9.309 | 18.871 | 24.225 | 28.168 | 12.262 | 12.743 | 21.165 | 10.010 | 19.485 | 10.915 | - |
| Place | Depot Review | **7.036** | 0.137 | - | 1.863 | 2.000 | 5.036 | - | - | - | - | - | - | - | - |
| Place | Parks, Greenspace and Cemeteries and Other Environment | **5.944** | 0.681 | 0.400 | 1.063 | 2.144 | 2.200 | 0.200 | 0.200 | 0.200 | 0.200 | 0.200 | 0.200 | 0.200 | 0.200 |
| Place | Fleet Replacement | **9.641** | 1.026 | - | 5.304 | 6.330 | 3.311 | - | - | - | - | - | - | - | - |
| Place | Home Owners Adaptation Grants and Other Housing and Regeneration | **10.130** | 0.130 | 1.000 | - | 1.130 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| Place | Town Centre Fund / Place Based Investment Programme | **6.224** | 0.862 | 1.735 | - | 2.597 | 1.209 | 1.209 | 1.209 | - | - | - | - | - | - |
| Place | Transfer of Management of Development Funding (TMDF) | **181.406** | - | 45.182 | - | 45.182 | 45.053 | 45.211 | 45.960 | - | - | - | - | - | - |
| Place | Roads and Transport Infrastructure (including North Bridge) | **177.282** | -0.010 | 24.191 | 14.511 | 38.692 | 27.660 | 12.039 | 14.657 | 14.039 | 14.039 | 14.039 | 14.039 | 14.039 | 14.039 |
| Place | Energy Efficiency Street Lighting Project and Traffic Signals Prudential | **4.515** | 0.329 | - | 4.186 | 4.515 | - | - | - | - | - | - | - | - | - |
| Place | Public Transport, Road Safety and Active Travel | **42.851** | 10.647 | 8.654 | -11.731 | 7.570 | 8.878 | 7.343 | 8.320 | 2.472 | 1.654 | 1.654 | 1.654 | 1.654 | 1.654 |
| Place | Cycling Walking and Safer Routes (CWSR) | **9.240** | - | 2.310 | - | 2.310 | 2.310 | 2.310 | 2.310 | - | - | - | - | - | - |
| Place | 10% Cycling Commitment | **17.830** | - | 1.783 | - | 1.783 | 1.783 | 1.783 | 1.783 | 1.783 | 1.783 | 1.783 | 1.783 | 1.783 | 1.783 |
| Place | St James GAM/Picardy Place | **2.399** | 2.399 | - | - | 2.399 | - | - | - | - | - | - | - | - | - |
| Place | Tram Life Cycle Replacement | **7.530** | 1.008 | 1.000 | 3.532 | 5.540 | 0.535 | 0.708 | 0.287 | 0.069 | 0.071 | 0.073 | 0.076 | 0.079 | 0.092 |
| Place | IMPACT | **5.000** | - | - | - | - | - | 5.000 | - | - | - | - | - | - | - |
| Place | King's Theatre (£4m Capital Contribution) | **4.000** | - | - | - | - | 4.000 | - | - | - | - | - | - | - | - |
| Place | King's Theatre (£5m Prudential Borrowing) | **5.000** | - | - | - | - | 5.000 | - | - | - | - | - | - | - | - |
| Place | Leith Theatre | **0.500** | 0.500 | - | - | 0.500 | - | - | - | - | - | - | - | - | - |
| Place | Other Culture | **0.118** | 0.118 | - | - | 0.118 | - | - | - | - | - | - | - | - | - |
| Place | Other Contributions | **-1.232** | -1.232 | - | - | -1.232 | - | - | - | - | - | - | - | - | - |
| Place | Asset Management Works | **149.967** | -2.033 | 25.150 | - | 23.117 | 13.500 | 14.000 | 14.000 | 14.000 | 14.000 | 14.000 | 14.000 | 14.000 | 15.350 |
| Place | Asset Management Works - EnerPHit | **60.850** | - | - | 4.275 | 4.275 | 12.941 | 19.677 | 17.484 | 6.473 | - | - | - | - | - |
| Place - Lending | Lending - Edinburgh Living LLPs | **202.712** | 11.034 | 4.856 | 12.116 | 28.006 | 62.413 | 70.500 | 41.793 | - | - | - | - | - | - |
| Place - Trams | Tram to Newhaven | **57.101** | 2.508 | 41.744 | -2.241 | 42.011 | 15.090 | - | - | - | - | - | - | - | - |
| Corporate Services | ICT | **10.397** | 3.710 | 0.807 | - | 4.517 | 1.091 | 1.597 | 0.669 | 0.678 | 0.615 | 0.615 | 0.615 | - | - |
| Corporate Services | Other Projects | **-0.458** | -0.458 | - | - | -0.458 | - | - | - | - | - | - | - | - | - |
| Edinburgh Health and Social Care Partnership | Health and Social Care Projects | **-** | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Unallocated | | **30.000** | - | - | - | - | - | - | 5.000 | 5.000 | 5.000 | 5.000 | 5.000 | 5.000 | - |
| Slippage Assumption | Slipped from Previous Year 50% in Year 1 | **76.677** | - | - | - | - | 10.847 | 14.754 | 15.587 | 12.883 | 5.271 | 4.362 | 4.758 | 5.202 | 3.014 |
| Slippage Assumption | Slipped from Previous Year 50% in Year 2 | **73.663** | - | - | - | - | - | 10.847 | 14.754 | 15.587 | 12.883 | 5.271 | 4.362 | 4.758 | 5.202 |
| Slippage Assumption | In-Year | **-157.603** | - | -21.694 | - | -21.694 | -29.507 | -31.173 | -25.766 | -10.541 | -8.725 | -9.517 | -10.403 | -6.027 | -4.250 |
| **Total Expenditure** | | **1,459.873** | **27.876** | **195.244** | **13.569** | **236.689** | **265.564** | **280.559** | **231.891** | **94.873** | **78.523** | **85.652** | **93.628** | **54.246** | **38.248** |

**Funding Opportunities**

| Category | Funding Stream | Total | Forecast Slippage from 2021/22 £m | Indicative Budget 2022/23 £m | Re-profile to/from Later Years 2022/23 £m | Revised Budget 2022/23 £m | Indicative Budget 2023/24 £m | Indicative Budget 2024/25 £m | Indicative Budget 2025/26 £m | Indicative Budget 2026/27 £m | Indicative Budget 2027/28 £m | Indicative Budget 2028/29 £m | Indicative Budget 2029/30 £m | Indicative Budget 2030/31 £m | Indicative Budget 2031/32 £m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Existing Programme - Funding | Asset Sales (Unringfenced) | **30.000** | - | 3.000 | - | 3.000 | 3.000 | 3.000 | 3.000 | 3.000 | 3.000 | 3.000 | 3.000 | 3.000 | 3.000 |
| Existing Programme - Funding | Capital Grants Unapplied Account | **-** | - | 3.422 | - 3.422 | - | - | - | - | - | - | - | - | - | - |
| Existing Programme - Funding | General Capital Grant | **445.937** | - | 40.221 | - | 40.221 | 39.080 | 41.287 | 41.849 | 46.000 | 46.500 | 47.000 | 47.500 | 48.000 | 48.500 |
| Existing Programme - Funding | Specific Capital Grant - Place Based Investment Programme | **5.362** | - | 1.735 | - | 1.735 | 1.209 | 1.209 | 1.209 | - | - | - | - | - | - |
| Existing Programme - Funding | Specific Grants - TMDF | **181.406** | - | 45.182 | - | 45.182 | 45.053 | 45.211 | 45.960 | - | - | - | - | - | - |
| Existing Programme - Funding | Specific Grants - CWSR | **9.240** | - | 2.310 | - | 2.310 | 2.310 | 2.310 | 2.310 | - | - | - | - | - | - |
| Existing Programme - Funding | Loans Fund Advances - Prudential | **41.332** | 9.945 | 0.807 | 11.353 | 22.105 | 14.438 | 1.597 | 0.669 | 0.678 | 0.615 | 0.615 | 0.615 | - | - |
| Existing Programme - Funding | Loans Fund Advances - On-Lending | **202.712** | 11.034 | 4.856 | 12.116 | 28.006 | 62.413 | 70.500 | 41.793 | - | - | - | - | - | - |
| Existing Programme - Funding | Loans Fund Advances - Trams to Newhaven | **57.101** | 2.508 | 41.744 | - 2.241 | 42.011 | 15.090 | - | - | - | - | - | - | - | - |
| Existing Programme - Funding | Loans Fund Advances - City Deal | **20.661** | - | 0.359 | - | 0.359 | 2.129 | 10.689 | 6.666 | 0.818 | - | - | - | - | - |
| Programme - Funding | Loans Fund Advances - General | **261.053** | 4.389 | 20.331 | - 4.237 | 20.483 | 29.670 | 76.162 | 56.381 | 29.489 | 15.614 | 15.799 | 27.459 | 3.246 | - 13.252 |
| Borrowing supported by | Loans Fund Advances - Prudential Schools | **104.200** | - | 25.500 | - | 25.500 | 30.000 | 18.700 | 30.000 | - | - | - | - | - | - |
| Borrowing supported by | Loans Fund Advances - EnerPHit | **10.000** | - | - | - | - | - | - | - | 10.000 | - | - | - | - | - |
| External Funding | Developers contributions (Wave 4) | **12.455** | - | 5.612 | - | 5.612 | 1.158 | 3.743 | 0.436 | 1.506 | - | - | - | - | - |
| External Funding | Developers contributions (LDP) | **58.400** | - | 0.165 | - | 0.165 | - | 6.150 | 1.619 | 3.382 | 12.794 | 19.237 | 15.053 | - | - |
| Reserves | Capital Fund Drawdown | **20.014** | - | - | - | - | 20.014 | - | - | - | - | - | - | - | - |
| **Total Funding Opportunities** | | **1,459.873** | **27.876** | **195.244** | **13.569** | **236.689** | **265.564** | **280.559** | **231.891** | **94.873** | **78.523** | **85.652** | **93.628** | **54.246** | **38.248** |

**A Sustainable Capital Budget Strategy 2022-2032** **Appendix 2**

**Changes from 7 October 2021 Finance and Resources Committee**

**Summary of Changes**

| **Description** | **Amount** |
|---|---|
| Slippage Assumption | 0.474 |
| General Capital Grant | - 1.038 |
| Loan Charges | 0.564 |
| **Movement from October** | - |

**A Sustainable Capital Budget Strategy 2022-2032**

**Capital Budget Strategy 2022-32 – Funding Position**

| | Total | 2022/23 £m | 2023/24 £m | 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m | 2028/29 £m | 2029/30 £m | 2030/31 £m | 2031/32 £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Capital Expenditure | **1,459.873** | 236.689 | 265.564 | 280.559 | 231.891 | 94.873 | 78.523 | 85.652 | 93.628 | 54.246 | 38.248 |
| Total Capital Funding | **1,459.873** | 236.689 | 265.564 | 280.559 | 231.891 | 94.873 | 78.523 | 85.652 | 93.628 | 54.246 | 38.248 |
| **Funding Pressure (Incremental)** | - | - | - | - | - | - | - | - | - | - | - |

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# Finance and Resources Committee

**10.00am, Thursday, 3 February 2022**

## Revenue Budget Framework 2022/27 – progress update

| | |
|---|---|
| **Executive/routine** | **Executive** |
| **Wards** | **All** |
| **Council Commitments** | |

### 1. Recommendations

1.1 Members of the Finance and Resources Committee are recommended to:

1.1.1 note that an overall underspend of £2.628m is now forecast in 2021/22;

1.1.2 note that achievement of this position depends, in particular, upon the income-related impacts of the pandemic over the remainder of the year and agreement on, and the funding of, the teachers' pay award for 2021/22;

1.1.3 note the changes to financial planning assumptions set out within the report, including the provisional outcome of the Local Government Finance Settlement and the potential means of achieving overall balance in 2022/23;

1.1.4 agree to allocate the Council's share of Scottish Crown Estate marine asset funding to support the repair of the Granton Castle Walled Garden boundary wall and dovecot;

1.1.5 refer the report, subject to any further changes resulting from the Scottish Budget's Parliamentary consideration, to Council as part of setting the revenue and capital budgets on 24 February 2022; and

1.1.6 refer the report to the Governance, Risk and Best Value Committee for scrutiny as part of its work programme.

**Stephen S. Moir**

Executive Director of Corporate Services

Contact: Hugh Dunn, Service Director: Finance and Procurement,

Finance and Procurement Division, Corporate Services Directorate

E-mail: hugh.dunn@edinburgh.gov.uk | Tel: 0131 469 3150

# Report

## Revenue Budget Framework 2022/27 – progress update

### 2. Executive Summary

2.1 The first section of the report updates members on the projected Council-wide revenue budget position for 2021/22, based on analysis of month eight expenditure and income data. While an overall underspend of £2.628m is now forecast, there remains some uncertainty around the impacts of the pandemic on the Council and its ALEOs over the coming months and, more immediately, the level of the teachers' pay award for 2021/22. The position will therefore continue to be kept under active review for the remainder of the year.

2.2 The report also advises members of the provisional outcome of the Local Government Finance Settlement and the impact of this announcement and other changes in planning assumptions on the Council's incremental savings gap for 2022/23 and subsequent years. While it is important not to lose sight of the fundamental importance of developing detailed plans, rooted in the Council's priorities, to address future years' savings requirements and maintain the stability of the budget framework, a potential means of achieving a balanced position in 2022/23 is presented for consideration.

### 3. Background

3.1 Members of the Committee have previously considered a series of Council-wide revenue monitoring reports for 2021/22, the most recent of which was discussed on 9 December 2021. This report pointed to a projected balanced overall position, albeit with a need for pressures, savings delivery shortfalls and risks to be proactively managed for the remainder of the year.

3.2 The report to the Committee's meeting on 9 December 2021 also apprised members of a number of changes to financial planning assumptions, resulting in an estimated savings requirement of £8.7m in 2022/23 but rising to £54.7m in 2023/24 and increasing further thereafter to some £133m by 2026/27.

3.3 This report updates members on the current year's forecast, based on analysis of period eight expenditure and income and projections thereon. It also provides an analysis of the provisional outcome of the Local Government Settlement for 2022/23, outlines a number of other proposed changes to planning assumptions and presents means by which, based upon these assumptions, overall balance could be achieved in 2022/23.

## 4. Main report

**COVID-related impacts**

4.1 Following the decision of Council on 27 May 2021, the revised 2021/22 budget makes provision for £39m of continuing COVID-related impacts as shown in the table below.

| Area of expenditure pressure/income loss | £m |
|---|---|
| Reductions in parking income | 8.0 |
| Reductions in commercial rental income | 5.0 |
| Lothian Buses - loss of dividend | 6.0 |
| Arm's-Length External Organisations (ALEOs) - support for Edinburgh Leisure | 6.0 |
| ALEOs – other | 1.0 |
| Personal Protective Equipment | 1.0 |
| Homelessness | 5.0 |
| Other income/expenditure[1] | 7.0 |
| **Total funding for COVID impacts** | **39.0** |

4.2 In the case of homelessness services, the £5m shown above is supplemented by an additional £5m contained within the framework baseline. In approving the £21m of investment on 27 May 2021, a further £2m was then added to this sum, meaning that in total, the 2021/22 budget reflects an increase of £12m relative to the budgeted level of provision in this area in 2020/21.

4.3 While no further unallocated COVID-related funding has been received in 2021/22, the total COVID-related provision of £39m approved in May continues to be assessed as sufficient at this time. Although parking income has levelled off in recent weeks (with weekly income over the past two months, on average, some £0.085m lower than in 2019), it is currently forecast to be contained within the indicative loss above. While levels of outstanding debt continue to be tracked on a monthly basis, loss of commercial rental income is also expected to be contained within the level of provision noted above.

**Support for ALEOs**

4.4 The report to the Committee's last meeting provided a detailed update on the anticipated in-year impacts of the pandemic on the Council's ALEOs and given confirmed Transport Scotland funding for both Lothian Buses and Edinburgh Trams

[1] Other income/expenditure represents sums set aside in recognition of various anticipated continuing instances of increased expenditure, or reductions in income, linked to the pandemic. These provisions include additional staffing costs in waste and cleansing and for the processing of support payments for both individuals and businesses, as well as assumed reductions in income for the Council's outdoor centres, cultural venues and community access to schools.

up until March 2022, these are currently assessed to remain within the total level of provision above.

4.5 Based on current demand patterns, it is expected that the required level of support for Edinburgh Leisure will be contained within the £6m set aside for this purpose. The precise level of support required, however, is dependent upon a range of factors including timescales for facility opening/re-opening (whether due to construction delays or public health requirements) and wider patronage during the remainder of the year. As of October, overall fitness membership income remained some 30% below pre-COVID levels.

4.6 Limitations on audience numbers for internal events between 26 December 2021 and 24 January 2022 resulted in the enforced cancellation of planned events within Capital Theatres venues. Where possible and appropriate, relevant events will be rescheduled until later in 2022, with assessments of the resultant financial impact, taking into account available sources of support following the ending of the furlough scheme in September 2021, continuing.

4.7 Should the overall level of required in-year COVID-related provision be less than the £39m assumed above, given the significant subsequent decreases in equivalent provision to £25.3m, £11m and £9m respectively over the next three years of the framework, it is proposed that any unallocated funds in 2021/22 be used to supplement these provisions rather than facilitate additional expenditure or address subsequent years' savings gaps.

**Directorate projections – Corporate Services**

4.8 As set out in further detail in a report elsewhere on today's agenda, the Executive Director of Corporate Services continues to project a balanced overall position for the services within his area of responsibility. Financial controls applied during 2020/21, including control of recruitment to all non-essential vacant posts and agency worker use, will continue to be applied during the current year. Controls will also be applied to discretionary expenditure where no legal or contractual commitment exists, to mitigate potential budget pressures.

**Education and Children's Services**

4.9 Excluding Homelessness Services discussed in Paragraph 4.12, the Executive Director of Education and Children's Services continues to project a balanced overall monitoring position as of month eight. Forecast pressures within the service, including those in respect of out-of-council residential and secure accommodation and Devolved School Management (DSM) budgets, are currently projected to be fully offset through savings elsewhere within the budget and the receipt of additional Scottish Government funding. While elements of the approved savings relating to home to school transport, the libraries strategic review, efficiency and management savings and fees and charges are also assessed as at risk of not being delivered at this time, these are being contained within the overall balanced position.

**Place**

4.10 The Executive Director of Place is highlighting core budget pressures currently without mitigation totalling £0.193m, representing an improvement of some £0.250m relative to the position reported at month six due to the net impacts of management actions undertaken. A number of other risks exist where corresponding mitigating actions are being developed.

4.11 The Executive Director and his Senior Management Team will continue to consider regular updates and develop corresponding actions with a view to bringing net expenditure back within approved levels by the end of the year.

**Homelessness Services**

4.12 Demand within homelessness services continues to grow, with a net increase of 42 households in temporary accommodation in December, contributing to overall growth of 211 households in the financial year to date. This growth had been assumed in previous forecasts and, as such, the gross pressure of £2.8m remains unchanged. Following the receipt of £0.833m of additional Scottish Government funding in this area since the half-year report, however, the projected net overspend has reduced to £1.967m.

**Savings delivery**

4.13 As of period eight, 91% of savings by value are assessed to be on track for delivery by the end of the year, with the attendant detail included in Appendix 1. Projected shortfalls in delivery are reflected in the relevant projections above.

**Edinburgh Integration Joint Board (EIJB)**

4.14 In March 2021, the EIJB agreed the 2021/22 financial plan and associated savings and recovery programme. Recognising that the additional measures required to balance the plan would have a significant negative impact on performance gains and ultimately on outcomes for people, the board made the difficult decision to support a budget which did not deliver financial balance. At this point, the plan had a deficit of £9.3m which has subsequently been reduced to £5.5m.

4.15 Previous finance reports to the EIJB have highlighted a projected overspend for 2021/22. At a high level, this overspend comprised three component parts: the deficit described above; slippage on the savings and recovery programme; and offsetting savings from staffing vacancies across some key services in both the Council and NHS Lothian. At the time of the Committee’s last meeting, the Scottish Government had reserved its position on how slippage in the delivery of the savings programme would be treated, specifically whether this would be a legitimate claim against funding provided for COVID. This has now been clarified by Scottish Government officials and Integration Authorities will be supported to break even in 2021/22. As a result of this announcement, the EIJB Chief Finance Officer is now able to offer significant assurance on the achievement of a balanced in-year position.

4.16 The commitment by the Scottish Government has been made on the basis that integration authorities take all reasonable efforts to minimise the level of support required. To this end, at their meeting on 7 December 2021, members of the EIJB agreed to offset the projected in-year deficit by drawing down £1m of uncommitted reserves, this sum representing the overall underspend achieved in 2020/21.

**Corporate budgets**

4.17 Given known and emerging pressures within Directorates, work has also continued to identify additional potential savings within non-service budgets. Previous reports have identified anticipated savings in loans charges of £6m and non-service specific costs, including inflationary uplift provisions, of £3.253m. These have offset unfavourable Council-wide variances totalling £3.110m, resulting in net corporate savings of £6.143m.

4.18 Updated analysis of the size and profile of the Council Tax base, in-year collection rates and anticipated required bad debt provision now indicates a favourable in-year variance of £0.5m. In addition, forecast Council Tax Reduction Scheme expenditure, while still slightly in excess of the budgeted level, has reduced by £0.5m relative to earlier forecasts.

**Independent inquiry and review of the Council's whistleblowing arrangements and organisational culture**

4.19 At the meeting of Council on 25 November 2021, members agreed to increase the total level of approval in respect of the costs of completing the independent inquiry and review of the Council's whistleblowing arrangements and organisational culture to £1.4m. Work has been completed on the independent inquiry and is also largely completed on the review, with only a small amount of follow-up work to be undertaken. Total fees incurred, including those of Susanne Tanner QC, are £1.37m, thus falling within the level of approval provided by Council. Members of Council have also approved the use of up to £0.348m from reserves to meet costs of implementing the reports' recommendations.

**Approved investments in priorities, pressures and savings shortfalls mitigations**

4.20 In setting the Council's 2021/22 revenue budget on 18 February 2021, members approved some £14.2m of additional investment aligned to wider Business Plan priorities. Following the receipt of significant additional COVID-related funding after the budget was set, this was supplemented on 27 May 2021 by a further £21m of investment in member priorities and sums to address service pressures and projected in-year savings shortfalls.

4.21 At this stage, the majority of expenditure is expected to be incurred in full during the year. Following the closure of the Edinburgh Cycle Hire Scheme on 17 September 2021, however, a number of short- and medium-term mitigating measures were approved by the Transport and Environment Committee on 11 November 2021.

Based on the approved programme of measures, savings of £0.500m and £0.200m respectively are now anticipated relative to the sums approved by Council on 27 May 2021, with the former element forming part of the projected outturn for the year.

4.22 Members also approved a total of £1m to support a range of measures enhancing general sustainability awareness and the specific development of the Council and city-wide net-zero strategies. A small in-year underspend of £0.045m is anticipated against this programme of activity.

**Teachers' pay award, 2021/22**

4.23 The period six report considered by the Committee on 9 December 2021 confirmed agreement of the non-teaching staff pay award for 2021/22, giving rise to an overall in-year net pressure relative to budgetary assumptions (after receipt of additional Scottish Government funding of £2.4m) of £2.9m but with this sum contained within a balanced overall position.

4.24 The Salaries Committee of the Educational Institute for Scotland (EIS) has, however, unanimously rejected a revised pay offer for teachers from COSLA and the Scottish Government. The Committee also agreed to ballot members on the offer, with a recommendation that members should reject it. This ballot opened on 13 January and will close on 31 January. A progress update will be provided as appropriate at the Committee's meeting.

4.25 While the non-teaching pay award is negotiated between COSLA as employer and the representative trade unions, the equivalent negotiations for the teachers' award are tripartite, additionally involving the Scottish Government. In past years, the Scottish Government has introduced additional funding to secure a settlement. There is a risk, however, that any negotiated settlement will result in an additional financial call on the Council relative to existing budgetary provision, as well as a possibility that the Scottish Joint Council representative trade unions seek to re-open negotiations around the equivalent non-teaching award given COSLA's professed aim of achieving parity across all bargaining groups.

**Overall position**

4.26 Taken together, the above favourable movements in projected service outturns, corporate budgets and approved investment result in a revised projected favourable variance of £2.628 as shown in the table below. An analysis of this outturn by constituent area is included as Appendix 2.

| | £m | |
|---|---|---|
| Position as reported to Finance and Resources Committee on 9 December, 2021 | 0.000 | Balanced overall position forecast |
| Favourable movements in service outturns: | | |
| Homelessness Services | (0.833) | External funding received |
| Place | (0.250) | Various management actions |
| Favourable movements in corporate budgets: | | |
| Council Tax Reduction Scheme | (0.500) | Based on updated projections of demand |
| Council Tax | (0.500) | Based on updated tax base and collection level projections |
| Projected in-year underspends on member-led investment: | | |
| Edinburgh Bike Scheme | (0.500) | |
| Net zero and sustainability awareness | (0.045) | |
| Revised overall projection (favourable)/unfavourable | **(2.628)** | |

4.27 As noted in the following sections of the report, it is proposed that this underspend be used to address an element of the in-year savings gap for 2022/23.

**Local Government Finance Settlement, 2022/23**

4.28 On 9 December 2021, the Cabinet Secretary for Finance and the Economy presented a draft one-year Scottish Budget and Local Government Finance Settlement (LGFS) to the Scottish Parliament. Following this announcement, the accompanying Finance Circular, providing details of revenue and capital grant funding allocations at local authority level, was then issued on 20 December.

4.29 At this stage, the figures contained within the Settlement remain provisional, pending the Draft Budget's Parliamentary passage. On 27 January, as part of the Budget's Stage One consideration, the Cabinet Secretary for Finance and the Economy confirmed the provision of £120m of additional one-off revenue funding for 2022/23. As of the time of writing, a decision on the allocation of this sum amongst councils remained to be confirmed. A supplementary briefing will therefore be prepared and circulated to elected members in advance of the Committee's meeting on 3 February, with a further report then prepared for Council as part of its budget-setting meeting on 24 February.

4.30 The contents of the Finance Circular are also the subject of a four-week consultation process. Any resulting amendments to individual allocations will be contained within the overall quantum of funding within the LGFS and not addressed through the provision of additional funding. There is additionally the potential for these changes to affect the operation of the two funding floors, from each of which the Council currently benefits.

**Impact of the provisional LGFS on the budget framework**

4.31 Analysis of the Settlement is on-going as additional details are received. Based on work undertaken to date, however, the provisional level of funding is slightly more favourable than the "flat cash" position assumed in the report presented to the Finance and Resources Committee on 9 December 2021 as outlined below. This analysis does not take into account any further grant funding resulting from the £120m allocation noted at Paragraph 4.29 pending confirmation of the Council's share of these resources.

**Revenue grant funding**

4.32 Expressed on a like-for-like cash basis, the overall Scotland-wide revenue budget settlement is largely unchanged from 2021/22 before additional liabilities in respect of employer's National Insurance (£70m) and Council Tax Reduction Scheme payments (£19m) are taken into account. The position for Edinburgh is more favourable, with a like-for-like increase of around 1.0%, due to a number of population-based distributional gains, redistribution amongst all authorities of monies previously required for loans charge support and, in particular, the continuing operation of the second funding floor, whereby all authorities are guaranteed to receive funding equal to at least 85% of the per capita average for Scotland.

4.33 When compared to the level of funding assumed within the budget framework, this results in the receipt of additional income of £8.1m, with the above-referenced changes to Council Tax Reduction eligibility creating an offsetting estimated liability of £1.4m, reducing the net gain to £6.7m. The incremental savings gap presented to the Finance and Resources Committee on 9 December 2021 made separate provision for the Council's related National Insurance liability of £5.9m and, as such, there is no impact of this position on the overall savings requirement.

**Integration Joint Boards (IJBs)**

4.34 The LGFS also contains £353.9m of further funding to be transferred from the Scottish Government Health portfolio to local authorities for investment in adult health and social care services delegated to integration joint boards, comprising:

(i) £174.5 million for continued delivery of the real Living Wage within Health and Social Care;

(ii) £15 million for uprating of free personal and nursing care payments;

(iii) £20.4 million for implementation of the Carers' Act;

(iv) £124m of additional investment to provide care at home; and

(v) £20 million to support Interim Care.

4.35 Edinburgh's estimated share of these sums is £31.5m and this funding will be passed on in full to the Edinburgh Integration Joint Board (EIJB)[2]. Distribution arrangements for £200m of further social care investment (and confirmation of the proposed distribution of £144m included within 4.34 (i) above) will be discussed by COSLA Leaders on 28 January and an update will be provided at the meeting.

**Other new service investment**

4.36 While the level of core funding for Local Government was essentially unchanged, in addition to the health and social care investment noted above, further sums were provided in respect of a number of Scottish Government commitments, namely:

| | Scotland-wide funding, 2022/23 (£m) | Edinburgh allocation, 2022/23 (£m) |
|---|---|---|
| Additional teachers and support staff | 145.5 | 10.4 |
| Child Bridging Payments | 68.2 | TBC |
| Removal of school curriculum and music tuition charges, increase in School Clothing Grant | 26.0 | TBC |
| Free School Meals - expansion to P4 and P5 and holiday support | 64.0 | TBC |
| **Total** | **303.7** | |

4.37 These sums reflect the continuation, or expansion, of commitments implemented in the current year. As with the £200m of Health and Social Care investment above, distribution of the Free School Meals funding will be considered by COSLA Leaders on 28 January.

**Council Tax and availability of financial flexibilities**

4.38 The Cabinet Secretary's announcement also confirmed the removal of all controls on Council Tax levels (the budget framework assumes a 3% increase in 2022/23) and a further year's extension of the loans fund principal repayment deferral and capital receipts "flexibilities". If utilised, application of the loans fund deferral flexibility would allow the Council to fund up to £30m of COVID-related expenditure over a longer timeframe, albeit, as currently understood, with the first annual repayment of this sum (estimated at £2.3m) falling due in 2023/24. Use of the loans fund flexibility is being kept under review and a further update will be provided to the Committee in March.

**Early Years expansion**

4.39 The majority of funding to support the expansion of annual early years provision to 1,140 hours is provided by means of ringfenced grant. Through a combination of

[2] This sum includes £0.5m of funding representing the estimated full-year effect of payment of the Living Wage Foundation hourly rate of £10.02 from 1 December 2021 for commissioned homelessness services.

the reduced available quantum of funding and changes to the distribution methodology, Edinburgh's allocation has reduced by some £5m (11%) and officers are therefore seeking urgent clarification on the basis of the change and the application of agreed transitional arrangements, whereby the Council's allocation will reduce further in subsequent years. Subject to the outcome of this clarification, there will be a need to develop sustainable plans consistent with this lower eventual level of funding.

**Public Sector Pay Policy (PSPP)**

4.40 While not directly applicable to local government, given the broad alignment of the non-teaching employer's offer for 2021/22 to the Public Sector Pay Policy, the Cabinet Secretary also confirmed the Scottish Government's PSPP for 2022/23, comprising a guaranteed cash uplift of £775 for those earning £25,000 and below, a £700 increase for those earning between £25,000 and £40,000 and a flat-rate £500 increase above this level. Based on current modelling, application of such a policy would fall within the overall level of provision made within the budget framework.

**Other changes to budget framework assumptions**

4.41 The report to the Committee's meeting on 9 December 2021 also apprised members of a number of changes to financial planning assumptions, resulting in an estimated savings requirement of £8.737m in 2022/23 but rising to £54.695m in 2023/24 and increasing further thereafter to some £133m by 2026/27.

4.42 Since that time, a number of further required changes to planning assumptions have been identified and these are set out in the following sections.

**Edinburgh Trams – impact of free bus travel for Under 22s**

4.43 The Scottish Government has previously announced that free bus travel will be made available to all residents under the age of 22 in Scotland from 31 January 2022 and as of the time of writing, preparations are well underway for scheme implementation by this date. The scheme does not, however, currently extend to light rail and thus corresponding compensating funding has not been provided for Edinburgh Trams.

4.44 Not including trams within the Scottish Government scheme is likely to have a disproportionate financial impact on both current and future operations and also affect the ability to realise the full customer and environmental benefits of integrated and complementary tram and bus services and thereby make a key contribution towards the green recovery from the pandemic and promote sustainable travel habits.

4.45 It is proposed, subject to Council approval, that funding be made available within the budget framework to meet the associated costs of implementation for both the existing line and, from 2023/24, the extension. While the £0.5m approved by Council on 27 May 2021 will meet the full cost in 2021/22, a further £1.5m is estimated to be required from 2022/23 and, following opening of the extension to Newhaven, an additional £1.0m in 2023/24 (reflecting part-year line opening) and

£1.5m from 2024/25. Continuation of the scheme beyond 31 March 2022 is, however, contingent upon the approval of corresponding funding as part of setting the Council's 2022/23 revenue budget on 24 February 2022. Should this funding be approved, a corresponding report will be considered by the Transport and Environment Committee in March 2022 setting out the parameters of the scheme going forward.

**Edinburgh Trams – impacts of reductions in patronage on business case**

4.46 The pandemic has seen significant reductions in public transport patronage globally given the expansion of home working and reductions in air travel. In Edinburgh, Lothian Buses and Edinburgh Trams have reported a similar reduction in demand since the start of the pandemic and although patronage is starting to recover, the rate and extent of recovery remains uncertain.

4.47 It is important, nonetheless, to emphasise that forecast construction costs for the Tram to Newhaven project remain within the approved project budget, with the shortfall in the extraordinary dividend from Lothian Buses offset by savings in borrowing costs relative to the approved business case, as projected in the project update dated 12 November 2020.

4.48 As the longer-term impacts of the pandemic become clearer, the Council will work with Edinburgh Trams to establish revised farebox income projections. While the position remains uncertain, however, it is prudent to plan support for the tram system, if required, with an allowance of £7m being made in the budget framework for 2023/24 at this time and an annual allowance of £9.25m from 2024/25. Work to mitigate these sums is ongoing, including discussions with Edinburgh Trams, Transport Scotland and other stakeholders.

**Homelessness – continuing increases in demand**

4.49 Overall numbers accommodated in temporary accommodation increased from 3,570 as of 31 March 2020 to 4,525 as of 30 September 2021, necessitating increased use of more expensive bed and breakfast and shared accommodation despite increased numbers of households in suitable accommodation. The most recent month's data for December 2021 show that these numbers continue to increase. This overall growth reflects, in part, a 600% increase in the number of households with no recourse to public funds (NRPF) presenting within the city since February 2020, a trend that is forecast to continue for the remainder of the year and where Council officers are in on-going contact with COSLA and Scottish Government officers with a view to securing additional financial support.

4.50 Given these trends and the full-year effect of increases anticipated in the remainder of the year, the framework now incorporates an additional £17.6m for homelessness-related expenditure relative to the approved level of provision for 2019/20. While there is an expectation that the preventative measures implemented in 2021/22 will temper this rate of increase, until the pandemic is deemed to be over and there is an increase in the availability of move-on accommodation, some level of growth is likely to continue.

**Actions resulting from the independent inquiry and review of the Council's whistleblowing arrangements and organisational culture**

4.51 On 28 October 2021, Council received a report from the independent inquiry chaired by Susanne Tanner QC which identified certain failings and missed opportunities on the part of the Council to address the unacceptable conduct of the late Sean Bell. The inquiry made certain recommendations in this regard.

4.52 On 16 December 2021, members then received a separate but related report concerning the Council's whistleblowing arrangements and organisational culture.

4.53 In considering the latter report, the Chief Executive was asked to report back to Council within one cycle on how the recommendations would be implemented. As of the time of writing, the detailed action plan for the two reviews remains to be finalised but it is estimated that the associated additional cost will be of the order of £1.5m in 2022/23 and continuing at £2.5m thereafter. There is a risk, however, that this sum is insufficient and regular updates will therefore be provided to members of the Committee.

4.54 Taking account of the changes outlined in the preceding sections and the provisional level of grant funding for 2022/23 results in a revised position as follows:

| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **Updated estimated funding gap reported to F&R, 9 December** | 8.737 | 54.695 | 77.664 | 105.148 | 133.110 |
| **Additional trams-related pressures:** | | | | | |
| Under 22s concession - existing line | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 |
| Under 22s concession - extension | - | 1.000 | 1.500 | 1.500 | 1.500 |
| Decrease in farebox income from reduced demand relative to business case | - | 7.000 | 9.250 | 9.250 | 9.250 |
| **Homelessness** - additional pressures based on continuing increases in demand (revised profile £17.6m/£14.6m/£14.6m/£14.6m/£14.6m) | 2.600 | 2.600 | 2.600 | 2.600 | 2.600 |
| **Independent Inquiry/Review** - on-going liabilities | 1.500 | 2.500 | 2.500 | 2.500 | 2.500 |
| **2022/23 Local Government Finance Settlement** - net upside relative to "flat cash" assumption | (6.700) | (6.700) | (6.700) | (6.700) | (6.700) |
| **Revised gap** | **7.637** | **62.595** | **88.314** | **115.798** | **143.760** |

4.55 These savings requirements are based on assumed annual Council Tax rises of 3% in each year of the framework. A number of savings are also already assumed within the 2022/23 baseline and these are presented in Appendix 3.

4.56 Parallel work on the EIJB's budget for 2022/23 is also underway, with two workshops held thus far with Board members. While the receipt of additional funding this has allowed the EIJB's Chief Finance Officer to provide significant assurance that a balanced position will be achieved in the current financial year, due to a combination of two years' unfunded demographic growth, unfunded Living Wage contract uplifts and previous one-off funding from NHS Lothian, a significant structural deficit is being carried into 2022/23.

4.57 The Council will pass through Edinburgh's share of all of the funding streams highlighted in Paragraph 4.34. While these sums include an element of unhypothecated funding which may provide an ability to offset an element of this deficit, the position remains challenging and a structured savings programme, along with additional external funding, will likely be required to achieve financial balance on a sustainable basis going forward.

**Potential means of addressing 2022/23 gap**

4.58 Work has now been initiated to develop a savings programme addressing the significant incremental savings requirements from 2023/24 onwards (discussed in a subsequent section of this report). Given the Council's statutory responsibility to set a balanced budget for the coming year before 11 March, however, the immediate focus has been on achieving this position for 2022/23.

4.59 Paragraph 4.26 outlined the basis of a projected £2.628m underspend in the current year and it is proposed to offset this sum against the incremental savings requirement of £7.637m noted in Paragraph 4.54.

4.60 A number of further proposed actions have been identified as follows:

(i) following the receipt of significant additional funding late in 2020/21, members approved a one-off allocation to the EIJB for 2021/22 of £2.5m in May 2021. While the report to the Committee's meeting on 7 October 2021 proposed the continuation of this sum for a further year, in view of the respective funding settlements of the Council and the EIJB, it is now proposed not to provide this support;

(ii) service reserves within Corporate Services and Education and Children's Services totalling £1.217m that may be released to address the gap;

(iii) a drawdown over three years (of £0.9m annually) of funds currently held within the Council's welfare reform reserve, in the main comprising previous years' underspends in respect of the Council Tax Reduction Scheme, to address homelessness-related pressures;

(iv) an inflationary contingency that is not now required given the agreement to maintain Edinburgh Leisure's core payment for service at 2021/22 levels. The budget framework also assumes up to £3m of pandemic-related support for EL in 2022/23 if required; and

(v) the projected underspend of £0.2m against sums provided for the Edinburgh Bike Scheme in 2022/23 as noted in Paragraph 4.21.

4.61 Taken together, these sums would address, in full, the savings requirement in 2022/23 of £7.637m as summarised below, leaving an unallocated balance of £0.208m, albeit on a non-recurring basis given the substantial deficits from 2023/24.

| | **£m** | |
|---|---|---|
| Underspend from 2021/22 offset against 2022/23 gap | 2.628 | |
| Withholding of planned one-year continuation of 2021/22 EIJB uplift | 2.500 | Council's grant funding allocation for relevant services reduced by £1.5m and Settlement contains considerable additional uncommitted resources for IJBs |
| Service reserves | 1.217 | Customer (£0.985m) and Education and Children's Services (£0.232m) |
| Drawdown from welfare reform reserve to offset element of homelessness-related pressure | 0.900 | |
| Inflation contingency not required | 0.400 | Edinburgh Leisure |
| Projected underspends against member investment, 2022/23 | 0.200 | Edinburgh Bike Scheme |
| | **7.845** | |

4.62 While the preceding table provides the potential basis of a balanced position in 2022/23, there are nonetheless a number of framework risks including, but not limited to, the following:

(i) the adequacy of current COVID-related framework provision (£25.3m/£11m/£9m/£9m/£9m over the five years from 2022/23);

(ii) increasing capital funding requirements due to the impact of inflation and project delays, as well as unfunded commitments around EnerPHit, City Centre Transformation and the City Plan, each of which may give rise to additional loans charge expenditure;

(iii) the ability of the EIJB to develop sustainable savings plans to address future years' funding gaps;

(iv) a recent lack of new savings proposals being brought forward;

(v) flat-cash grant funding assumptions for future years may be too optimistic given the frontloading of the UK Spending Review and existing Scottish Government commitments, particularly given the Council's dependence on the 85% floor;

(vi) the settlement of the 2021/22 teachers' pay offer may give rise to recurring pressures; and

(vii) the grant settlement for 2022/23 remains provisional at this time. Any material movement from this anticipated position will be considered as part of the first in-year revenue monitoring report in 2022/23.

**Future years' funding gaps**

4.63 In recognising the urgent need to initiate the development of a more detailed medium-term financial plan and accompanying savings programme for future years of the framework, it is proposed to allocate savings targets to Directorates for each year of the budget framework based on 5%/3%/3%/3% of gross expenditure respectively over the years from 2023/24 to 2026/27. Alongside anticipated savings in corporate budgets and the continuation, where relevant, of the measures noted in Paragraph 4.60, identification and approval of corresponding savings developed with reference to prioritisation of current activity would result in a position close to balance in 2023/24 and resulting in small surpluses in the following three years.

| | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Revised savings requirement | 62.595 | 88.314 | 115.798 | 143.760 |
| Assumed savings targets from 2023/24 based on gross expenditure (5%/3%/3%/3%) | (51.895) | (83.033) | (114.170) | (145.307) |
| Corporate budget savings | (5.000) | (7.500) | (10.000) | (10.000) |
| Inflationary contingency not required | (0.800) | (0.800) | (0.800) | (0.800) |
| Welfare reform reserve drawdown | (0.900) | (0.900) | 0.000 | 0.000 |
| **Residual savings requirement/(surplus)** | **4.000** | **(3.919)** | **(9.172)** | **(12.347)** |

4.64 Directorates will be asked to develop potential options, captured by means of a standard template detailing service and performance impacts, risks and dependencies, with reference to the priorities set out in the Council's business plan. These proposals will be subject to a process of co-design between the incoming administration and officers and form the basis of public consultation in Autumn 2022.

4.65 Briefings will be provided to all political groups and independent councillors as this process develops.

**Scottish Crown Estate marine asset revenues**

4.66 In November 2021, the Scottish Crown Estate announced that the Council would receive an allocation of £0.083m from the net revenue generated by marine assets in 2019/20. The Council is carrying forward a small sum from previous years' allocations, resulting in the availability of total funding of £0.094m. Although the associated guidance is flexible, these funds should be used to benefit coastal communities.

4.67 It is proposed that these funds be allocated to repair works for the Grade-B listed Granton Castle Walled Garden. The garden, located on the shoreline in Granton, is enclosed by a Grade B-listed wall and is home to a grade B-listed dovecot, both of which require immediate care and attention. The Council is looking to restore this heritage site and unlock its potential for the benefit of the local community and wider city region, as well as creating a new visitor destination on the Granton Waterfront.

4.68 The garden is currently leased to The Friends of Granton Castle Walled Garden, a small community group, who are working towards re-establishing the three-acre site as a working market garden and local attraction. Working in partnership with the Group, the Council will undertake essential repair works to the Grade B listed walls and dovecot, including essential maintenance to areas of structural concern, repointing walls to replace unsuitable cement mortar, replacing eroded coping, removing damaging vegetation and improving the general accessibility of the site. Alongside the works, the Council will partner with the local college to run a programme of learning opportunities in traditional skills, conservation and stonemasonry.

4.69 Members of the Committee are asked to approve use of the funds for the purposes outlined.

## 5. Next Steps

5.1 The cost and income impacts of the coronavirus pandemic will continue to be actively tracked and refined as additional clarity is received on the timing and nature of the easing of current restrictions.

5.2 Executive Directors require to bring forward measures to offset in full the savings delivery shortfalls and residual service pressures within their respective areas of responsibility. While the report notes a projected overall underspend for 2021/22, the development of corresponding sustainable actions is required both to reduce any in-year call on the Council's earmarked reserves and enhance the robustness of the budget framework.

5.3 Following consideration by the Committee, the report will be referred to Council for decision as part of the budget-setting process. Given that the Council's grant funding allocation for 2022/23 remains provisional until approval of the Local Government Finance Order in late February, members will be kept apprised of changes to this or any of the other key assumptions underpinning the analysis presented.

## 6. Financial impact

6.1 The report notes a range of significant expenditure pressures, both in respect of Council services and impacts on the activities of the Council's ALEOs. While a slight in-year underspend is currently being forecast, the financial impacts of the pandemic are expected to continue at least into the medium term and will, alongside management of risks and pressures, thus be subject to on-going review as part of maintaining the integrity of the revised budget framework approved by Council on 27 May 2021.

6.2 The report sets out the basis of a balanced position for 2022/23, based on current planning assumptions and the provisional level of grant settlement. It is important, however, not to lose sight of the more fundamental need to bring forward a comprehensive and sustainable savings plan, rooted in the Council's priorities, to address significant projected funding gaps from 2023/24 onwards. The report sets out the broad approach to be adopted in identifying savings proposals as part of this process.

## 7. Stakeholder/Community Impact

7.1 A detailed report summarising the response to the Council's engagement on budget priorities for 2021/22 and beyond, including relevant supporting material from other engagement activity on priorities and life experiences during the COVID-19 pandemic, was considered by the Finance and Resources Committee on 2 February and referred on to Council as part of the 2021/22 budget-setting meeting.

7.2 In contrast to previous years, it is proposed to meet the Council's incremental savings requirement for 2022/23 through a combination of previously-approved savings and other one-off measures and underspends. These previously-approved savings are predominantly in non-service budgets or represent the continuing impacts of decisions taken, and assessed, in previous years. As a result, no formal cumulative integrated impact assessment will be undertaken as part of the 2022/23 budget process, although relevant supporting statements on individual savings measures will be published on the Council's website.

7.3 Given the nature of the savings measures proposed for 2022/23, similarly no specific engagement is proposed.

## 8. Background reading/external references

8.1 Revenue Budget Monitoring 2021/22 – month six position, Finance and Resources Committee, 9 December 2021

8.2 Finance Update, Edinburgh Integration Joint Board, 7 December 2021

8.3 Edinburgh Cycle Hire Scheme - Future Delivery and Interim Community Initiatives, Transport and Environment Committee, 11 November 2021

8.4 Revenue Budget Update 2021/26 – progress update, Finance and Resources Committee, 7 October 2021

8.5 Revenue Monitoring 2021/22 – Month Three Position, Finance and Resources Committee, 12 August 2021

8.6 Revenue Budget Framework 2021/26 Update – referral from the Finance and Resources Committee, The City of Edinburgh Council, 27 May 2021

8.7 Coalition Budget Motion, The City of Edinburgh Council, 18 February 2021

8.8 Trams to Newhaven – COVID-19 Final Business Case Refresh, Transport and Environment Committee, 12 November 2020

## 9. Appendices

9.1 Appendix 1 – Approved savings and required pressures mitigations, 2021/22 – current status

9.2 Appendix 2 – 2021/22 Revenue Budget – Projected Expenditure Analysis

9.3 Appendix 3 – Savings already assumed within 2022/23 baseline

**Approved savings and required pressures mitigations, 2021/22 – current status**

| Education and Children's Services | Current savings assessment | | | | Notes |
|---|---|---|---|---|---|
| **Saving** | **Green** | **Amber** | **Red** | **Black** | |
| | **£m** | **£m** | **£m** | **£m** | |
| Early Years (restructure of staffing) | 0.300 | | | | Vacancies in place |
| Edinburgh Leisure Service Payment | 0.380 | | | | Inflationary increase withheld |
| Police Funded Officers | 0.478 | | | | Notice given |
| Instrumental Music Service | 0.150 | | | | Vacancies in place but potential risk to service delivery. Additional funding has been provided as part of Scottish Government's first 100 days commitment for ending charges for music tuition in schools and will be used to address non-delivery of saving. |
| Quality Improvement Officers | 0.120 | | | | Vacancies in place but potential risk to service delivery |
| Strategic Service Reviews: Libraries and Adult Learning | | | 0.250 | | Consultation on this saving has been paused pending completion of other senior management/tier 3 reviews which is still ongoing. This saving will not now be delivered as scheduled. |
| Library Opening Hours | | | 0.050 | | Consultation on this saving has been paused pending completion of other senior management/tier 3 reviews which is still ongoing. This saving will not now be delivered as scheduled. |
| School Efficiencies (DSM) | 0.600 | | | | Full-year effect of 2020/21 savings |
| Mainstream DSM | 0.300 | | | | Saving expected to be delivered |
| Transport Review | 0.600 | | 0.300 | | Logistic and Travel Hub in initiation phase to look at mitigations. £0.6m Council mitigating funding allocation for 2021/22 approved by Council on 27 May 2021. |
| Efficiencies - Mgt Savings | 0.161 | | 0.197 | | Green element based on Grade 9+ VERAs approved by CLT. Balance may be delivered through the C&F/Place review but not in the current financial year. |
| Night Noise Team | 0.100 | | | | Saving has been delivered in full from deleting vacant posts. |
| Fees and Charges average 5% uplift | 0.086 | 0.085 | 0.085 | | £86K provided from non-income budgets so green. Balance currently assumed 50/50 due to COVID impact and will be reviewed as greater clarity on community access to schools and adult education is achieved. |
| **TOTAL** | **3.275** | **0.085** | **0.882** | **0.000** | |

| **Place** | **Current savings assessment** | | | | **Notes** |
|---|---|---|---|---|---|
| **Saving** | **Green** | **Amber** | **Red** | **Black** | |
| | **£m** | **£m** | **£m** | **£m** | |
| Statutory Consents | 0.040 | | | | Full-year effect of previous decisions |
| Parks and Green Spaces *(Inch Nursery proposal)* | 0.050 | 0.050 | | | The Inch plant nursery as a standalone has achieved this net cost reduction, however the Parks & Greenspace service overall is forecasting an overspend. |
| Depots and Yards | 0.210 | | | | Financial analysis undertaken, implementation to be monitored over coming months |
| Parking action plan phase 2 | 0.520 | | | | Assumes that any adverse COVID impact is met from corporate provision. Income comprises parking uplift and Sunday parking. |
| Culture Services Review of Museums and Galleries | 0.100 | 0.050 | | | Green - element of VERA-related saving after transitional arrangements. Overall the Culture service is forecasting an underspend. |
| Culture Service (Income Maximisation) | | 0.038 | | | Income maximisation-related. This will not be achievable by planned means but Culture service overall is forecasting an underspend. |
| Cashless Parking - across the City | 0.150 | | | | Required action was approved by Transport and Environment Committee. |
| Development & Business Services Operating Model | 0.330 | 0.620 | | | Green element = income £0.187m (Council funding allocation for 2021/22 agreed 27 May 2021) + VERA £0.143m. It is expected the full saving will be made, although new income proposals as planned have not been able to be implemented due to external barriers. |
| Scientific, Bereavement and Registration Services | | 0.090 | | | This action should be implemented, however the related services are currently forecasting overspends. |
| Reduced short-term funding for asset life reprofiling (roads and infrastructure; 2021/22 only) | 1.000 | | | | £6m Council funding allocation for 2021/22 agreed 27 May 2021 |
| Increase garden waste charge - full cost recovery | 0.160 | | | | Represents six months' increase - on track. |
| Fees and Charges average 5% uplift | 0.559 | 0.379 | | | Plans in development. £0.559m Council funding allocation for 2021/22 agreed 27 May 2021. When COVID impacts are taken into account, it is expected that the amber element will be met. |
| Reprofiling of repairs and maintenance expenditure | | 2.000 | | | This is a re-profiling of expenditure from 2021/22 to 2022/23 and is categorised as 'amber' as there is an absence of specific delivery plans. Repairs and Maintenance expenditure has been managed within budget in previous years. |
| Fees and Charges average 5% uplift - Property and Facilities Management | 0.058 | | | | Increased income target allocated across Property and Facilities Management. |
| **TOTAL** | **3.177** | **3.227** | **0.000** | **0.000** | |

| Corporate Services | Current savings assessment | | | | Notes |
|---|---|---|---|---|---|
| Saving | Green | Amber | Red | Black | |
| | £m | £m | £m | £m | |
| Digital delivery | 0.250 | | | | Saving progressed and now assessed as achievable. |
| Resources Directorate Workforce Savings - Finance Workforce savings | 0.110 | | | | Saving to be achieved through vacancy management. |
| Renting of Assets for 5G nodes | | 0.050 | | | This saving target has been fully mitigated through a one-off cost saving in ICT contract costs. |
| Print, Mail and Scan Strategy Development | 0.100 | | | | Reduction in print costs now agreed with other Council departments. |
| ICT contract extension savings | 0.950 | | | | Contract cost re-negotiated in August 2020. |
| Fees and Charges average 5% uplift - HR Services | 0.009 | | | | Increased income target allocated to a number of HR Services. |
| Fees and Charges average 5% uplift - Customer and Digital Services | 0.057 | | | | Increased income target allocated across Customer and Digital Services. |
| Fees and Charges average 5% uplift - Legal and Risk | 0.011 | | | | Income target applied to Legal Services recharges. |
| **TOTAL** | **1.487** | **0.050** | **0.000** | **0.000** | |



| Council-wide | Current savings assessment | | | | Notes |
|---|---|---|---|---|---|
| Saving | Green | Amber | Red | Black | |
| | £m | £m | £m | £m | |
| Chief Officers & Senior/Middle Management Review | 0.809 | | 0.795 | | Green element is based on savings resulting from the Senior Management review and Grade 6-8 VERA exercise. |
| VERA (net of pay provision offset - 2021/22) | | | 1.200 | | Relevant savings included in line above |
| **TOTAL** | **0.809** | **0.000** | **1.995** | **0.000** | |

| Corporate (including budget assumptions) | Current savings assessment | | | | Notes |
|---|---|---|---|---|---|
| Saving | Green | Amber | Red | Black | |
| | £m | £m | £m | £m | |
| Borrowing Costs | 10.000 | | | | Full delivery is anticipated, with additional in-year savings contributing to an overall Council-wide position within approved budget levels. |
| Procurement | 0.100 | | | | Will be delivered in full through reductions in gainshare payable |
| Council Tax | 5.500 | | | | While full delivery is anticipated, the position will be kept under review in light of changes in the Council Tax base, the in-year collection rate and required level of bad debt provision in 2021/22. |
| Past service pension costs - incremental reductions in liability | 0.500 | | | | Will be delivered in full based on current year's projection and continuing timing-based reductions in sums payable |
| **TOTAL** | **16.100** | **0.000** | **0.000** | **0.000** | |

| | | | | |
|---|---|---|---|---|
| Total | 24.848 | 3.362 | 2.877 | 0.000 |

**2021/22 Revenue Budget - Projected Expenditure Analysis - Period 8** **Appendix 2**

| | Revised Budget | Period Budget | Period Actual | Period Variance | Projected Outturn | Outturn Variance | Percentage Variance |
|---|---|---|---|---|---|---|---|
| **Directorate / Division** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | |
| Corporate Services (including Chief Executive's Office) | 78,899 | 67,937 | 65,370 | (2,567) | 78,899 | 0 | 0.0 |
| Education and Children's Services | 425,552 | 283,702 | 285,127 | 1,425 | 425,552 | 0 | 0.0 |
| Health and Social Care | 243,018 | 148,603 | 166,546 | 17,943 | 243,018 | 0 | 0.0 |
| Place | 167,068 | 144,780 | 133,240 | (11,540) | 167,261 | 193 | 0.1 |
| Homelessness Services | 44,552 | 38,701 | 39,912 | 1,211 | 46,519 | 1,967 | 4.4 |
| Lothian Valuation Joint Board | 3,833 | 2,555 | 2,555 | 0 | 3,833 | 0 | 0.0 |
| **Directorate / Division total** | **962,922** | **686,278** | **692,750** | **6,472** | **965,082** | **2,160** | **0.2** |
| **Non-service specific areas** | | | | | | | |
| Loan Charges | 83,903 | | | | 77,903 | (6,000) | (7.2) |
| Other non-service specific costs less sums to be disaggregated: | 35,288 | | | | 32,540 | (2,748) | (7.8) |
| - Apprenticeship Levy | 2,075 | 1,383 | 1,371 | (12) | 2,075 | 0 | 0.0 |
| - Non-Domestic Rates (poundage uplift) | 505 | | | | 0 | (505) | n/a |
| - Energy | 694 | | | | 694 | 0 | 0.0 |
| - Discretionary Rates | 500 | | | | 720 | 220 | 44.0 |
| Covid Investment | 23,975 | n/a | n/a | n/a | 23,430 | (545) | (2.3) |
| Tram Shares | 8,500 | 0 | 0 | 0 | 8,500 | 0 | 0.0 |
| Council Tax Reduction Scheme | 26,605 | n/a | n/a | n/a | 27,000 | 395 | 1.5 |
| Staff early release costs | 2,500 | n/a | n/a | n/a | 2,500 | 0 | 0.0 |
| Senior Management Review/VERA savings | (2,940) | n/a | n/a | n/a | (945) | 1,995 | (67.9) |
| Pay award - net additional costs | 0 | n/a | n/a | n/a | 2,900 | 2,900 | n/a |
| Net Cost of Benefits | (127) | n/a | n/a | n/a | (127) | 0 | 0.0 |
| | | | | | | | |
| Interest and investment income | (401) | 0 | 0 | 0 | (401) | 0 | 0.0 |
| **Non-service specific areas total** | **181,077** | **1,383** | **1,371** | **(12)** | **176,789** | **(4,288)** | **(2.4)** |
| **Movements in reserves** | | | | | | | |
| Net contribution to / (from) earmarked funds | (31,966) | 0 | 0 | 0 | (31,966) | 0 | 0.0 |
| **Movements in reserves total** | **(31,966)** | **0** | **0** | **0** | **(31,966)** | **0** | **0.0** |
| **Sources of funding** | | | | | | | |
| General Revenue Funding | (611,897) | (407,931) | (407,931) | 0 | (611,897) | 0 | 0.0 |
| Non-Domestic Rates | (188,796) | (125,864) | (125,864) | 0 | (188,796) | 0 | 0.0 |
| Council Tax | (311,340) | (207,560) | (207,560) | 0 | (311,840) | (500) | (0.2) |
| **Sources of funding total** | **(1,112,033)** | **(741,355)** | **(741,355)** | **0** | **(1,112,533)** | **(500)** | **0.0** |
| | | | | | | | |
| **In-year (surplus) / deficit** | **0** | **(53,694)** | **(47,234)** | **6,460** | **(2,628)** | **(2,628)** | **(0.2)** |

| | Directorate | £m |
|---|---|---|
| Borrowing costs | Corporate | 12.000 |
| Corporate budgets reprioritisation/realignment | Corporate | 5.000 |
| Procurement | Corporate | 0.100 |
| Total Corporate | | 17.100 |
| Continuation of 5% increase in discretionary fees and charges | Council-wide | 1.000 |
| Chief Officers and Senior/Middle Management Review | Council-wide | 0.218 |
| Total Council-wide | | 1.218 |
| Statutory Consents | Place | 0.025 |
| Increase in garden waste charge based on full-cost recovery (full-year effect) | Place | 0.160 |
| Development and Business Services Operating Model | Place | 0.300 |
| Library efficiencies | Place | 0.050 |
| Edinburgh Shared Repairs - Management Resource and Income Generation | Place | 0.007 |
| Total Place | | 0.542 |
| Digital delivery | Corporate Services | 0.190 |
| Renting of assets for 5G nodes | Corporate Services | 0.050 |
| Directorate Workforce Savings | Corporate Services | 0.110 |
| Total Corporate Services | | 0.350 |

| | | |
|---|---|---|
| Total pre-approved or assumed savings | | 19.210 |

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# Finance and Resources Committee

## 10.00am, Thursday, 3 February 2022

## Revenue Budget 2022/23 - Risks and Reserves

| | |
|---|---|
| **Executive/routine** | **Executive** |
| **Wards** | **All** |
| **Council Commitments** | |

## 1. Recommendations

1.1 Members of the Finance and Resources Committee are recommended to:

1.1.1 note the content of this report and the updated profile of the Council's usable reserves in light of the continuing impacts of the pandemic and wider risk factors; and

1.1.2 remit the report to The City of Edinburgh Council for approval on 24 February 2022 as part of the budget-setting process.

**Stephen S. Moir**

Executive Director of Corporate Services

Contact: Hugh Dunn, Service Director: Finance and Procurement

Finance and Procurement Division, Corporate Services Directorate

E-mail: hugh.dunn@edinburgh.gov.uk | Tel: 0131 469 3150

# Report

## Revenue Budget 2022/23 – Risks and Reserves

### 2. Executive Summary

2.1 The report advises members of the risks inherent in the revenue and capital budget framework and the range of measures and provisions established to mitigate these.

2.2 The report outlines the level of reserves held and the purposes for which they are maintained, including consideration of the adequacy of the balances held to mitigate against known risks. This profile reflects the realignment undertaken as part of approving the 2021/22 budget.

### 3. Background

3.1 This report advises members of significant risks identified within the budget process and sets out the range of measures and provisions in place to mitigate these.

3.2 Unallocated reserves are held against the risk of unanticipated expenditure and/or reduced income arising in any particular year. In addition, there are specific earmarked reserves set aside to manage timing differences between the receipt of income and incurring related expenditure, in accordance with accounting rules.

3.3 The reserves held by the Council are reviewed annually as part of the revenue budget-setting process. The review considers the level of balances, the risks inherent in the budget process and the adequacy of arrangements in place to manage these known risks.

### 4. Main report

**Risks**

4.1 Risks form an integral part of the business and budget planning process. What is important, however, is that these risks are identified, actively managed and, where appropriate, mitigated. Appendix 1 shows a matrix, setting out how it is planned that the known risks identified in this report will be managed. This list is, however, not exhaustive due to the complexity and diversity of the changing environment within which the Council operates.

**COVID–19 specific impacts on service expenditure/income loss and savings delivery**

4.2 The continuing impacts of the COVID-19 pandemic pose significant risks, both in terms of the immediate ability to set a balanced budget for 2022/23 and undertaking longer-term financial planning. In particular, the combined impact of current restrictions, levels of customer confidence and changes in working patterns on future patronage for the services provided by the Council's Arm's-Length External Organisations (ALEOs) is not yet fully known. The actual increases in service expenditure and losses of income for both the Council and its ALEOs may therefore be higher than assumed in the budget framework.

4.3 The budget framework approved in May 2021 included explicit provision for some £25.3m of continuing COVID-related impacts in 2022/23, with further sums also put aside in the following two years. The update report considered by the Finance and Resources Committee on 9 December 2021 increased these provisions by extending up to and including 2026/27 the period during which the core Lothian Buses dividend (which supports the Council's main revenue budget) is assumed not to be available. The revenue budget update report contained elsewhere on today's agenda furthermore proposes that additional provision be made to reflect the impacts of likely changes in patronage on the tram extension business case.

4.4 As similarly outlined in the complementary revenue budget update report included elsewhere on the agenda, total additional provision of £17.6m relative to 2019/20 levels has now been included within the framework in recognition of increased homelessness-related expenditure, in part reflecting significant growth in the number of those with no recourse to public funds (NRPF) presenting in the city since the beginning of the pandemic. Overall numbers accommodated in temporary accommodation increased from 3,570 as of 31 March 2020 to 4,525 as of 30 September 2021, necessitating increased overall use of more expensive bed and breakfast and shared accommodation.

4.5 While the budget framework does not assume their use, the Cabinet Secretary for Finance and the Economy confirmed as part of the 2022/23 Local Government Finance Settlement (LGFS) announcement that the availability of the capital receipts and loans fund principal deferral financial "flexibilities" would be extended for a further year. If utilised, application of the loans fund deferral flexibility would allow the Council to fund up to £30m of COVID-related expenditure over a longer timeframe. Based on current-year monitoring projections, it is also anticipated that an element of the approved £39m COVID-related provision in 2021/22 may not be required and it is proposed that this be used to supplement sums identified to mitigate future years' impacts until there is greater certainty in this area.

**Future funding settlements**

4.6 Uncertainty around future funding settlements poses a significant risk to the Council's ability to set a balanced budget, given its impact on the overall level of savings required. While covering only one year, in contrast to recent years when announcements were made in January and February respectively, the Council's provisional revenue and capital funding allocations were confirmed on 20 December 2021.

4.7 In previous years, these allocations were also subject to change as part of the Draft Budget's Parliamentary passage. As any changes are unlikely to reduce the overall level of funding provided or extent of associated flexibilities, however, the provisional LGFS announcement should therefore provide a baseline from which to develop the Council's detailed plans.

4.8 Future years' funding allocations could also vary for a number of other reasons, including the use of updated population and other needs-based data and the complexities of funding distribution formulae, as well as wider Scottish and UK Government fiscal policy. The Council's actual funding allocations are additionally affected by the influence of the stability and 85% per capita funding floors, from each of which it currently benefits, and the required level of pass-through to the Integration Joint Board.

4.9 While provisional council-specific allocations for 2022/23 have been confirmed, only high-level Scottish block grant allocations for the following two years have been provided. Given Scottish Government priorities and the profile of this future block grant funding, there is the potential for the Council's actual settlement to be worse than the "flat cash" currently assumed in these years. At this stage, it is anticipated that further detail on future years' grant funding allocations will be provided in June 2022 and current forecasts will therefore be reviewed when these details become available.

**Delivery of approved savings and management of underlying service pressures**

4.10 The effects of the COVID pandemic have, to an extent, also affected management's ability to deliver the level of pre-approved savings and manage on-going pressures to the extent assumed. In setting the 2021/22 budget, however, members approved some £12m of additional core service investment and this, alongside more robust scrutiny at the savings identification, development and implementation stages, has resulted in the continuation of the improving trend apparent in recent years, with some 91% of savings by value on track for delivery in 2021/22 and a slight overall underspend forecast.

4.11 While not detracting from the more fundamental need to identify significant recurring savings through prioritisation of the Council's activity going forward, of the £19.7m of pre-approved savings included in the baseline for 2022/23, the vast majority are in corporate budgets or represent the full-year impacts of actions already taken and are thus anticipated to be delivered in full.

**Demographic changes leading to rising service demands**

4.12 Demographic changes continue to increase the overall level of demand for the Council's services and the ability to provide for this within available resources.

Levels of provision were reviewed in 2021 in light of updated population and pupil roll projections, resulting in the inclusion in the 2022/23 budget framework of total demographic-related investment of £4.9m (with similar incremental increases assumed in subsequent years) plus full pass-through of additional health and social care funding provided within the LGFS. More effective demand management, greater use of preventative approaches to service delivery and service prioritisation will, however, likely be required in order for this level of funding to prove sustainable over the medium to longer term.

**Income**

4.13 Assumptions are made in the budget process on the level of income that can be generated by services. There are risks associated with these assumptions, primarily around (i) demand for and/or price sensitivity of chargeable services, (ii) timing of implementation of new or amended charges and (iii) the ability to collect all income due. The Council has a range of measures in place to mitigate these risks, such as application of appropriate debt policies, service level agreements with external users and regular monitoring of income levels as a prompt to remedial action.

4.14 These areas have all been reviewed in light of the pandemic, with detailed monthly monitoring being undertaken and adjustments reflected in future years' budgets for the anticipated on-going loss of the Lothian Buses dividend and reduced levels of parking and commercial rental income. These assumptions will remain subject to regular review until the longer-term position becomes clearer.

4.15 Income from Council Tax finances around 27% of the Council's net expenditure. Changes in collection rates, the size and profile of the Council Tax base, required bad debt provisions and sums paid through the Council Tax Reduction Scheme therefore all affect the total level of available resourcing. Despite the impacts of the pandemic, collection rates have, however, largely been maintained (the in-year collection rate to the end of December 2021 was only 0.54% lower than the equivalent level in December 2019) and growth in the overall base has continued, with a favourable in-year variance in this area now projected. These projections will continue to be kept under regular review.

**Legislative changes**

4.16 Legislative changes present on-going risks to the budget framework, and while provision has been made for the projected impact of known factors, there is a risk that further changes are made, resulting in direct or indirect impacts on the Council's budget. It is additionally assumed that implementation of all of the savings measures included in the budget framework is fully within the Council's gift.

4.17 The Cabinet Secretary for Finance and the Economy's announcement on 20 December 2021 confirmed that councils would have full flexibility to set Council Tax rates appropriate to their local area. The Council's budget framework assumes a baseline increase of 3% in 2022/23, with similar increases in each of the following four years.

4.18 The budget framework also includes recurring annual provision of £5.9m for the estimated additional expenditure pressures resulting from increases in employer's National Insurance rates effective from April 2022.

**Legal claims and inquiries**

4.19 There is a risk that the Council is exposed to reputational and financial consequences of legal claims and inquiries in relation to uninsured and insured incidents. The on-going Scottish Child Abuse Inquiry has potentially significant financial implications with effect from 2022/23 but, at this stage, the precise impact on the Council (and any associated financial liability) remains to be confirmed. Local authority contributions to the redress scheme have, however, been agreed at national level, with the corresponding funding already deducted in arriving at the amount of distributable funding to local authorities.

4.20 Liabilities may also arise from wider reviews undertaken, including, for example, actions taken as part of the Barclay Review on Non-Domestic Rates or, at a more local level, the independent inquiry and review of the Council's whistleblowing arrangements and organisational culture. There is a risk that these sums are higher than assumed within the budget framework.

**Major infrastructure projects**

4.21 The long-term financial implications of some major infrastructure projects, particularly the City Plan and energy-efficient retrofitting of the Council's property estate, are still emerging and subject to change in light of the longer-term implications of the pandemic. While the revenue and capital budget frameworks incorporate some provision in these areas based on current projections, there is a risk that the Council will require to support additional borrowing and/or revenue running costs associated with these projects. On-going review of the projects and potential timing and value of funding requirements will therefore continue to be undertaken through relevant project boards and risks escalated as appropriate.

4.22 The Council has also secured £165m of required borrowing from the Public Works Loan Board to date in 2021/22, all at an interest rate below 2%. This, alongside temporarily using available cash balances to fund capital expenditure, has served to manage both borrowing-related risks and upward pressure on project costs due to pandemic-related delays, labour and materials shortages while providing on-going savings to the revenue budget.

**Inflation and pay awards**

4.23 As noted above, inflationary pressures have increased in recent months, driven in part by high energy prices and global supply chain disruptions linked to the pandemic. The Scottish Fiscal Commission expects Consumer Price Index (CPI) inflation to be around 4.4% in the second quarter of 2022, before then gradually returning to the Bank of England target of 2% by the second half of 2024.

4.24 Inflation levels affect the Council's activities in a number of ways; directly through increasing prices of purchased goods and services and the level of uplifts applied to relevant contracts and indirectly through consumer spending and expectations for wage awards. The budget framework currently provides for inflation and pay awards at 3% in each of the five years of the budget framework. While the maximum permitted level of increase on some contracts is capped, these assumptions will be kept under review, particularly those in respect of energy costs, and remedial action taken as appropriate.

**Reserves**

4.25 Members are aware that the Council holds a number of earmarked reserves within the General Fund. As of 31 March 2021, the General Fund balance stood at £221.033m, of which £196.008m was earmarked for specific purposes.

4.26 The level of these reserves reflected the receipt, late in 2020/21, of significant COVID-related funding to be applied against relevant expenditure commitments in subsequent years. The level of reserves was further influenced by the prudent prior identification, and earmarking, of savings prior to the confirmation of this external funding. As part of the year-end closedown process, the unallocated General Fund was also increased from £13.927m to £25.025m, in line with the Council's revised strategy. The earmarked reserves held at this time comprised four broad categories:

(i) **balances set aside to manage financial risks and for specific investment which are likely to arise in the medium-term future**, including maintenance of an insurance fund, dilapidations and workforce transformation. The Council held £141.295m against these future risks, including £78.473m of general COVID- and other pressures-related funding and £11.237m to cover workforce management costs of change management programmes;

(ii) **balances set aside from income received in advance**, including the Council Tax Discount Fund and City Strategic Investment Fund. The Council held £46.305m of such income, of which £22.382m related to service-specific COVID funding to be offset against relevant expenditure in future years;

(iii) **balances set aside to support investment in specific projects**, such as Spend to Save, which will deliver savings in future years. The Council held £3.720m for such projects; and

(iv) **balances held under the Devolved School Management Scheme and unallocated Pupil Equity Funding**. The Council held £4.688m of these funds.

4.27 As shown in Appendix 2, there are significant projected movements in the level of earmarked reserves during 2021/22 (an overall reduction of some £49.6m). In net terms, this movement is primarily attributable to the application of COVID-related funding received late in 2020/21 (and therefore carried forward into 2021/22) against in-year liabilities. A further £52.6m is anticipated to be utilised in 2022/23.

## 5. Next Steps

5.1 Following Committee's consideration, the report will be referred to The City of Edinburgh Council for approval as part of the budget-setting process.

## 6. Financial impact

6.1 The report identifies where funding has been made available for the risks set out. The Council also holds unallocated General Fund reserves against the likelihood of unfunded risks occurring. As part of the 2021/22 revenue budget process, the level of these unallocated reserves was increased from £14m to £25m in recognition of the wider risks to which the Council is exposed, resulting in a revised position more in line with other Scottish local authorities.

## 7. Stakeholder/Community Impact

7.1 There are no direct impacts arising from this report.

## 8. Background reading/external references

8.1 Revenue Budget Monitoring 2021/22 – month six position, Finance and Resources Committee, 9 December 2021

8.2 Revenue Budget Framework 2021/26 Update, Finance and Resources Committee, 20 May 2021

## 9. Appendices

9.1 Appendix 1 – Risk Matrix

9.2 Appendix 2 – Projected Movement in General Fund

**Appendix 1**

**Risk Matrix**

The table below summarises how the risks identified in the report are managed.

| Risk | Provisions and other actions to manage |
|---|---|
| COVID–19 specific impacts on service expenditure/ income loss and savings delivery | Regular CLT and elected member scrutiny of the impacts of COVID-19 on budget framework assumptions<br><br>Creation of dedicated COVID-19 mitigation reserve, providing significant funding for relevant impacts from 2022/23 to 2024/25 inclusive, alongside wider re-alignment of existing reserves, including increasing level of unallocated General Fund balance<br><br>Examination/consideration of all non-service budgets, reserves and available financial "flexibilities" to spread the cost impacts of the pandemic over a longer timeframe<br><br>On-going mitigating actions which also relate to wider risk management actions detailed below |
| Future funding settlements | Provisions included in the Long-Term Financial Plan (LTFP)<br><br>Regular monitoring of public expenditure projections and active membership of relevant professional forums, promptly recognising potential or actual grant variations in LTFP<br><br>Progress in development of a longer five-year planning timeframe to recognise the potential for variation from baseline assumptions in any given year and, by extension, an ability for additional savings measures to be accelerated |
| Delivery of approved savings and management of underlying pressures | Updated, detailed and consistently-applied guidance for Finance staff in assessing the rigour of accompanying savings implementation plans<br><br>Earlier recognition, through discussion and agreement at Corporate Leadership Team, of the impact of underlying service pressures and savings shortfalls on the robustness of the budget framework<br><br>Early consideration of likely required project management and other support<br><br>Regular CLT and elected member scrutiny of proposed savings at the inception, development and delivery stages<br><br>Regular SMT consideration of overall service budgetary position, including known or emerging risks and pressures, with a view to taking prompt corrective action |

| | |
|---|---|
| | Budget re-alignment, where required, to facilitate enhanced ownership, accountability and transparency of reporting |
| Demographic changes leading to rising service demands | Provisions made in LTFP and regular reviews of the adequacy thereof, resulting in increased provision in 2022/23 and subsequent years of the framework |
| Income | Service Level Agreements with external users, application of appropriate debt policies (including, where appropriate, upfront payment for services delivered) and regular monitoring of income levels as a prompt to remedial action<br><br>Detailed monthly monitoring of actual income losses during pandemic, informing, where applicable, preparation of income compensation scheme submissions |
| Legislative changes | Provisions made in LTFP and regular reviews of the adequacy thereof<br><br>On-going monitoring of impacts of welfare reform and other relevant legislation on expenditure and income<br><br>Active membership of relevant professional forums |
| Legal claims and inquiries | The Council explicitly provides for a number of known risks and liabilities. Funding could, however, be drawn down from the unallocated General Fund balance to meet unanticipated or additional costs. |
| Major infrastructure projects | Regular progress monitoring through Change Boards, particularly at key milestones, with documented escalation procedures<br><br>Senior Finance representation on all Project Boards<br><br>Opportunities considered to lock out borrowing rate risk |

## Projected Movement in General Fund

**Appendix 2**

| General Fund | Opening Balance at 1.04.21 £000 | Actual/planned use 2021/22 £000 | Projected Balance at 1.04.22 £000 | Planned (Uses) / Contributions £000 | Projected Balance at 31.03.23 £000 | |
|---|---|---|---|---|---|---|
| Balances Set Aside to Manage Financial Risks and for Specific Investment | | | | | | |
| Balances set aside for specific investment | 28,384 | 11,941 | 40,325 | (11,224) | 29,101 | Funding set aside for specific projects, including monies for Enterprise Resource Planning and Tram Extension. |
| Contingency and Workforce restructuring | 10,858 | (850) | 10,008 | (2,000) | 8,008 | Monies held to cover costs of workforce management changes including staff severance costs, which may be utilised to support future change programmes. Additional sums may be required in respect of organisational reviews undertaken in the coming year. |
| Dilapidations Fund | 4,000 | 0 | 4,000 | (1,000) | 3,000 | Monies set aside to meet costs arising from the termination of property leases and other related contractual commitments to facilitate rationalisation of property. |
| Insurance Fund | 19,580 | (202) | 19,378 | (500) | 18,878 | Insurance Funds are held to defray any loss where the Council could have insured against a loss but has not done so and for paying premiums on an insurance policy. This includes the power to meet excesses on insurance policies and other claims arising from on-going legal inquiries. |
| COVID-19 mitigation reserve | 78,473 | (36,255) | 42,218 | (33,540) | 8,678 | Newly-established reserve created primarily in recognition of the continuing cost and income impacts of the pandemic. The opening balance reflects significant COVID-related funding provided by the Scottish Government late in 2020/21 but for use in subsequent years. |

| General Fund | Opening Balance at 1.04.21 £000 | Actual/planned use 2021/22 £000 | Projected Balance at 1.04.22 £000 | Planned (Uses) / Contributions £000 | Projected Balance at 31.03.23 £000 | |
|---|---|---|---|---|---|---|
| <u>Balances Set aside from Income Received in Advance</u> | | | | | | |
| Licensing and Registration Income | 3,973 | 233 | 4,206 | 0 | 4,206 | Monies representing licensing income related to cabs, houses in multiple occupation, liquor and landlord registration. The Council is not permitted to use these monies on other services. |
| Other Minor Funds | 175 | 0 | 175 | (14) | 161 | Minor funds for other specific projects. |
| Pre-paid PPP monies and lifecycle costs | 3,668 | 272 | 3,940 | 254 | 4,194 | Monies set aside in recognition of the phasing issues related to grant monies, for lifecycle costs of projects. |
| Council Tax Discount Fund | 6,063 | 1,249 | 7,312 | 0 | 7,312 | Monies set aside as a result of reducing Council Tax second home discounts. Use of the fund is prescribed by the Scottish Government and is restricted to supporting the development of affordable housing. It forms part of the Strategic Housing Investment Fund (SHIF), alongside income from the Repairs and Renewals fund. |
| Unspent revenue grants | 8,010 | (5,299) | 2,711 | (181) | 2,530 | Monies set aside at the year end, in accordance with proper accounting practice, where income has been received prior to the relevant expenditure being incurred. |
| City Strategic Investment Fund | 2,034 | (1,143) | 891 | (891) | 0 | Primarily represents funds set aside for strategic regeneration priorities (£2.150m) and to provide match funding for new city development opportunities (£0.5m). |
| COVID-19 advances | 22,382 | (21,516) | 866 | (866) | 0 | Newly-established reserve reflecting service-specific COVID funding received in 2020/21 but to be spent in future years (primarily in 2021/22). |

| | Opening Balance at 1.04.21 £000 | Actual/ planned use 2021/22 £000 | Projected Balance at 1.04.22 £000 | Planned (Uses) / Contributions £000 | Projected Balance at 31.03.23 £000 | |
|---|---|---|---|---|---|---|
| Balances Set Aside for Investment in Specific Projects which will Generate Future Savings | | | | | | |
| Spend to Save Fund, Energy Efficiency and Salix CEEF | 3,720 | (102) | 3,618 | (406) | 3,212 | Funds set aside to assist service areas deliver revenue savings in future years through provision of one-off upfront revenue investment. Scheme repayments will be used to support further new initiatives. |
| Balances Set Aside under Devolved School Management Scheme and Pupil Equity Fund | | | | | | |
| Balances held by schools under DSM / Pupil Equity Fund | 4,688 | (188) | 4,500 | 0 | 4,500 | Balances set aside for Devolved School Management Scheme and Pupil Equity Fund. There will always be a balance at March as the DSM scheme and PEF are based on an academic year. |
| Unallocated General Fund | 25,025 | 2,243 | 27,268 | (2,243) | 25,025 | Unallocated funds held against the risk of unanticipated expenditure and/or reduced income arising in any particular year, in line with Council reserves policy. The movements in 2021/22 and 2022/23 reflect the decisions of Council on 27 May 2021, alongside the subsequent approved use of up to £0.5m to address any costs associated with accommodating Afghan refugees not met by Home Office funding, subject to reinstatement in 2022/23. |
| **Total General Fund** | **221,033** | **(49,617)** | **171,416** | **(52,611)** | **118,805** | |

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# Finance and Resources Committee

## 10.00am, Thursday, 3 February 2022

## Capital Monitoring 2021/22 - Month Eight Position

| | |
|---|---|
| **Executive/routine** | **Executive** |
| **Wards** | **All** |
| **Council Commitments** | |

## 1. Recommendations

1.1 To note the capital monitoring position for the General Fund and Housing Revenue Account (HRA) at month eight of the 2021/22 financial year;

1.2 To note on-lending approval for Edinburgh Living included within Sustainable Capital Budget Strategy 2022-32 report elsewhere on agenda; and

1.3 To refer the report to the Governance, Risk and Best Value Committee as part of its work programme.

**Stephen S. Moir**

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EDINBVRGH THE CITY OF EDINBURGH COUNCIL

# Report

## Capital Monitoring 2021/22 - Month Eight Position

### 2. Executive Summary

2.1 The report provides the capital expenditure and funding position as at month eight and full-year outturn projections for the 2021/22 financial year, providing explanations for key variances.

2.2 At month eight, the General Fund is projecting capital expenditure of £342.616m and capital income of £121.025m, resulting in a net requirement of £221.591m in loans fund advances. This is £32.887m lower than the revised budget update provided in month three due to updated cashflows across the programme.

2.3 At month eight, the Housing Revenue Account (HRA) is projecting capital expenditure of £61.980m and capital income of £23.244m, resulting in a net requirement of £38.736m in loans fund advances. This capital financing requirement is aligned to budget expectations due to a reduction in Capital Funded from Current Revenue (CFCR) to assist in offsetting capital expenditure slippage of £42.007m and secure borrowing at current low interest rates.

2.4 The Council's capital programme is expected to come under further financial pressure as a result of higher tender prices caused by current market conditions. The extent of the impact is likely to differ between programmes and projects and it is still too early to understand the full cost the pandemic has had on the Council's capital programme. This is notable in the scarcity and cost pressures in various key construction materials, e.g. steel and timber, which is leading to slippage and cost pressures on delivery of projects. It is also important to note that supply chain pressures associated with staff shortage and higher prices continue to affect delivery schedules. The recent rise in Omicron cases is a further cause for concern and may result in additional slippage above that assumed in this update. The 2022-2032 Sustainable Capital Budget Strategy is reported elsewhere on the agenda with an overview of the capital budget for future years.

### 3. Background

3.1 The Sustainable Capital Budget Strategy 2021-2031 was approved by Council on 18 February 2021. This report detailed priorities for council capital investment of

£1,492.494m, in alignment with the new Council Business Plan, over the medium to long-term and set out a plan on how they could be funded.

3.2 The Capital Strategy - Annual Report was approved by Council on 11 March 2021. This report sets out the proposed capital strategy, which provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the infrastructure and provision of services for the benefit of Edinburgh communities and citizens.

3.3 The month three capital monitoring position and the revised 2021/22 capital budget strategy position was reported to Finance and Resources Committee on 12 August 2021. This report incorporated outturn slippage from 2020/21 and rolled forward the capital investment programme for the period 2021-2031 to create the revised capital budget. In creating the revised budget, realignments were made between financial years to reflect the most up to date cash flow projections available. The budget was also adjusted to reflect funding received since the Council set its budget in February.

3.4 The month six capital monitoring position was reported to Finance and Resources Committee on 9 December 2021. This report showed the General Fund was projecting capital expenditure of £345.179m and capital income of £113.959m, resulting in a net requirement of £231.220m in loans fund advances. Within the same report, it showed, the Housing Revenue Account (HRA) was projecting capital expenditure of £80.798m and capital income of £33.863m, resulting in a net requirement of £46.935m in loans fund advances.

3.5 The 2022-2032 Sustainable Capital Budget Strategy is reported elsewhere on the agenda with an overview of the capital budget for future years.

## 4. Main report

**Capital Monitoring 2021/22 – Month Eight Position**

**General Fund Capital**

4.1 At month eight, general fund expenditure is projected to be £342.616m, compared against a budget of £370.492m, resulting in projected capital expenditure slippage of £27.876m. Grants and other capital income are forecast to be £121.025m with the remaining expenditure being funded by loans fund advances of £221.591m. This is £32.887m lower than the revised budget update provided in month three due to updated cashflows received across the programme. A breakdown by directorate is provided in Appendix 1, with additional commentary provided in sections 4.2 to 4.6.

4.2 Within Education and Children's Services, there has been capital expenditure of £60.180m as at month eight. Expenditure relates primarily to projects which were well underway prior to COVID-19 lockdown such as Castlebrae High School £12.532m, Meadowbank Sports Centre £6.658m, St Crispin’s School £5.430m, new Victoria Primary School £4.950m and Canaan Lane Primary School £4.818m.

There is also now forecast acceleration of £4.300m in the year, this primarily relates to;

- Castlebrae High School acceleration of £16.085m due to the school nearing completion but the final funding from EDI dividend payment and capital receipt from sale now not anticipated until the next financial year;
- St Crispin's Special School acceleration of £2.460m due to the school nearing completion but the final funding from the capital receipt now not anticipated until the next financial year;
- Rising School Rolls, smaller project variances and other contingency expenditure slippage of £14.245m due to delays caused to projects principally as a result of COVID-19 and on-going market conditions. Rising costs and shortfalls in supply chains have caused projects to be frozen prior to tender processes until a review of the appropriate course of action to mitigate the impact of market conditions has been undertaken.

4.3 Within Place, there has been capital expenditure of £104.987m as at month eight. Expenditure relates primarily to St James GAM assets £56.400m, social housing through the housing development fund £16.370m, North Bridge £6.267m and Energy Efficiency Street Lighting Programme £3.008m. The projected outturn slippage of £17.415m in the year primarily relates to;

- General Place programme slippage of around £5.400m due to construction industry materials and labour shortages across several projects and programmes;
- Active Travel of £7.685m due to programme delays caused by pausing projects pending the review and alignment with the Places for Everyone Programme and the Council's existing and emerging priorities as reported to Transport and Environment Committee on 14 October 2021 as part of the 'Active Travel Investment Programme Update';
- Road Safety and Public Transport block funding of £2.200m due to programme delays as a result of reprioritisation and rephasing of Active Travel Strategy to ensure the strategy is affordable. A wider review of Public Transport to align with City Mobility Plan, construction cost inflation, contractor availability and supply chain issues are causing material delays to project progress; and
- Parks and Greenspace of £1.991m due to surveying of priority sites only being completed in Autumn 2021, resulting in construction delays as reported to Culture and Communities Committee on 15 June 2021.

4.4 Within Place – Trams to Newhaven, the project is forecasting in-year outturn spend at month eight of £2.508m less than was originally forecast, with capital expenditure sitting at £38.643m, taking total expenditure on the project to date to £126.084m. This in-year underspend is a result of less work being undertaken than had been scheduled due to concrete and skilled labour shortages which resulted in the rephasing of the activities particularly around public realm works. While an underspend is currently reported, the project is expected to complete on time and within the approved budget of £207.3m.

4.5 Within Place - Lending there has been capital expenditure of £4.167m as at month eight for completed units which have transferred to Edinburgh Living LLP at North Sighthill and Pennywell Phase Three. There is forecast slippage of £11.034m primarily due to delays on completion of the final units at Pennywell Phase Three and North Sighthill which will now be completed in the 2022/23 financial year. The General Fund capital budget impact is neutral as borrowing is delayed matching the revised expenditure profiles.

4.6 Within Place - Asset Management Works Programme, there has been capital expenditure of £18.105m as at month eight across various projects, with outturn acceleration of spend of £2.033m forecast compared to the revised budget of £20.413m. This is due to the closure of properties due to the COVID-19 pandemic permitting more work than anticipated to be carried out ahead of schedule, especially within the learning estate.

4.7 It should also be noted that significant income is expected in the last few months of the year and this funding will only be brought into match expenditure incurred, with the budget recognised when the funding is received. This will result in the outturn for both capital income and capital expenditure being higher than currently forecast but the underlying need to borrow and projected slippage will remain the same.

4.8 A further update on the 2022-32 Sustainable Capital Budget Strategy is reported elsewhere on this Finance and Resources Committee agenda.

**Housing Revenue Account (HRA) Capital**

4.9 The month eight monitoring shows HRA capital expenditure of £34.751m for the financial year so far across various programmes and workstreams relating to the Council housebuilding programme and improvements to existing council homes and estates, with forecast capital expenditure slippage of £42.007m in the year. A breakdown by programme is provided in Appendix 2, with additional commentary provided in sections 4.10 to 4.14.

4.10 The forecast capital expenditure outturn on the Council Housebuilding Programme is slippage of £7.684m which is primarily due to delays on projects under construction through the impacts of material shortages and COVID measures extending programmes.

4.11 The forecast capital expenditure outturn on the Land element of the Council Housebuilding Programme is slippage of £16.877m. The purchase of Liberton hospital has been delayed to the beginning of next financial year at the request of NHS Lothian due to the impact of COVID-19 and the continued use of the facility. In addition, land at Craigmillar has been transferred from EDI to the HRA this financial year.

4.12 The forecast capital expenditure outturn against Improvements to Council Homes and Estates is slippage of £17.446m primarily due to supply chain disruption, including shortages of materials, contractor availability and gaining access to carry out works within tenant's homes as a result of COVID-19. In relation to external fabric upgrades for multi storey blocks at Craigmillar and Peffermill Courts, engagement with residents was paused due to COVID-19 – this will now recommence with an opportunity to enhance specification to achieve EnerPHit standard, causing a significant delay.

4.13 In addition to the operational challenges identified above, it has been noted through an increase in refusals that tenants remain cautious about allowing operatives or contractors into their homes as the capital programme is remobilised.

4.14 The month eight monitoring shows HRA capital income of £11.718m for the financial year so far, primarily from capital receipts from sales to Edinburgh Living LLP and disposals through the Acquisitions and Disposals Programme. The forecast capital income shows forecast income of £23.244m, resulting in £33.808m in income slippage. This has been achieved by carrying the Capital Funded from Current Revenue forward via reserves to ensure the borrowing requirement remains in-line with the budgeted requirement of £46.935m in loans fund advance. This has been done to lock-out interest rate risk and borrowing £40m at low interest rates.

4.15 A further update on the 2022-32 HRA Business Plan is reported elsewhere on this Finance and Resources Committee agenda.

## 5. Next Steps

5.1 This report will be referred to Governance, Risk and Best Value Committee to consider as part of its programme of work.

5.2 Finance staff will continue work with project and programme managers to monitor capital budgets.

5.3 The 2022-2032 Sustainable Capital Budget Strategy is reported elsewhere on the agenda with an overview of the capital budget for future years.

5.4 Further reports will be presented to Finance and Resource Committee at month 12 showing the position against the revised 2021/22 capital budget.

## 6. Financial impact

6.1 The 2021/22 General Fund projected outturn outlines loans fund advances of £221.591m. The overall loan charges associated with this over a 30-year period would be a principal amount of £221.591m, interest and expenses of £186.199m, resulting in a total cost of £400.598m based on a loans fund interest rate of 4.20%. The average annual cost would be £13.353m for 30 years.

6.2 The 2021/22 HRA projected outturn outlines loans fund advances of £38.736m. The overall loans charges associated with this over a 30-year period would be a principal amount of £38.736m, interest of £32.830m, resulting in a total cost of £71.566m based on a loans fund rate of 4.38%. The average annual cost would be £2.386m for 30 years.

6.3 Borrowing required is carried out in line with the Council's approved Treasury Management Strategy.

6.4 The loan charge costs outlined above will be met from the general fund and HRA revenue budgets for loan charges.

## 7. Stakeholder/Community Impact

7.1 Consultation on the capital budget was undertaken as part of the Council's budget setting process.

7.2 The stakeholder and community impact of individual projects within the Council's capital programme is considered as part of the business cases for those projects.

## 8. Background reading/external references

8.1 Sustainable Capital Budget Strategy 2021-2031, Finance and Resources Committee, 21 January 2021

8.2 Sustainable Capital Strategy 2021-31 – Annual Report, Finance and Resources Committee, 4 March 2021

8.3 Updated Housing Revenue Account (HRA) Capital Programme, Housing, Homelessness and Fair Work Committee, 3 June 2021

8.4 Parks and Greenspace Investment, Culture and Communities Committee, 15 June 2021

8.5 2021-31 Sustainable Capital Budget Strategy – Outturn 2020/21 and Revised Budget 2021/22, Finance and Resources Committee, 12 August 2021

8.6 Sustainable Capital Budget Strategy 2022/32, Finance and Resources Committee, 7 October 2021

8.7 Active Travel Investment Programme Update, Transport and Environment Committee, 14 October 2021

8.8 Housing Revenue Account (HRA) Capital Programme – Update on Projects, Housing, Homelessness and Fair Work Committee, 4 November 2021

8.9 Capital Budget Monitoring 2021/22 – Month Six Position, Finance and Resources Committee, 9 December 2021

## 9. Appendices

9.1 Appendix 1 – 2021/22 Capital Monitoring Month Eight – General Fund

9.2 Appendix 2 – 2021/22 Capital Monitoring Month Eight – HRA

## Appendix 1 - 2021/22 Capital Monitoring

### General Fund Summary

### Month Eight

| Expenditure | Approved Budget £000 | Adjustments £000 | Revised Budget £000 | Actual to Date £000 | Projected Outturn £000 | Projected Outturn Variance £000 | Projected Outturn Variance % |
|---|---|---|---|---|---|---|---|
| Education and Children's Services | 108,237 | (35,958) | 72,279 | 60,180 | 76,579 | 4,300 | 5.95% |
| Edinburgh Health and Social Care Partnership | - | 284 | 284 | - | 284 | - | 0.00% |
| Place | 169,147 | 13,624 | 182,771 | 104,987 | 165,356 | (17,415) | -9.53% |
| Place - Lending | 13,260 | 4,769 | 18,029 | 4,167 | 6,995 | (11,034) | -61.20% |
| Place - Tram York Place to Newhaven | 65,523 | 6,577 | 72,100 | 38,643 | 69,592 | (2,508) | -3.48% |
| Place - Asset Management Works | 25,916 | (5,503) | 20,413 | 18,105 | 22,446 | 2,033 | 9.96% |
| Corporate Services | 2,213 | 2,403 | 4,616 | 1,357 | 1,364 | (3,252) | -70.45% |
| **Total Gross Expenditure** | **384,296** | **(13,804)** | **370,492** | **227,439** | **342,616** | **(27,876)** | **-7.52%** |

| Funding | Approved Budget £000 | Adjustments £000 | Revised Budget £000 | Actual to Date £000 | Projected Outturn £000 | Projected Outturn Variance £000 | Projected Outturn Variance % |
|---|---|---|---|---|---|---|---|
| *Capital Receipts* | | | | | | | |
| General Asset Sales | 3,000 | - | 3,000 | 377 | 3,000 | - | 0.00% |
| Ringfenced Asset Sales | - | 914 | 914 | 2,415 | 2,415 | 1,501 | 164.22% |
| Capital from Current Revenue | - | 4,000 | 4,000 | 4,246 | 4,246 | 246 | 6.15% |
| *Total Capital Receipts from Asset Sales and Revenue* | 3,000 | 4,914 | 7,914 | 7,038 | 9,661 | 1,747 | 22.07% |
| *Drawdown from/ (to) Capital Fund* | 6,986 | - | 6,986 | - | 6,986 | - | 0.00% |
| *Developer Contributions* | 436 | 15,379 | 15,815 | 17,935 | 17,935 | 2,120 | 13.40% |
| *Developers Contributions Transferred to Investments* | - | (15,382) | (15,382) | (15,843) | (15,843) | (461) | 3.00% |
| *Total Developer Contributions* | 436 | (3) | 433 | 2,092 | 2,092 | 1,659 | 383.14% |
| ***Total Capital Receipts and Contributions*** | **10,422** | **4,911** | **15,333** | **9,130** | **18,739** | **3,406** | **22.21%** |
| *Grants* | | | | | | | |
| Scottish Government General Capital Grant | 38,360 | 1,601 | 39,961 | 27,174 | 39,961 | - | 0.00% |
| Other Grants and Contributions | - | 1,652 | 1,652 | 978 | 1,652 | - | 0.00% |
| Cycling, Walking and Safer Routes | 2,299 | - | 2,299 | - | 2,299 | - | 0.00% |
| Place Based Investment Programme | - | 1,998 | 1,998 | 1,972 | 1,998 | - | 0.00% |
| Transfer of Management of Development Funding (TMDF) | 27,950 | 24,468 | 52,418 | 14,481 | 52,418 | - | 0.00% |
| Regeneration Funding | - | 1,258 | 1,258 | 1,258 | 1,258 | - | 0.00% |
| Other Government Grants | - | 1,095 | 1,095 | 2,700 | 2,700 | 1,605 | 146.58% |
| Capital Grants Unapplied Account Drawdown | 14,442 | (14,442) | - | - | - | - | 0.00% |
| ***Total Grants*** | **83,051** | **17,630** | **100,681** | **48,563** | **102,286** | **1,605** | **1.59%** |
| **Total Funding** | **93,473** | **22,541** | **116,014** | **57,693** | **121,025** | **5,011** | **4.32%** |
| *Borrowing* | | | | | | | |
| New Prudential Borrowing in Year | 85,127 | (7,718) | 77,409 | 61,807 | 67,465 | (9,944) | -12.85% |
| New On-Lending in Year | 13,260 | 4,769 | 18,029 | 4,167 | 6,995 | (11,034) | -61.20% |
| New Capital Advance - Trams to Newhaven | 65,143 | 6,957 | 72,100 | 38,643 | 69,592 | (2,508) | -3.48% |
| New Capital Advance - General Fund | 127,293 | (40,353) | 86,940 | 65,129 | 77,539 | (9,401) | -10.81% |
| **Balance to be funded through Loans Fund Advance** | **290,823** | **(36,345)** | **254,478** | **169,746** | **221,591** | **(32,887)** | **-12.92%** |

## Appendix 2 - 2021/22 Capital Monitoring

## Housing Revenue Account

### Month Eight

| Expenditure | Approved Budget | Adjustments | Revised Budget | Actual to Date | Projected Outturn | Projected Outturn Variance | |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | % |
| Council Housebuilding Programme | 33,223 | - | 33,223 | 16,511 | 25,539 | (7,684) | -23.1% |
| Council Housebuilding Programme - Land | 20,000 | - | 20,000 | 2,660 | 3,123 | (16,877) | -84.4% |
| Improvement to Council Homes and Estates | 34,163 | 16,601 | 50,764 | 15,580 | 33,318 | (17,446) | -34.4% |
| **Total Gross Expenditure** | **87,386** | **16,601** | **103,987** | **34,751** | **61,980** | **(42,007)** | **-40.4%** |

| Income | Approved Budget | Adjustments | Revised Budget | Actual to Date | Projected Outturn | Projected Outturn Variance | |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | % |
| Capital Receipts and Other Contributions | 4,560 | 2,750 | 7,310 | 4,019 | 5,839 | (1,471) | -20.1% |
| Capital Funded from Current Revenue | 18,300 | - | 18,300 | - | - | (18,300) | -100.0% |
| Receipts from LLPs | 19,583 | - | 19,583 | 3,906 | 6,831 | (12,752) | -65.1% |
| Specific Capital Grant | 11,859 | - | 11,859 | 3,793 | 10,574 | (1,285) | -10.8% |
| **Total Income** | **54,302** | **2,750** | **57,052** | **11,718** | **23,244** | **(33,808)** | **-59.3%** |
| | | | | | | | |
| **Balance to be funded through Loans Fund Advance** | **33,084** | **13,851** | **46,935** | **23,033** | **38,736** | **(8,199)** | **-17.47%** |

# Finance and Resources Committee

## 10.00am, Thursday, 3 February 2022

# Corporate Services Directorate: Revenue Budget Monitoring 2021/22 – Month Eight position

| | |
|---|---|
| **Executive/routine** | **Executive** |
| **Wards** | **All** |
| **Council Commitments** | |

## 1. Recommendations

1.1 It is recommended that the Finance and Resources Committee notes:

1.1.1 that services delivered by the Corporate Services Directorate are forecast to be within budget for 2021/22;

1.1.2 it is forecast outturn expenditure will be within the approved revenue budget for the Chief Executive's Office for 2021/22;

1.1.3 it is anticipated there will be additional costs incurred due to the Coronavirus pandemic. Costs are currently forecast to be fully funded from additional Scottish Government grant income and the Council's 2021/22 provision for Coronavirus additional costs;

1.1.4 measures will continue to be progressed to fully deliver approved savings targets and to offset budget pressures to achieve outturn expenditure in line with the approved revenue budget for 2021/22 and,

1.1.5 the ongoing risks to the achievement of a balanced revenue budget projection for services delivered by Corporate Services Directorate.

**Stephen S. Moir**

Executive Director of Corporate Services

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# Finance and Resources Committee

## Corporate Services Directorate - Revenue Budget Monitoring 2021/22 – Month Eight position

### 2. Executive Summary

2.1 The report sets out the projected eight-month revenue budget monitoring position for services delivered by Corporate Services Directorate and the Chief Executive's Office, based upon actual expenditure and income to the end of November 2021 and expenditure and income projections for the remainder of the financial year.

2.2 Services delivered by Corporate Services Directorate and the Chief Executive's Office are forecast to be within budget for 2021/22.

2.3 It is anticipated there will be additional costs incurred as a consequence of the Coronavirus pandemic. These costs are forecast to be fully funded from additional Scottish Government grant income and the Council's 2021/22 provision for Coronavirus additional costs.

2.4 Measures will continue to be progressed to fully deliver approved savings targets and to offset budget pressures to achieve outturn expenditure in line with the approved revenue budget for 2021/22. The attainment of this position is subject to active management of risks and pressures.

### 3. Background

3.1 The Council's Financial Regulations require submission of quarterly monitoring reports on service financial performance to the Finance and Resources Committee.

3.2 This report advises on the projected outturn for services delivered by Corporate Services Directorate and the Chief Executive's Office after eight months of the financial year.

## 4. Main report

4.1 Corporate Services Directorate revenue budget for 2021/22 is £78.671m. This includes a range of Council-wide contracts, including the Council's ICT contract, external audit fee and Scotland Excel membership. The Directorate provides directly delivered Council services, including Customer Contact services and professional support services for Finance and Procurement, Human Resources, Legal, Strategic Policy Support and Corporate Communications.

4.2 This budget monitoring report also includes financial performance of the Chief Executive's Office.

4.3 The period eight forecast is for expenditure of Corporate Services Directorate to be within budget. This forecast excludes the additional costs and loss of income due to the Coronavirus pandemic.

4.4 Financial controls applied include control of recruitment to all non-essential vacant posts and agency worker use. Controls also continue to be applied to discretionary expenditure where no legal or contractual commitment exists, to mitigate potential budget pressures.

4.5 Significant additional costs are forecast as a direct consequence of responding to the needs of the City and the Council during recovery from the Coronavirus pandemic.

4.6 Customer and Digital Services is managing a range of additional Coronavirus recovery activities during 2021/22, alongside providing capacity to meet core service demands in:

4.6.1 Benefit payments;

4.6.2 Contact Centre;

4.6.3 Council Tax/NDR billing and recovery; and,

4.6.4 Recovery of Housing Benefit overpayments.

4.7 Additional costs of £1.4m are forecast to be largely funded by Scottish Government grant of £1.385m. Additional costs will be subject to ongoing review for the remainder of 2021/22.

4.8 Following a report to Finance and Resources Committee on 18 November 2021 - Capacity to deliver the 2021/22 Internal Audit plan – it was agreed up to £0.350m be incurred to support completion of the minimum number of audits required to support the Internal Audit annual opinion.

4.9 The additional cost is forecast to be met from non-recurring employee cost savings in Customer and Digital Services, Finance and Procurement, Human Resources and Strategy and Communications Divisions. Further savings are anticipated from renewal of the Council's legal services framework contracts. The funding was approved by Finance and Resources Committee on 18 November 2021.

4.10 An analysis of the projection by Division and for the Chief Executive's Office is provided in Appendix 1, together with forecast additional Coronavirus costs.

4.11 The approved 2021/22 revenue budget requires Corporate Services Directorate to achieve incremental savings of £1.537m in 2021/22 as detailed in Appendix 2.

4.12 £1.487m (97%) of approved savings are forecast to be on track for full delivery and are assessed as 'Green', with £0.050m (3%) assessed as 'Amber'. Appendix 2 provides detail of the status of savings assessed as 'Amber'. No savings are assessed as 'Red' or 'Black'. Mitigation measures have been identified to offset the 'Amber' assessed saving.

4.13 At this stage in the financial year, the principal financial risks identified for the Corporate Services Directorate services are:

4.13.1 Welfare Reform grants - potential additional demand due to increased and re-introduced Pandemic restrictions;

4.13.2 Coronavirus recovery activities for Customer and Digital Services exceeding the available funding of £1m; and,

4.13.3 A shortfall in Council Tax/NDR Intervention Income.

4.14 All current and emerging risks will be subject to ongoing tracking, development of mitigation measures and review for the remainder of 2021/22.

4.15 The following additional investment is allocated to the Corporate Services Directorate for 2021/22:

4.15.1 £0.3m to support delivery measures for the Council's Sustainability Plan;

4.15.2 £0.7m to support the City-wide 2030 Net Zero Strategy;

4.15.3 £0.6m to support the embedding of the Council Business Plan Outcome commitment to reform the way the Council works to better deliver prevention services with engaged and empowered communities;

4.15.4 £0.130m to support Food Growing and to recognise the increase in demand for local food;

4.15.5 £0.100m to support Diversity Training; and,

4.15.6 £0.052m for the contract extension of a Gaelic Development Officer.

4.16 Expenditure slippage from 2021/22 to 2022/23 is forecast:

4.16.1 £0.380m on the programme to better deliver prevention services; and,

4.16.2 £0.340m on support for the City-wide 2030 Net Zero Strategy.

## 5. Next Steps

5.1 Continuing work to identify mitigating measures through workforce and discretionary expenditure controls to manage financial risks and take timely remedial action, where adverse variances become apparent.

5.2 Non-Domestic Rates and Council Tax Intervention Income will be reviewed throughout the remainder of 2021/22, after warrants have been raised. An assessment will be made of the potential collection rates.

## 6. Financial impact

6.1 This report forecasts Corporate Services Directorate expenditure to be within budget, including the additional costs and loss of income due to the Coronavirus pandemic.

6.2 Attainment of a balanced position is the subject of continuing work to identify further mitigating measures, active management of financial risks and taking timely remedial action, where any further adverse variances become apparent.

## 7. Stakeholder/Community Impact

7.1 Whilst the report provides a financial monitoring update on the Corporate Services Directorate revenue budget, it should be noted that these costs are directly associated within the provision of a range of front-line and corporate services that have been essential to support citizens, businesses and communities throughout the pandemic. The Directorate has enabled and continues to enable the Council to maintain and adapt core services across the City, as well as responding to the need to provide entirely new and additional services on behalf of the Scottish Government. All these activities have had varying degrees of impact upon the community or key stakeholders.

## 8. Background reading/external references

8.1 Revenue Budget Framework 2021/26 Update, The City of Edinburgh Council, 27 May 2021

8.2 Capacity to deliver the 2021/22 Internal Audit plan, Finance and Resources Committee, 18 November 2021

8.3 Corporate Services Directorate: Revenue Budget Monitoring 2021/22 – Month Six position, Finance and Resources Committee, 9 December 2021

## 9. Appendices

9.1 Appendix 1 – Corporate Services Directorate and Chief Executive's Office Revenue Budget Monitoring 2021/22 - Month Eight position

9.2 Appendix 2 – Corporate Services Directorate: Approved Revenue Budget Savings 2021/22

# Appendix 1

## Corporate Services Directorate and Chief Executive’s Office

## Revenue Budget Monitoring 2021/22

## Month Eight position

### 1. Forecast Revenue Outturn by Division

| | Revised Budget | Projected Outturn | Projected Variance | Adverse / Favourable |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | |
| Customer and Digital Services | 53,244 | 53,244 | 0 | - |
| Finance and Procurement Services | 7,120 | 7,120 | 0 | - |
| Human Resources | 5,567 | 5,567 | 0 | - |
| Legal and Assurance | 6,792 | 6,792 | 0 | - |
| Strategy and Communications | 5,743 | 5,743 | 0 | - |
| Directorate and service-wide costs. | 205 | 205 | 0 | - |
| **Total Net Expenditure** | **78,671** | **78,671** | **0** | **-** |

| | | | | |
|---|---|---|---|---|
| **Chief Executive’s Office** | **213** | **211** | **(2)** | **FAV** |

### 2. Forecast Coronavirus Costs

| | Budget Provision £'000 | Projected Outturn £'000 | Projected Variance £'000 | Adverse / Favourable |
|---|---|---|---|---|
| Customer and Digital Services – Coronavirus Recovery | 2,385 | 1,400 | (985) | FAV |
| Scottish Government grant funding | (1,385) | (1,385) | 0 | - |
| **Total Net Expenditure** | **1,000** | **15** | **(985)** | FAV |

# Appendix 2

## Corporate Services Directorate: Approved Revenue Budget Savings 2021/22

| Division | Saving Description | 2021/22 £'000 | Red/Amber/Green/Black* assessment |
|---|---|---|---|
| Customer and Digital Services | ICT contract extension savings | 950 | |
| Customer and Digital Services | Digital Delivery - ICT | 150 | |
| Customer and Digital Services | Digital Delivery – Print, Mail and Scan Strategy Development | 200 | |
| Customer and Digital Services | Renting of Assets for 5G Nodes | 50 | One-off mitigating saving identified in Digital Services budget. |
| Service-Wide | Corporate Services Directorate Workforce Savings - Finance and Procurement | 110 | |
| Service-Wide | 5% average increase in discretionary fees and charges | 77 | |
| | **TOTAL** | **1,537** | |

| **SUMMARY** | **£'000** | **%** |
|---|---|---|
| Green assessed | 1,487 | 97 |
| Amber assessed | 50 | 3 |
| Red assessed | 0 | 0 |
| Black Assessed | 0 | 0 |
| **TOTAL** | **1,537** | **100** |

# Finance and Resources Committee

## 10.00am, Thursday, 3 February 2022

# Housing Revenue Account (HRA) Budget Strategy (2022-32)

| | |
|---|---|
| **Executive/routine** | **Executive** |
| **Wards** | **All** |
| **Council Commitments** | |

## 1. Recommendations

1.1 It is recommended that Finance and Resources Committee:

1.1.1 Notes the outcome of the annual review of the Business Plan and that based on a 1.8% rent increase in 2022/23 (2% per annum thereafter) this would enable a £2.9 billion ten-year investment programme to deliver Council commitments, including 10,000 new affordable homes by 2027 and net zero carbon by 2038/39 (eight years later than originally planned);

1.1.2 Notes the outcome of the annual rent consultation with the majority of tenants supporting a 1.8% rent increase in 2022/23 and that a further rent freeze would require higher rent increases in future years, withdrawal/reduction of housing services or a reduction in investment in new and existing homes or a combination of all of the above;

1.1.3 Notes that, on 20 January 2022, the Housing, Homelessness and Fair Work Committee agreed to recommend a zero increase in council rents during the coming year;

1.1.4 Agrees to refer the 2022/2023 budget, draft five-year capital investment programme, and the rent levels for 2022/23 set out in Appendices 3, 5 and 6 to the Council budget meeting for approval; and

1.1.5 Notes that officers will continue to work with Scottish Government to maximise grant funding for both the new build programme and the transition to net zero carbon to support delivery of Council's commitments and to keep rents affordable.

**Paul Lawrence**

Executive Director of Place

Contact: Elaine Scott, Housing Services Manager

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# Report

## Housing Revenue Account (HRA) Budget Strategy (2022-2032)

### 2. Executive Summary

2.1 The Council is the largest Registered Social Landlord in the city with responsibility for managing and maintaining around 19,000 Council homes. The service is funded almost entirely from tenants' rental income. The HRA Budget Strategy aims to deliver a £2.9 billion investment in new Council homes, existing homes and neighbourhoods by 2027 whilst keeping rents affordable. HRA investment is supporting the delivery of major Council commitments; including the 20,000 affordable homes commitment and net zero carbon.

2.2 In response to the pandemic, Council approved a one-year rent freeze in 2021/2022, whilst still supporting the budget strategy, the 10-year capital investment programme and £1.3 billion revenue programme. The impact of this was a reduction of £2.014 million in projected gross rental income in 2021/22 with around £94 million less funding available over the lifetime of the Business Plan.

2.3 The 30-year Business Plan is reviewed each year and assumptions updated and a rent strategy developed for consultation with tenants. This year's rent consultation was designed and developed in partnership with tenants' representatives and on 2 September 2021, Housing, Homeless and Fair Work Committee agreed to seek tenants' views on the strategy based on five rent increase options for 2022/23, ranging from 1.8% to 5%.

2.4 The highest option (5%) would completely mitigate last year's rent freeze and enable the Council's original commitment to improve existing homes and neighbourhoods, deliver new affordable homes by 2027 and net zero carbon emissions from Council housing by 2030. All other rent options had an impact on the timescales improvements to housing and Council commitments could be delivered. A rent freeze option was not put forward, as it was not considered financially viable in the context of rising costs and the scale of investment required in existing and new homes to meet the needs of our customers, comply with statutory requirements; including the Energy Efficiency Standard for Social Housing (EESSH) and Council commitments. However, a dedicated free text box to allow tenants to make further comments in relation to the rent options was included. Less than 7% of respondents included a comment which indicated support for a rent freeze. The majority of tenants supporting a 1.8% rent increase.

2.5 The proposed below inflation rent increase is considered to be the lowest possible in a context of rising costs and economic uncertainty that impact on delivery of day to day housing management and maintenance services, as well as, delivery of key Council commitments. Following the review of Business Plan assumptions and assuming an 1.8% increase, homes could be brought up to net zero carbon standards eight years later than originally planned (by 2038/2039 instead of 2030/2031). There would also be a projected deficit of £30.145 million over the 30-year period. The deficit only relates to in-year expenditure exceeding income, there is enough in reserves to completely offset it. Officers will continue to work with Scottish Government to maximise grant funding for both the new build programme and the transition to net zero carbon to support delivery of Council's commitments and to keep rents affordable.

2.6 The pandemic has had a significant impact on delivery of both the capital programme and Housing Service Improvement Plan (HSIP). The majority of service costs remained and additional costs were also incurred to allow services to be delivered safely. The work underway on the design and planning for delivering a whole house retrofit programme; combined with the new approach to working with owners being piloted at Murrayburn, will enable investment in existing stock to be scaled up in future years. Expenditure on the new build programme will also increase as housing construction commences on large mixed use sites that are currently in procurement.

2.7 A further rent freeze in 2022/2023 would have a significant impact on the ability to deliver planned large scale investment in existing and new homes. The impact could not be mitigated through further elongating capital investment; it would either require significant rent increases in future years or the withdrawal/reduction of housing services or a reduction in investment in new and existing homes or a combination of all of the above.

2.8 On 20 January 2022, Housing, Homelessness and Fair Work Committee agreed to recommend a zero increase in council rents during the coming year and asked officers to provide an amended proposal incorporating the rent rises needed during the following four years to compensate for the loss of rent income in the coming year. This information is provided at 4.23.1.

2.9 Committee is asked to agree to refer the key assumptions for the Business Plan, draft 2022/2023 revenue budget, and draft five-year capital investment programme set out in Appendices 3, 5 and 6 to the Council budget meeting for approval.

## 3. Background

3.1 On 18 February 2021, the City of Edinburgh Council approved the 2021-2031 HRA budget Strategy following referral from Finance and Resources Committee which included a plan to invest £2.8 billion over ten years to deliver Council commitments, including the delivery of new homes and net zero carbon emissions by 2030 and a composite motion from the Conservative, Green and Liberal Democrat Groups which agreed 'the recommendations by the Executive Director of Place in the HRA Budget Strategy for 2021-2031 and the outline 10-year HRA capital programme 2021-2031, subject to agreement that there be no rent rise in 2021/2022.

3.2 The investment plan is based on priorities identified by tenants through previous consultations, these include:

3.2.1 Improving core housing services, such as day to day housing management and repairs and maintenance, with strong focus on getting the basics right and being responsive to tenants' needs, while developing services that help reduce tenants' living costs, including an energy advice service.

3.2.2 Building new affordable homes that are of high energy efficiency standards and are part of well- designed, twenty minute neighbourhoods;

3.2.3 Investing in making existing homes easier and cheaper to heat and working with owners in mixed tenure blocks to improve the external fabric of the buildings and common stairs; and

3.2.4 Investing in areas immediately outside homes for tenants to enjoy and create well-designed, green, open spaces that encourage people to be active and engage with their local environment.

3.3 On 18 March 2021, Committee received a report setting out the impact of the one-year rent freeze on the 2021/2022 revenue budget, and the potential mitigations that need to be put in place in 2022/2023 to secure the ten-year capital investment programme to deliver Council commitments.

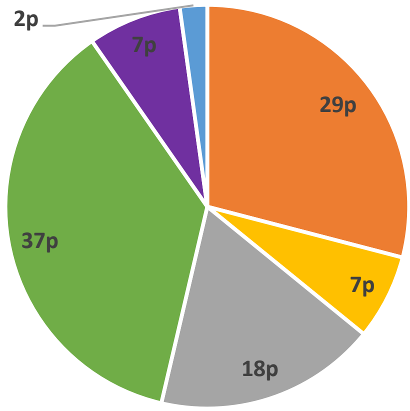
3.4 On 2 September 2021, Committee agreed to seek tenants' views on the HRA budget strategy with five rent increase options for 2022/2023, ranging from 1.8% to 5%, and potential mitigations of the one-year rent freeze for inclusion in the 2022/2023 HRA budget report.

## 4. Main report

4.1 The budget is prepared annually following consultation with tenants and the regular review of the 30-year HRA Business Plan (the Business Plan) and the Capital Investment Programme. It is shaped by tenants' priorities, Council commitments, statutory compliance and government targets, as well as, life cycle and health and safety, i.e. maintenance and improvements to keep our homes modern and safe.

4.2 The Housing Service is entirely self-financing and receives no funding from the General Fund. The annual revenue budget of c.£100 million is almost exclusively funded from tenants' rents (95%), with the remaining 5% coming from service charges and interests. The pie chart below sets out how each £1 of rent is spent.

## Chart 1: How every £1 is spent in 2021/2022




**Housing management (staff & service delivery costs)** - This includes:
- staff costs such as the concierge & housing officers
- training and equipment staff need to do their jobs.
- Adapting to changes i.e. in how services were delivered during Covid.

**Other support services tenants receive** - Services which keep homes safe & well maintained delivered by other parts of the council e.g. grass cutting & pest control.

**Repairing & maintaining homes** - Emergency and reactive repairs. Gas servicing.

**Debt servicing for new homes, improving existing homes & neighbourhoods)** - The majority (81%) of expenditure is on historic debt repayment i.e. money that has been borrowed previously to fund improvements to existing homes.

**In-year revenue investment for new homes & improving existing homes & neighbourhoods** – used of reduce the amount of borrowing required to fund capital investment

**Contingency** - Money set aside to make sure we're always prepared for any unforeseen circumstances.

4.3 The majority of annual expenditure is on day to day service delivery (95%) including staffing and central support costs, repairing and maintaining homes and servicing borrowing for previous capital investment. Capital investment is funded through a combination of prudential borrowing, Scottish Government grant funding, capital receipts and reserves. The servicing of borrowing accounts for 37% of annual revenue expenditure; around 3% is on servicing new borrowing to fund the capital investment programme. The remaining 2% is put into contingency & savings. All savings are reinvested in the Capital investment programme to reduce borrowing long term.

4.4 During the pandemic the majority of service costs remained (including all staff costs and other support services). Additional costs were also incurred to allow services to be delivered safely (including PPE and cleaning supplies, adapting offices and vehicles, as well as, additional devices for remote and home working).

4.5 The pandemic has also had a significant impact on delivery of the capital programme over the last few years. The construction industry has been severely impacted by materials and skills shortages and delays due to implementation of health and safety measures since the sector came out of lockdown. However, the delivery pipeline for new homes remains strong and investment in existing homes is also expected to scale up in future years.

4.6 The majority of tenants support the overall capital investment plan. A total of 60% of respondents highlighted improvements to existing homes as either their first or second priority for investment. In addition to building new homes and investment in their wider neighbourhood, respondents stated that more investment should be made on staff training, public facilities and spaces, stairs and mixed tenure blocks, as well as services to enable vulnerable tenants to live independently (e.g. sheltered housing, adaptation and social care, and garden service). All of which remains in line with the current investment plan.

4.7 The work underway on the design and planning for delivering a whole house retrofit programme, combined with a new approach to working with owners (through Mixed Tenure Improvement Service pilot), as well as, the development of larger, mixed use sites (Granton and Liberton) across the new build programme, will see capital investment more than double in future years. The capital budget as set out in appendix 6 includes the scaling up of staff resources to manage the ambitious retrofit programme. New build resources have already doubled over the last five years to support the delivery of the affordable housebuilding programme. Within the Council's housebuilding programme, there are currently 440 new homes on site and under construction and a further 2,600 homes in design and development. This does not include homes being delivered for low cost home ownership or private sale through Council led development.

4.8 Investment to improve the energy efficiency of existing homes continues to be a priority, with almost 80% of homes now meeting the Energy Efficiency Standard for Social Housing (EESSH), with 14% homes under contract either on-site or at tender or development stage and the remaining 6% are held in temporary exemption or those that are financially or structural prohibitive to bring up to standard. Over 10% of homes already meet the much more ambitious EESSH2 standard. All homes require to meet EESSSH2 by 2032. A stock condition survey is currently underway to better inform future investment required on existing homes. It is anticipated that the survey will also highlight repair and maintenance work required, increasing both revenue and capital expenditures on existing homes.

4.9 Almost half (48%) of tenants stated that the repairs and maintenance service should be the top priority for investment. This is in line with the Housing Service Improvement Plan (HSIP) which prioritises the repairs service for improvement.

4.10 Within the HSIP, there is a strong focus on digital improvements, self-service capabilities, improved processes for missed and follow-on appointments, enhanced tenant communications around appointments and the tenant feedback captured following repairs appointments; and improved process for managing cases of dampness, mould and condensation. Work is also now underway to ensure new systems and procedures are being used to their full potential, and managers are fully equipped with the tools they need to drive sustainable productivity across the repairs service.

**Funding the Strategy**

4.11 Over three quarters (76%) of tenants considered their rent to be good or very good value for money, with around 12% considering it poor or very poor. Five rent increase options, ranging from 5% to 1.8% and the associated impact on long term investment were consulted on. The majority (60%) of the tenants opted for 1.8% rent increase in 2022/23 which would see the investment in bringing existing homes up to net zero carbon taking an additional eight years longer than the Council's original soft target of 2030. The net zero carbon target could be brought forward by accelerating investment funded either by higher rent increases in subsequent years or through the Scottish Government low carbon transition fund or similar enabling funds.

4.12 The business plan assumes 2% general inflation increases (see appendix 3 for more details), with construction cost compound inflation increasing by 16.76% over the next five years, an average of 3.35% a year. According to the Bank of England, the annual rate of consumer price inflation (CPI) has risen from 0.7% in January

2021 to 5.1% in November 2021 and is expected to reach about 6% by spring 2022. Employee cost inflation is estimated at 3% in 2022/2023 in line with the Council's General Fund budget. The proposed rent increase of 1.8% is therefore below all assumed inflationary increases, reducing the in-year surplus which can be used to offset new borrowing to fund the capital investment programme.

4.13 Private rents have increased by an average of 2.5% a year over the last five years, while the average rent for local authority landlords has increased by 2.6% a year and average housing associations' rent has increased by 2.4% a year over the same period. For the last five years, Council rents have increased by an average of 1.6%. The average council rent (two-bedroom flat) is 46% below Local Housing Allowance and 55% below the average market rents in the city. More information on rent levels is set out in Appendix 2.

4.14 Analysis on rent increase options against the welfare status of the respondents (whether the tenants get full help with their rent, some help with their rent, or no help with their rent) found no clear trend/correlation, with the 1.8% rent increase being the most popular choice in all three groups of respondents and 5% being the second most popular option for tenants getting full help or some help with their rent. Details of the consultation results can be found in Appendix 1.

4.15 Between 70-80% of tenants each year receive assistance with their rent payment responsibilities through Housing Benefit or the housing element of Universal Credit (UC). Tenants on partial benefit would not have to pay anything extra, as benefits are based on a person's income and ability to pay, not on rent levels. Therefore, any increase in the rent charge would normally be covered by an increase in the benefit received if there are no other changes in the household circumstances and they are not affected by benefits cap and/or under-occupation reduction.

4.16 The Council's approach to the collection of rent is based around best practice and aims to prevent tenants getting into debt they cannot afford. Since the start of the pandemic, tenant rent arrears have increased due to a significant number of tenants facing changes in their household financial circumstances and the suspension of formal debt recovery measures to ensure tenants were not at increased risk of losing their home during the pandemic.

4.17 The Tenant Grant Fund has been introduced to help those who are at risk of homelessness because of rent arrears related to the Covid-19 pandemic restrictions (23 March 2020 to 9 August 2021). Tenants can request a grant to reduce or clear their Covid-19 related rent arrears. The grant is payable to the landlord and on the condition that both the tenant and landlord agree to stopping eviction proceedings and put in place repayment arrangements for any additional outstanding arrears. A small team has been created to administer the fund; it is due to close on 31 March 2022.

4.18 Tenants continue to be encouraged to engage as early as possible with the Housing Service and a wide range of support and advice services are available to help not just on rent payments but wider household costs.

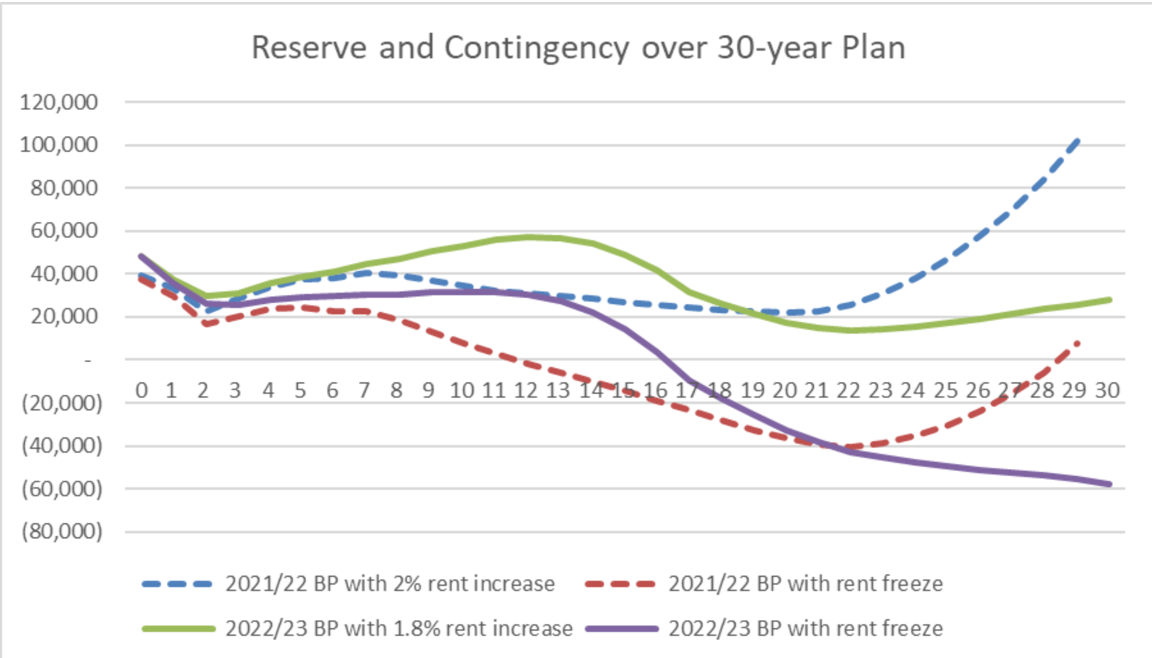
**Long term Impact on delivery**

4.19 The Business Plan is extremely ambitious. It seeks to maximise expenditure, whilst minimising the impact on tenant's incomes by driving forward significant efficiencies. Every 1% of rent equals c.£47 million of income over the lifetime of the Business Plan. £1 million of revenue can support c.£18 million capital borrowing.

4.20 The 2021/2022 rent freeze has meant a reduction of £2.014 million in projected gross rental income in 2021/2022. Unless expenditure is further reduced (beyond current HSIP targets) or income is increased in future years to compensate this equates to a £93.921 million reduction over the lifetime of the Business Plan.

4.21 A rent freeze option was not deemed viable and therefore was not included as a direct consultation option. However, a dedicated free text box to allow tenants to make further comments in relation to the rent options was included. Less than 7% of respondents included a comment which indicated support for a rent freeze.

4.22 If a rent freeze was agreed for a further year (2022/2023, followed by 2% thereafter), the HRA Business Plan would sink into a significant deficit (£74.9 million from 2035/36 until the end of the Business Plan), with the reserves and ringfenced contingency fully exhausted in 2038/2039.




4.23 In order to mitigate the impact of another rent freeze longer term and return the Business Plan to a healthy financial position, there are four potential options:

4.23.1 **Increase income in future years –** Rents would need to be increased by a minimum 2.5% over the next four years. If rents were increased by more sooner (i.e. 4% in 2023/2024 and 2% thereafter) this would lessen the impact and duration of the deficit. A longer-term rent strategy would be required to ensure the recovery of lost income in early years.

4.23.2 **Reduce revenue expenditure –** The HSIP already assumes a 12% reduction in annual expenditure by 2025/2026. This is already an ambitious improvement programme. It is therefore not realistic to assume that a further reduction in revenue expenditure could be achieved through efficiencies alone. Service reduction would have to be considered. As set out in Chart 1, around 40% of current annual expenditure is required to service historic borrowing for improvements and therefore cannot be reduced. Around 18% accounts for the responsive repairs and maintenance service and around 30% for housing management costs (including staff costs, management costs and overheads). Any in year surpluses are fully utilised to reduce borrowing in current or future years.

4.23.3 **Reduce capital investment –** A reduction in £1.8 million income would mean approximately £32.0 million of capital borrowing could not be supported. This could mean a reduction of 160 new social rented homes or 1,070 homes would not be able to receive whole house retrofit improvements. Or more homes could be build/upgraded to a lower specification. The business plan currently makes financial provision to deliver 10,000 Council-led affordable homes by 2027. Reducing the capital investment would prevent the delivery of the commitment.

4.23.4 **Elongate the Capital programme –** Elongating capital investment would not be enough to bring the plan back into surplus.

4.24 It is important to note that this analysis is based on the 2022/23 Business Plan. Key risks include reduction in rental income, limited grant funding, increasing capital investment costs, an inability to realise savings through HSIP and wider market volatility (super inflation), therefore, if any of these factors are worse than estimated, then more severe mitigations (i.e. higher rent increases) would be required in future years to mitigate the impact of a rent freeze in 2022/2023.

4.25 Due to the scale of capital investment and service improvement programmes one-year rent increases are difficult to implement. Longer term strategic outcomes take time to plan and roll out. An assessment would be required to take account of projects at different stages of design and procurement. Any reduction in service provision would take time and would not necessarily occur in the same year as the rent freeze itself. Consultation would need to take place with tenants alongside engagement with staff, trade unions and elected members. The longer these savings take to implement the greater the deficit.

## 5. Next Steps

5.1 Consultation on the detailed capital programme will be carried out with Elected Members in early 2022. This will inform the 2022/2023 Capital Investment Programme report which will be presented to Housing, Homelessness and Fair Work Committee for approval in March 2022.

5.2 A six-monthly update of the HSIP is included on the agenda for this meeting of Housing, Homelessness and Fair Work Committee, with a further update due in June 2022.

5.3 Officers will continue to work with Scottish Government to maximise grant funding for both the new build programme and the transition to net zero carbon. Any additional funds could potentially be used to accelerate investment.

## 6. Financial impact

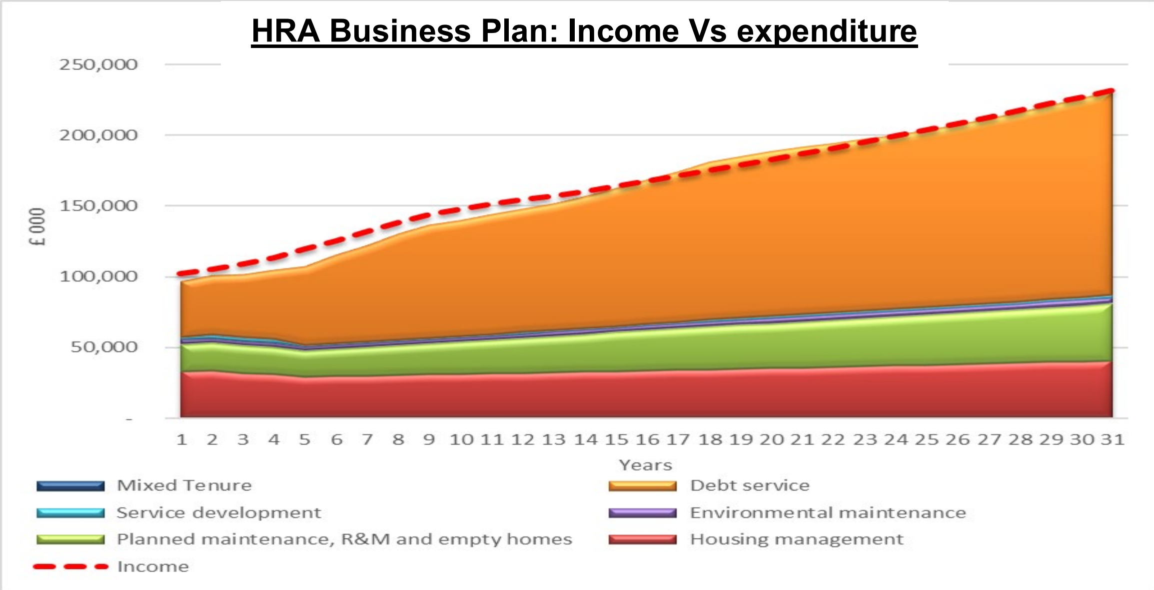
6.1 The rent freeze in 2021/2022 increased the overall deficit by 179% from £25.300 million to £70.594 million, lasting two years longer (2029/2030–2043/2044). The reserves and ringfenced contingency were exhausted by year 13 (five years into the deficit period), only recovering in year 30 of the plan.

6.2 The revised 30-year plan is set out below, based on a 1.8% rent increase in 2022/2023, followed by 2% (in line with inflation) thereafter and net zero carbon investment delivered by 2038, instead of 2030. The overall impact of the changes has resulted in deficit from 2036/37 to 2043/44 (eight years). Key changes since the consultation report in September include:

6.2.1 **Reduction in capital expenditure** due to a further alignment on the Whole Housing Retrofit, Mixed Tenure Improvement Pilot (MTIP) and internal stairwell investments to avoid double counting of the investment in existing homes. The capital programme has been further reviewed to take account of the continued impact of Covid-19 and Brexit on the costs and availability of materials, labours and contractors. This has resulted in re-profiling of the programme in the next two years into future years.

6.2.2 **Increased revenue assumptions on CPI** in line with Bank of England latest projection and long-term target, as well as, an increase on employee cost inflation in 2022/2023 to align with Council's General Fund assumption.

6.2.3 **Increased revenue expenditures** based on the latest outturns and increased activities assumed in 2022/2023 as the market adjusting to the new operating environment. The employee costs budget has been reviewed to take into account of vacancy, overtime and spinal column point of existing employees.




6.3 The total gross deficit over the plan is projected to be £30.1 million, averaging £3.8 million a year. The deficit only related to in year expenditure exceeding income, there was enough in contingency and reserves to completely offset it. The contingency and reserves balance is at the lowest in 2043/2044 at £13.6 million.

6.4 The top five risks to the Business Plan are reduction in rental income, limited grant funding, increasing capital investment costs, an inability to realise savings through HSIP and wider market volatility. These risks and potential mitigations are detailed in appendix 4.

## 7. Stakeholder/Community Impact

7.1 Each year the views of tenants are sought on the HRA budget strategy, investment plan, services and associated rent levels. This year's rent consultation was designed and developed in conjunction with the Housing Service Improvement Group (formerly the Rent Matters Working Group) made up of individual tenants, supported by Edinburgh Tenants Federation (ETF) and Tenant Information Service (TIS). In addition to helping to plan the annual budget consultation, the Housing Service Improvement Group have a role in monitoring and shaping the HSIP.

7.2 All tenants received a paper copy of the 2022/2023 Council Housing Rent Consultation booklet, which provided information on how the housing service works and the housing investment plan, along with the rent consultation survey.

7.3 The booklet was sent in a designed envelope to attract attention and a freepost envelope was provided for tenant to return the postal survey. Tenants could also respond to the consultation survey online through the Consultation and Engagement Hub. This new approach was different from previous years and resulted in a significant increase in postal and online responses, from 236 (average over last 5 years) to 445 for this year's rent consultation.

7.4 In addition, the rent consultation has been complimented by the annual Tenant's Survey of 1,000 Council tenants, carried out by an independent third party, procured by the Council. The Council provides a random sample of tenants contact details, weighted by locality and property type to be representative of the made up of our tenants.

7.5 Two focus groups were also carried out with tenants to seek in depth views on the consultation topics in relation value for money, rent increase options and longer-term rent strategy.

7.6 There is also a regular programme of tenant engagement and customer insight. This includes regular satisfaction surveys, focus groups, tenant panels, tenant led service inspections and scrutiny, resident and community meetings, which help to inform the continuous development of the budget strategy and HSIP.

## 8. Background reading/external references

8.1 Housing Revenue Account (HRA) Budget Strategy 2021-31 - City of Edinburgh Council, 18 February 2021

8.2 Housing Revenue Account (HRA): Impact of a One-Year Rent Freeze - Housing, Homeless and Fair Work Committee, 18 March 2021

8.3 Updated Housing Revenue Account (HRA) Capital Programme - Housing, Homeless and Fair Work Committee, 3 June 2021

8.4 2022/2023 Housing Revenue Account (HRA) Budget Consultation - Housing, Homeless and Fair Work Committee, 2 September 2021

8.5 Housing Service Improvement Plan Update - Housing Homeless and Fair Work Committee, 20 January 2022

## 9. Appendices

9.1 Appendix 1: 2022/23 Council Rent Consultation Results

9.2 Appendix 2: Wider Market Context: Rent levels and rent setting.

9.3 Appendix 3: Business Planning – High Level Assumptions

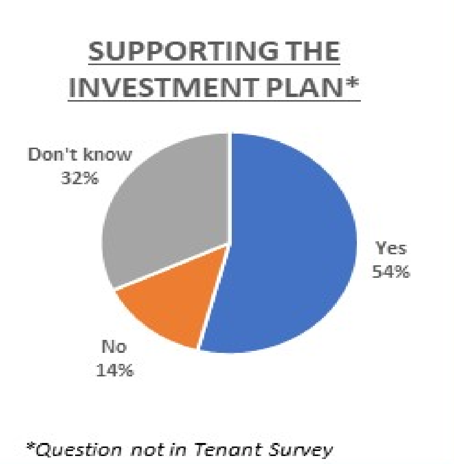
9.4 Appendix 4: Top five risk to the HRA Business Plan.

9.5 Appendix 5: Housing Revenue Account Budget 2022/23 (Draft)

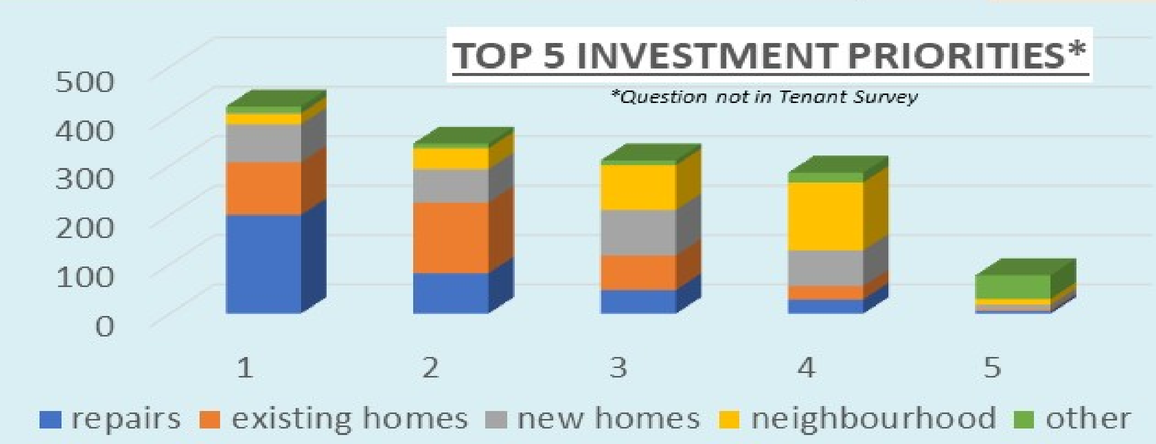
9.6 Appendix 6: Draft 5 Year & 10 Year HRA Capital Investment Programme

**Appendix 1: 2022/23 Council Housing Rent Consultation Results**

This year's rent consultation was ran for 12 weeks between 15 September and 8 December 2021. Below is a summary of the 1,431 responses received (14 responses have been removed due to duplication):

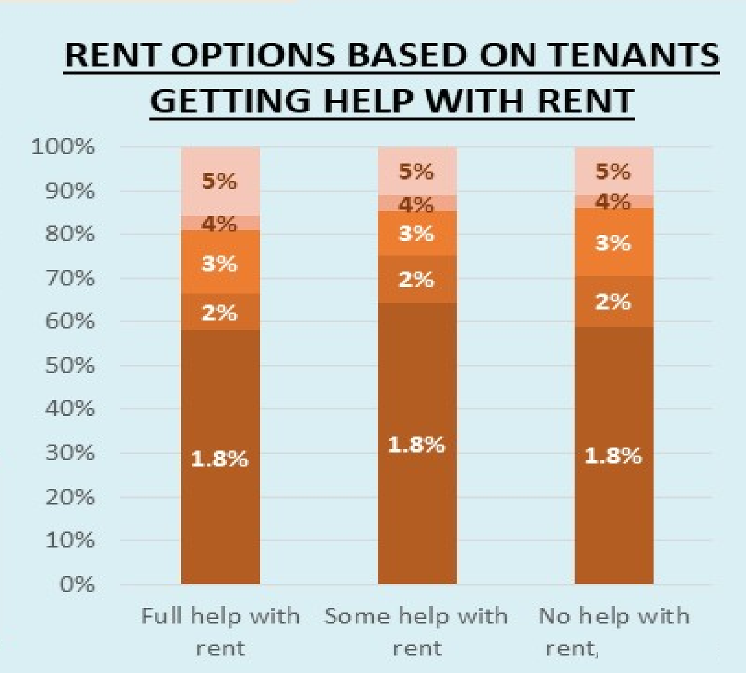





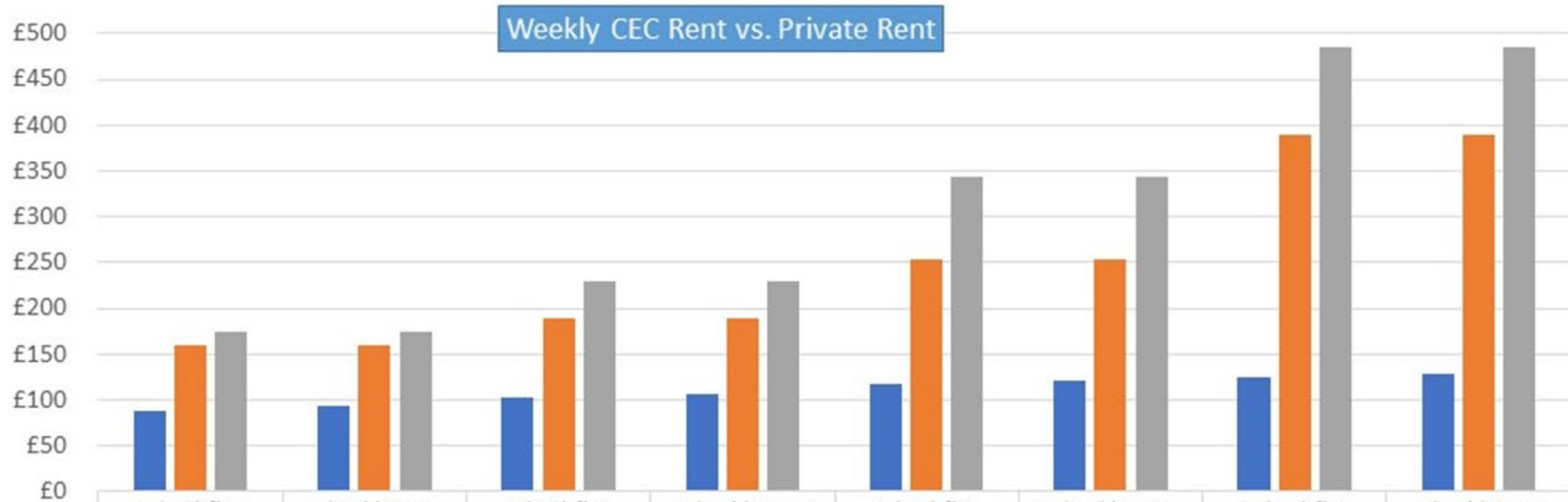




**OTHER PRIORITIES**

- Staff
- Community Hubs, playpark, public facilities and spaces
- Stairs and Mixed Tenure
- Sheltered Housing
- Adaptation and social care
- Garden services
- Climate Change Targets
- ASB and security in blocks (esp. high rise)



## Appendix 2: Wider Market Context: Rent levels & rent setting




| | 1 bed flat | 1 bed house | 2 bed flat | 2 bed house | 3 bed flat | 3 bed house | 4+bed flat | 4 bed house |
|---|---|---|---|---|---|---|---|---|
| CEC | £88.14 | £92.63 | £102.44 | £106.96 | £116.76 | £121.28 | £124.29 | £128.80 |
| LHA | 158.79 | 158.79 | 189.86 | 189.86 | 253.15 | 253.15 | 390.08 | 390.08 |
| Avg. Private Rent | £174.00 | £174.00 | £229.85 | £229.85 | £343.38 | £343.38 | £485.08 | £485.08 |

| Average annual increase since 2016 (5-year avg) | |
|---|---|
| Council rents | 1.6% |
| Inflation | 2.0% |
| Private Rents | 2.5% |
| Local Authority Landlords | 2.6% |
| Housing Associations | 2.4% |

**Around 1 in 5 Scottish local authorities have confirmed rent increases below 2% in 2022/23. Others are consulting on rent increases ranging between 1% and 4.9%**

**Appendix 3: Business Planning – High Level Assumptions**

| Input | 2022/23 | Note |
|---|---|---|
| **Inflation**<br>**(Operating Costs)** | **2%** | This is in line with the Bank of England inflation target. |
| **Inflation**<br>**(Employee Costs)** | **3%** | This assumption aligns with that in the Council's General Fund business plan. The starting budget has been reviewed to take account of vacancies, overtime and spinal column point increases. |
| **Rent Increase** | **1.8%** | The majority of tenants supported a 1.8% rent increase. The business plan assumes 1.8% increase in 2022/23, then 2% annual increase thereafter in line with the long-term market inflation projection by the Bank of England. The budget strategy aims to keep rents stable and affordable, while delivering one of the most ambitious investment programmes in Scotland. |
| **Net Rental income** | **95.19%** | Total projected rental income, minus written off former tenant arrears and rent loss due to empty homes. |
| **Former tenant arrears write off and bad debt provision** | **3.86%** | Any rental debt outstanding for over 3 months, where there have been no payments received or there is no agreed repayment arrangement, is written off annually. The write off assumed in 2022/23 is expected to be similar to that in 2021/22, while the bad debt provision assumed in the business plan is higher due to the increased current tenancy arrears as a result of Covid-19 pandemic. |
| **Rent lost on empty homes** | **0.95%** | This assumption is based on a long-term performance average and is applied over the 30-year business plan. A slightly higher percentage is assumed in 2022/23 to account for the longer re-let time as result safe working practices implemented under Covid-19 restrictions. |
| **Fees and charges increase** | **0%** | Fees and charges for additional services where provided as part of tenancies (e.g. stair cleaning, communal heating, furnished tenancies, etc) is frozen for the seventh year for the majority of services while a detailed review to identify the future approach to these services is being carried out. The Stair Cleaning service charge for tenants can be held for a further year following re-tendering and the award of a new contract in September 2021. |
| **Debt level (projected for March 2022)** | **£414m** | Reduced from £432 million at 31 March 2021. This was due to loans fund review adjustment as part of treasury management and repayment of borrowing being higher than the new borrowing to support the capital investment programme in 2021/22. |
| **Interest on debt (pool rate)** | **3.80%** | The Council does not borrow for specific projects, borrowing is pooled in a consolidated loans fund and the interest rate pooled across all projects. |

## Appendix 4: Top five risks to the HRA Business Plan

| Risk | Mitigation |
|---|---|
| **Reduction in rental income:** Rental income collection falls below the assumed level in the Business Plan, due to ongoing migration of tenants on to Universal Credit (UC) and financial hardship being experienced following Covid-19. | The assumption on number of tenants still to be migrated between now and December 2024 has been increased to take account of the impact of Covid-19 on tenants' income and welfare status.<br>Rent processes have been improved to monitor and track landlord payment from the DWP and early intervention continues to be sought for all tenants moving onto UC.<br>The assumption on bad debt rate for former tenancy rent arrears has been increased based on trend of performance to minimise the impact of non-recovery of former tenancy rent arrears on revenue income. Where arrears are written off for accounting purpose, the Council will still continue to pursue recovery action. |
| **Grant funding:** The maximum amount of grant funding cannot be achieved for Council Social Rented, resulting in a reduction in the number of homes that can be delivered.<br>Uncertainty on additional grant and Council's on-lending to Edinburgh Living LLPs may reduce its ability to purchase completed homes funded by the HRA, impacting on HRA capital receipts assumed in the business plan.<br>Grant funding to support owners to invest in mixed tenure improvements is reduced, therefore limiting the number of mixed tenure blocks that can be improved**.** | Edinburgh has a strong track record of spending its Grant Resource Planning Assumptions. Over the last five years it has mopped up £36 million in national underspends. Officers will continue to work with government to maximise grant funding for new supply.<br>Work on Edinburgh Living viable models is underway; taking into account development costs, availability of grant funding and consents.<br>The Mixed Tenure Improvement Service (MTIS) pilot is now in the implementation stage. Enhanced Scheme of Assistance measures are in place for extended payment terms. The application to Scottish Government's Energy Efficient Scotland: Area Based Scheme (EES:ABS) grant fund has been aligned with the MTIS pilot in order to maximise funding available to owners to pay for their shares of repairs and fabric improvement work. |
| **Increasing capital investment costs:** The increase in new build construction and development costs (workforce, materials etc.) could be higher than anticipated due to the impact of Covid-19 and the additional safe working practices, as well as, additional cost implications associated with sustainability targets. | Build cost inflation assumptions are reviewed annually based on market intelligence. In year projections take account of known costs uplifts as a result of Covid-19, but these are not expected to have a sustained long-term impact.<br>The known costs for achieving net zero carbon (including trial innovative technologies, retrofit approaches and carbon offsetting) have been factored into the Business Plan. |
| **Reduction in costs efficiencies:** The financial efficiency savings assumed in the latest Business Plan are not delivered, thus deepening the deficit. | The HSIP aims to reduce operating expenditure by c.12% by 2025/26. A midpoint review is being progressed to look at the saving targets and phasing of savings to take account of the new operating environment following Covid-19. Early review findings will be used to inform the Business Plan. Progress is reported to Committee every 6 months. |
| **Market volatility:** Inflation is currently higher than originally projected (5.1% in Nov 2021). This could have a significant impact on borrowing rates. Every 0.1% increase would increase the cost of the capital programme by £4.6 million over the next 10 years. | Business plan is reviewed regularly. It is informed by market intelligence. There is a significant amount of prudence baked into the plan and a contingency fund built up to manage any unforeseen circumstances. |

## Appendix 5 – Housing Revenue Account Budget 2022/23 (Draft)

| | Projected Outturn 2021/22 (£m) | Proposed Budget 2022/23 (£m) | Movement (£m) | Note |
|---|---|---|---|---|
| **Net Income** | **103.786** | **105.391** | **1.605** | 1 |
| **Expenditure** | | | | |
| Housing Services | 34.775 | 37.689 | 2.194 | 2 |
| Property Maintenance | 21.596 | 22.872 | 1.276 | 3 |
| Covid-19 Extraordinary Costs | 1.480 | 0.000 | -1.480 | 4 |
| Debt Charges | 33.498 | 36.960 | 5.462 | 5 |
| Strategic Housing Investment | 12.436 | 7.870 | -4.566 | 6 |
| **Total Expenditure** | **103.786** | **105.391** | **1.605** | |

***Note 1.***
*"Net Income" is the total rent due to be collected, less written off former tenant arrears and rent loss due to empty homes. It also includes income from interest, service charges and costs recovered in relation to communal heating schemes and owner occupiers. The net income is expected to be increased by less than the proposed 1.8% rent increase. This is mainly due to the freeze on service charges, a higher void rent loss as a result of longer re-let time for safe working practice and a higher bad debt provision as a result of Covid-19 pandemic. The average weekly rent would increase by £1.84. If an additional rent freeze was agreed in 2022/23; the projected net rental income would reduce to £103.651m. A rent freeze results in a £1.83m reduction in Gross Rental income and a £0.09m reduction in void rent loss and bad debt provision.*

***Note 2.***
*"Housing Services" includes core housing management services, tenant and community services like energy advice and tenant discount scheme. It includes employee costs, central support costs and recharges, premises and other expenditure linked to service delivery and their corresponding inflationary increases. The employee costs have been reviewed to reflect the expected pay awards, spinal column point changes, team growth and new rate of employers' National Insurance. The draft budget also includes £1.5 million for the continued development of the Housing Service Improvement Plan (HSIP) and £3.7 million for the enabling work of large-scale regeneration, which will be monitored along with the capital programme and, where appropriate, relevant expenditure will be capitalised in year. A saving of c.£0.4 million has been included as part of the HSIP to reduce the total expenditure by 12% (£14.6 million) by 2025/26, to ensure the HRA remains financially stable.*

***Note 3.***
*"Property Maintenance" includes responsive repairs, estates maintenance, routine gas servicing and the costs associated with bringing empty homes back into use. As in "Housing Services", a saving of £2.5 million has now been incorporated in the draft budget, which is partly offset by the "additional" repairs and maintenance for new homes and inflationary increase on estate management/maintenance expenditure.*

***Note 4.***
*"Covid-19 Extraordinary Costs" relate to cost of time spent by operatives completing additional cleaning on responsive repairs and maintenance jobs within tenants' homes. There is currently no budget assumed in the 2022/23 draft budget.*

***Note 5.***
*The HRA borrows to finance the planned housing investment and house building capital programmes. "Debt Charges" are capital financing costs (principal repayments and interest). The increase is in line with the capital investment plan set out in the report. As a result of prudent treasury management, net debt levels are expected to have increased by only £49 million over the last five years, whilst delivering nearly £388 million of capital investment over the same period.*

***Note 6.***
*"Strategic Housing Investment" relates to income in excess of annual operating expenditure. It can be used within the same year to fund new capital investment (CFCR), repay old HRA debt or mitigate unforeseen risks. It can also be transferred to the Repairs and Renewals fund to support the new build programme in future years. The main reason for the reduction is the result of a higher rate of increase in expenditures than incomes. The Strategic Housing Investment Fund is an amalgam of the Repairs and Renewals Fund and the Council Tax Discount Fund. If an additional rent freeze was agreed in 2022/23 and all other expenditure remained the same, £6.13m (£1.74m less than set out above) would be added to Strategic Housing Investment programme.*

## Appendix 6: Draft 5 Year & 10 Year HRA Capital Investment Programme

The 2022/23 Draft Budget and business plan are based on the assumptions set out in Appendix 3. Below is the outline draft five-year Capital Investment Programme and summary 10-year investment strategy, which is based on tenant priorities, service performance and statutory investment requirements. Inflation has been included in the figures, where appropriate. The 10-year capital programme would not be affected by a rent freeze in 2022/23 on the assumption that rents are increased by an adequate amount in future years to offset the impact (see para 4.24). If rents are not increased in subsequent years, then the capital programme would have to be reduced.

The funding strategy may be revised through the year as officers seek to make the best use of any existing and new resources and use the most appropriate funding to generate the best return to the HRA.

| Programme Heading | 1 | 2 | 3 | 4 | 5 | ***5 Year*** | 6 to 10 | ***10 Year*** |
|---|---|---|---|---|---|---|---|---|
| | 2022/23 £m | 2023/24 £m | 2024/25 £m | 2025/26 £m | 2026/27 £m | ***Total*** | 2027/28 to 2031/32 £m | ***Total*** |
| Programme Expenditure | | | | | | | | |
| New Homes Development* | 43.332 | 107.049 | 162.503 | 398.595 | 401.714 | ***1,113.193*** | 831.748 | ***1,944.941*** |
| New Home Land Costs | 16.800 | 2.500 | 17.500 | 29.433 | 25.466 | ***91.699*** | 39.866 | ***131.565*** |
| Tenant's Homes & Services | 11.337 | 11.115 | 14.458 | 14.786 | 15.337 | ***67.033*** | 82.227 | ***149.260*** |
| External & common works to housing, estates improvements & property acquisitions | 50.350 | 53.923 | 72.244 | 69.899 | 72.513 | ***318.929*** | 389.670 | ***708.599*** |
| **Total Expenditure** | **121.819** | **174.587** | **266.705** | **512.713** | **515.030** | ***1,590.854*** | **1,343.511** | ***2,934.365*** |
| Programme Resources | | | | | | | | |
| Prudential Borrowing | 87.938 | 104.216 | 127.158 | 167.115 | 182.537 | ***668.964*** | 569.105 | ***1238.069*** |
| Capital Funded from Revenue / Reserve | 18.300 | 18.300 | 10.800 | 10.800 | 10.800 | ***69.000*** | 43.400 | ***112.400*** |
| Capital Receipts and Contributions | 5.000 | 7.920 | 37.912 | 39.135 | 48.046 | ***138.013*** | 129.382 | ***267.395*** |
| Receipts from LLPs* | 6.444 | 15.567 | 56.437 | 244.445 | 199.967 | ***522.860*** | 422.517 | ***945.377*** |
| Scottish Government Subsidy (Social) | 2.537 | 26.664 | 32.158 | 50.258 | 72.720 | ***184.337*** | 174.307 | ***358.644*** |
| Scottish Government Subsidy (Acquisition) | 1.600 | 1.920 | 2.240 | 0.960 | 0.960 | ***7.680*** | 4.800 | ***12.480*** |
| **Total Funding** | **121.819** | **174.587** | **266.705** | **512.713** | **515.030** | ***1,590.854*** | **1,343.511** | ***2,934.365*** |

**The budget for new build housing includes the upfront capital costs for the Council led development of all 10,000 affordable homes, including homes for mid market and affordable market that will be purchased by the Council's new LLPs. This has no impact on the HRA as interest payments are deferred until the homes are purchased. £22 million of the £945 million anticipated receipts from LLPs by year ten is for homes already under construction and due to complete in the next two years. Please note these receipts go beyond current approved levels of on-lending, approval will be sought to expand the programme in future years.*