

Finance and Resources Committee

10.00am, Thursday, 3 February 2022

Capital Monitoring 2021/22 - Month Eight Position

Executive/routine Wards Council Commitments	Executive All
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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.

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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 re-

phasing 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	%
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	%
<i>Capital Receipts</i>							
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%
<i>Total Capital Receipts from Asset Sales and Revenue</i>	3,000	4,914	7,914	7,038	9,661	1,747	22.07%
<i>Drawdown from/ (to) Capital Fund</i>	6,986	-	6,986	-	6,986	-	0.00%
<i>Developer Contributions</i>	436	15,379	15,815	17,935	17,935	2,120	13.40%
<i>Developers Contributions Transferred to Investments</i>	-	(15,382)	(15,382)	(15,843)	(15,843)	(461)	3.00%
<i>Total Developer Contributions</i>	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%
<i>Grants</i>							
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%
<i>Borrowing</i>							
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%
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