# Finance and Resources Committee

## 10.00am, Tuesday, 7 February 2023

# Sustainable Capital Budget Strategy 2023-2033

| | |
|---|---|
| **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;

1.2 To note the financial pressures arising from challenging market conditions, and the proposed measures required to bring the programme into a balanced position;

1.3 To delegate authority to the Chief Executive, in consultation with the Convenor of the Committee, to award contracts for the construction of learning estate projects where it can be demonstrated the contract value is within approved budget limits;

1.4 To note the provisional Local Government Finance Settlement;

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

1.6 To note that there is no capacity to fund additional projects that are not in the current programme;

1.7 To note the climate assessment of capital spending proposals;

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

1.9 To refer this report to the Council Budget meeting on 23 February 2023.

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# Report

## Sustainable Capital Budget Strategy 2023-2033

### 2. Executive Summary

2.1 The Sustainable Capital Budget Strategy sets out priorities for £1.47bn of Council capital investment, in alignment with the Council Business Plan, over the medium to long-term.

2.2 The Capital Budget Strategy is experiencing significant financial pressure due to current market conditions. The impact from factors such as COVID-19 and Brexit has been compounded by the Ukraine war and the cost-of-living crisis, resulting in very significant increases in costs across all capital projects.

2.3 Funding assumptions have been reviewed, but there are limited opportunities to increase the level of funding to address inflationary pressures.

2.4 It is therefore proposed that, where possible, budgets are cash limited, uncommitted learning estate projects are delayed pending the development of fully funded business plans and Balerno High School undergoes a retrofit, rather than a full replacement.

### 3. Background

3.1 The Sustainable Capital Budget Strategy 2022-2032 was reported to Finance and Resources Committee on 3 February 2022 and approved by full Council at its budget meeting of 24 February 2022. The report detailed priorities for Council capital investment of £1,459.874m, in alignment with the Council Business Plan, over the medium to long-term and set out a plan on how they could be funded.

3.2 However, it was recognised that the Strategy was expected to come under significant financial pressure as a result of higher tender prices caused by external factors including COVID-19 and Brexit. It was also noted that if a funding gap emerged, then further re-profiling of priorities, reduction in scope of projects or additional revenue savings to fund the borrowing costs would be required. This could potentially mean that later phases of the programme could not be delivered within the ten-year strategy.

3.3 On 10 November 2022 Committee considered a report on the Sustainable Capital Budget Strategy 2023-33. The report highlighted the increased financial pressures resulting from adverse market conditions and proposed that, where possible, budgets should be cash limited, uncommitted learning estate projects should only be progressed following the development of fully funded business cases and that Balerno High School should undergo a retrofit, rather than a full replacement.

3.4 This report provides an update on the financial challenges facing the Council's capital budget as well as the resources available and sets out proposals for a balanced position to be considered at the Council budget meeting on 23 February 2023. 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 Council Business Plan 2023-27 brings together the Council's strategic priorities into a single plan and should also be read alongside this strategy.

3.6 This report only covers the general fund capital investment programme. The capital expenditure requirements for the Housing Revenue Account are included in a report on the Housing Revenue Account Business Plan 2023-24 also on this agenda.

## 4. Main report

4.1 A summary of capital investment priorities and available funding is included at Appendix 1, with changes since the report to November Committee detailed in Appendix 2.

**Latest Capital Monitoring Position**

4.2 Projected slippage in the 2022/23 programme was included in the Capital Monitoring 2022/23 – Month Eight Position reported to Finance and Resources Committee on 26 January 2023 and has been built into the revised programme in Appendix 1. This slippage will be further amended to reflect the final outturn for the financial year and thereafter reported to Finance and Resources Committee in summer 2023.

**Capital Expenditure Priorities and Pressures**

4.3 Priorities for capital investment for the period 2023-2033 have been reviewed and continue to align with the three strategic priorities set out in the Council's Business Plan, namely:

- Create good places to live and work
- End poverty in Edinburgh
- Become a net zero city by 2030

4.4 The level of capital expenditure required takes account of updated expenditure forecasts and phasing for projects in the existing Sustainable Capital Budget Strategy.

4.5 The Capital Budget Strategy is experiencing significant financial pressure due to current market conditions, as reported to Committee in November. Analysis of the impact of construction industry inflation on capital projects by Council Officers, supported by external consultants Faithful and Gould, shows uplifts of between 15% and 30% in 2022.

4.6 Expansion and improvements to the Council's Learning Estate continue to be the most significant cost for the programme. There is an opportunity for learning estate buildings across the city to become anchor facilities for wider joined up service delivery in local communities and to help address the net zero challenge, addressing all three of the strategic priorities. For all new learning estate projects currently in development, options for wider service delivery from the facility are being considered during the design phase and buildings are designed to the Passivhaus standard.

4.7 The cost to deliver the learning estate programme is estimated at £429m. This figure takes account of latest cost estimates. As reported in November, the programme now assumes Balerno High School undergoes a full retrofit rather than being replaced and uncommitted local development plan schools are not included, pending the development of fully funded business cases. A list of proposed savings has been included in Appendix 3.

4.8 Construction contracts for several of the large learning estate projects in the Capital Investment Programme are due to be finalised soon. Flexibility is required to minimise delay and reduce the risk of post-tender cost increases. To assist this process, it is recommended that the Committee delegates authority to the Chief Executive, in consultation with the Convenor of the Committee, to award contracts for the construction of learning estate projects where it can be demonstrated that the contract value is within approved budget limits.

4.9 £166m is allocated towards the Council's roads and transport infrastructure, including carriageways, footways and investment in specific assets such as North Bridge. The North Bridge refurbishment project is experiencing significant cost pressures due to construction market volatility and increases to the scope of the works. Forecast costs have increased by £24m compared with the previous budget provision. The condition of the bridge is now largely known and the project team is now confident that the revised budget will not be exceeded.

4.10 It is proposed that £12m of this pressure is funded from the carriageway and footways budget over an 8 year period as set out in Appendix 3, with the remaining £12m funded from additional borrowing described in paragraph 4.32 below.

4.11 The remaining budgets within the capital programme have been cash limited. This includes investment in active travel, improvements to existing Council buildings and the delivery of cultural projects. Inflationary pressures will be met by rephasing and reprioritisation (including reduction in scope of works) and external funding, where available.

4.12 To achieve net zero by 2030, the city will need to tackle its largest sources of carbon emissions. The transport sector is one such significant source and road transport accounts for 68% of total transport emissions. Investing in active travel infrastructure provides the city's residents, visitors and businesses with a means of transport that is low carbon and can efficiently move people and goods around the city. Investing in active travel also helps create better places to live and work and provides free or low-cost transport for residents and visitors. There is council capital funding of £90m to deliver Public Transport, Road Safety and Active Travel infrastructure which will be augmented by external funding.

4.13 The programme also includes £61m of investment in the Council's building retrofit programme, of which £10m will be supported by Scottish Government's Green Growth Accelerator initiative. This initiative is planned to retrofit 12 Council buildings in order to significantly reduce carbon emissions and improve building user comfort.

4.14 In order to continue to deliver high-quality services, the Council needs to continue to invest in the condition and suitability of its property assets. To address the climate emergency, works will be designed to reduce carbon emissions arising from Council buildings. There is also an opportunity for facilities to be adapted in order that wider services can be delivered from these locations, making the city a better place to live and work and improving outcomes for citizens. The Sustainable Capital Budget Strategy 2023-33, as set out in Appendix 1, includes £147m for the existing operational estate.

4.15 The programme includes £14m of investment in cultural facilities, with a £5m contribution to the Dunard Centre as part of the Edinburgh and South East Scotland City Deal and a £4m contribution and a £5m loan[1] for the refurbishment of the King's Theatre. The King's Theatre project is experiencing funding challenges due to current economic conditions, but no additional funding is included within the revised capital budget presented.

4.16 Funding of £3.9m is provided for improvements to sports facilities. This includes an annual capital grant of £0.165m for Edinburgh Leisure works and £0.867m towards a proposed BMX track at Hunter's Hall. The latter is likely to require external funding before the Council can take it forward. In addition, £1.4m is provided to meet the final cost of the new Meadowbank Stadium, which opened in July 2022. This is more than the original budget, but as the Council has secured borrowing at a lower rate than was assumed in the business case, there is no additional cost to the Council.

4.17 While additional social housing provision is financed by the Housing Revenue Account, the general fund capital programme distributes grant funding to social landlords on behalf of Scottish Government. It also provides £183m for lending to Edinburgh Living LLPs which is included within this Strategy. These projects are self-financing using income from affordable rents. Investment will therefore only take place based on a viable business case. Further information on the risks of this on-lending are included in paragraph 4.33 below.

[1] The £5m loan agreed with Festival City Theatres Trust is fully repayable, based on future operating surpluses.

### Climate Assessment of Capital Budget Proposals

4.18 This year a new methodology developed by the Institute for Climate Economics (I4CE) has been trialled to better understand how spending plans are aligned with the Council's net zero ambition. The process adopts a simple taxonomy to analyse local authority expenditure identified as having impacts that are: very favourable; favourable under conditions; neutral or unfavourable with respect to potential greenhouse gas emissions. The methodology helps to ensure both consistency and objectivity in the assessments. More details about the assessment of construction projects based on the I4CE methodology can be found in Appendix 4.

4.19 This high-level and qualitative assessment provides a simple yet powerful insight into the budget and helps better understanding of the impact of expenditure on targets to inform budget decisions.

4.20 Key findings show that, for the expected expenditure for 2023-33 (a total of £1.5bn analysed):

- 58 % of the total investment (£ 875 m) is in line with the Council's climate ambition (labelled as either "favourable under conditions", or "very favourable")
- 33 % is considered as neutral
- 4 % is unfavourable
- 4 % is classified as "undefined" as the expenditure did not match with any item in the taxonomy

4.21 Most of the "favourable" spend corresponds to the maintenance and expansion of active travel routes, the construction of buildings to high energy standard, and the energy efficient retrofit of buildings. More details can be found in Appendix 5.

4.22 More than one third of the total budget is allocated to the construction of new buildings. Some new build schools have been assessed as "unfavourable" despite plans to build them to high energy efficient standards, because they will lead to land-use change. "Soil artificialisation" or "soil sealing" generates emissions and make the city more vulnerable to climate change.

4.23 Ways to improve this assessment going forwards include:

- Spending more on energy retrofit and energy efficiency projects rather than new builds. Even built to Passivhaus standard, a new building will still result in additional operational emissions (not to mention large embodied carbon emissions)
- Avoid 'soil sealing' – important to prioritise building on brownfield/ vacant/ derelict land
- Prioritise active travel / public realm spending over road improvement when possible
- Purchase electric vehicles rather than diesel/petrol.

**Capital Funding Assumptions**

4.24 The funding assumptions for Sustainable Capital Budget Strategy 2023-2033 have been thoroughly reviewed line by line, to provide an up-to-date estimate of funding available. Funding available is currently estimated at £1.475bn. Detailed analysis of funding is provided in Appendix 1 with the under-pinning assumptions set out in Appendix 6.

4.25 The provisional 2023-24 Local Government Finance Settlement was provided on 20 December 2022. This provided Edinburgh with £52.571m in general capital grant, comprising core grant of £37.945m, continued support for the 2022/23 local government pay award of £9.709m[2] and funding of £4.917m for the expansion of school kitchen and dining facilities for the roll out of free school meals. In addition, a further £0.811m for play park renewals is expected, taking the general capital grant to £53.382m for 2023-24.

4.26 For future years, it is assumed that the core grant will be unchanged and further play park funding will be provided in 2024-25 and 2025-26 as advised by Scottish Government.

4.27 The provisional settlement also set out specific grant funding for Affordable Housing and Cycling, Walking and Safer Routes for 2024-25 and it is assumed that this level of funding will also be available in future years.

4.28 In addition to the above, the Council receives funding from Scottish Government and other bodies for specific initiatives. While this funding is only formally recognised in the budget when the amount and timing of receipts are confirmed, all capital pressures in this report are presented net of any anticipated funding. There are likely to be further opportunities for the Council to secure additional grant funding towards its priorities, particularly in areas such as net zero, active travel and regeneration.

4.29 The Scottish Government is increasingly supporting capital investment with revenue-based funding models, linked to the achievement of agreed outcomes. New secondary schools in Currie, Liberton and Wester Hailes as well as the retrofit programme will receive this outcome-based funding via the Learning Estate Investment Programme and the Green Growth Accelerator Model respectively. It is currently assumed that all outcomes will be achieved and funding will be received in full, but there is a risk that the funding could be reduced in the event that outcomes are not fully achieved.

4.30 It is assumed that developers' contributions will partially offset some of the costs of supplying an increased learning estate and additional transport infrastructure to meet the needs of a growing city. This funding stream will be kept under review as

[2] The Scottish Government contribution to the local government pay deal is being paid via the general capital grant funding mechanism in 2022/23 and 2023/24. This is on the assumption that local authorities will transfer the monies to revenue via the Capital Fund reserve. From 2024/25 onwards, it is assumed that the pay award will be funded from the revenue budget settlement.

the Wave 4 schools, Local Development Plan and subsequently City Plan infrastructure progress.

4.31 The Capital Budget Strategy assumes capital receipts from sale of surplus assets. Receipts up to 2025 are based on the current disposal programme. Beyond this, the level of income will depend on the Council's asset management strategy, but a conservative forecast of £3m per annum is assumed based on previous years. A further £27.650m of funding is available from previous years' receipts which are held in the capital fund, based on previous Council budget decisions.

4.32 A significant proportion of the programme is funded from loans fund advances, with the associated borrowing costs met from the Council's loans charges revenue budget. The funding available for loans charges in the medium-term financial plan has been reviewed and, although interest rates have increased from the historic lows seen in recent years, the budget is still sufficient to support the level and profile of expenditure set out in this report, including an additional £12m for the North Bridge project. This is due, in part, to proactive treasury management, which has enabled the Council to benefit by borrowing at low rates, when they were available. The revenue budget framework provides funding to meet the anticipated loans charges associated with general loans fund advances of £494m. However, there is little headroom to absorb further inflationary pressures, grant reductions or increases in interest rates. Furthermore, it should be noted that the Council's ability to meet the costs of loans charges is dependent on the achievement of a balanced revenue budget. Any shortfall in revenue budget savings could result in a reduction in capital investment.

4.33 At present the City of Edinburgh Council only has consent to borrow from the Scottish Government for Edinburgh Living LLP up to 2023-24 for a total of £248m. In addition, 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, taking into account development costs, availability of grant funding and consents. However external factors highlighted elsewhere in this report, together with proposed rent freezes create challenges for the affordability of future affordable housing acquisitions by Edinburgh Living.

**Unfunded Capital Priorities and Pressures**

4.34 There is no capacity to fund additional projects that are not included in the current capital programme. Previously reported unfunded projects, which include community centres, City Centre Transformation and hostile vehicle mitigation remain in that category. New projects, including ICT infrastructure, will require external funding or reprioritisation of the existing programme. The Council will continue to progress opportunities for grant funding, where it is available.

## 5. Next Steps

5.1 This report will be considered by Council at its budget meeting of 23 February 2023.

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

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

## 6. Financial impact

6.1 This report sets out capital expenditure and funding of £1.475bn 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 property assets is likely to result in increased running costs borne by the Council's service areas. A report on the associated cost implications of changes in the size and profile of the Council's operational property estate was considered by this Committee on 23 May 2019. The report noted the need to provide for the additional revenue costs of several demand- and condition-led school replacements and new-builds. Based on the cost projections intimated in that report 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.

7.3 Public sector climate change duties have been strengthened in 2022 with a new requirement to ensure alignment of spending plans and use of resources with sustainability ambitions. To this end, a new methodology developed by the Institute for Climate Economics (I4CE) has been trialled to better understand the climate impacts of the Council's capital budget strategy.

## 8. Background reading/external references

8.1 Sustainable Capital Budget Strategy 2022-2032, Finance and Resources Committee, 3 February 2022

8.2 Sustainable Capital Budget Strategy 2023-2033, Finance and Resources Committee, 10 November 2022

8.3 Council Business Plan 2023-27, The City of Edinburgh Council, 15 December 2022

8.4 [Link to Month 8 monitoring report when available]

8.5 Changes to the Operational Property Estate: Life Cycle Costs Forecast, Finance and Resources Committee, 23 May 2019

## 9. Appendices

9.1 Appendix 1 – Capital Expenditure Priorities and Available Funding

9.2 Appendix 2 – Changes from 10 November F and R Committee

9.3 Appendix 3 – Savings Proposals

9.4 Appendix 4 – Climate assessment of local authority budgets – I4CE methodology - Details on the methodology for the assessment of construction projects

9.5 Appendix 5 - Climate assessment of local authority budgets – I4CE methodology – Key findings

9.6 Appendix 6 – Funding Assumptions

**A Sustainable Capital Budget Strategy 2023-2033**
**Capital Expenditure Priorities and Available Funding**

| **Expenditure** | | **Revised Budget 2023/24** | **Indicative Budget 2024/25** | **Indicative Budget 2025/26** | **Indicative Budget 2026/27** | **Indicative Budget 2027/28** | **Indicative Budget 2028/29** | **Indicative Budget 2029/30** | **Indicative Budget 2030/31** | **Indicative Budget 2031/32** | **Indicative Budget 2032/33** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Project Area** | **Total** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Primary Schools | **31.254** | 12.223 | 10.775 | 8.256 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Wave 4 Schools | **294.233** | 56.007 | 87.029 | 78.021 | 39.761 | 1.233 | 18.498 | 12.944 | 0.740 | 0.000 | 0.000 |
| New Schools and Extensions for Population Growth | **103.774** | 31.616 | 20.659 | 26.500 | 8.000 | 9.000 | 8.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Libraries | **1.728** | 1.728 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Sports Facilities | **3.918** | 2.433 | 0.165 | 0.165 | 0.165 | 0.165 | 0.165 | 0.165 | 0.165 | 0.165 | 0.165 |
| Other Community Projects | **1.191** | **1.191** | **0.000** | **0.000** | **0.000** | **0.000** | **0.000** | **0.000** | **0.000** | **0.000** | **0.000** |
| Depots | **6.628** | 2.312 | 4.316 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Parks, Greenspace and Cemeteries and Other Environment | **8.541** | 2.222 | 1.904 | 2.715 | 0.250 | 0.250 | 0.250 | 0.250 | 0.250 | 0.250 | 0.200 |
| Fleet Replacement | **8.055** | 8.055 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Roads and Transport Infrastructure (including North Bridge) | **165.654** | 36.824 | 25.969 | 15.469 | 12.268 | 12.110 | 12.110 | 12.110 | 12.110 | 13.610 | 13.072 |
| Energy Efficiency Street Lighting Project and Traffic Signals Prudential | **12.774** | 1.271 | 1.220 | 1.220 | 1.220 | 1.220 | 1.220 | 1.265 | 1.450 | 1.450 | 1.238 |
| Public Transport, Road Safety and Active Travel | **89.738** | 16.444 | 14.621 | 13.587 | 8.128 | 6.921 | 6.921 | 5.910 | 5.736 | 5.736 | 5.736 |
| Tram Life Cycle Replacement | **5.697** | 3.242 | 1.658 | 0.287 | 0.069 | 0.071 | 0.073 | 0.076 | 0.079 | 0.092 | 0.050 |
| IMPACT | **5.000** | 4.000 | 1.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| King's Theatre | **9.000** | 0.000 | 9.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Other Culture | **0.236** | 0.074 | 0.162 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Asset Management Works | **147.356** | 10.006 | 16.000 | 16.000 | 16.000 | 16.000 | 16.000 | 14.000 | 14.000 | 15.350 | 14.000 |
| Retrofit | **60.850** | 5.467 | 19.677 | 25.635 | 10.071 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Edinburgh Living | **182.515** | 59.418 | 70.500 | 41.793 | 10.804 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Other Housing and Regeneration | **291.674** | 29.303 | 29.562 | 30.159 | 28.950 | 28.950 | 28.950 | 28.950 | 28.950 | 28.950 | 28.950 |
| Tram to Newhaven | **1.755** | 1.755 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| ICT & Other Corporate Services | **9.454** | 4.665 | 1.597 | 0.669 | 0.678 | 0.615 | 0.615 | 0.615 | 0.000 | 0.000 | 0.000 |
| Contingency[1] | **43.996** | 0.324 | 0.000 | 5.000 | 5.000 | 5.000 | 5.000 | 5.000 | 5.708 | 5.011 | 7.953 |
| Slippage Adjustment[2] | **-10.502** | -31.233 | -15.765 | 5.775 | 14.880 | 11.601 | 1.185 | 0.638 | 2.006 | 0.580 | -0.170 |
| **Total Expenditure** | **1,474.517** | **259.346** | **300.048** | **271.250** | **156.244** | **93.136** | **98.987** | **81.924** | **71.194** | **71.194** | **71.194** |

| **Funding** | | **Revised Budget 2023/24** | **Indicative Budget 2024/25** | **Indicative Budget 2025/26** | **Indicative Budget 2026/27** | **Indicative Budget 2027/28** | **Indicative Budget 2028/29** | **Indicative Budget 2029/30** | **Indicative Budget 2030/31** | **Indicative Budget 2031/32** | **Indicative Budget 2032/33** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Funding Stream** | **Total** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Asset Sales (Unringfenced) | **35.000** | 7.000 | 4.000 | 3.000 | 3.000 | 3.000 | 3.000 | 3.000 | 3.000 | 3.000 | 3.000 |
| Capital Fund Drawdown | **27.650** | 27.650 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Developers Contributions | **6.369** | 6.369 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| General Capital Grant | **398.130** | 53.382 | 39.161 | 39.972 | 37.945 | 37.945 | 37.945 | 37.945 | 37.945 | 37.945 | 37.945 |
| Less: Contribution to Capital Fund (Pay Award) | **-9.709** | -9.709 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Specific Grants | **306.117** | 31.458 | 31.458 | 31.458 | 30.249 | 30.249 | 30.249 | 30.249 | 30.249 | 30.249 | 30.249 |
| Loans Fund Advances - Prudential | **32.652** | 18.547 | 10.913 | 0.669 | 0.678 | 0.615 | 0.615 | 0.615 | 0.000 | 0.000 | 0.000 |
| Loans Fund Advances - On-Lending | **182.515** | 59.418 | 70.500 | 41.793 | 10.804 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Loans Fund Advances - Trams to Newhaven | **1.755** | 1.755 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Loans Fund Advances - General | **494.037** | 63.476 | 144.016 | 154.358 | 73.568 | 21.327 | 27.178 | 10.115 | 0.000 | 0.000 | 0.000 |
| | **1,474.517** | **259.346** | **300.048** | **271.250** | **156.244** | **93.136** | **98.987** | **81.924** | **71.194** | **71.194** | **71.194** |

[1] Contingency provision relates to projects in current programme and is not available for additional investment

[2] Slippage provision relates to phasing of expenditure and takes account of projects slipping from 2022-2023. It is not available for additional investment

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

**Changes from 10 November 2022 Finance and Resources Committee**

***Summary of Changes***

| **Loans Fund Advances - General** | **£m** |
|---|---|
| 10 November 2022 F&R Committee | 415.4 |
| 7 February 2023 Special Budget Meeting | 494.0 |
| **Movement** | **78.6** |

| **Description** | **Amount** |
|---|---|
| Slippage 22/23 | 17.4 |
| Slippage assumption 23/24 - 32/33 | -28.4 |
| North Bridge | 12.0 |
| Meadowbank | 1.4 |
| Reduction in Grant assumption | 74.9 |
| Increase in Contingency to assume full use of Grants | 14.0 |
| Increase in assumed Capital Receipts and Capital Fund Drawdown | -12.6 |
| **Total** | **78.6** |

**A Sustainable Capital Budget Strategy 2023-2033**
**Savings Proposals**

| Project | Total | Revised 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 | Indicative Budget 2032/33 £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *New Schools - Delayed implementation pending fully funded business cases* | | | | | | | | | | | |
| Builyeon Road Primary School (S Queensferry) | 29.172 | 1.023 | 7.559 | 10.590 | 10.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Kirkliston/West Edinburgh Secondary Provision | 60.000 | 0.000 | 0.000 | 0.000 | 3.375 | 24.567 | 29.200 | 2.859 | 0.000 | 0.000 | 0.000 |
| Gilmerton Station Road Primary School | 19.200 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 1.080 | 7.861 | 9.344 | 0.915 | 0.000 |
| Granton Waterfront Primary School | 19.200 | 0.000 | 0.000 | 0.000 | 1.123 | 8.176 | 9.718 | 0.183 | 0.000 | 0.000 | 0.000 |
| East of Milburn Tower Primary School | 19.200 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 1.168 | 8.503 | 9.529 | 0.000 | 0.000 |
| Less: adjustment to assumed developers contributions | -58.709 | -0.362 | -9.097 | -1.259 | -4.092 | -11.998 | -18.441 | -14.257 | 0.796 | 0.000 | 0.000 |
| | **88.063** | **0.661** | **-1.538** | **9.331** | **10.406** | **20.745** | **22.724** | **5.150** | **19.669** | **0.915** | **0.000** |
| *Balerno High School* | | | | | | | | | | | |
| Cost of School Replacement | 69.200 | 0.000 | 0.000 | 0.000 | 2.371 | 2.466 | 36.996 | 25.888 | 1.479 | 0.000 | 0.000 |
| Less: cost of full renovation and retrofit | -34.600 | 0.000 | 0.000 | 0.000 | -1.185 | -1.233 | -18.498 | -12.944 | -0.740 | 0.000 | 0.000 |
| | **34.600** | **0.000** | **0.000** | **0.000** | **1.185** | **1.233** | **18.498** | **12.944** | **0.740** | **0.000** | **0.000** |
| *Savings to Address North Bridge Pressure* | | | | | | | | | | | |
| Reduction to Carriageways and Footways Allocation | 12.000 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 0.000 | 0.000 |
| | **12.000** | **1.500** | **1.500** | **1.500** | **1.500** | **1.500** | **1.500** | **1.500** | **1.500** | **0.000** | **0.000** |
| **Total Proposed Savings** | **134.663** | **2.161** | **-0.038** | **10.831** | **13.091** | **23.478** | **42.722** | **19.594** | **21.909** | **0.915** | **0.000** |

# Appendix 4 - Climate assessment of local authority budgets – I4CE methodology - Details on the methodology for the assessment of construction projects

**Construction of new buildings**:

Investments made for the construction of new buildings are to be evaluated with regard to three criteria:

- energy-carbon performance of the construction in relation to the standard in force;
- land use change or soil artificialisation (the construction should not waterproof the soil or change the use of agricultural, forest or natural land);
- access to essential services

A building that respects the regulatory energy and carbon performance thresholds **and** does not lead to land use change will be classified as “favourable under conditions”. If one of the two criteria is not met, 100% of the expenditure is classified as "unfavourable".

If the targeted energy and carbon performance goes beyond the current standard, the estimated costs related to achieving this performance can be classified as "very favourable", the rest being classified as " favourable under conditions " or "unfavourable" depending on whether or not the construction contributes to soil artificialization.

<u>Land use change</u>

The construction of new buildings increases the surface area to be heated and the heating and transportation infrastructure needs, contributes to urban transportation, urban sprawl and requires the manufacture and use of emitting materials such as cement. In fact, apart from the impact on carbon sinks and the emissions linked to induced mobility, most of the carbon footprint of an energy-efficient building is linked to the construction and demolition phases (which represent between represent between 60 and 90% of the total carbon footprint over a 50-year - CEREMA, 2021). It is therefore necessary to use less emitting construction methods by using low-carbon materials and decarbonizing the industrial sectors.

As far as land use change is concerned, carbon emissions are generated due to the removal of carbon sinks (notably grasslands).

The artificialization generated by construction would represent 8% of the sector's emissions (FNTP, 2021). According to CEREMA (2020), the fight against artificialization can be achieved through:

- densification, without loss of quality of life for the residents;
- the use of vacant spaces (derelict land or vacant housing);
- and finally, rewilding

The question of the location of new construction, and the travel required to access essential services, is also to be considered. Enabling access to essential services without having to use a private car reduces transport emissions, and densifies neighbourhoods, reducing soil artificialisation (C40 Knowledge Hub, 2020).

The table below sets out how assessment against each of the 3 criteria informs the overall climate assessment.

<table>
<tr><td></td><td colspan="9">Housing, public and commercial buildings</td><td rowspan="4">The construction is linked with a fossil fuel activity (e.g. refinery)</td></tr>
<tr><td>1) Energy performance vs Buildings Standards</td><td colspan="4">Beyond Buildings Standards (minimum 10% reduction vs Buildings Standards)</td><td colspan="4">Compliant with Buildings Standards</td><td rowspan="3">One of these criteria is unknown</td></tr>
<tr><td>2) Land use change / soils artificialisation : Is the construction built on green field?</td><td>No</td><td>Yes</td><td>No</td><td>Yes</td><td>No</td><td>Yes</td><td>No</td><td>Yes</td></tr>
<tr><td>3) 20-minute neighbour-hood: Are essential services easily accessible?</td><td>Yes</td><td>Yes</td><td>No</td><td>No</td><td>Yes</td><td>Yes</td><td>No</td><td>No</td></tr>
<tr><td rowspan="2">Spend assessment</td><td>very favourable : extra cost versus building standards</td><td>very favourable: extra cost versus building standards</td><td>very favourable: extra cost versus building standards</td><td>very favourable: extra cost versus building standards</td><td rowspan="2">Favourable under conditions: 100% of the spend</td><td rowspan="2">Unfavourable : 100% of the spend</td><td rowspan="2">Unfavourable : 100% of the spend</td><td rowspan="2">Unfavourable : 100% of the spend</td><td rowspan="2">Undefined : 100% of the spend</td><td rowspan="2">Unfavourable : 100% of the spend</td></tr>
<tr><td>Favourable under conditions: rest of the spend</td><td>Unfavourable : rest of the spend</td><td>Unfavourable : rest of the spend</td><td>Unfavourable : rest of the spend</td></tr>
</table>

**Buildings retrofit**:

The renovation of buildings that are not specifically focussing on thermal improvements does not lead to a sufficient reduction in emissions to achieve the building's emission reduction target. Therefore, a "non-energy efficient" renovation is considered "neutral".

“Energy efficient retrofit” corresponds to work involving energy items such as heating, hot water, ventilation, insulation, carpentry. The costs related to thermal renovations leading to complete and efficient renovations are classified as "very favourable". The rest of the expenditure is considered as covering costs not related to "energy performance" and is therefore classified as "neutral". The costs related to biosourced materials are considered as "very favourable".

If the energy or carbon performance renovation allows for a reduction in the building's energy consumption or greenhouse gas (GHG) emissions of the building, but without a jump in class in the Energy Performance Certificate or where the reduction in consumption is less than 30%, then the expenditure is classified as "neutral".

It would also be relevant to identify "missed opportunities", i.e. renovations that renovate one or more energy-related items but without any intention of improving energy performance. For example, a facade renovation without taking advantage of it to better insulate the building.

## Appendix 5 - Climate assessment of local authority budgets – I4CE methodology – Key findings

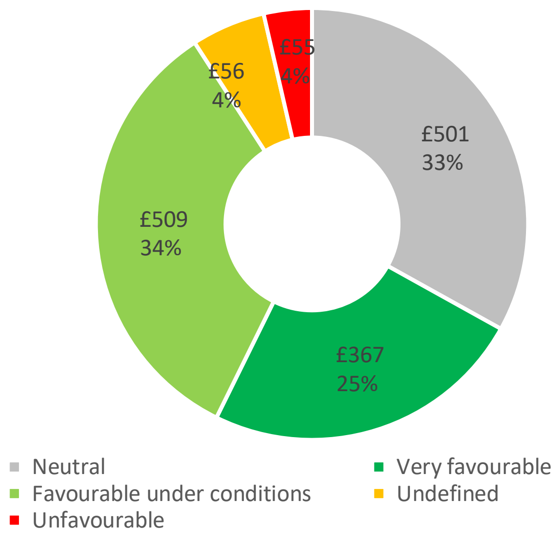


*Figure 1: Climate assessment of the Capital Budget Book, total  expenditure for 2023-2033. Figures in million pounds (£m)*

Top "very favourable" spends:

| Project | Cumulated spend (£m) 2023-33 | % of total | Justification |
|---|---|---|---|
| Carriageway / Footway Works | £115m | 8% | Encourages active travel. Note significant additional money is being spent on active travel through Sustrans funding – not captured here |
| Road safety and active travel projects | £84m | 6% | Includes 20 mph speed limiting, walking projects, cycle projects, George Street project, LEZ development etc. |
| EnerPHit | £61m | 4% | Deep energy retrofit of 10-12 Council buildings |

Top "unfavourable" spends:

| Project | Cumulated spend (£m) 2023-33 | % of total | Justification |
|---|---|---|---|
| LDP schools – new builds | £46m | 3% | Includes New Brunstane/Newcraighall Primary School and Maybury Primary School. Although designed to be built beyond building regulations to achieve excellent levels of energy efficiency, 88% of the spend has been classified as 'unfavourable' due to the fact that they are generating 'soil sealing' (cf Appendix 4). Note: Decisions for the location of these schools have been made several years ago. |
| Fleet replacement | £6m | <1% | Provisions to procure over a hundred diesel vehicles in the next few years, including to purchase 15x 26T diesel bin lorries (on top of the 5 electric ones funded by ZWS). This will lock in future emissions. |

| | | | |
|---|---|---|---|
| Broomhills/Frogston Primary School | £3m | <1% | New school not exceeding building regulations in terms of energy performance and risk of creating soil sealing |

# Capital Budget Funding Assumptions – 2023-33

| Element | £m | Key Assumptions | Date of Latest Update | Date for Next Review |
|---|---|---|---|---|
| General Capital Grant | 398.130 | Grant based on Local Government Finance Circular No. 11/2022 issued in December 2022, setting out general capital grant for 2023/24.<br>This provides<br>Core General Capital Grant - £37.945m<br>Free School Meals - £4.917m<br>Pay Award - £9.709m<br>The level of core grant is estimated to continue at this level for each year of the ten-year programme, but the school meal and pay award funding is only for 22/23 (already received) and 23/24.<br>In addition, funding for play park renewal is assumed as follows, based on letter issued by Scottish Government in August 2020<br>2023/24 - £0.811m<br>2023/24 - £1.216m<br>2024/25 - £2.027m | Dec 22 | Feb 23 when SG budget confirmed |
| Specific Capital Grants | 306.117 | Grant based on Local Government Finance Circular No. 11/2022 issued in December 2022, setting out general grant for 2023/24.<br>This provides<br>TMDF (Affordable Housing) - £27.950m<br>Cycling, Walking and Safer Routes - £2.299m<br>The level of grant is estimated to continue at this level for each year of the ten-year programme.<br>In addition, a further £1.209m per annum is assumed from the Place Based Investment Programme for the first three years of the programme. | Dec 22 | Feb 23 SG budget confirmed |
| Asset Sales | 35.000 | Estimate provided by Head of Estates - December 2022<br>23/24 £7m<br>24/25 £4m<br>Future years will depend on the evolving asset management strategy - £3m per annum is assumed based on historic receipt levels. | Dec 22 | Dec 23 |

| Element | £m | Key Assumptions | Date of Latest Update | Date for Next Review |
|---|---|---|---|---|
| Capital Fund | 27.650 | The capital fund contains the proceeds of previous years' asset sales. The balance currently stands at £42.531m. Of this £27.733m has been allocated to fund the capital programme and LDP infrastructure based on previous Council decisions. It is assumed that £27.650m is available to fund the capital programme as a small element may be required to fund feasibility work (revenue). | Dec 22 | Dec 23 |
| Developers Contributions | 6.369 | Developers contributions are based on the level of receipts collected from developers for projects within the programme. This level will be reviewed as S75 agreed with developers. | Dec 22 | Sept 23 |
| Loans Fund Advances - General | 494.037 | Borrowing assumptions and cash flow reviewed against revenue budget framework to ensure affordability. | Dec 22 | Feb 23 revenue budget confirmed |
| Loans Fund Advances – Outcome-based funding | (included in general figure above) | Learning Estate Investment Programme (LEIP) – £19.0m has been assumed for Currie High School, based on the most recently received funding letter and prorated amounts have been assumed for Liberton and Westhailes, based on the sizes of the proposed schools.<br>Enerphit - £10m has been assumed based on the business case for the programme. | Dec 22 | Feb 23 Phase 3 of LEIP to be confirmed shortly |
| Loans Fund Advances – Prudential | 32.652m | This is based on approved business cases for Fleet Replacement, Depots Review and ICT programmes. It also includes the £5m loan to the Festival City Theatres Trust for the refurbishment of the King's Theatre. | Dec 22 | Sept 23 |
| Loans Fund Advances – On Lending | 182.515 | Funding matches expenditure – fully funded business case | Dec 22 | Sept 23 |
| Loans Fund Advances – Tram to Newhaven | 1.755 | Funding matches expenditure – fully funded business case | Dec 22 | Sept 23 |
| Slippage | 10.502 | Based on previous outturn positions, it is assumed that the February budget position will slip by at least 10%. This allows us to gain a truer picture of the underlying need to borrow to finance the capital programme. It is assumed that roughly half of the slipped expenditure will fall into the year immediately following the original planned budget and the remainder into the year after. | Dec 22 | Sept 23 |