Finance and Resources Committee

10am, Friday, 10 March 2023

Capital Strategy 2023-33 – Annual Report

Item number	
Executive/routine	
Wards	
Council Commitments	

1. Recommendations

1.1 To note the Capital Strategy, as set out in Appendix 1;

1.2 To refer the report to full Council for approval of the Capital Strategy;

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

1.4 To note that capital expenditure priorities are being considered in line with the Council's priorities and the Council Business Plan.

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Report

Capital Strategy 2023-33 – Annual Report

2. Executive Summary

2.1 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. Background

3.1 Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 7 of the Local Government in Scotland Act 2003. The Prudential Code was revised by CIPFA in 2021. A key element of the revised code is that local authorities should have a long-term capital strategy in place that sets out the long-term context in which capital and revenue decisions are made. This strategy is required to be updated on an annual basis.

3.2 The Council approved Sustainable Capital Strategy 2022-23 at its meeting of 17 March 2022. This report seeks approval of the updated Capital Strategy for 2023-33.

4. Main report

4.1 In order to deliver Council priorities and for the city to grow in a sustainable way, the Council needs to invest in its existing assets as well as creating new ones. The capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability.

4.2 The capital strategy is a high-level document, which brings together a number of other key Council strategies. It should be read in conjunction with the following plans and policies

- Sustainable Capital Budget Strategy 2023-2033
- Annual Treasury Management Strategy (on this agenda)
- Revenue Budget Framework 2023/27 – progress update

- Revenue Budget Framework 2023/27 – further update
- Revenue Budget 2022/23 – Risks and Reserves
- Housing Revenue Account (HRA) Budget Strategy (2023-33)
- Council Business Plan 2023-27
- 2050 Edinburgh City Vision
- Council Sustainability Programme Short Window Improvement Plan
- City Plan 2030
- Corporate Asset Strategy
- Property and Asset Management Strategy
- Transport Asset Management Plan
- City Centre Transformation Strategy
- City Mobility Plan
- Council Emissions Reduction Plan
- 2030 Climate Strategy and Implementation Plan

4.3 In addition to the statutory background, Edinburgh and the Council's role and the Council's Business Plan and Vision which now includes more on environmental sustainability, the capital strategy covers the following areas;

- Capital Expenditure and Financing (the Council's capital expenditure plans, and the corresponding financing requirement);
- Treasury Management (how the Council keeps sufficient but not excessive cash to meet the Council's spending needs, while managing risks involved);
- Other investments and long-term liabilities (the Council's non-treasury investments and other liabilities); and
- Knowledge and Skills (the professional skills and knowledge contained within the Council's accounting, treasury and property teams, as supplemented by external advisers).

4.4 The full capital strategy is included in Appendix 1.

5. Next Steps

5.1 This report will be referred to Finance and Resources Committee and Governance, Risk and Best Value Committee as part of their oversight and scrutiny roles.

5.2 The strategy will be updated on an annual basis, with this being the fifth iteration.

5.3 The prudential indicators within will be reporting to Finance and Resources Committee on a quarterly basis along with the capital monitoring.

6. Financial impact

6.1 There are no direct financial implications arising from this report. The implications of the expenditure and investment plans contained in the strategy were considered at Finance and Resources Committee on 7 February and subsequently at the Council's budget setting meeting on 23 February 2023.

7. Stakeholder/Community Impact

7.1 The capital strategy is a high-level document which brings together a number of other Council strategies, each of which is the result of appropriate community engagement.

7.2 Approval of the capital strategy ensures the Council continues to have regard to the Prudential Code when carrying out its duties under Part 7 of the Local Government in Scotland Act 2003.

7.3 There are no sustainability impacts directly arising from this report.

8. Background reading/external references

8.1 Local Development Plan Action Programme, January 2019

8.2 Corporate Asset Strategy, Corporate Policy and Strategy Committee, 12 May 2015

8.3 Property and Asset Management Strategy, Finance and Resources Committee, September 2015

8.4 Transport Asset Management Plan (TAMP), Transport and Environment Committee, 6 December 2018

8.5 Sustainable Capital Budget Strategy 2023-2033, Finance and Resources Committee 7 February 2023

8.6 Revenue Budget Framework 2023/27 – progress update, Finance and Resources Committee 7 February 2023

8.7 Revenue Budget Framework 2023/27 – further update, City of Edinburgh Council, 23 February 2023

8.8 Revenue Budget 2023/24 – Risks and Reserves, Finance and Resources Committee 7 February 2023

8.9 Housing Revenue Account (HRA) Budget Strategy (2023-33) , Finance and Resources Committee 7 February 2023

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

8.11 Treasury Management Strategy 2022-23, Finance and Resources Committee, 10 March 2023

Appendices

Appendix 1: Detailed Sustainable Capital Strategy 2023-33

Appendix 1: Sustainable Capital Strategy 2023-33

1. Introduction

1.1 The Sustainable Capital Strategy for City of Edinburgh Council 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.

1.2 The Strategy takes a long-term view and covers the period from 2023 to 2033.

1.3 The Council Business Plan 2023-27 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.

1.4 The Sustainable Capital Budget Strategy sets out priorities for £1,490.517m of council capital investment, in alignment with the Council Business Plan, over the medium to long-term.

1.5 The Housing Revenue Account (HRA) Budget Strategy (2023-33) sets out priorities for £1,714.493m of HRA capital investment based on tenant priorities, service performance and statutory investment requirements. The programme is to be funded from HRA borrowing, Scottish Government grant funding for new affordable homes and capital receipts. Based on current financial assumptions; including an annual 3% rent increase, 86% of existing Council homes could be brought up to the Energy Efficiency Standard for Social Housing (EESSH2) over the lifetime of the Business Plan and 2,400 new Council homes could be delivered.

1.6 The General Fund's Sustainable Capital Budget Strategy is fully funded over the 10-year period. However, if a funding gap in the strategy emerges through failure to deliver revenue savings, increased borrowing costs 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.

1.7 The Capital Budget Strategy is experiencing significant financial pressure due to current market conditions. 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.

1.8 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.

1.9 The wider financial implications of City Plan 2030 infrastructure requirements will have some impact on the 2023-33 Capital Budget Strategy which has yet to be fully understood and reflected in the assumptions of this report. The proposed City Plan 2030 was submitted for examination by Scottish Ministers on 9 December 2022. Following examination, the plan will be finalised to incorporate required changes and detailed modelling will be undertaken to understand the financial implications for the Council.

1.10 For its 2022/2023 financial statements, the Authority will adopt the provisions of IFRS 16 Leases, as adopted by the Code of Accounting Practice. IFRS 16 will mean that the majority of leases where the Council act as lessee will come onto the balance sheet and lessor accounting is effectively unchanged.

2. Statutory Background

2.1 Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 7 of the Local Government in Scotland Act 2003. The Prudential Code was revised by CIPFA in 2021. A key element of the revised code is that local authorities should have a long-term capital strategy in place that sets out the long-term context in which capital and revenue decisions are made.

3. Edinburgh and the Council's Role

3.1 Edinburgh is a city with huge strengths, but real and vital challenges.

3.2 It has one of the highest skilled, highest paid populations of any city in the UK, but even here 19% of children grow up in poverty, and inequalities in health are vivid – boys born in the poorest parts of the city can expect to live a life around 20 years shorter than those in the most affluent. This year we have seen a cost of living crisis forcing even more families into impossible daily choices as they struggle to get by.

3.3 Edinburgh is the fastest growing city in Scotland. This is a true sign of the city's success, but it does bring real pressure on city communities, on housing, and on the city infrastructure on which we all rely. Analysis of population trends suggests that the total number of residents will increase by at least 64,000 people by 2043, with a 72% increase in those aged 75 and over. It is also projected that by 2030 the number of pupils in our primary and secondary schools will increase by 9%. This growth will place further demands on a range of frontline services and as a result, the Council's budget framework continues to provide additional annual sums in respect of growing numbers of school pupils and at-risk children. Increased funding for older people and those with physical and/or learning disabilities will be dependent on the receipt of funding from the Edinburgh Health and Social Care Partnership.

3.4 Edinburgh is Scotland's economic capital and, outside London, the strongest major city economy in the UK. But business conditions throughout the UK will be challenging for the next few years, with the economy as a whole expected to be in recession or growing slowly until 2026 at earliest.

3.5 Following Council elections in May 2022, the Council's Business Plan was updated to incorporate new cross party strategic objectives agreed by Council, alongside an officer assessment of approaches needed to meet budgetary and other pressures facing the Council. The plan was agreed by Council in December 2022, with final amendments arising as a result of the Council Budget process to be agreed by Council in March 2023.

3.6 The business plan sets out three long term strategic priorities for the Council – create good places to live and work, end poverty in Edinburgh, and become a net zero city by 2030 – alongside the specific outcomes, objectives, and key actions needed to deliver those priorities. The plan also seeks to ensure an appropriate focus on areas of service performance which the Council is keen to strengthen.

4. City of Edinburgh Council's Business Plan and Vision

2050 Edinburgh City Vision

4.1 In the autumn of 2016 the City of Edinburgh Council launched a major conversation about the future of a city and a society, inviting Edinburgh to talk about its aspirations, plans, and concerns, for the first time in a generation: Edinburgh's City Vision for 2050.

4.2 The Council Business Plan 2023-27 builds on the City Vision and sets out three priorities for the next phase of the city's development and for the way we will reform our services. We will use this plan to guide our budget and investment decisions, ensuring that spending is focused on those activities with the biggest impact.

4.3 Our three core priorities are to:

- Create good places to live and work
- End poverty in Edinburgh

- Become a net zero city by 2030

4.4 These three priorities are interlinked and interdependent. They connect the major strategies and Council policies agreed in the past few years, through the shared goals and commitments of the Council and its partners, and towards our long-term ambitions for Edinburgh to be a fair, welcoming, pioneering, and thriving city, as expressed by the 2050 Edinburgh City Vision.

4.5 In order to be successful, these priorities must be delivered through the lens of climate and social justice. The actions set out here represent some of the infrastructure, cultural and behaviour changes needed to become a net zero city by 2030, end poverty in Edinburgh, and create good places to live and work, but we recognise that they require significant investment and commitment to make the change we know is needed.

4.6 Across all these priorities, Council services are committed to ensuring that services provided are inclusive and accessible to everyone. This means taking steps to ensure that action for equalities and inclusion is mainstreamed throughout Council planning and delivery. It also means making sure that the diverse people and communities of Edinburgh, including those protected by current and future legislation, feel their voice is effectively heard and listened to in decision making processes.

4.7 Alongside these wider strategic objectives, there are a wide range of statutory duties that the Council is required to deliver. This statutory landscape includes significant duties relating to, for instance, education and caring for vulnerable citizens, but it extends well beyond these into almost every area of Council operations. Throughout the delivery of this business plan, the Council must continue to meet all its statutory duties, but the way these are met will continue to evolve in line with the financial framework and the budget and service challenges the Council faces.

City Centre Transformation, City Mobility and City Plan 2030

4.8 Central to achieving the net-zero target are the City Centre Transformation Strategy and City Mobility Plan. The City Centre Transformation plans to create a vibrant and people focused city centre, while the City Mobility Plan looks at the way people travel around Edinburgh, changing roads and pavements for people to move around our city more easily and sustainably.

4.9 These strategies are supported by a number of action plans including:

- Circulation Plan
- Public Transport Action Plan
- Active Travel Action Plan
- Parking Action Plan

4.10 These plans are ambitious and funding them will be challenging. The Capital Strategy only provides partial funding for these plans, with the expectation that additional external funding will be required to deliver the plans in full.

4.11 Following the Choices for City Plan consultation in Spring 2020, The proposed City Plan 2030 was submitted for examination by Scottish Ministers on 9 December 2022. Following examination, the plan will be finalised to incorporate required changes and detailed modelling will be undertaking to understanding the financial implications for the Council.

4.12 The proposed City Plan 2030 contains policies and proposals to limit the environmental impact of development and minimise carbon emissions by:

- Supporting the outcomes of the City Mobility Plan;
- Strengthening and growing the city-wide green network to connect our places, parks and greenspaces;
- Requiring all new buildings to achieve net zero operation greenhouse gas emissions;
- Requiring all new buildings and refurbishments to incorporate measures to address the climate emergency;
- Designing all new developments to be in a way which tackles and adapts to climate change;
- Promoting higher density, mixed use neighbourhoods to reduce the need to travel for work and everyday services; and
- Supporting Local Place Plans to achieve resilient places and support community ambitions.

4.13 As the city works towards these objectives, it is also predicted to grow. City Plan 2030 sets out how and where growth will happen in the future. Existing plans for development are set out in the current Local Development Plan. The Local Development Plan Action Programme sets out the new infrastructure that is required to accommodate this growth. Once finalised and adopted City Plan 2030 will replace the current Local Development Plan.

Environmental Sustainability

4.14 Edinburgh is a thriving city and is home to businesses from all industries who are driving innovation and solutions to help tackle the climate crisis and support the city's target of net-zero commitment by 2030. Businesses and stakeholders from across the private, public and third sectors are working together to invest in climate action and make our city resilient to future challenges and build a better future for our citizens. There are many innovative and exciting projects being undertaken in the city to support Edinburgh's net-zero commitment and to help the city meet its climate target.

4.15 The Council has a significant role to play in supporting the city to transition to net-zero carbon by tackling major infrastructure challenges. 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 Implementation Plan and the Council Emissions Reduction Plan.

4.16 The 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.

4.17 The Council has assessed its capital budget strategy against the methodology developed by the Institute for Climate Economic to check that spending is in line with our net zero ambition. 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

Other Key Plans and Policies

4.18 As well as the strategies, plans and policies outlined above, the capital strategy should be read in conjunction with the following plans and policies for additional background;

- Sustainable Capital Budget Strategy 2023-2033
- Annual Treasury Management Strategy
- Revenue Budget Framework 2023/27 – progress update
- Revenue Budget Framework 2023/27 – further update
- Revenue Budget 2022/23 – Risks and Reserves
- Housing Revenue Account (HRA) Budget Strategy (2023-33)
- Corporate Asset Strategy
- Transport Asset Management Plan (TAMP)

5. Capital Expenditure and Financing

Capital Expenditure

5.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

5.2 The Council's policy on capitalisation complies with the accounting requirements for local authorities and is set out in its Audited Annual Accounts. This has been supplemented with a change in accounting policy for capitalisation of interest costs which was approved at Finance and Resources Committee on 21 January 2021.

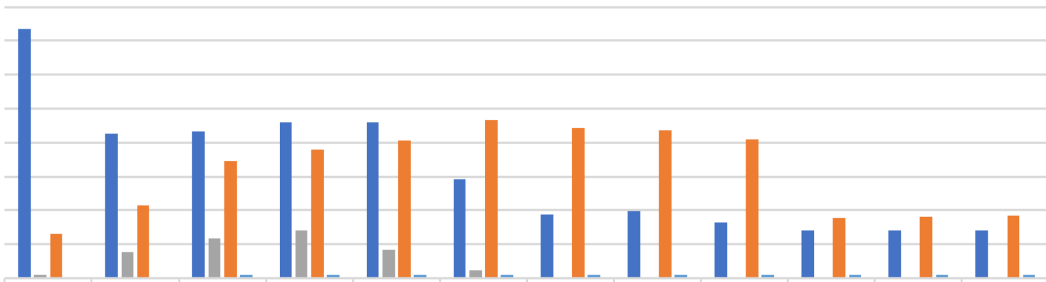
5.3 The previous Capital Investment Programme 2009-19 was superseded by the Capital Budget Strategy 2020-30, which was reported to Finance and Resources Committee on 14 February 2020 and approved at the Council's budget meeting of 20 February 2020. The Capital Budget Strategy is subject to annual review and forms part of the annual budget setting.

5.4 The latest update, the Sustainable Capital Budget Strategy 2023-2033, sets out capital expenditure and funding of £1,474.517m based on the assumptions set out above, including the generation of savings and additional income in revenue budgets. This was subsequently amended at the Council's budget meeting of 23 February 2023, where the approved budget motion added a further £16m, revising the total to £1,490.517m. Funding assumptions will be kept under review, and capital expenditure plans remain contingent on the strategy continuing to be affordable.

5.5 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.

5.6 In the period 2023/33, the Council is planning total capital expenditure across the General Fund, HRA and Leases of £3,255.010m. Whilst the later years are only indicative at present, they are summarised below:

Chart 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions



	Actual 2021/22	Forecast 2022/23	Budget 2023/24	Budget 2024/25	Budget 2025/26	Budget 2026/27	Budget 2027/28	Budget 2028/29	Budget 2029/30	Budget 2030/31	Budget 2031/32	Budget 2032/33
General Fund Services	366.9	213.3	215.9	229.5	229.5	145.4	93.1	99.0	81.9	71.2	71.2	71.2
General Fund On-lending	4.2	37.8	59.4	70.5	41.8	10.8	0.0	0.0	0.0	0.0	0.0	0.0
HRA - Council Housing	64.9	106.6	173.4	189.9	202.2	232.7	220.7	218.4	204.9	89.0	90.7	92.4
PPP and Similar Assets	1.1	0.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0

General Fund Services   General Fund On-lending   HRA - Council Housing   PPP and Similar Assets

5.7 Significant General Fund capital projects through the 2023-33 strategy include[1]:

- Wave 4 Schools - £294.233m

- Asset Management Works and Retrofit - £205.206m
- New Schools and Extensions for Population Growth - £103.774m
- Investment in Roads and Transport Infrastructure (including North Bridge) - £176.654m

[1] Values are those included in the Council's Capital Investment Programme and do not recognise any external funding which has not yet been received, including funding from the Edinburgh and South East Scotland City Deal.

Housing Revenue Account

5.8 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately.

5.9 The Housing Revenue Account (HRA) Budget Strategy (2023-33), amended by approved the Council budget motion of 23 February 2023 sets out planned capital investment of £1,018.990m over the next five years, rising to £1,714.493m over 10 years to deliver tenant priorities, including building new homes, modernising existing homes and help tenants reduce their cost of living. This is summarised in the table below:

Table 1: HRA Five Year Capital Investment Programme and Ten-Year Investment Strategy

Programme Heading	1	2	3	4	5	*5 Year*	6 to 10	*10 Year*
	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	*Total*	2028/29 to 2032/33 £m	*Total*
Programme Expenditure								
New Homes Development*	99.090	109.200	127.123	149.064	137.969	622.446	317.983	940.429
New Home Land Costs	2.000	3.000	-	4.875	4.875	14.750	5.000	19.750
Tenant's Homes & Services & Maintenance	12.567	12.669	12.885	14.621	14.399	67.139	68.110	135.250
External Fabric and Estates & Acquisitions	59.704	65.072	62.241	64.151	63.487	314.655	304.410	619.065
Total Expenditure	173.361	189.941	202.249	232.711	220.729	1018.990	695.503	1714.493
Programme Resources								
Prudential Borrowing	61.681	107.390	45.137	70.986	110.480	395.675	309.737	705.412
Capital Funded from Revenue / Reserve	23.300	18.300	18.300	18.300	18.300	96.500	106.300	202.800
Capital Receipts and Contributions	14.520	23.147	23.862	45.096	41.697	148.322	167.521	315.844
Receipts from LLPs*	45.809	23.541	87.948	60.838	33.026	251.163	26.175	277.338
Scottish Government Subsidy (Social)	26.131	15.643	26.042	36.530	16.265	120.610	80.970	201.580
Scottish Government Subsidy (Acquisition)	1.920	1.920	0.960	0.960	0.960	6.720	4.800	11.520
Total Funding	173.361	189.941	202.249	232.711	220.729	1018.990	695.503	1714.493

5.10 This investment aims to deliver Council commitments on affordable housing and net zero. Capital investment will be accompanied by improvements in how we deliver housing services to increase customer satisfaction.

5.11 The HRA Budget Strategy 2023-2033 will also be a catalyst for wider area improvements; including the regeneration of Granton Waterfront, Pennywell, Craigmillar, Meadowbank, Fountainbridge, Powderhall and Wester Hailes.

5.12 Within the Council's housebuilding programme, there are currently over 613 new homes on site and under construction and a further 1,055 homes in design and pre-construction stage. This does not include homes being delivered for private sale or market rent through Council-led developments. Council-led developments are set out in the map below.

Edinburgh Living (Limited Liability Partnerships)

5.13 The Council also uses general fund resources to increase the provision of affordable housing in the city, through lending to Edinburgh Living (LLPs) with £182.515m provided in the strategy. These projects are self-financing because of income from affordable rents. However, it should be noted that at present the City of Edinburgh Council only has consent to borrow from the Scottish Government for Edinburgh Living LLPs up to 2023-24 for a total of £248m. The Housing Revenue Account (HRA) Business Plan assumes continuation of the consent beyond this point, in the form of capital receipts in the HRA. Options are being reviewed to address the requirement for consent for future years on-lending.

Identifying Capital Priorities

5.14 New projects can be added to the Council's capital programme in the following ways:

- Allocation of additional resources at the Council's budget meeting in February each year.
- Reprioritisation of existing budgets approved by service committees and, where this represents a change in policy, by full Council.
- Approval of a prudentially funded business case approved by relevant service committee and full Council
- Award of external funding

- A combination of any of the above

Capital Financing

5.15 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing, Public Private Partnerships and similar instruments). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

Capital Financing	Actual 2021/22	Forecast 2022/23	Budget 2023/24	Budget 2024/25	Budget 2025/26	Budget 2026/27	Budget 2027/28	Budget 2028/29	Budget 2029/30	Budget 2030/31	Budget 2031/32	Budget 2032/33
Grants	134.062	128.442	103.182	88.182	98.432	105.684	85.419	89.863	98.840	90.841	73.598	73.598
Asset Sales	18.501	27.696	67.329	50.688	114.810	108.935	77.724	71.160	44.161	39.105	26.936	27.334
Capital Fund	7.150	0.000	27.650	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Supported Borrowing	137.198	85.942	43.602	29.213	18.969	18.978	18.915	18.915	18.915	18.300	25.700	25.700
On-Lending	4.167	20.621	59.418	70.500	41.793	10.804	0.000	0.000	0.000	0.000	0.000	0.000
Other External Income	20.447	16.275	6.369	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
PPP and similar arrangements	1.057	0.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000
Loans Fund Advances - Self-Financed	114.441	78.681	141.157	251.406	199.495	144.555	131.807	137.437	124.929	11.974	35.680	37.009
Total	**437.023**	**357.657**	**453.707**	**494.989**	**478.499**	**393.955**	**318.865**	**322.376**	**291.845**	**165.220**	**166.914**	**168.641**

5.16 The grants total above does not include external funding where the timing of that funding is uncertain. This includes Sustrans funding for Active Travel.

Loans Fund Review and Policy

5.17 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 require the statutory loans fund to be administered in accordance with the 2016 Regulations, proper accounting practices and prudent financial management. The Council operates a consolidated loans fund under the terms of these Regulations. Capital payments made by services are financed by capital advances from the loans fund. Repayments for capital advances (with the exception of those detailed below) will be calculated using option 3 – the Asset Life method.

5.18 For capital advances relating to loans to the Edinburgh Living LLPs and capital advances for the Trams to Newhaven project, all advances from the loans fund in the current year have a repayment profile set out using Option 4 – the funding/income method and these capital advances will be repaid using an annuity structure with fixed interest rate and principal repayments.

5.19 The business cases brought forward for other projects involving major capital expenditure funded by borrowing will consider the appropriate repayment method depending on the structure of the business case.

International Financial Reporting Standard (IFRS) 16 - Leases

5.20 For its 2022/2023 financial statements, the Authority will adopt the provisions of IFRS 16 Leases, as adopted by the Code of Accounting Practice. IFRS 16 will mean that the majority of leases where the Council act as lessee will come onto the balance sheet and lessor accounting is effectively unchanged.

5.21 The main impact of the new requirements is that, for arrangements previously accounted for as operating leases (i.e. without recognising the leased vehicles, plant, equipment, property and land as an asset and future rents as a liability), a right-of-use asset and a lease liability are to be brought into the balance sheet at 1 April 2022. Leases for items of low value and leases that expire on or before 31 March 2023 are exempt from the new arrangements.

5.22 IFRS 16 will be applied retrospectively, but with the cumulative effect recognised at 1 April 2022. This means that right-of-use assets and lease liabilities will have been calculated as if IFRS 16 had always applied but recognised in 2022/2023 and not by adjusting prior year figures.

5.23 As a lessee, the Authority has previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Authority. Under IFRS 16, the Authority recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

5.24 The Authority has decided to apply recognition exemptions to short-term leases and has elected not to recognise right-of-use assets and lease liabilities for short term leases that have a term of 12 months or less and leases of low value assets. The Authority recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

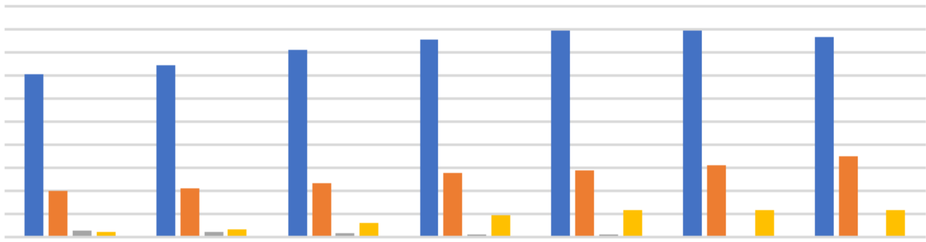
5.25 The de minimis limit for IFRS 16 has been set at £10,000, in line with the capital expenditure de minimis. It is anticipated that the application of the Code's adaptation of IFRS16 will result in the following additions to the balance sheet:

- £42.7m Property, plant and equipment – land and buildings (right-of-use assets)
- £28.1m Non-current creditors (lease liabilities)
- £14.9m Current creditors (lease liabilities)

Capital Financing Requirement

5.26 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with loans fund repayments and capital receipts used to replace debt. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Chart 2: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions



	Actual 2021/22	Forecast 2022/23	Budget 2023/24	Budget 2024/25	Budget 2025/26	Budget 2026/27	Budget 2027/28
General Fund Services (including Leases)	1,411	1,494	1,620	1,707	1,789	1,791	1,739
HRA - Council Housing	394	422	463	550	571	617	700
NHT LLPs	56	44	32	24	15	-0	-0
Edinburgh Living LLPs	42	62	120	189	229	236	233

Corporate Property Strategy

5.27 A refreshed Corporate Property Strategy is being prepared and will be submitted to the Policy and Sustainability Committee in May 2023. The strategy will provide a framework for how changes to the Council's operational property estate will be taken forward over the next 5-10 years. The strategy will focus on the property solutions required to address:

- changes to working patterns that have occurred since the COVID pandemic
- the ambition to deliver improved and integrated services with partners in local communities aligned to the 20-minute neighbourhood approach, and
- how property can assist with the move towards a Carbon Neutral City by 2030.

5.28 The Corporate Property Strategy will not be a list of projects which have already been developed and require to be implemented. Rather it will set out the process which needs to be followed for approving and implementing changes to the property estate which are aligned to the Council's Business Plan objectives.

5.29 The Council spends £100m a year running the buildings it owns. The Council aim to identify sites for new housing, release capital for investment, reduce costs and carbon emissions and is committed to seeing all new buildings meet ambitious net zero carbon targets by adopting Passivhaus standards where possible.

5.30 The Council remains committed to upgrading the existing operational property estate through the Asset Management Works, programme with almost £150m allocated to this purpose in the 10-year capital budget strategy. This will hugely improve the condition and safety of our buildings.

5.31 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 property improvement investment which will support the Council Emissions Reduction Plan. The revised 2023-33 Capital Budget Strategy provides £60.850m of Council capital investment to progress with an initial 'Pathfinder' project that involves implementing significant retrofit works to Council operational buildings to improve their energy efficiency. This programme is linked to the Scottish Government's 'Green Growth Accelerator' funding programme which will release £10.120m of revenue funding if the carbon reduction targets are achieved.

5.32 As part of the Corporate Property Strategy, the Council needs to consider how to invest in future projects and ensure they align with the approach to deliver multi service hubs for the whole community, rather than single use buildings. A report on Delivering the 20-Minute Neighbourhood Strategy was considered by the Policy and Sustainability Committee in November 2021.

5.33 There is a significant opportunity for 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.

5.34 This process will continue as the remainder of the planned projects included in the Sustainable Capital Budget Strategy are progressed. 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.

5.35 On the 18 December 2020 the Scottish Government announced that the Council's Liberton High School and Wester Hailes Education Centre Phase 2 projects would both be part of Phase 2 of the Learning Estate Investment Programme. The Scottish Government will pay for ongoing maintenance of the new facilities through an outcomes-based funding model. This follows the previous announcement on 9 September 2019 that Currie High School would be include within the Scottish Government's first phase of the Learning Estate Investment Programme.

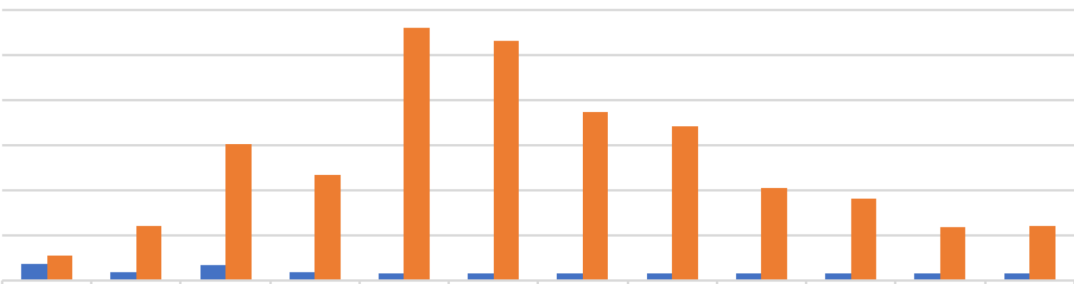
5.36 Furthermore, funding has been provided for library and employability services to be included within the Macmillan Hub project in Pennywell. This is addition to Scottish Government Early Years funding for a new nursery and the recently announced Scottish Government Regeneration Capital Grant Fund 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.

5.37 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 will 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.

Asset Disposals

5.38 When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council expects to receive £35 m of capital receipts in the General Fund in the years 2023/24 to 2032/33 as follows, with significantly more in the HRA through Edinburgh Living purchase of completed homes delivered through the Council’s housebuilding programme:

Chart 3: Capital receipts in £ millions



	Actual 2021/22	Forecast 2022/23	Budget 2023/24	Budget 2024/25	Budget 2025/26	Budget 2026/27	Budget 2027/28	Budget 2028/29	Budget 2029/30	Budget 2030/31	Budget 2031/32	Budget 2032/33
General Fund	7.387	3.571	7.000	4.000	3.000	3.000	3.000	3.000	3.000	3.000	3.000	3.000
HRA	11.114	24.124	60.329	46.688	111.810	105.935	74.724	68.160	41.161	36.105	23.936	24.334

6. Treasury Management

Treasury Management

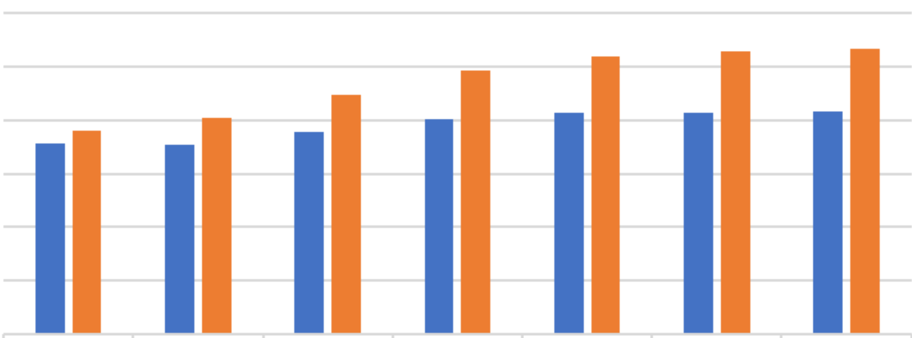
6.1 Treasury management’s role is to keep sufficient but not excessive cash available to meet the Council’s spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent and holds cash reserves, at least in the short-term. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Borrowing Strategy

6.2 As interest rates have increased significantly, only £11.1m in PWLB borrowing has been taken this financial year. However, in the previous 3 years the Council had borrowed nearly £500million mitigating a significant amount of the Council’s interest rate risk.

6.3 Projected levels of the Council’s total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown below, compared with the capital financing requirement as summarised in the chart below:

Chart 4: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions



	Actual 2021/22	Forecast 2022/23	Budget 2023/24	Budget 2024/25	Budget 2025/26	Budget 2026/27	Budget 2027/28
Debt (inc. PPP & Leases)	1,789	1,769	1,896	2,009	2,065	2,073	2,079
Capital Financing Requirement	1,903	2,021	2,236	2,469	2,604	2,644	2,673

6.4 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from Chart 4, the Council expects to comply with this in the medium term.

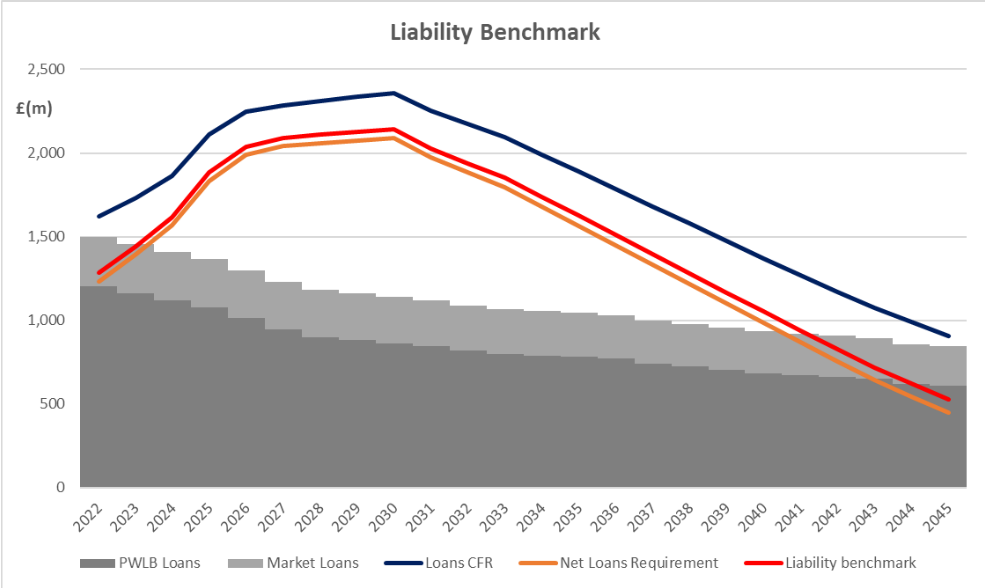
6.5 From 2022/23 onwards, the values for both the Debt and the Capital Financing Requirement are higher than they would otherwise have been for technical accounting reasons due to the adoption of the IFRS16 accounting standard and the review of the accounting treatment of service provisions. Neither of these changes alter the Council’s underlying need to borrow.

Liability Benchmarking

6.6 To compare the Council’s actual borrowing against its predicted underlying need to borrow, a liability benchmark has been calculated using the Council’s loans and Capital Financing Requirement less its core underlying cash investments.

6.7 The chart below shows the projection of the Council’s benchmark:

Chart 5: Liability Benchmark in £ millions



6.8 The chart shows that the Council is projected to be significantly under its liability benchmark over the period. This shows that the Council will require to undertake additional borrowing in the latter years to fund this.

Affordable Borrowing Limit

6.9 The Council sets an affordable borrowing limit (also termed the authorised limit for external debt) each year. A lower “operational boundary” is also set as a warning level should debt approach the limit.

Table 3: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2021/22 Limit	2022/23 Limit	2023/24 Limit	2024/25 Limit	2025/26 Limit	2026/27 Limit	2027/28 Limit
Authorised Limit – Borrowing	1,748	1,905	2,202	2,531	2,806	2,925	2,972
Authorised Limit – PFI, Leases & ROU Assets	289	317	394	383	373	366	361
Authorised Limit – Total External Debt	**2,038**	**2,222**	**2,596**	**2,914**	**3,179**	**3,291**	**3,333**
Operational Boundary – Borrowing	1,690	1,855	2,152	2,481	2,756	2,875	2,922
Operational Boundary – PFI, Leases & ROU Assets	289	317	394	383	373	366	361
Operational Boundary – Total External Debt	**1,980**	**2,172**	**2,546**	**2,864**	**3,129**	**3,241**	**3,283**

Investment Strategy

6.10 Treasury investments arise from receiving cash before it is paid out again and through reserves and other fund balances.

6.11 The Council’s cash investments are pooled with the sterling cash of Lothian Pension Fund and other associated organisations and invested together. The investment policy for treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Additional liquidity is provided using Money Market Funds. Investments made for service reasons are not generally considered to be part of normal treasury management activity

6.12 The Bank of England has raised interest rates at every single one of their 10 Monetary Policy Committee meetings since December 2021 with further increases at their March and May meetings a distinct possibility. In this scenario duration has a negative effect on the portfolio. This has made performance again the benchmark which moves in line with UK Bank Rate exceptionally challenging while maintaining the security of the portfolio.

6.13 Further details on treasury investments are in Appendix 5 of the Annual Treasury Management Strategy report.

6.14 Decisions on treasury management investment and borrowing are made daily and are therefore delegated by the Council to the Service Director: Finance and Procurement and relevant staff, who must act in line with the Treasury Management Policy Statement approved by the Council on the recommendations of the Finance and Resources Committee. Semi-annual reports on treasury management activity are presented to Council. The Governance, Risk and Best Value Committee is responsible for scrutinising treasury management decisions.

7. Other Investments and Long-term Liabilities

Investments

7.1 The Council makes investments to assist local public services, including making loans to and buying shares in Council's subsidiaries that assist in the delivery of Council priorities. Examples include investments in the Edinburgh International Conference Centre, the EDI Group, Edinburgh Living LLPs and Energy for Edinburgh. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs.

7.2 Decisions on service investments are made by the relevant Executive Director or Service Director, in accordance with the scheme of delegation, in consultation with the Service Director - Finance and Procurement and are approved by the relevant executive committee of the Council. Most loans and share purchases are capital expenditure and purchases will therefore also be approved as part of the capital programme.

Commercial Activities

7.3 The Council retains a commercial property investment portfolio for city development purposes, but also derives financial gain from this activity. The investment portfolio consists of over 1,130 assets and is forecast to produce a rental income of c. £15m per annum. The portfolio has recovered well from the COVID-19 pandemic although there is still a legacy accrued through that period which is being actively managed. The portfolio is estimated to have a value of c. £230m.

7.4 With economic development being the main objective, the Council accepts higher risk on commercial investment that with treasury investments. The principal risk exposures include voids and falls in rental income. In order to minimise the liability to the Council the portfolio is actively managed on a commercial basis. The approach to managing the portfolio is set out in the Council Commercial Property Portfolio Update Report, 23 May 2019. An updated strategy is due to be considered by the Finance and Resources Committee later this year.

7.5 Decisions on commercial investments are made by the Executive Director of Place in line with the criteria and limits set by the Council as part of the Scheme of Delegation and Financial Regulations, and directly through the Finance and Resources Committee, where appropriate. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

7.6 The council also has commercial activities in Edinburgh International Conference Centre and the EDI group. The commercial activities in the EDI group are in the process of being wound down in accordance EDI transition strategy approved by Council on 31 May 2018.

Integration with Wider Financial Strategy

7.7 It is recognised that the Council's capital resources are limited. Borrowing carried out for investment must be repaid from increasingly limited revenue budgets. The Capital Budget Strategy can only be funded if the Council is able to balance its revenue budget over the medium to long term to comply with the terms of the Prudential Code.

7.8 The Council Business Plan 2023-27 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 for both the General Fund and the HRA.

Risks and Reserves

7.9 The Council undertakes an annual review of its risks and reserves in the context of setting the revenue and capital budgets. The most recent update, Revenue Budget 2023/24 – Risks and Reserves was reported to the Finance and Resources Committee on 7 February 2023 and set out a number of risks (and associated mitigating actions), including potential cost pressures around demographic-led demand, the continuing expenditure and income impacts of the cost of living crisis, pay awards and the financial implications of other legislative changes, as well as the level of future funding settlements and delivery of approved savings.

7.10 The report recommends maintaining the level of unallocated reserves at £26,7m, equating to around 2.3% of the Council's net expenditure which is in line with other local authorities in Scotland.

7.11 The report also outlined the maintenance of a series of ringfenced reserves for statutory[2] or specific policy[3] reasons or to reflect timing differences between the receipt of income and its subsequent application.

Revenue Budget Implications of Capital Strategy

7.12 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and loans fund repayments are charged to revenue, offset by any investment income received. The net annual charge of financing costs is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general grants.

Table 4: Prudential Indicator: Proportion of financing costs to net revenue stream

	Actual 2021/22	Forecast 2022/23	Budget 2023/24	Budget 2024/25	Budget 2025/26	Budget 2026/27	Budget 2027/28
Financing costs (£m) – General Fund Services	76.8	84.7	98.5	100.9	104.7	108.3	109.3
Proportion of net General Fund revenue stream	6.80%	7.14%	7.57%	8.03%	8.24%	8.43%	8.42%
Financing costs (£m) – Housing Revenue Account	34.2	33.4	35.9	39.5	43.6	46.5	48.6
Proportion of net HRA revenue stream	32.04%	32.49%	33.83%	34.97%	36.97%	37.85%	38.53%

7.13 In addition to financing costs, the Council makes provision for all running costs and lifecycle maintenance of assets in its revenue budget planning process. Before inclusion in the capital programme, a business case is created for every new project which sets out the revenue implications and how they will be funded.

7.14 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The implications of capital expenditure have been built into the Council's long-term financial planning assumptions to ensure that the proposed capital programme is prudent, affordable and sustainable.

8. Knowledge and Skills

8.1 The council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

8.2 The Finance and Procurement function, within the Council's Corporate Services Directorate, has qualified accountants working throughout the Division. The accountancy function is an accredited employer with regard to Continuing

[2] Including the Insurance Fund, Council Tax Discount Fund (ringfenced for the provision of affordable housing), licensing reserves and sums set aside under the Devolved School Management (DSM) scheme.
[3] Including the Spend to Save and City Strategic Investment Funds.

Professional Development (CPD) with the CIPFA and ACCA accountancy bodies. This accreditation is assessed externally every 3 years with the most recent review last year.

8.3 The accounting function has been externally assessed as being a Platinum Accredited Employer for training and continuing professional development (CPD) by CIPFA in recognition of the development opportunities provided to staff.

8.4 Benchmarking information (2018) showed that the Council had an above average number of qualified staff compared with other local authorities across the UK with over 66% of staff being qualified or part-qualified. Support is provided for those engaged in study for accounting, treasury and insurance qualifications. The CPD assessment undertaken by CIMA examines the provision of training and guidance available to staff on ethical issues including whistleblowing and money laundering legislation.

8.5 The 2019 CIPFA Benchmarking showed the Council to be 20.5% below the peer group staffing cost and 35% below peer group staffing numbers. While the definition of Finance was slightly wider, Scotland-specific benchmarking published in 2019 showed the Council to have the lowest relative expenditure on Finance support of any council in Scotland.

8.6 As well as finance qualifications, the Treasury Team hold a range of Treasury, Investment and Banking qualifications including the CIPFA/ACT Certificate in International Treasury Management – Public Finance and the Investment Management Certificate. The team also has a wide range of knowledge and experience in investment instruments as well as debt and other funding structures.

8.7 The Estates team, within the Council’s Place Directorate, through which the property investment portfolio is managed, has RICS qualified surveyors working across the Division, the majority of which are also members of the Registered Valuers scheme.

8.8 In addition, use is made of external advisers and consultants that are specialists in their field, when specialist technical advice is required. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

9. Conclusion

9.1 The Capital Strategy is a reporting requirement introduced by the 2017 edition of the CIPFA Prudential Code, with the first iteration published in March 2019 and annual updates provided thereafter.

9.2 In December 2021, the CIPFA Prudential Code for Capital Finance in Local Authorities (2021 Edition) was published. Further developments for capital strategies were made in this update following their introduction in 2017, such as setting the strategy in the context of the organisation's corporate objectives.

9.3 The Capital Strategy takes account of the City of Edinburgh Council's Business Plan, Corporate Objectives and Vision whilst considering any new investment within the context of growing in a financial and environmentally sustainable way.

9.4 The cost of living crisis, revenue funding pressures and the true costs of creating low carbon infrastructure will have an impact on what the Council can afford in both the General Fund and HRA, and it needs to ensure that the projects taken forward are the right choices with more limited revenue funding resources.

9.5 The Council has a significant role to play in supporting the city to transition to net-zero carbon by tackling major infrastructure challenges. 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 Implementation Plan and the Council Emissions Reduction Plan which are part of our environmental sustainability.

9.6 The Council 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 as we adopt the 20-minute neighbourhood approach.

9.7 This Capital Strategy for City of Edinburgh Council 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. It also provides an overview of how associated risk is managed and the implications for future financial and environmental sustainability.