

# Finance and Resources Committee

10.00am, Tuesday, 21<sup>st</sup> November 2023

## Sustainable Capital Budget Strategy Update 2024-2034

Executive/routine  
Wards

Executive  
All

### 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 announcement of the provisional Local Government Finance Settlement is expected in December 2023;
- 1.3 To note that delivery of funded capital expenditure priorities is dependent on the achievement of a balanced medium-term revenue budget;
- 1.4 To note that a further report on the Sustainable Capital Budget Strategy 2024-2034 will be presented to this Committee early in 2024 prior to Council budget setting in February 2024;
- 1.5 To note that investment in unfunded pressures and priorities set out in this report will require additional external funding and/or reprioritisation of existing budgets and must be supported by robust business cases: and
- 1.6 To refer the report to the Governance Risk and Best Value Committee as part of its work programme.

#### Dr Deborah Smart

Executive Director of Corporate Services

Contact: Matt Jones, Senior Accountant

E-mail: [Matt.Jones@edinburgh.gov.uk](mailto:Matt.Jones@edinburgh.gov.uk) | Tel: 0131 529 3147

# Report

## Sustainable Capital Budget Strategy Update 2024-2034

### 2. Executive Summary

---

- 2.1 This Report sets out priorities for £1,419.5m of Council capital investment, in alignment with the Council Business Plan, over the medium to long-term.
- 2.2 Funding assumptions have been reviewed and there is likely to be increased pressure as a result of reduced capital grant in future years and revenue pressures reducing the ability to borrow.
- 2.3 Cost forecasts for the existing programme have been updated with little change given that budgets were cash limited where possible, however the requirement for new projects, including those arising from the City Plan, is likely to create significant pressures in the medium to long term.
- 2.4 Additional projects can only be progressed following the development of fully funded business plans or by reallocating funding from projects within the existing programme.

### 3. Background

---

- 3.1 The [Sustainable Capital Budget Strategy 2023-33](#) was approved by Council on 23<sup>rd</sup> February 2023 following referral from the Finance and Resources Committee. The report detailed priorities for capital investment of £1,474.5m for general services. In setting the budget, the Council looked to address the pressures arising from the financial climate, to ensure delivery of priority and in-progress projects.
- 3.2 The [Revised 2033-33 Capital Budget Strategy](#) was presented to F&R Committee on 21st September 2023 which took account of expenditure slippage from the previous financial year as well as additional funding received.
- 3.3 This report provides an update on the financial challenges facing the Council's General Fund capital budget and sets out the steps required to reach a balanced position ahead of Council budget meeting in February 2024.
- 3.4 A separate report detailing the period five capital monitoring position is also included on this agenda.

## 4. Main report

---

### Current Capital Expenditure Priorities

- 4.1 The Capital Programme for 2024-34 set out in Appendix 1 takes account of revised cost forecasts and additional income for projects in the Sustainable Capital Budget Strategy and rolls forward the programme for another year.
- 4.2 Where possible, budgets in the capital programme have been cash limited. This includes investment in roads, transport and active travel, improvements to existing Council buildings as well as the delivery of cultural projects. Inflationary pressures will be met by rephasing, reprioritisation (including reduction in scope of works) and external funding, where available.
- 4.3 The Council's Learning Estate expansion continues to have a significant cost allocation with £371.4m (26%) of available funding allocated to the programme. For all new learning estate projects currently in development, options for wider service delivery from the facility are being considered during design, with flexible working space included as budgets allow. Passivhaus standard is being adopted in new builds and designs are aligned to achieving Net Zero targets.
- 4.4 Roads and Transport Infrastructure programmes, including Active Travel, are allocated £243.4m (17%) of available capital funding. The latest Road Condition Index (RCI) indicates that 35.1% of adopted roads in need of investment. It is estimated that to remain at this RCI and comply with the Edinburgh Street Design Guidance (ESDG) an additional £8-10m of funding will be required per year.
- 4.5 Asset Management and Retrofit works amount to £206.7m (15%) of the capital programme. The Retrofit programme was developed to reduce carbon emissions and improve building user comfort of 12 Council buildings. Three of these have been progressed, however increasing costs will impact timing and deliverability. The impact of this is currently being assessed.
- 4.6 The programme includes £13.4m of investment in cultural facilities. The Dunard Centre project is facing increased costs because of inflation, with previous estimates totalling £75m now forecast to be £114m. The Council's contribution was agreed at £5m, but an additional £2m has been requested.

### Unfunded Pressures and Priorities

- 4.7 Reinforced Autoclaved Aerated Concrete (RAAC) has been identified in 12 operational buildings to date. RAAC presents a structural safety concern and will require substantial remediation works. In 4 of the buildings, the areas with RAAC were not being used or have easily been isolated without affecting operations. In the remaining eight buildings detailed surveys are continuing to determine mitigation requirements or mitigation is underway. The extent of the capital expenditure requirement remains to be established and this will be subject to a separate report in the next cycle.

- 4.8 Development set out in the city's Local Development Plan and City Plan requires further expansion of the learning estate. There is currently no funding for proposed schools at Builyeon Road (South Queensferry), Gilmerton Station Road, Granton Waterfront and East of Milburn Tower, along with New High Schools at Kirkliston and in West Edinburgh. The cost of these projects is now estimated to be £103.2m after considering likely developers contributions. Similarly, further school extensions will be required due to increased allocated housing in the City Plan, and are anticipated to cost £53.8m to the Council. This includes major extensions at Castlebrae HS, Craigroyston HS and Craigmount HS.
- 4.9 As reported to the Education, Children and Families Committee on 7 November, the [Early Years Capital Programme Update](#) highlights significant inflationary pressures. While to date these increases have been funded within available Scottish Government Grant provision, further increases may require a reprioritisation of uncommitted Early Years projects.
- 4.10 The Fleet replacement programme is under review considering the significant cost of electric vehicles and infrastructure. An additional paper is brought to committee on this agenda recommending the approval of £55.5m to deliver a programme which is Low Emission Zone (LEZ) compliant, aligns to the Council's Emission's Reduction Plan (CERP) and is modern and fit-for-purpose.
- 4.11 City Mobility Plan policy measures require significant capital investment. Key priorities include Mass Rapid Transit, Bus Network Review, City/Regional Interchanges, Walking Wheeling and Cycling, Road Safety and Low Emission Zones. Whilst partial funding is available for specific projects such as Active Travel, to deliver the plan in full would require significantly more funding.
- 4.12 The 2030 Climate Strategy outlines how the Council aims to deliver a Net Zero city by 2030. This includes energy efficiency, heat generation, decarbonisation of public transport and climate adaptation. The Corporate Property Strategy seeks to prioritise the electrification of heat as the primary objective. However, with over 400 operational buildings and options for electrification of heat expensive and potentially intrusive, this will be a significant challenge in terms of cost and delivery. The Council is seeking external funding and exploring innovative financing options; however, it is likely that some of these costs will need to be met from the capital budget.
- 4.13 An additional report is brought to committee on this agenda requesting the approval of Prudential Borrowing to fund the increase in cost of the Heat Interchange Unit (HUI) at Millerhill Energy from Waste (EfW) facility. The total cost has risen to £7.9m (from £5.2m), of which 20% will be funded by Midlothian Council. Should committee approve the report, the capital budget will be amended accordingly.
- 4.14 There is an unquantified need for capital investment in Health & Social Care, with additional care homes and digital transformation being key priorities in both

the medium and long term. Further work is required to determine the extent of investment required and how it might be funded.

- 4.15 Community Centres continue to be an important resource to communities across the city. Whilst new schools are being designed for wider service delivery, it is recognised that further investment is required to address condition, capacity, and structural challenges of existing buildings. However, there is currently no funding for this within the programme.
- 4.16 ICT & Digital Transformation provides an opportunity to modernise Council Operations and to reduce long term costs. Feasibility exercises will be undertaken in the short to medium term and business cases brought forward for consideration at the appropriate time.

### **Capital Funding Assumptions**

- 4.17 The funding assumptions for Sustainable Capital Budget Strategy 2024-2034 have been thoroughly reviewed and funding available is currently estimated at £1.4bn. Detailed analysis of funding is provided in Appendix 1 with the underpinning assumptions set out in Appendix 4.
- 4.18 The provisional Local Government Finance Settlement is expected to be announced in December 2023 and a reduction in funding is anticipated. It is assumed that the General Capital Grant will reduce by 5% of its current level, which over 10 years amounts to £19m. This includes a distributional loss of funding following the updated 2022 Census, where the estimated population growth in Edinburgh has been reduced.
- 4.19 Revenue pressures and the subsequent requirement for savings in the Medium-Term Financial Strategy have limited the amount of borrowing available to fund the capital programme. Currently the programme remains affordable with the existing borrowing requirement.

### **Funding Gap and Approach to Capital Expenditure Savings**

- 4.20 The reduction in capital grant of £19m can be partially mitigated by an increase in assumed capital receipts (£10m) in 2024/25 and 2025/26.
- 4.21 Contingency budget in later years is set to assume full use of the capital grant. Revised slippage calculations have allowed this to be reduced by £4.8m.
- 4.22 An explanation of the slippage calculation can be found in Appendix 4. Following an update in line with the revised capital programme, £14.9m has been adjusted out of the 10-year scope. This, combined with contingency revision noted above, has allowed for a reduction in loans fund advances of £15.4m.
- 4.23 It is therefore considered affordable to fund the resulting pressure of £4.6m through loans fund advances. Changes are presented in Appendix 2.

## 5. Next Steps

---

- 5.1 This report will be referred to Governance, Risk and Best Value Committee to consider as part of its programme of work.
- 5.2 Finance staff will continue work with project and programme managers to monitor capital budgets.
- 5.3 The Capital Budget Strategy 2024-34 will be developed further, and detailed budget proposals will be submitted to this Committee prior to the Council setting its budget in February 2024
- 5.4 The Corporate Leadership Team have agreed to review the future requirement and specification of the future Learning Estate to reduce costs and create headroom for other priorities.

## 6. Financial impact

---

- 6.1 This report sets out capital expenditure and funding of £1.4bn based on the assumptions set out above. These assumptions will be kept under review, and capital expenditure plans remain contingent on the strategy continuing to be affordable.
- 6.2 Based on revised slippage calculations and the subsequent impact on borrowing, the reduction in advances of £15.4m would reduce interest on borrowing by £11.6m and total costs by £27m over the 30-year repayment period. This amounts to £0.9m per year at the current pool rate of 3.92%.
- 6.3 It is considered affordable to fund the £4.6m pressure, resulting from the reduction in grant, through loans fund advances. Interest on this would be £3.5m and a total cost of £8.1m over 30 years. This amounts to £0.3m per year at the rate of 3.92%.
- 6.4 New projects will be required to have 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.

## 7. Equality and Poverty Impact

---

- 7.1 The equality and poverty impact of individual projects within the Council's capital programme is considered as part of the business cases for those projects.

## 8. Climate and Nature Emergency Implications

---

- 8.1 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) had been trialled to better understand the climate impacts of the Council's capital budget strategy for 2023-33. This exercise has been revised for the updated 2024-34 strategy.

- 8.2 Key findings show that, for the expected expenditure for 2024-34
- 55 % of the total investment (£ 771 m) is in line with the Council's climate ambition (labelled as either "favourable under conditions", or "very favourable")
  - 38 % is considered as neutral
  - 2 % is unfavourable
  - 5 % is classified as "undefined" as the expenditure did not match with any item in the taxonomy
- 8.3 These figures are broadly consistent with the assessment of the 2023-33 strategy. They will be reviewed as part of the budget setting process in February 2024 after key decisions are made, such as on the upgrade of the vehicle fleet, which are not included in the current assessment. The assessment can be found in Appendix 5.

## **9. Risk, policy, compliance, governance and community impact**

---

- 9.1 The budget is monitored by officers on an ongoing basis with due consideration given to existing and emerging risks, and recommendations to address them given to members where and when required.
- 9.2 The Capital Budget Strategy is approved and monitored against the underlying Prudential Code, which ensures the Council carries out its duties under Part 7 of the Local Government in Scotland Act 2003.
- 9.3 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.

## **10. Background reading/external references**

---

- 10.1 [Sustainable Capital Budget Strategy 2023-33](#). Referral from Finance and Resources Committee, 14 March 2023
- 10.2 [Capital Strategy 2023-33 – Annual Report](#). Referral from Finance and Resources Committee, 16 March 2023
- 10.3 [Early Years Capital Update](#) – Education, Children and Families Committee, 7 November 2023

## **11. Appendices**

---

- 11.1 Appendix 1 – Sustainable Capital Budget Strategy 2024 - 2034
- 11.2 Appendix 2 - Anticipated Changes
- 11.3 Appendix 3 - Unfunded Pressures/Priorities

11.4 Appendix 4 - Capital Budget Funding Assumptions

11.5 Appendix 5 – Climate Assessment









A Sustainable Capital Budget Strategy 2024 - 2034  
Appendix 4 - Capital Budget Funding Assumptions

Element	£m	Key Assumptions	Date of Latest Update	Date for Next Review
General Capital Grant	363.721	Grant based on indicative sums from Scottish Government Local Government Finance Circular for the next three years with 5% reduction assumed: 2024/25: £37.264m 2025/26: £38.075m 2026/27: £36.048m From 2027/28 it is assumed the grant will remain static, similar to levels received in previous years. This assumption will be kept under review in line with wider political and economic considerations.	Oct-23	Dec-23
Specific Capital Grants	340.187	Grant based on indicative sums in the Scottish Government Local Government Finance Circular for the next three years. This relates to Transfer of the Management of Development Funding (TMDF) for social housing and funding for Cycling Walking and Safer Routes (CWSR). All other capital grant income will only be including in the budget when timing and amount is confirmed.	Feb-23	Dec-23
Asset Sales	41.000	Sales of £4m are assumed in 24/25 based on assessment by the Head of Estates, and £3m per year from then on. Additional capital receipts relating to sales of Land at Brunstane are also anticipated over 24/25 and 25/26 totalling £10m.	Oct-23	Feb-24
Capital Fund	0.000	The capital fund contains the proceeds of previous years' asset sales. Following an anticipated drawdown in 23/24, nothing further is earmarked for the capital programme.	Oct-23	Feb-24
Developers Contributions	0.000	Expenditure budgets have not been increased for anticipated Developers Contributions and therefore reflect the net cost to the capital programme. Developers contributions are assumed at 60% of the cost of schools required by the local development plan. This was considered a prudent assumption, as contributions collected are rarely enough to cover the costs of a new school, due to timings of planning decisions and site viability issues.	Feb-23	Feb-24
Loans Fund Advances - General	480.319	Borrowing assumptions and cash flow reviewed against revenue budget framework to ensure affordability.	Oct-23	Feb-24
Loans Fund Advances – Outcome-based funding	(included in general figure above)	Learning Estate Investment Programme (LEIP) – Assumptions for Currie (£22.4m), Liberton (£14.6m) and Westerhailes (£14.6m) are based on the most recently received funding letters. Enerphit - £10m has been assumed based on the business case for the programme.	Oct-23	Feb-24
Loans Fund Advances – Prudential	20.911	This is based on approved business cases for Fleet Replacement, Depots Review, Kings Theatre and ICT programmes. Other approved budgets will be included as expenditure plans and profiles are confirmed.	Feb-23	Feb-24
Slippage	5.615	Based on previous outturn positions, it is assumed that the February budget position will slip by at least 10%. This is therefore built into the budget assumptions, moving 10% of budgeted capital expenditure into the following year. This allows us to gain a truer picture of the underlying need to borrow to finance the capital programme. Slippage Assumption Expenditure following on from the above, it is assumed that roughly half the expenditure will fall into the year immediately following the original planned budget and the remainder into the year after.	Oct-23	Feb-24

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

Details on the I4CE methodology which was used to perform the assessment can be found on Appendix 4 of the [Sustainable Capital Budget Strategy February 2023 report](#).

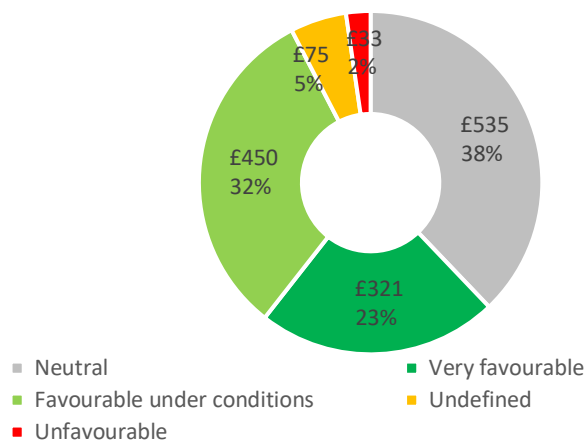


Figure 1: Climate assessment of the Capital Budget Book, total expenditure for 2024-2034. Figures in million pounds (£m)

One third of the total budget is allocated to the renovation of buildings which do not address an energy-related item such as roof upgrade, exterior walls, windows or heating. This includes most of the asset management works. This category is labelled as ‘neutral’. This budget is much higher than the budget allocated to renovations focussing on energy efficiency improvements (9% in total).

Another third is linked 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. More details about the assessment of construction projects can be found in the I4CE methodology.

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.

Top “very favourable” and “unfavourable” spends:

Project	Cumulated spend (£m) 2024-34	% of total	Justification
Road maintenance dedicated to carbon-free modes (bicycle, pedestrians, etc.) and public transport	£171m	12%	Includes £114m for carriageway and footway works. This also includes public realm improvement and placemaking projects.
Building renovation	£65m	5%	Deep energy retrofit of Council buildings
Building construction	£57m	4%	New build projects – cost differential to bring these to energy efficiency standards that exceed minimum building regulations

Project	Cumulated spend (£m) 2024-34	% of total	Justification
LDP schools – new builds	£32m	2%	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 methodology). Note: Decisions for the location of these schools have been made several years ago.
Broomhills/Frogston Primary School	£0.1m	<1%	New school not exceeding building regulations in terms of energy performance and risk of creating soil sealing