

Finance and Resources Committee

10.00am, Thursday, 25th January 2024

Capital Monitoring 2023-24 - Month Seven Position

Executive/routine
Wards

Executive
All

1. Recommendations

- 1.1 To note the capital monitoring position for the General Fund and Housing Revenue Account (HRA) at month seven of the 2023-24 financial year.
- 1.2 To note the Prudential Indicators in appendix 3.
- 1.3 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

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Report

Capital Monitoring 2023-24 - Month Seven Position

2. Executive Summary

- 2.1 The report provides the capital expenditure and funding position as at month seven and full-year outturn projections for the 2023-24 financial year, providing explanations for key variances.

3. Background

- 3.1 The [Sustainable Capital Budget Strategy 2023-33](#) was approved by Council on 23rd 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 Council also approved the [HRA Budget Strategy 2023-33](#) setting out plans for investment of £1,714.5m over the next 10 years. The strategy was updated to reflect the current financial climate and changes in assumptions regarding rental increases and the cost of borrowing.
- 3.3 The [Revised Capital Budget Strategy 2023-33](#) was presented to the Finance and Resources Committee on 21st September 2023 and reflected actual slippage and acceleration from 2022-23, additional capital funding identified and the reprofiling of budgets in line with updated projections.
- 3.4 The [Capital Monitoring 2023-24 - Month Five Position](#) was also reported to the Finance and Resources Committee on 21st November 2023.

4. Main report

Capital Monitoring 2023-24 – Month Seven Position

General Fund

- 4.1 At month 7, the General Fund expenditure is projected to be £254.8m, against a budget of £245.2m. This would result in net capital expenditure acceleration of £9.5m (3.9%). A summary is provided in Appendix 1 with the drivers being;
- 4.1.1 Castlebrae High School (acceleration £5.5m) which, as noted in the month 5 capital monitoring report, is complete and has a fully funded business case,

but is awaiting ringfenced capital receipts and a dividend from EDI that will not be fully realised this financial year.

- 4.1.2 Rising School Rolls (acceleration £6.3m) which has major works at the Royal High School and Sciennes, Castleview, Kirkliston primary schools programmed in for the year. The projected outturn has increased by £0.5m since month 5 due to works at Queensferry Primary School being added to the programme in 2023-24. A breakdown of Rising School Roll projects is included in Appendix 4.
- 4.1.3 MacMillan Hub (acceleration £1.0m) which has seen increased costs for essential works since month 5. As previously reported, it was agreed by Committee in September 2022 that expenditure relating to the Art's Centre will be front funded by the Council in lieu of contributions to be generated by North Edinburgh Arts. A standard security has been put in place to facilitate a loan to NEA.
- 4.1.4 Carriageways and Footways will see acceleration of £4.3m, as better progress is being made than budgeted to deliver planned investment.
- 4.1.5 The Active Travel programme (slippage £7.5m) projects increased in-year funding from Sustrans and the Active Travel Transformation Fund, which allows Council budgets to be realigned to match expenditure in future years.
- 4.1.6 It remains unlikely that the IMPACT Project, the Dunard Centre, will require the Council's funding contribution this year (slippage £4.0m).
- 4.2 General Fund income is expected to total £184.2m, which is in line with the revised budget. This results in a net capital requirement of £70.6m to be funded from Loans Fund Advances. This is £9.5m (15.6%) more than the revised budget, reflecting the acceleration in expenditure described above.

Housing Revenue Account

- 4.3 HRA expenditure is projected to be £124.2m against revised budget of £124.9m, slippage of £0.7m (0.5%). A breakdown is in Appendix 2.
 - 4.3.1 Housebuilding & Land (acceleration £6.0m);
 - 4.3.1.1 The opportunity to purchase 19 completed homes at [Hawthorn Gardens, South Queensferry](#), has arisen since budget setting which presents a viable option to increase HRA housing stock. This has been approved by the Finance and Resources Committee on 21st September 2023 and will cost £5.2m, funded in part by the Scottish Government fund to house Ukrainian Displaced Persons and commuted sums.
 - 4.3.1.2 There may be further opportunities within the financial year to purchase completed homes. Should these be affordable and viable to the HRA, business cases will be presented to committee requesting approval to proceed.

- 4.3.1.3 Western Villages (acceleration £2.0m) continues to progress well with the latest programme showing a further reprofiling of expenditure into 2023-24.
- 4.3.1.4 Design revisions and cost control measures are being implemented across several sites due to start this year, including Powderhall, which will lead to slippage of £1.8m.
- 4.3.1.5 Cost control work is progressing well at Silverlea, Greendykes K&L and Murrayburn with work expected to start on site early in 2024-25.
- 4.3.2 Existing homes (Slippage £6.7m);
 - 4.3.2.1 It was previously reported that the Whole House Retrofit programme in four multi storey blocks (Oxcars/Inchmickery and Craigmillar/Peffermill) has been delayed into early 2024-25. Latest cost projections following detailed surveys show slippage of £4.8m into next financial year. This was a result of current market appetite not aligning with the Council's required contracting strategy.
 - 4.3.2.2 The Health and Safety programme (Slippage £2.6m) has suffered from several challenges. Primarily, the slippage has resulted from the requirement to increase the scope of works across three large programmes.
 - 4.3.2.3 Further to this, there were delays in the completion of surveys, such as Electrical Installation Condition Reports, to allow final tender designs to be completed. There was also a significant slowdown in asbestos surveying and reporting, as the Council had to utilise the rank two asbestos contractor. The contractor has experienced significant capacity issues trying to accommodate the additional extensive workload from the Council.
- 4.4 HRA Income is expected to total £55.6m, which is £0.5m (0.8%) less than the revised budget. This would result in a net requirement of £68.6m in Loans Fund Advances, £0.2m (0.3%) less than the revised budget.

5. Next Steps

- 5.1 This report will be referred to the 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 A further report will be presented to the Finance and Resources Committee at month 12 showing the outturn position against the revised 2023-24 capital budget.
- 5.4 The Sustainable Capital Budget 2024-34 will be brought to the Finance and Resources Committee in February 2024.

6. Financial impact

- 6.1 The 2023-24 General Fund projected outturn outlines loans fund advances of £70.6m. The overall loan charges associated with this over a 30-year period would be a principal amount of £70.6m, interest and expenses of £52.8m, resulting in a total cost of £123.3m based on a loans fund interest rate of 3.92%. The average annual cost would be £4.1m for 30 years.
- 6.2 The 2023-24 HRA projected outturn outlines loans fund advances of £68.6m. The overall loan charges associated with this over a 30-year period would be a principal amount of £68.6m, interest and expenses of £64.3m, resulting in a total cost of £133.0m based on a loans fund interest rate of 4.78%. The average annual cost would be £4.4m for 30 years.
- 6.3 Borrowing required is carried out in line with the Council's approved Treasury Management Strategy.
- 6.4 The loan charge costs outlined above will be met from the general fund and HRA revenue budgets for loan charges.
- 6.5 The Council's Prudential Indicators for the Revised Budget 2023-24 are set out in Appendix 3.

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 (ICE) has been trialled to better understand the climate impacts of the Council's capital budget strategy.
- 8.2 Key findings show that, for the expected expenditure for 2023-33
 - 59 % 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
- 8.3 This analysis will be updated for the Sustainable Capital Budget 2024-34.

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 [Housing Revenue Account \(HRA\) Budget Strategy \(2023-33\)](#). Referral from Finance and Resources Committee, 23 February 2023
- 10.2 [Sustainable Capital Budget Strategy 2023-33](#). Referral from Finance and Resources Committee, 14 March 2023
- 10.3 [Capital Strategy 2023-33 – Annual Report](#). Referral from Finance and Resources Committee, 16 March 2023
- 10.4 [2022-23 Capital Outturn Month 3 Capital Monitoring and Revised 2023-33 Capital Budget Strategy](#). Finance and Resources Committee, 21 September 2023
- 10.5 [Hawthorn Gardens, South Queensferry – Proposed Acquisition of Completed Homes](#). Finance and Resources Committee, 21 September 2023
- 10.6 [Capital Monitoring 2023-24 - Month Five Position](#). Finance and Resources Committee, 21 November 2023
- 10.7 [Macmillan Hub – update on funding position](#). Finance and Resources Committee, 8 September 2022

11. Appendices

- 11.1 Appendix 1 – 2023-24 Capital Monitoring Month 7 Position – General Fund
- 11.2 Appendix 2 – 2023-24 Capital Monitoring Month 7 Position – HRA
- 11.3 Appendix 3 – 2023-24 Revised Budget Prudential Indicators
- 11.4 Appendix 4 – Rising School Rolls

Appendix 1 - 2023/24 Capital Monitoring

General Fund Summary

Period 7

| Expenditure | Approved Budget | Adjustments | Revised Budget | Actual to Date | Projected Outturn | Projected Outturn Variance | |
|----------------------------------------------------------|------------------------|--------------------|-----------------------|-----------------------|--------------------------|-----------------------------------|---------------|
| | £m | £m | £m | £m | £m | £m | % |
| Learning Estate | 90.403 | -24.272 | 66.131 | 34.856 | 74.868 | 8.738 | 13.21% |
| Edinburgh Living LLPs | 62.413 | -48.649 | 13.764 | 8.574 | 11.000 | -2.764 | -20.08% |
| Trams to Newhaven | 3.507 | 8.902 | 12.409 | 11.725 | 12.409 | 0.000 | 0.00% |
| Asset Management Works | 1.689 | 8.186 | 9.875 | 5.280 | 9.770 | -0.105 | -1.07% |
| Transport & Infrastructure | 69.438 | -0.350 | 69.088 | 43.391 | 64.264 | -4.824 | -6.98% |
| Place - Other | 49.392 | 33.210 | 82.602 | 39.995 | 77.716 | -4.886 | -5.91% |
| Corporate Services | 4.091 | -2.664 | 1.427 | 0.881 | 1.425 | -0.002 | -0.16% |
| Edinburgh Health and Social Care Partnership | 0.000 | 0.000 | 0.000 | 0.183 | 0.000 | -0.000 | -100.00% |
| Other Community | 2.065 | 3.886 | 5.951 | 3.455 | 6.719 | 0.769 | 12.91% |
| Contingency | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.00% |
| Slippage Assumption | -31.233 | 15.233 | -16.000 | 0.000 | -3.419 | 12.581 | -78.63% |
| Total Gross Expenditure | 251.764 | -6.518 | 245.246 | 148.339 | 254.753 | 9.506 | 3.88% |
| Funding | Approved Budget | Adjustments | Revised Budget | Actual to Date | Projected Outturn | Projected Outturn Variance | |
| | £m | £m | £m | £m | £m | £m | % |
| <i>Capital Receipts</i> | | | | | | | |
| General Asset Sales | 7.000 | 8.561 | 15.561 | 1.199 | 15.561 | 0.000 | 0.00% |
| Capital from Current Revenue | 0.000 | 0.492 | 0.492 | 0.000 | 0.492 | 0.000 | 0.00% |
| Other Capital Contributions (Edinburgh Living) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.00% |
| Developers Contributions Applied | 6.369 | 10.096 | 16.465 | 10.172 | 16.465 | 0.000 | 0.00% |
| <i>Total Capital Receipts from Asset Sales</i> | 13.369 | 19.149 | 32.518 | 11.371 | 32.518 | 0.000 | 0.00% |
| <i>Drawdown from/ (to) Capital Fund</i> | 27.650 | 0.000 | 27.650 | 0.000 | 27.650 | 0.000 | 0.00% |
| Total Capital Receipts and Contributions | 41.019 | 19.149 | 60.168 | 11.371 | 60.168 | 0.000 | 0.00% |
| <i>Grants</i> | | | | | | | |
| General Capital Grant | 53.382 | 1.128 | 54.510 | 28.620 | 54.510 | 0.000 | 0.00% |
| Less: Contribution to Capital Fund (Pay Award) | -9.709 | -5.625 | -15.334 | 0.000 | -15.334 | 0.000 | 0.00% |
| Capital Grants Unapplied Account | 0.000 | 8.696 | 8.696 | 0.000 | 8.696 | 0.000 | 0.00% |
| Specific Capital Grants - TMDF | 27.950 | 20.389 | 48.339 | 16.638 | 48.339 | 0.000 | 0.00% |
| Specific Capital Grants - CWSS | 2.299 | 0.000 | 2.299 | 0.773 | 2.299 | 0.000 | 0.00% |
| Specific Capital Grants - Place Based Investment Program | 1.209 | 0.004 | 1.213 | 1.226 | 1.213 | 0.000 | 0.00% |
| Specific Grants - Other | 0.000 | 24.307 | 24.307 | 17.684 | 24.307 | 0.000 | 0.00% |
| Total Grants | 75.131 | 48.899 | 124.030 | 64.940 | 124.030 | 0.000 | 0.00% |
| Total Funding | 116.150 | 68.048 | 184.198 | 76.311 | 184.198 | 0.000 | 0.00% |
| <i>Borrowing</i> | | | | | | | |
| New Prudential Borrowing in Year | 13.012 | 5.576 | 18.588 | 0.000 | 18.007 | -0.581 | -3.13% |
| New On-Lending in Year | 62.413 | -48.649 | 13.764 | 8.574 | 11.000 | -2.764 | -20.08% |
| New Capital Advance - Trams to Newhaven | 3.507 | -1.181 | 2.326 | 11.725 | 2.326 | 0.000 | 0.00% |
| New Capital Advance - General Fund | 56.682 | -30.312 | 26.370 | 51.729 | 39.222 | 12.851 | 48.73% |
| Balance to be funded through Loans Fund Advance | 135.614 | -74.566 | 61.048 | 72.028 | 70.554 | 9.506 | 15.57% |

Appendix 2 - 2023/24 Capital Monitoring

Housing Revenue Account

Period 7

| Expenditure | Approved Budget | Adjustments | Revised Budget | Actual to Date | Projected Outturn | Projected Outturn Variance | |
|------------------------------------------|-----------------|----------------|----------------|----------------|-------------------|----------------------------|--------------|
| | £m | £m | £m | £m | £m | £m | % |
| New Homes Development | 99.027 | -41.353 | 57.674 | 36.082 | 63.702 | 6.028 | 10.5% |
| New Homes Land Costs | 2.064 | 1.011 | 3.075 | 0.091 | 3.077 | 0.002 | 0.1% |
| Improvement to Council Homes and Estates | 72.271 | -8.127 | 64.143 | 27.520 | 57.428 | -6.715 | -10.5% |
| Total Gross Expenditure | 173.361 | -48.469 | 124.893 | 63.693 | 124.207 | -0.685 | -0.5% |

| Income | Approved Budget | Adjustments | Revised Budget | Actual to Date | Projected Outturn | Projected Outturn Variance | |
|--------------------------------------------------------|-----------------|----------------|----------------|----------------|-------------------|----------------------------|--------------|
| | £m | £m | £m | £m | £m | £m | % |
| Capital Funded From Revenue | 23.300 | 0.000 | 23.300 | 0.000 | 23.300 | 0.000 | 0.0% |
| Energy (HEEP:ABS) grant funding | 0.000 | 0.000 | 0.000 | 1.076 | 1.363 | 1.363 | 0.0% |
| Developer contribution/market sales | 14.520 | -6.820 | 7.700 | 5.639 | 7.224 | -0.476 | -6.2% |
| Receipts from LLPs | 45.809 | -31.059 | 14.750 | 8.011 | 10.124 | -4.626 | -31.4% |
| Scottish Government Subsidy (Social and Acquisition) | 28.051 | -17.773 | 10.278 | 7.156 | 13.564 | 3.286 | 32.0% |
| Total Income | 111.680 | -55.652 | 56.028 | 21.882 | 55.575 | -0.453 | -0.8% |
| Balance to be funded through Loans Fund Advance | 61.681 | 7.183 | 68.864 | 41.811 | 68.632 | -0.232 | -0.3% |

Appendix 3 - 2023/24 Budget Prudential Indicators**Indicator 1 - Estimate of Capital Expenditure**

The actual capital expenditure that was incurred in 2022-23 and the estimates of capital expenditure to be incurred for the current and future years:

| | Capital Expenditure - General Services | | | | | |
|--------------------------------------------------------|----------------------------------------|------------------|------------------|------------------|------------------|------------------|
| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
| | Actual £000 | Forecast £000 | Estimate £000 | Estimate £000 | Estimate £000 | Estimate £000 |
| Rolled Forward Capital Investment Programme | | | | | | |
| Learning Estate | 46,465 | 74,868 | 122,478 | 132,639 | 52,237 | 10,233 |
| Asset Management Works | 10,497 | 9,770 | 35,782 | 41,635 | 26,071 | 16,000 |
| Transport and Infrastructure | 65,393 | 64,264 | 47,574 | 31,680 | 25,633 | 25,043 |
| Place - Other Projects | 77,257 | 77,716 | 75,396 | 50,779 | 29,200 | 29,200 |
| Corporate Services | 2,304 | 1,425 | 7,449 | 669 | 678 | 615 |
| Edinburgh Health and Social Care Partnership | 1,297 | 0 | 279 | 0 | 0 | 0 |
| Other Community (inc Libraries and Sports Centres) | 3,691 | 6,719 | 1,760 | 165 | 165 | 165 |
| Trams to Newhaven | 53,419 | 12,409 | 0 | 0 | 0 | 0 |
| Edinburgh Living LLPs | 27,400 | 11,000 | 73,264 | 92,071 | 10,804 | 0 |
| Contingency | 0 | 0 | 324 | 5,000 | 5,000 | 5,000 |
| General (slippage) / acceleration across the programme | 0 | -3,419 | -28,346 | 5,775 | 14,880 | 11,601 |
| Total General Services Capital Expenditure | 287,722 | 254,753 | 335,959 | 360,411 | 164,668 | 97,857 |

The Place - Trams to Newhaven figures include capitalised interest following a change in accounting policy approved by Finance and Resources Committee on 21 January 2021. Note that the 2023-2028 Capital Investment Programme includes slippage / acceleration brought forward based on projected capital expenditure reported at the month three stage.

| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|----------------------------------------------------|---------|----------|----------|----------|----------|----------|
| | Actual | Forecast | Estimate | Estimate | Estimate | Estimate |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Rolled Forward Capital Investment Programme | | | | | | |
| Housing Revenue Account | 121,335 | 124,207 | 238,504 | 202,249 | 232,711 | 220,729 |

Indicator 2 - Ratio of Financing Costs to Net Revenue Stream

Estimates of the ratio of financing costs to net revenue stream for the current and future years and the actual figures for 2022-23 are:

| | Ratio of Financing Costs to Net Revenue Stream | | | | | |
|-------------------------------|------------------------------------------------|----------|----------|----------|----------|----------|
| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
| | Actual | Forecast | Estimate | Estimate | Estimate | Estimate |
| | % | % | % | % | % | % |
| General Services | 7.2% | 7.6% | 8.0% | 8.2% | 8.4% | 8.4% |
| Housing Revenue Account (HRA) | 33.9% | 31.4% | 33.3% | 35.7% | 38.0% | 39.1% |

Note: Figures for 2024/25 onwards are indicative at this stage as the Council has not set a General Services or HRA budget for these years.

Indicator 3 - Capital Financing Requirement

Estimates of the end of year capital financing requirement for the authority for the current and future years and the actual capital financing requirement at 31 March 2023 are:

| | Capital Financing Requirement | | | | | |
|-------------------------------------------------------------------|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
| | Actual | Forecast | Estimate | Estimate | Estimate | Estimate |
| | £m | £m | £m | £m | £m | £m |
| General Services (including Finance Leases / Right of Use Assets) | 1,500 | 1,587 | 1,690 | 1,795 | 1,805 | 1,758 |
| Housing Revenue Account (HRA) | 423 | 471 | 550 | 571 | 617 | 700 |
| NHT LLPs | 44 | 32 | 24 | 15 | 0 | 0 |
| Edinburgh Living LLPs | 59 | 69 | 142 | 232 | 240 | 237 |
| Total Capital Financing Requirement | 2,026 | 2,160 | 2,406 | 2,613 | 2,662 | 2,695 |

The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. The authority has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all of the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

The capital financing requirement for the NHT LLPs includes an estimate for repayments of advances. Exit strategies are still to be finalised for the remaining three LLPs, however five have now repaid their loans in full.

CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence.

In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

| | Gross Debt and the Capital Financing Requirement | | | | | |
|---------------------------------|--------------------------------------------------|------------|------------|------------|------------|------------|
| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
| | Actual | Forecast | Estimate | Estimate | Estimate | Estimate |
| | £m | £m | £m | £m | £m | £m |
| Gross Debt | 1,783 | 1,910 | 2,023 | 2,079 | 2,087 | 2,094 |
| Capital Financing Requirements | 2,026 | 2,160 | 2,406 | 2,613 | 2,662 | 2,695 |
| (Over) / under limit by: | 243 | 250 | 383 | 534 | 575 | 601 |

The authority does not currently envisage borrowing in excess of its capital financing requirement over the next few years. This takes into account current commitments, existing plans and assumptions around cash balances and the proposals in this budget. The figures do not include any expenditure and associated funding requirements, other than projects specifically approved by Council, for the Local Development Plan (LDP) or City Deal.

From 2022/2023, the Authority has applied IFRS 16 Leases as adopted by the Code of Accounting Practice. This will subsequently have an impact on the Capital Financing Requirement (CFR) as from the 2022/23 financial year. The capital financing requirement has been adjusted by £51m for 'Right of Use Assets' under IFRS16. This will similarly have an impact on the authorised limit and operational boundary for external debt.

Indicator 4 - Authorised Limit for External Debt

The authorised limit should reflect a level of borrowing which, while not desired, could be afforded, but may not be sustainable. "Credit Arrangements" as defined by Financial Regulations, has been used to calculate the authorised and operational limits requiring both the short and long term liabilities relating to finance leases and PFI assets to be considered. These limits separately identify borrowing under credit arrangements including finance leases and PFI assets. Council has delegated authority to the Service Director for Finance and Procurement, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and credit arrangements, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the Council at its meeting following the change.

| | Authorised Limit for External Debt | | | | | |
|----------------------------------------------------------------|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
| | £m | £m | £m | £m | £m | £m |
| Borrowing | 1,900 | 2,112 | 2,454 | 2,801 | 2,928 | 2,980 |
| Credit Arrangements (including leases and Right of Use assets) | 328 | 405 | 394 | 384 | 377 | 372 |
| Authorised Limit for External Debt | 2,227 | 2,517 | 2,847 | 3,185 | 3,306 | 3,352 |

These authorised limits are consistent with the authority's current commitments, existing plans and the proposals in this budget for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of most likely (but not worst case) scenario with sufficient headroom to allow for operational treasury management. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

Indicator 5 - Operational Boundary for External Debt

The operational boundary equates to the estimated maximum of external debt. It is based on the same estimates as the authorised limit but reflects directly the estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements. The operational boundary represents a key management tool for in year monitoring. Within the operational boundary, figures for borrowing and credit arrangements are separately identified. The Council has also delegated authority to the Service Director for Finance and Procurement, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and credit arrangements, in a similar fashion to the authorised limit. Any such changes will be reported to the Council at its next meeting following the change.

| | Operational Boundary for External Debt | | | | | |
|-----------------------------------------------|----------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
| | £m | £m | £m | £m | £m | £m |
| Borrowing | 1,850 | 2,062 | 2,404 | 2,751 | 2,878 | 2,930 |
| Credit Arrangements (including leases) | 328 | 405 | 394 | 384 | 377 | 372 |
| Operational Boundary for External Debt | 2,177 | 2,467 | 2,797 | 3,135 | 3,256 | 3,302 |

The Council's actual external debt at 31 March 2023 was £1,783m (including sums repayable within 12 months).

Indicator 6 - Loans Charges Associated with net Capital Investment expenditure plans

The authority can set its own local indicators to measure the affordability of its capital investment plans. The Service Director for Finance and Procurement considers that Council should be advised of the loans charges cost implications which will result from the spending plans being considered for approval. These cost implications have been included in the Council's Revenue and HRA budgets for 2023-24 and for future years will be considered as part of the longer term financial frameworks.

| | Loans Charges Liability | | | | | |
|----------------------------------------------------------------------------------------|-------------------------|----------|----------|----------|----------|----------|
| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
| | Estimate | Estimate | Estimate | Estimate | Estimate | Estimate |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| General Services (excluding On-Lending and Tram to Newhaven) - New Loans Fund Advances | | | | | | |
| Loans Fund Advances in year | 42,890 | 57,229 | 170,661 | 175,897 | 82,670 | 26,663 |
| Year 1 - Interest Only | 858 | 1,145 | 3,413 | 3,518 | 1,653 | 533 |
| Year 2 - Interest and Principal Repayment | 3,145 | 4,197 | 12,515 | 12,899 | 6,062 | 1,955 |
| Housing Revenue Account (HRA) - New Loans Fund Advances | | | | | | |
| Loans Fund Advances in year (excl. LLP programme *) | 46,777 | 68,632 | 100,207 | 45,137 | 70,986 | 110,480 |
| Year 1 - Interest Only | 994 | 1,458 | 2,129 | 959 | 1,508 | 2,348 |
| Year 2 - Interest and Principal Repayment | 1,988 | 2,917 | 4,259 | 1,918 | 3,017 | 4,695 |

* The loans charges associated with the borrowing required for the house building programme for onward transferred to the LLPs will be met from the LLPs and does therefore not have a net impact on the HRA or General Services revenue budget. Tram repayments are based on the income model and will commence from 2023/24 as the line to Newhaven is operational.

Consideration of options for the capital programme

In considering its programme for capital investment, Council is required within the Prudential Code to have regard to:

- affordability, e.g. implications for Council Tax or house rents;
- prudence and sustainability, e.g. implications for external borrowing;
- value for money, e.g. option appraisal;
- stewardship of assets, e.g. asset management planning;
- service objectives, e.g. strategic planning for the authority;
- practicality, e.g. achievability of the forward plan.

Appendix 4 - Rising School Rolls

| | <u>Forecast Cost</u> <u>(£m)</u> | <u>Commentary</u> |
|-------------------------------|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| Includes No TUs | | |
| Frogston PS | 5.646 | Permanent Works |
| Darroch Refurbishmer | 0.730 | Permanent Works |
| South Morningside PS | 0.250 | Permanent Works |
| Firhill HS | 0.010 | Permanent Works |
| Includes Purchased TUs | | |
| Castleview PS | 1.159 | Cost relates to temporary units (6 classrooms) ahead of new Greendykes PS |
| Kirkliston | 5.199 | Cost relates to permanent works: 4 x TU interim classrooms purchased in prior year. |
| Includes Hired TUs | | |
| The Royal HS | 3.524 | Cost primarily relates to permanent modular building. Small cost for 6 temporary unit classrooms. |
| Sciennes PS | 1.436 | Cost relates to permanent works. TU has now been removed. |
| Queensferry PS | 0.600 | Cost primarily relates to permanent works. Alternative building being used in the interim, with TU required for toilet block. |
| Balerno HS | 0.106 | Cost relates to TU hire. Installed for Asset Management Works project but retained by RSR until permanent works |
| Dean Park PS | 6.338 | Cost primarily relates to permanent works. TUs Installed for Asset Management Works project, retained by RSR until permanent works |
| Total Expenditure | 24.999 | |