City of Edinburgh Council

10.00am, Thursday, 21 March 2024

Capital Strategy 2024-34 – Annual Report – referral from the Finance and Resources Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1 The Finance and Resources Committee has referred the Capital Strategy 2024-34 – Annual Report, to the Council for approval.

Dr Deborah Smart
Executive Director of Corporate Services

Contact: Louise Williamson, Assistant Committee Officer
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Referral Report

Capital Strategy 2024-34 – Annual Report – referral from the Finance and Resources Committee

2. Terms of Referral

2.1 On 14 March 2024, the Finance and Resources Committee considered the Capital Strategy 2024-34 – Annual Report. The capital strategy provided a high-level overview of how capital expenditure, capital financing and treasury management activity contributed to the infrastructure and provision of services for the benefit of Edinburgh communities and citizens.

2.2 **Motion**

1) To note the Capital Strategy, as set out in Appendix 1 to the report by the Executive Director of Corporate Services.

2) To refer the report to full Council for approval of the Capital Strategy.

3) To refer the report to the Governance, Risk and Best Value Committee as part of its work programme.

4) To note that capital expenditure priorities were being considered in line with the Council's priorities and the Council Business Plan.

5) To note that a fundamental review of the Capital Strategy would be carried out as part of the budget process for 2025-26.

- moved by Councillor Watt, seconded by Councillor Dalgleish

Amendment

1) To note the Capital Strategy, as set out in Appendix 1 to the report by the Executive Director of Corporate Services.

2) To refer the report to full Council for approval of the Capital Strategy.

3) To refer the report to the Governance, Risk and Best Value Committee as part of its work programme.

4) To note that capital expenditure priorities were being considered in line with the Council's priorities and the Council Business Plan.

5) To note that a fundamental review of the Capital Strategy would be carried out as part of the budget process for 2025-26.

6) Notes that in January, Policy and Sustainability “notes with concern that 40% of the Council’s capital budget for 2024-2034 is considered as neutral or unfavourable to its climate ambitions.”

7) Notes with concern that the revised figures for this updated report show that 46% of the capital budget from 2024-2034 is now neutral or unfavourable.

8) Agrees that the recommended “Ways to improve this assessment” in appendix 2 are taken forward by the relevant directorates and reported on in the business bulletins of relevant committees, as well as being included in the capital strategy review, with the aim of transferrin the neutral and unfavourable spends into favourable spends.

9) Further agrees that for the 7% unfavourable spend, measures are investigated such as additional biodiversity measures in new-build schools to mitigate for soil sealing.

10) Additionally, notes that Council has asked that “the processes around capital budgeting and capital strategy for health & social care be documented in the appropriate workstreams” within the Integration Joint Board.

11) Therefore asks that a similar measure be undertaken for Council workstreams and consideration given to a capital strategy for health and social care within the review being carried out as part of the 2025-6 budget process.

- moved by Councillor Mumford, seconded by Councillor Staniforth

In accordance with Standing Order 22(13), the amendment was accepted as an addendum to the motion.

Decision

To approve the following adjusted motion by Councillor Watt:

1) To note the Capital Strategy, as set out in Appendix 1 to the report by the Executive Director of Corporate Services.

2) To refer the report to full Council for approval of the Capital Strategy.

3) To refer the report to the Governance, Risk and Best Value Committee as part of its work programme.

4) To note that capital expenditure priorities were being considered in line with the Council’s priorities and the Council Business Plan.

5) To note that a fundamental review of the Capital Strategy would be carried out as part of the budget process for 2025-26.

6) To note that in January, Policy and Sustainability “notes with concern that 40% of the Council’s capital budget for 2024-2034 is considered as neutral or unfavourable to its climate ambitions.”

7) To note with concern that the revised figures for this updated report showed that 46% of the capital budget from 2024-2034 was now neutral or unfavourable.

8) To agree that the recommended “Ways to improve this assessment” in appendix 2 to the report by the Executive Director of Corporate Services be taken forward by the relevant directorates and reported on in the business bulletins of relevant committees, as well as being included in the capital strategy review, with the aim of transferring the neutral and unfavourable spends into favourable spends.

9) To further agree that for the 7% unfavourable spend, measures be investigated such as additional biodiversity measures in new-build schools to mitigate for soil sealing.

10) Additionally, to note that Council had asked that “the processes around capital budgeting and capital strategy for health and social care be documented in the appropriate workstreams” within the Integration Joint Board.

11) To therefore ask that a similar measure be undertaken for Council workstreams and consideration given to a capital strategy for health and social care within the review being carried out as part of the 2025-6 budget process.

3. Background Reading/ External References

3.1 Finance and Resources Committee – 14 March 2024 - Webcast

3.2 Minute of the Finance and Resources Committee – 14 March 2024

4. Appendices

Appendix 1 – Report by the Executive Director of Corporate Services

Finance and Resource Committee

10am, Thursday, 14 March 2024

Capital Strategy 2024-34 – Annual Report

Executive/routine
Wards

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 programme;

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

1.5 To note that a fundamental review of the Capital Strategy will be carried out as part of the budget process for 2025-26.

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Dr Deborah Smart

Executive Director of Corporate Services

Contact: Richard Lloyd-Bithell

E-mail: richard.lloyd-bithell@edinburgh.gov.uk

Report

Name of 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 the Capital Strategy Annual Report 2023-33 at its meeting of 16 March 2023. This report seeks approval of the updated Capital Strategy for 2024-34.

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 2024-2034
- Annual Treasury Management Strategy (on this agenda)

- Revenue Budget and Medium Term Financial Plan (MFTP) 24-29 – progress update
- Revenue Budget 2024/25 – Risks and Reserves
- Housing Revenue Account (HRA) Budget Strategy (2024-34)
- The Corporate Property Strategy
- Council Business Plan 2023-27
- City Plan 2030
- Council Commercial Property Portfolio Report
- City Mobility Plan (CMP)
- 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 a fundamental review being carried out as part of the 2025-6 budget process to ensure the strategy is fully aligned with Council priorities.

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 6 February and subsequently at the Council's budget setting meeting on 22 February 2024

7. Equality and Poverty Impact

7.1 The Capital Strategy is aligned to the Council's Business Plan 2023-7 and its core priorities, including the ambition to end poverty in Edinburgh.

7.2 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 The Council has assessed its capital budget strategy against the methodology developed by the Institute for Climate Economics (I4CE) to assess alignment of spending with our net zero ambition. Key findings show that, for the expected expenditure for 2024-34 (a total of £1.5bn analysed):

- 54% of the total investment (£ 771m) is labelled as either "favourable under conditions", or "very favourable" according to the I4CE methodology (this covers expenditure which will help reducing emissions, e.g. building retrofit, public realm and active travel projects, Low Emission Zone (LEZ) development, maintenance of green spaces);
- 39% is considered as neutral or undefined; and
- 7% is unfavourable.

8.2 More detail on how the Capital Strategy seeks to address the Climate and Nature Emergencies is set out in paragraphs 4.16 to 4.22 of Appendix 1, with further analysis provided in Appendix 2.

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

9.1 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.

9.2 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.

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

10. Background reading/external references

10.1 Sustainable Capital Budget Strategy 2024-2034, City of Edinburgh Council, 22 February 2024 (referral from Finances and Resources Committee)

10.2 Annual Treasury Management Strategy (on this agenda)

10.3 Revenue Budget and Medium Term Financial Plan (MFTP) 24-29 – progress update, City of Edinburgh Council, 22 February 2024 (referral from Finances and Resources Committee)

10.4 Revenue Budget 2024/25 – Risks and Reserves, City of Edinburgh Council, 22 February 2024 (referral from Finances and Resources Committee)

10.5 Housing Revenue Account (HRA) Budget Strategy (2024-34) , City of Edinburgh Council, 22 February 2024 (referral from Finances and Resources Committee)

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

10.7 The Corporate Property Strategy , Policy and Sustainability Committee, 22 August 2023

10.8 Council Commercial Property Portfolio, Finance and Resources Committee 20 June 2023

10.9 City Plan 2030, September 2021

10.10 City Mobility Plan (CMP), February 2021

10.11 2030 Climate Strategy and Implementation Plan, Policy and Sustainability Committee, 30 November 2021

11. Appendices

Appendix 1: Detailed Sustainable Capital Strategy 2024-34

Appendix 2: Climate Assessment of Local Authority Budgets – I4CE methodology – Key Findings

Appendix 1: Sustainable Capital Strategy 2024-34

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 2024 to 2034.

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, as amended by the budget meeting of 22 February 2024, sets out priorities for £1,491 m of council capital investment, in alignment with the Council Business Plan, over the long-term.

1.5 The Housing Revenue Account (HRA) Budget Strategy sets out priorities for £3,772m 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 7% rent increase, all existing Council homes could be brought up to the Energy Efficiency Standard for Social Housing (EESSH2) over the lifetime of the Business Plan and 4,300 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 strategy assumes that some priorities, including expenditure required to address the climate and nature emergencies, will need to be funded primarily from external funding unless significant realignment of existing budgets is undertaken.

1.8 The wider financial implications of City Plan 2030 infrastructure requirements will also have some impact on the 2024-34 Capital Budget Strategy. The proposed City Plan 2030 was submitted for examination by Scottish Ministers on 9 December 2022. The Report of Examination is expected in March 2024, following which the plan will be finalised to incorporate required changes and detailed modelling will be undertaken to understand the financial implications for the Council.

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 growth is accompanied by pressure on city communities, housing, and the 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 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

Council Business Plan

4.1 The Council Business Plan 2023-27 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.

4.2 Our three core priorities are to:

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

4.3 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.

4.4 In order to be successful, these priorities must be delivered through the lens of climate and social justice. The actions set out in the business plan 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.

4.5 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.

4.6 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.

Sustainable Place Making and Mobility

4.7 Central to achieving the net-zero target are the Council's emerging City Plan 2030, City Mobility Plan (CMP), 20 Minute Neighbourhood Strategy, Our Future Streets, and Edinburgh City Centre Transformation (ECCT).

4.8 CMP sets out the Council's strategic approach to sustainable, safe and effective movement of people and goods in Edinburgh up to 2030. It includes a detailed Implementation Plan setting out the key actions required to deliver CMP objectives. Actions include delivering ECCT, the city centre Low Emission Zone and reallocating street space (Our Future Streets),

4.9 Our Future Streets is a framework setting out a citywide strategic approach to allocating street space, with specific focus on the city centre, corridors and neighbourhoods. The framework ensures a rational, consistent approach to prioritising the most sustainable travel modes and placemaking.

4.10 The 20 Minute Neighbourhood concept is about making inclusive places where everyone can have better access to essential local services, facilities and open spaces, while enjoying excellent transport and active travel links to the rest of the city.

4.11 ECCT sets out programme to enhance public spaces to better support life in the city centre, by prioritising movement on foot, by bike and by public transport.

4.12 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.

4.13 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. The Report of Examination is expected in March 2024, following which the plan will be finalised to incorporate required changes and detailed modelling will be undertaken to understand the financial implications for the Council.

4.14 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.

4.15 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.

Sustainability

4.16 Edinburgh is a thriving city and is home to businesses from many industries who are driving innovation and solutions to help tackle the climate crisis and support the city's target of net-zero emissions 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 the impacts of climate change and build a better future for our citizens. The Edinburgh Climate Compact, a cross-sector network established in 2020 to take climate action and share best practice, currently counts 27 signatories. Many of the partners who contributed to the initial development of the 2030 Climate Strategy, continue to work closely with the Council through the Net Zero Edinburgh Leadership Boad (NZELB). The NZELB is the main avenue through which partners are meeting to collaborate and contribute to actions in the climate strategy, with the group meeting quarterly. There are many innovative and exciting projects being undertaken in the city to support Edinburgh's net-zero commitment.

4.17 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 delivering the 2030 Climate Strategy and the Climate Ready Edinburgh plan – which aims to deal with the impacts of climate change - is likely to be significant but is still to be funded.

4.18 Whilst unquantified specifically for Edinburgh, the financial risk of inaction on climate change is significant. The future costs of the impacts of climate change are expected to far exceed the current costs of funding the transition[1]. To better understand the cost of inaction locally, some costing for adaptation has been done as part of the Climate Change Risk Assessment which was presented to Policy & Sustainability Committee in December 2023.

4.19 The Council has assessed its capital budget strategy against the methodology developed by the Institute for Climate Economics (I4CE) to assess alignment of

[1] Source: Rising J, Dietz S, Dumas M, Khurana R, Kikstra J, Lenton T, Linsenmeier M, Smith C, Taylor C, Ward B (2022) What will climate change cost the UK? Risks, impacts and mitigation for the net zero transition. London: Grantham Research Institute on Climate Change and the Environment, London School of Economics and Political Science. "Combined, the net-zero transition (estimated to cost a maximum of 2% of UK GDP) is expected to have a net benefit of around 4% of GDP."

spending with our net zero ambition. Key findings show that, for the expected expenditure for 2024-34 (a total of £1.5bn analysed):

- 54% of the total investment (£ 771m) is labelled as either "favourable under conditions", or "very favourable" according to the I4CE methodology (this covers expenditure which will help reducing emissions, e.g. building retrofit, public realm and active travel projects, Low Emission Zone (LEZ) development, maintenance of green spaces);
- 39% is considered as neutral or undefined; and
- 7% is unfavourable.

Further analysis of these results is included in Appendix 2.

4.20 Work is ongoing to ensure more effective read across between the Council Business Plan and the revenue and capital budget planning process. The Sustainable Capital Strategy report presented to Finance and Resources Committee on 6 February highlighted a list of unfunded sustainability pressures (see Appendix 5) which can help political groups in the preparation of budget motions for the Council's 2024/25 budget.

4.21 However, even further allocation of Council funding will not be enough to deliver the 2030 Climate Strategy in full. While many of the short-term actions outlined in the plan have resources assigned, or are supported by external funding, additional investment will be required to secure change at the pace needed to remain within the city's carbon budget. The corporate sustainability team will continue to take advantage of opportunities to leverage new forms of innovative financing. This will include working with partners through the Net Zero Edinburgh Leadership Board to develop a pipeline of business cases to apply for external funding and, where feasible, secure investment.

Other Key Plans and Policies

4.22 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 2024-2034
- Annual Treasury Management Strategy
- Revenue Budget and Medium Term Financial Plan (MFTP) 24-29 – progress update
- Revenue Budget 2024/25 – Risks and Reserves
- Housing Revenue Account (HRA) Budget Strategy (2024-34)
- The Corporate Property Strategy

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.

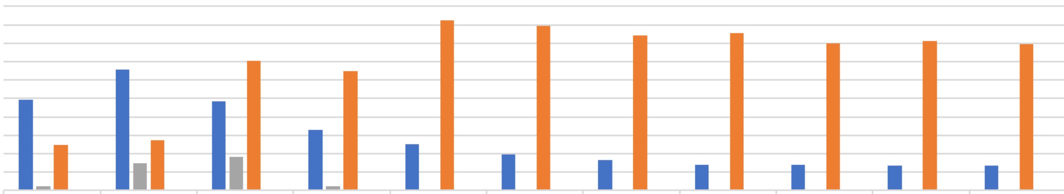
5.2 The Council's policy on capitalisation complies with the accounting requirements for local authorities and is set out in its Audited Annual Accounts.

5.3 The Sustainable Capital Budget Strategy 2024-2034, sets out capital expenditure and funding of £1,452m 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 22 February 2024, where the Council voted to add a further £41m, revising the total to £1,491m. Funding assumptions will be kept under review, and capital expenditure plans remain contingent on the strategy continuing to be affordable.

5.4 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 commitments and emerging pressures. 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.

5.5 In the period 2024-34, the Council is planning total capital expenditure across the General Fund, HRA and Leases of £5,283m. Whilst the later years are only indicative at present, they are summarised below:

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



	Forecast 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	Budget 2033/34
General Fund Services	246.621	328.309	242.491	164.646	125.998	98.570	81.811	68.842	69.303	67.575	67.575
General Fund On-lending	11.000	73.264	92.071	10.804	0.000	0.000	0.000	0.000	0.000	0.000	0.000
HRA - Council Housing	124.207	136.193	351.696	323.530	461.569	447.140	421.992	427.036	399.954	405.193	397.707
PPP and Similar Assets	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000

5.6 Significant General Fund capital projects through the 2024-34 strategy include[2]:

- Learning Estate - £358m

- Asset Management Works and Retrofit - £228m
- Investment in Roads and Transport Infrastructure (including North Bridge) - £249m

Housing Revenue Account

5.7 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.

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[2] 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.

5.8 The Housing Revenue Account (HRA) Budget Strategy (2024-34), amended by the approved the Council budget motion of 22 February 2024 sets out planned capital investment of £1,720m over the next five years, rising to £3,772m 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 2024/25 £m	2 2025/26 £m	3 2026/27 £m	4 2027/28 £m	5 2028/29 £m	***5 Year Total***	6 to 10 2029/30 to 2033/34 £m	***10 Year Total***
Programme Expenditure								
New Homes Development	74.069	210.628	172.152	300.597	287.632	1,045.078	1,256.513	2,301.591
New Home Land Costs	-	-	17.150	17.150	17.150	51.450	85.950	137.400
Tenant's Homes & Services & Maintenance	11.790	26.821	26.460	27.331	26.998	119.400	134.170	253.570
External Fabric and Estates & Acquisitions	50.334	114.247	107.768	116.491	115.360	504.200	575.249	1,079.449
Total Expenditure	136.193	351.696	323.530	461.569	447.140	1,720.128	2,051.882	3,772.010
Programme Resources								
Prudential Borrowing	71.293	237.496	202.468	211.526	198.641	921.424	1,094.431	2,015.855
Council Tax Discount Fund	3.300	3.300	3.300	3.300	3.300	16.500	15.300	31.800
Capital Receipts and Other Incomes	4.567	0.830	24.075	21.176	24.326	74.974	54.398	129.372
Receipts from LLPs	36.818	57.376	50.392	130.664	153.935	429.185	586.095	1,015.280
Scottish Government Grant (affordable housin	16.215	48.694	39.295	90.903	62.938	258.045	281.658	539.703
Scottish Government Grant (WHR)	4.000	4.000	4.000	4.000	4.000	20.000	20.000	40.000
Total Funding	136.193	351.696	323.530	461.569	447.140	1,720.128	2,051.882	3,772.010

5.9 This investment contributes to 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.

5.10 The HRA Budget Strategy 2024-34 will also be a catalyst for wider area improvements; including the regeneration of Granton Waterfront, Pennywell, Craigmillar, Meadowbank, Fountainbridge, Powderhall and Wester Hailes

5.11 Within the Council's housebuilding programme, there are currently over 508 new affordable homes on site and under construction and a further 3,682 homes in design and pre-construction stage. This does not include homes being delivered for private sale or market rent through Council-led developments.

Edinburgh Living (Limited Liability Partnerships)

The Council also uses general fund resources to increase the provision of affordable housing in the city, through lending to Edinburgh Living (LLPs) with £1,015m 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 to the HRA. Further discussion will be required with the Scottish Government for any extension or increase of borrowing in respect of Edinburgh Living.

Identifying Capital Priorities

5.12 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

5.13 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	Forecast 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	138.957	104.630	138.519	107.870	159.478	131.513	124.802	132.320	122.364	122.490
Asset Sales	56.567	67.638	75.566	83.769	158.145	184.566	128.718	130.967	133.173	135.210
Capital Fund	27.650	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
PPP and similar arrangements	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000
On-Lending	11.000	73.264	92.071	10.804	0.000	0.000	0.000	0.000	0.000	0.000
Loans Fund Advances	147.654	292.234	380.103	296.537	269.943	229.630	250.283	232.591	213.720	215.068
Total	**383.828**	**539.766**	**688.258**	**500.980**	**589.567**	**547.710**	**505.803**	**497.878**	**471.257**	**474.768**

5.14 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

5.15 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.

5.16 For capital advances relating to loans to the Edinburgh Living LLPs 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.

5.17 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.

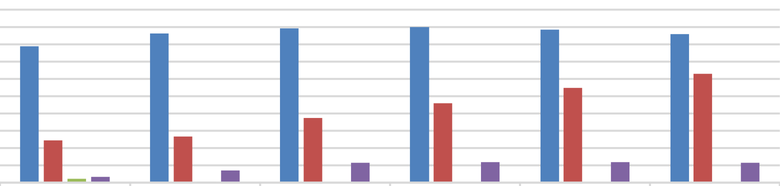
International Financial Reporting Standard (IFRS) 16 - Leases

5.18 For its 2022-23 financial statements, the Authority has adopted the provisions of IFRS 16 Leases, as set out in the Code of Accounting Practice. The de minimis limit for IFRS 16 is set at £10,000, in line with the capital expenditure de minimis. The Council's balance sheet now includes £51m of right of use assets.

Capital Financing Requirement

5.19 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



	Forecast 2023/24	Budget 2024/25	Budget 2025/26	Budget 2026/27	Budget 2027/28	Budget 2028/29
General Fund Services (including Leases)	1,577	1,725	1,785	1,795	1,768	1,714
HRA - Council Housing	488	536	748	921	1,098	1,257
NHT LLPs	44	9	0	0	0	0
Edinburgh Living LLPs	69	142	232	239	236	233

General Fund Services (including Leases)   HRA - Council Housing   NHT LLPs   Edinburgh Living LLPs

Corporate Property Strategy

5.20 The Corporate Property Strategy was approved by the Policy and Sustainability Committee on 22 August 2023. The Corporate Property Strategy vision is to create a smaller, modern, more efficient, and carbon neutral property estate that supports the delivery of outcomes in the Council's Business Plan and Medium-Term Financial Plan MTFP. The Corporate Property Strategy provides the overarching framework for the Council's operational property estate. The strategy is intended to act as a policy framework which outlines the main strategic objectives and themes that the Council will follow in implementing changes to its operational property estate.

5.21 The themes of the Strategy are interlinked and interdependent and connect to all Council major strategies and policies that assist with delivery of the priorities and outcomes in the Council Business Plan.

5.22 The principal strategic themes of the Strategy are:

- Live Well Locally - property solutions to support 20-minute neighbourhoods;
- Our Future Work - new ways of working (which are emerging following the COVID-19 pandemic and other flexible working arrangements);
- Net Zero Properties - delivering and maintaining a Sustainable Corporate Property Estate

5.23 The Corporate Property Strategy is not a list of projects which have already been developed and require to be implemented. Rather it sets 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.

5.24 The Council spends £100m a year running the buildings it owns. The Council aims 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.

5.25 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.

5.26 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 2024-34 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.

5.27 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. The last update report on Delivering the 20-Minute Neighbourhood Strategy was considered by the Culture and Communities Committee in August 2023.

5.28 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.

5.29 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. Corporate Property Strategy project business cases will be developed and aligned to the outcomes of service reviews across the Council – e.g. Libraries, Communities Centres and Culture, Museums and Galleries. Specific governance arrangements are in place to support the delivery of the Corporate Property Strategy, which are linked to the existing governance arrangements for the 20- minute neighbourhood strategy, other change initiatives and the Council's sustainability programmes to ensure any service delivery requirements are fully integrated. The following governance structure have been created to ensure all business cases are fully scrutinised.

- **Corporate Property Investment Gateway (CPIG) – Stage 1** - All operational corporate estate matters as detailed below, must come to the Corporate Property Investment Gateway (CPIG) for sign off before, before it can proceed to the Corporate Property Strategy Board for approval.
- **Corporate** Property **Board (CPB) - Stage 2** - Overall governance will be managed via the Board. The purpose of the Board is to ensure the Council's planning and adoption of the Corporate Property Strategy is coordinated and managed**.**

5.30 All operational corporate estate matters as detailed below, must come through the Corporate Property Governance Structure for approval.

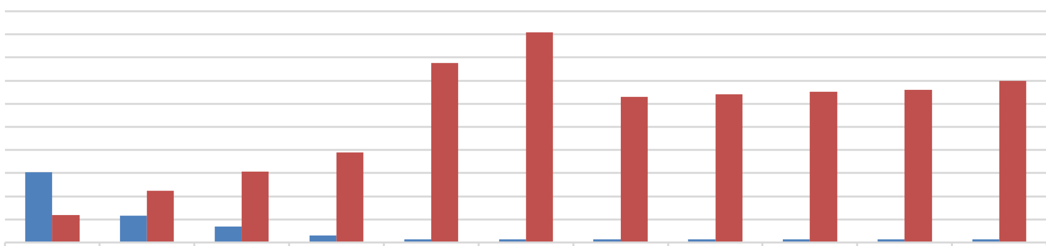
- Lease agreements with external partners,
- Accommodation requests from Council Departments, NHS, and partner agencies,
- Property alteration/refurbishment,
- Property investment,
- Property rationalization
- New property proposals.

5.31 When necessary business cases and other property requests will be submitted to the appropriate executive committee for final approval.

Asset Disposals

5.32 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 £64 m of capital receipts in the General Fund in the years 2024-25 to 2033-34 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



	Forecast 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	Budget 2033/34
General Fund	60.569	22.953	14.060	6.002	3.005	3.005	3.000	3.000	3.000	3.000	3.000
HRA	23.648	44.685	61.506	77.767	155.140	181.561	125.718	127.967	130.173	132.210	139.725

6. Treasury Management

Treasury Management

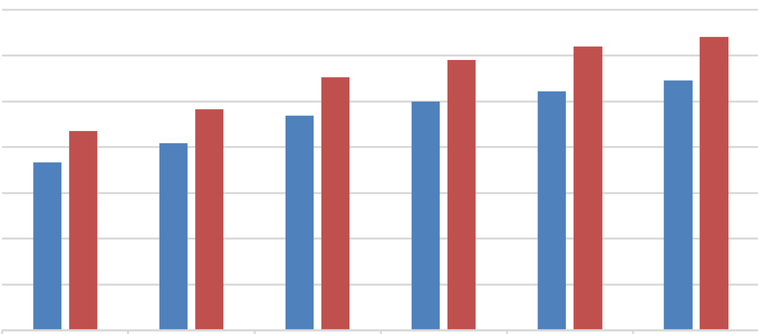
6.1 Treasury management's role is to keep sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in 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 While interest rates have been high throughout the year, a temporary dip in Gilt yields in December allowed the Council to take two tranches of £25m in borrowing from the PWLB. This borrowing was at the lower HRA rate which was sub-4% at the time. In the previous 3 years the Council had borrowed nearly £500million mitigating a significant amount of the Council's interest rate risk. Since then, the Council has been reducing its investments to temporarily fund capital expenditure. However, this is not sustainable given the magnitude of the Council's Capital Financing Requirement. During February 2024 it was forecast that resources would not this sustain this approach through year end and £20m of short-term tactical borrowing was drawn down from the PWLB. Rates are projected to fall later in 2024 and it is likely that the Council will need to take further short tactical borrowing during the first half of the year.

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



	Forecast 2023/24	Budget 2024/25	Budget 2025/26	Budget 2026/27	Budget 2027/28	Budget 2028/29
Debt (inc. PPP & Leases)	1,835	2,041	2,346	2,497	2,612	2,728
Capital Financing Requirement	2,178	2,411	2,765	2,955	3,102	3,204

Debt (inc. PPP & Leases) Capital Financing Requirement

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.

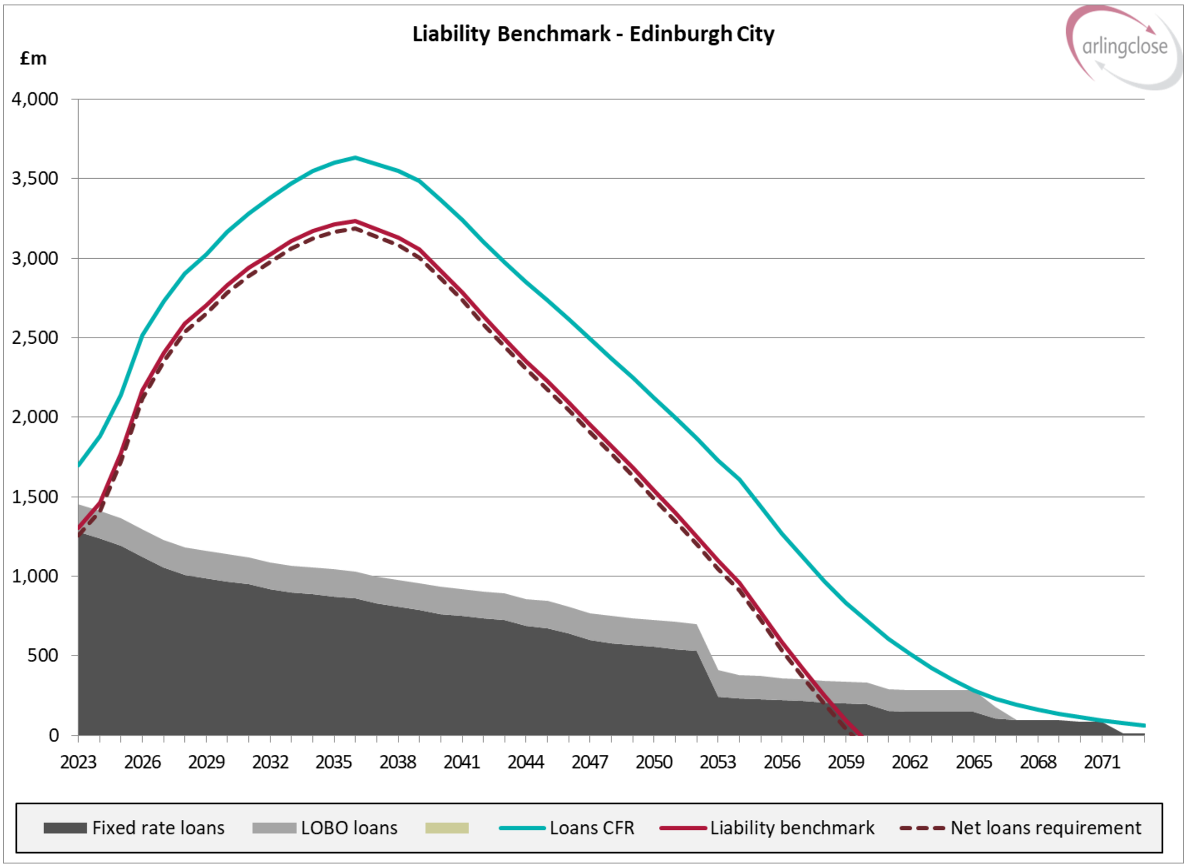
6.5 From 2022-23 onwards, the values for both the Debt and the Capital Financing Requirement are higher than they would otherwise have been for technical accounting reasons due to the adoption of the IFRS16 accounting standard and the review of the accounting treatment of service provisions. Neither 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 Liability 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 substantial additional borrowing in the capital programme is delivered as anticipated.

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

	2023/24 Limit	2024/25 Limit	2025/26 Limit	2026/27 Limit	2027/28 Limit	2028/29 Limit
Authorised Limit – Borrowing	2,119	2,461	2,869	3,122	3,306	3,435
Authorised Limit – PFI, Leases & ROU Assets	394	377	362	350	341	333
Authorised Limit – Total External Debt	**2,513**	**2,838**	**3,231**	**3,472**	**3,647**	**3,769**
Operational Boundary – Borrowing	2,069	2,411	2,819	3,072	3,256	3,385
Operational Boundary – PFI, Leases & ROU Assets	394	377	362	350	341	333
Operational Boundary – Total External Debt	**2,463**	**2,788**	**3,181**	**3,422**	**3,597**	**3,719**

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 held interest rates at 5.25% since September 2023 after 14 consecutive rate increases in UK Bank Rate. 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. However, the notice accounts with other Council mitigated some of the effects of rate increases in 2023 and the duration calls taken with UK Government Treasury Bills and Scottish Local Authorities has added to relative performance.

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

Service Investments – Council Subsidiaries

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.

Service Investments – Property

7.3 The Council retains a property investment portfolio to promote economic development and support cultural and community organisations, 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. £15.7m per annum. Demand for units which become available remains robust and overall vacancy rates extremely low for a portfolio of its size The portfolio is estimated to have a value of c. £240m.

7.4 In addition to rental income received from property, the advertising contract with JC Decaux brings in circa £2m per annum, as well as ensuring the city's bus shelters are clean and well-maintained.

7.5 With economic development being the main objective, the Council accepts higher risk on commercial investment than 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 quasi-commercial basis. The approach to managing the portfolio is set out in the Council Commercial Property Portfolio Report, 20 June 2023.

7.6 Decisions on property 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 is also capital expenditure and purchases will therefore also be approved as part of the capital programme.

7.7 The council also derives income from 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

7.8 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.

7.9 The Council's Revenue Budget Framework and Medium-Term Financial Plan sets out anticipated revenue costs and funding over the short-to medium-term and includes the costs of financing the general fund capital expenditure outlined in this strategy. While the framework is balanced for 2024-25, there are significant challenges in future years with the annual gap increasing to £143m by 2028-29. Should this deficit not be closed, it may be necessary to make reductions to capital expenditure plans.

7.10 In a similar vein, the HRA Business Plan sets out how capital expenditure can be funded from rents over a 30 year period. Should rent not increase at the level set out in the plan, capital investment will need to be scaled back.

Risks and Reserves

7.11 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 6 February 2024 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.

7.12 The report noted that while the level of unallocated reserves at 31 March 2023 was less than 2% of planned annual expenditure, it was considered reasonable given the Council's prudent approach to reserves management.

7.13 The report also outlined the maintenance of a series of ringfenced reserves for statutory[3] or specific policy[4] reasons or to reflect timing differences between the receipt of income and its subsequent application.

Revenue Budget Implications of Capital Strategy

7.14 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

	Forecast 2023/24	Budget 2024/25	Budget 2025/26	Budget 2026/27	Budget 2027/28	Budget 2028/29
Financing costs (£m) – General Fund Services	98.505	98.255	102.323	106.014	106.275	105.171
Proportion of net General Fund revenue stream	7.59%	7.22%	7.54%	7.74%	7.68%	7.53%
Financing costs (£m) – Housing Revenue Account	39.195	44.556	52.822	66.247	78.232	90.286
Proportion of net HRA revenue stream	36.75%	38.30%	41.11%	47.55%	51.22%	53.84%

[3] 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.
[4] Including the Spend to Save and City Strategic Investment Funds.

7.15 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.

7.16 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 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 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.

8.4 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.

8.5 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.

Appendix 2 - 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.

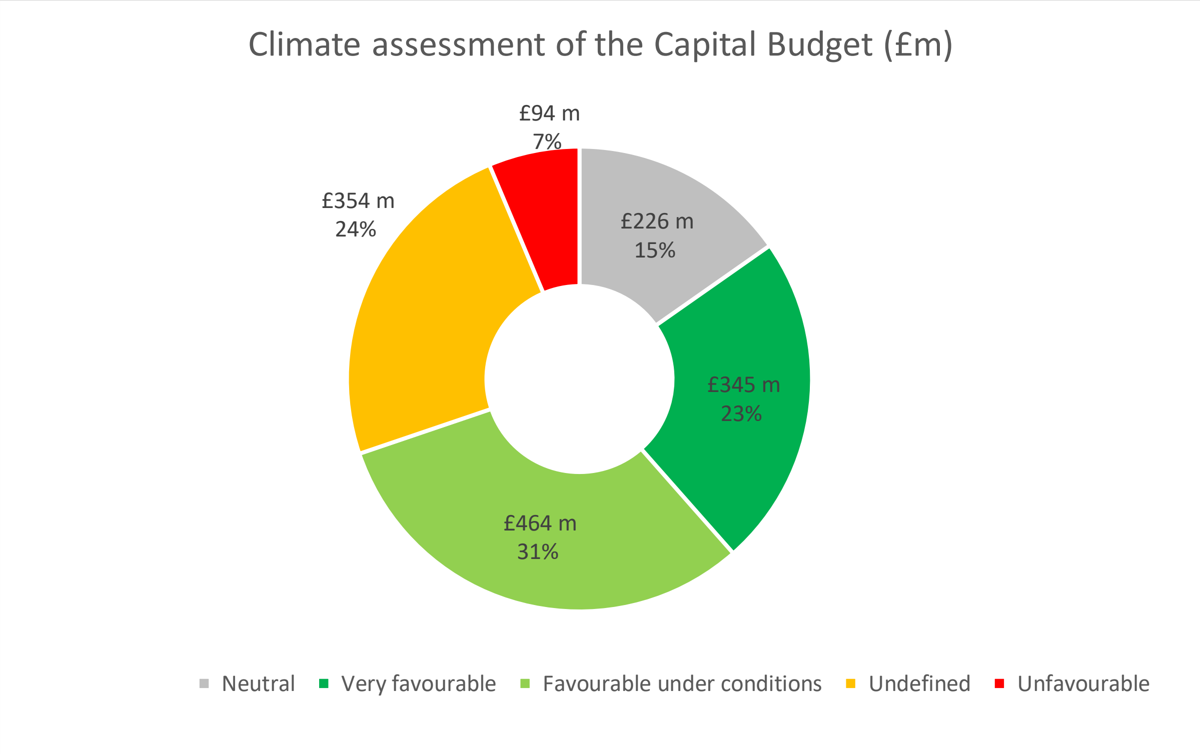


Figure 1: Climate assessment of the Capital Budget, total expenditure for 2024-2034. Figures in million pounds (£m)

Over half the spend is defined as "favourable" or very "favourable". This is due to the alignment of capital expenditure with Council priorities regarding sustainability including investment in active travel and public transport as well as energy-efficient buildings. The top "very favourable spends" relate to:

Project	Cumulated spend (£m) 2024-34	% of total	Justification
Road maintenance dedicated to carbon-free modes (bicycle, pedestrians, etc.) and public transport	£178m	12%	Includes £110m for carriageway and footway works. This also includes investment in cycling projects such as the CCWEL, Meadows to George Street and Roseburn to Union Canal; public realm improvement and placemaking projects such as George Street and First New Town, St Andrew Square or the Queensferry Town Centre project. Investment in public transport include bus priority schemes, bus shelters, bus station upgrades as well as Park and Ride improvements.
Building renovation	£64m	4%	Deep energy retrofit of Council buildings
Building construction	£61m	4%	New build projects (e.g. Currie High School) – cost differential to bring these to energy efficiency standards that exceed minimum building regulations

39% of spend is classed as “neutral” or “undefined”. By its nature, the contingency amount in the budget is “undefined” and contributions to new build housing through the development fund grant cannot be defined as classification differs from development to development. “Neutral” projects comprise projects which align with other Council objectives but do not lead to a significant increase or decrease of carbon emissions. For instance, a large proportion of the capital budget is for improvement works to existing buildings, which is not always related to improving energy efficiency. The highest spending “neutral” and “undefined” projects/programmes are:

Project	**Cumulated spend (£m) 2024-34**	**% of total**	**Justification**
Affordable Housing Supply Programme Grants	£315m	21%	This grant is for new build projects. There is not sufficient data to be able to assess whether this spend is favourable or not (e.g. energy performance, and where each building is built).
Asset Management Works Programme - Improvements to Council Buildings	£141m	10%	Net zero priorities are being accommodated within established asset management practices through a refresh of the approach to existing and future Asset Management Works, as reported to the Finance and Resources Committee on 21 September 2023. However many of the interventions within this programme are not resulting in a direct reduction in energy consumption. According to the I4CE methodology, renovation which results in energy savings of less than 30% should be considered as neutral. In the absence of detailed data, the recommendation is to consider that 85% of the total AMW budget is neutral, and 15% very favourable.
Maintenance of Road Lanes Used by Cars	£50m	3%	Investing in road maintenance extends the life of the road, which reduces the use of resources and is always better than investing in new road development (labelled as ‘unfavourable’). Investment in cycle lanes or paths are considered as ‘very favourable’. It should be noted that this assessment only looks at climate change mitigation, not adaptation. There is a significant opportunity to ensure that budget spent on roads maintenance also makes them better adapted to climate change, for example with sustainable urban drainage systems and planting.

Only 7% of spend is classified as unfavourable. This relates to the purchase of diesel vehicles which, although LEZ compliant, have a negative impact on climate and the building of new schools on greenfield sites. The largest areas of unfavourable spend are:

Project	Cumulated spend (£m) 2024-34	% of total	Justification
LDP schools – new builds	£58m	4%	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.
Investment in diesel vehicles	£45m	3%	Diesel vehicles generate and lock-in carbon emissions until they are replaced by zero-tailpipe emissions alternatives.

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)
- Avoiding 'soil sealing' – important to prioritise building on brownfield/ vacant/ derelict land
- Prioritising active travel / public realm spending over road improvement when possible
- Purchasing electric vehicles rather than diesel/petrol.