

Finance and Resources Committee

10am, Thursday 10 October 2019

Capital Budget Strategy 2020-2030

Executive/routine
Wards
Council Commitments

1. Recommendations

- 1.1 To note the priorities for capital expenditure outlined in this report and the proposed funding solutions.
- 1.2 To note that delivery of funded capital expenditure priorities is dependent on the achievement of a balanced medium-term revenue budget.
- 1.3 To note that further reports will be presented to the Committee prior to the Council setting its budget in February 2020.
- 1.4 To note that this report will be referred to Governance, Risk and Best Value Committee, following Finance and Resources, as part of its programme of work.

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Capital Budget Strategy 2020-2030

2. Executive Summary

- 2.1 The report details priorities for council capital investment over the medium to long-term and sets out a plan on how they could be funded. Priorities put forward for proposed additional funding include the Wave 4 schools programme, additional infrastructure required due to population growth and demography as well as increased investment in the Council's existing estate.
- 2.2 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 budget strategy in this report 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. Moreover, the strategy assumes that some priorities, such as the City Centre Transformation and wider transport initiatives, will need to be funded from a combination of external funding and realignment of existing budgets.

3. Background

- 3.1 The Council's capital investment programme for the period 2019-24 was approved at its budget meeting of 21 February 2019. This budget was subsequently revised to reflect slippage from 2018/19, funding approved after the budget had been set and updated project cash flows. This revised budget was approved by Finance and Resources committee on 15 August 2019.
- 3.2 Beyond this 5-year planning horizon, allocation of capital resources is based on a 10-year indicative programme approved by the former Policy and Strategy Committee in 2008, which has subsequently been rolled forward and adjusted to reflect commitments made in relation to tram life-cycle and cycling. A summary of the current programme for the period 2020-2030 is included at Appendix 1.
- 3.3 This report details capital investment priorities for the next 10 years and sets out potential funding solutions. This report should be read in parallel with the revenue budget report elsewhere on this agenda as the revenue impact of additional capital expenditure needs to be contained within a balanced revenue budget.

- 3.4 This report only covers the general fund capital investment programme. The capital expenditure requirements for the Housing Revenue Account will be reported to Finance and Resources Committee in January 2020 as part of the Housing Revenue Account business plan.

4. Main report

Capital Priorities

- 4.1 Priorities for capital expenditure, identified by officers and discussed through the operational Asset Management Board, are aligned to our statutory responsibilities to deliver services together with achieving our strategic objectives.
- 4.2 In order to continue to deliver high-quality services, the Council needs to continue to invest in the condition and suitability of its assets. The existing capital plan, as set out in Appendix 1, includes £174m for the existing operational estate and £121m for roads and pavements as well as investment in specific assets such as North Bridge and the King's Theatre. It is anticipated that additional investment will be required, particularly in Council buildings for them to be fit for purpose.
- 4.3 Since 2000, the Council has invested significantly in replacement schools to modernise its learning and teaching estate. The construction of the new St Crispins is about to commence, the new Queensferry High School is nearing completion and there is currently funding for a new secondary school at Craigmillar and replacement sports facilities at Trinity High School. As set out in the Wave 4 business case reported to this committee on 11 October 2018, there is also a requirement to replace secondary schools at Currie, Trinity, Wester Hailes, Liberton and Balerno, which are not currently funded within the existing capital investment programme. Scottish Government has advised that the replacement of Currie High School will form part of the initial phase of its New Learning Estate Investment programme, but the Council will need to provide match-funding to take the project forward. A separate report from the Director of Communities and Families elsewhere on this agenda provides more detail on priorities for the Council's learning estate.
- 4.4 When investing in new assets, the Council is adopting a service design led approach to improve access to services, consolidate our estate and re-provision services effectively. This approach is designed to enhance service user experience and ensure upfront engagement and participation with the future shaping of services and Council assets, generating efficiencies and recurring savings where possible.
- 4.5 The Council is also required to invest in order to deliver new statutory obligations. The capital programme contains £25m, funded by the Scottish Government to

complete its programme of new and extended early years facilities so that all 3 and 4 year olds receive 1140 hours per annum of free childcare. The funding allocated to this programme of work fully met the requirements of the Council's business case submission to the Scottish Government.

- 4.6 Edinburgh is a growing city and capital investment is required both to promote inclusive growth and to address its impacts on citizens and the city. The capital programme provides investment in public realm assets surrounding the new St James development as well as the extension of the tram line to Newhaven, subject to confirmation of the business case in the autumn. Both these projects are funded from external income so that economic benefits can be generated without impacting on Council services.
- 4.7 The Council is also working to promote economic growth across the wider city region and the capital programme reflects the Council's match-funding contribution to the Edinburgh and South East Scotland City Deal.
- 4.8 Economic, housing and population growth in the city have also increased demands for service infrastructure. The Local Development Plan action plan sets out infrastructure required to address the anticipated impact of new housing development. While developers' contributions will be sought to meet much of the cost, the Council will need to provide significant investment beyond the £35m, which was provided in the 2018/19 budget process.
- 4.9 The increase in Edinburgh's population is not solely linked to new development and projected increases in the number of school-aged children will require the Council to provide additional school places by expanding its existing programme of school extensions.
- 4.10 In response to the growth in the older age groups of the population, the Health and Social Care Partnership is following a transformative programme of people centred, community-based care. This requires alternative delivery models in addition to the traditional care home provision. The delivery of new intermediate care facilities is currently being scoped to meet this requirement, with the first phase utilising the £10m in the current CIP. Further requirements will emerge over forthcoming years.
- 4.11 Economic growth in Edinburgh has resulted in increased house prices and rent levels, making good quality housing unaffordable to many citizens. While additional social housing provision is financed by the Housing Revenue Account, the general fund capital programme provides £225m for lending to Edinburgh Living and National Housing Trust LLPs. These projects are self-financing as a result of income from affordable rents. Additional housing can therefore be provided without impacting on other expenditure priorities.
- 4.12 The Council is aiming for Edinburgh to be a zero-carbon city by 2030. To this end, 10% of all transport capital expenditure has been set aside for cycling projects and the capital programme includes £9.6m to complete the replacement of all Council street lights with energy-efficient lighting. Where new building projects have been

approved the Council is seeking to deliver energy-efficient buildings, but there is likely to be a requirement to retrofit existing buildings with energy-efficient solutions. Opportunities to utilise Spend to Save funding will be assessed. In addition, funding is required to deliver the City Centre Transformation Programme and the wider City Mobility Plan.

- 4.13 On 10 September 2019, Culture and Communities Committee approved a report recommending that the Council consider Hostile Vehicle Mitigation measures are considered at key Council-owned sites within the city centre. The work undertaken to date indicates that costs are likely to be substantial given the nature of the likely interventions. Indications to date are in the realm of £2-3m.
- 4.14 Finally, there are a number of major projects in the current programme, where there is a potential risk of expenditure exceeding budget and these will be reviewed as part of the Council's 2020 budget planning process.

Funding Opportunities

- 4.15 The Council's capital budget is mainly funded by a combination of government grant, asset sales, third-party grants, developers' contributions and borrowing. A contribution may also be made from Council reserves. In determining the funding available for further capital investment, existing assumptions for each of these funding streams have been reviewed. Appendix 2 sets out an additional £281m of potential funding for Council capital priorities.
- 4.16 The existing capital programme assumes Scottish Government general capital grant of £38m per annum. Based on forecasts of capital funding for budget planning it has been assumed that general capital grant can be increased by £5m to £43m in 2020/21, increasing by £0.5m per annum thereafter. Over the ten-year budget period this amounts to an additional £72.5m to fund capital investment.
- 4.17 The Council also receives specific grants for projects which meet national government priorities. The existing programme includes grant from Scottish Government for the expansion of Early Years activities. It is anticipated that the Council's ambitious active travel programme will receive significant funding from Sustrans and there are likely to be further tranches of funding available to the Council to take forward initiatives arising from its City Centre Transformation and City Mobility programmes.
- 4.18 The Scottish Government has announced £1bn of capital equivalent funding which will be available to Council's to replace schools in poor condition, under its New Learning Estate Investment programme. The funding is likely to be revenue in nature and linked to facilities management costs or the achievement of agreed outcomes and paid annually following project completion. However, this funding would provide additional revenue headroom to support borrowing. The Scottish Government will award funding based on business cases for individual schools and has announced that funding for Currie High School will be provided in the initial phase of investment. In estimating likely funding for the Council's Wave 4

programme, it is assumed that the Council will receive capital equivalent funding of 30% of the cost of Currie High School and one other Wave 4 school and that this funding will be received on project completion.

- 4.19 The existing programme assumes developers' contributions for the Tram to Newhaven project. In addition, developers' contributions are anticipated to fund a significant proportion of the Local Development Plan Action Programme, including contributing to any increases in capacity in the Wave 4 schools.
- 4.20 Receipts from asset sales are pooled and used to fund capital priorities across the programme. The exception to this is where these receipts are only created by delivering a new capital project (e.g. the sale of a depot site because new facilities have been provided in a different location). Assumptions for asset sales have been reviewed and it is not considered prudent to increase the assumed level of general receipts by more than the £3m per annum already approved. However, there will be opportunities to release land because of the Wave 4 programme and receipts from the sale of these sites are assumed to be available to fund the school projects.
- 4.21 The Council's ability to use revenue budgets to finance capital expenditure has also been considered. The current revenue budget framework contains the financing costs of £78m of capital expenditure to part-fund the Wave 4 programme. However, this funding is contingent on the Council achieving a balanced medium to long-term revenue budget. In addition, it is assumed that 10% of the increased Council Tax received from newly-built developments is used to fund borrowing for capital expenditure to help meet the cost of the infrastructure requirements of those developments. It is estimated that this could provide a further £43m of capital over a 10-year period.
- 4.22 The Council's current plan has unallocated expenditure of £7m per annum from 2024/25, to provide flexibility in later years. It is proposed that this amount be reduced to £5m per annum, releasing £12m for the priorities identified above.
- 4.23 Finally, Council reserves have been reviewed. The Capital Fund currently has a balance of £55.9m, taking of existing commitments it is proposed that £27m of this amount is used to finance capital priorities.

Proposals for Investment

- 4.24 In view of limited resources available it is proposed that funding is directed to the following priority areas:
- Pressures relating to existing capital projects;
 - Wave 4 Schools;
 - LDP/Rising School Rolls;
 - Asset Management Works Programme.
- 4.25 The combined cost of this investment is set out in Appendix 2 and amounts to £475m over a 10-year period, compared to the £362m of funding identified.

Modelling shows that funding is sufficient up until 2026/27, allowing for slippage across the programme. From 2027/28 onwards, should alternative funding not be identified, the Council will need meet the financing costs of this investment from its revenue budget, which is estimated to be £7.1m per annum from 2027/28. In the event that the Council is unable to make the savings at that time, then capital expenditure will need to be reduced, potentially meaning that later phases of the Wave 4 Schools programme could not be delivered.

- 4.26 It should be noted that investment in new schools is also dependent on the receipt of significant levels of developers' contributions. Prior to the approval of individual projects, detailed business cases will be required, setting out costs and funding assumptions to ensure that projects are affordable.

Unfunded Priorities

- 4.27 It is recognised that this proposal does not provide funding for all Council priorities and the Wave 4 programme is extended over a 10-year timeframe. Funding options for Gaelic Medium Education High School, City Centre Transformation, the City Mobility Strategy and Hostile Vehicle Mitigation will be subject to separate consideration.
- 4.28 In developing business cases for these priorities, the Council will seek to maximise the external funding available and, where appropriate, realign existing budgets

5. Next Steps

- 5.1 The capital budget strategy will be developed further, and detailed budget proposals will be submitted to this committee prior to the Council setting its budget in February 2020.

6. Financial impact

- 6.1 This report sets out additional capital expenditure of £475m, offset by additional income of £203m, resulting in a requirement of £272m in loans fund advances. The loans charges associated with this over a 30-year period would be a principal amount of £272m and interest of £246m, resulting in a total cost of £517m based on an assumed loans fund interest rate of 4.6%. This represents an annual cost of £17m.
- 6.2 Revenue budget planning assumptions mean that that costs associated with £78m of the loans fund advances will be met from savings initiatives and £43m can be met from Council Tax. This is contingent on the Council approving a balanced medium-term revenue budget in February 2020. It is also assumed that £38m will be supported by the Scottish Government for investment in schools. The remaining £113m is currently unfunded and will require the Council to find additional revenue savings of £7.1m per annum from 2027/28 onwards. A profile of this additional

funding pressure is set out in Appendix 3. In the event that the Council is unable to make the savings at that time, then capital expenditure will need to be reduced, potentially meaning that later phases of the Wave 4 Schools programme could not be delivered. Any additional capital resources realised will be used to reduce this funding deficit.

- 6.3 Investment in additional assets is likely to result in increased running costs. A report on the associated cost implications of changes in the size and profile of the Council's operational property estate was considered by the Finance and Resources Committee on 23 May 2019. The report noted the need to provide for the additional revenue costs of a number of demand- and condition-led school replacements and new-builds. Based on the cost projections intimated in that report and sums provided within the budget framework in respect of rising school rolls, the Wave Four schools programme and additional, or expanded, facilities linked to the Local Development Plan, this level of provision was anticipated to be sufficient to meet, in full, these additional costs. In addition, 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.

7. Stakeholder/Community Impact

- 7.1 Engagement on the capital budget strategy will form part of wider engagement on the Council's budget.
- 7.2 The stakeholder and community impact of projects within the programme will be assessed as part of the reporting on individual projects concerned.

8. Background reading/external references

- 8.1 [Capital Investment Programme 2019-20 to 2023-24 - Council 21 February 2019](#)
- 8.2 [Coalition Budget Motion - Council 21 February 2019](#)
- 8.3 [Capital Strategy 2019-2024 - Council 14 March 2019](#)
- 8.4 [Capital Investment Programme - Outturn 2018/19 and Revised Budget 2019-24 - F&R Committee 15 August 2019](#)
- 8.5 [Capital Investment Programme 2009-19 - Policy and Strategy Committee 8 November 2008](#)
- 8.6 [Local Development Plan Action Programme – January 2019](#)
- 8.7 [Wave 4 Infrastructure Investment Programme - F&R 11 October 2018](#)
- 8.8 [City Centre Hostile Vehicle Mitigation Measures Update Report - C&C Committee 10 September 2019](#)

8.9 [Changes to the Operational Property Estate - Lifecycle Costs Forecast – F&R
23 May 2019](#)

9. Appendices

Appendix 1: Existing Capital Investment Programme Summary

Appendix 2: Additional Investment Proposals

Appendix 3: Additional Funding Pressure

CAPITAL STRATEGY 2020-2030
Additional Investment Proposals

Appendix 2

	Total	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Additional Priorities - Expenditure											
Existing programme - Pressures	10.000	10.000	-	-	-	-	-	-	-	-	-
Wave 4 Schools											
Currie High School	42.927	1.421	1.502	22.994	16.090	0.919	-	-	-	-	-
Trinity Academy Phase 2	42.065	-	1.688	1.784	22.304	14.106	1.092	1.092	-	-	-
Wester Hailes Education Centre	36.001	-	-	-	-	-	1.233	1.283	19.247	13.468	0.770
Liberton High School	49.140	-	-	-	-	-	1.684	1.751	26.271	18.383	1.050
Balerno High School	57.667	-	-	-	-	-	1.976	2.055	30.830	21.573	1.233
Wave 4 Contingency	22.780	0.142	0.319	2.478	3.839	1.503	0.598	0.618	7.635	5.342	0.305
Infrastructure for Population Growth											
Builyeon Road Primary School (S Queensferry)	16.000	0.800	5.600	6.400	3.200	-	-	-	-	-	-
New Brunstane/Newcraighall Primary School	16.000	0.800	5.600	6.400	3.200	-	-	-	-	-	-
Maybury Primary School	16.000	0.800	5.600	6.400	3.200	-	-	-	-	-	-
Kirkliston/West Edinburgh Secondary Provision	50.000	2.500	17.500	20.000	10.000	-	-	-	-	-	-
Gilmerton Station Road Primary School	16.000	-	-	0.800	5.600	6.400	3.200	-	-	-	-
Granton Waterfront Primary School	16.000	-	-	-	0.800	5.600	6.400	3.200	-	-	-
East of Milburn Tower Primary School	16.000	-	-	-	-	0.800	5.600	6.400	3.200	-	-
Unallocated	20.000	-	-	-	-	-	-	-	-	10.000	10.000
Increased Investment in Council Buildings											
Asset Management Works	48.000	-	-	6.000	6.000	6.000	6.000	6.000	6.000	6.000	6.000
Additional Priorities - Expenditure	474.580	16.463	37.809	73.256	74.234	35.328	27.783	22.398	93.183	74.767	19.358

CAPITAL STRATEGY 2020-2030
Additional Investment Proposals

Appendix 2

Total	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Additional Priorities - Funding Opportunities											
<i>Income</i>											
Existing Programme - Unallocated Funding											
Asset Sales (Unringfenced)	12.000	-	-	-	-	2.000	2.000	2.000	2.000	2.000	2.000
External Funding											
Increased general capital grant	72.500	5.000	5.500	6.000	6.500	7.000	7.500	8.000	8.500	9.000	9.500
Developers contributions (Wave 4)	12.514	0.004	0.056	0.499	0.307	5.114	-	4.582	0.370	0.827	0.756
Developers contributions (LDP)	58.890	-	-	2.450	13.720	16.000	10.400	5.120	6.080	3.840	1.280
Asset Sales (Wave 4)	19.997	-	-	-	-	-	10.489	-	-	-	9.508
Reserves											
Capital Fund Drawdown	27.000	7.159	5.453	14.388	-	-	-	-	-	-	-
	202.901	12.163	11.009	23.337	20.527	30.114	30.389	19.702	16.950	15.667	23.044
<i>Supported Borrowing</i>											
Borrowing supported by											
Scottish Government Schools Funding	38.000					18.000					20.000
Revenue Budget Framework	78.000		22.500	25.500	30.000						
10% of Increased Council Tax take	43.000	4.300	4.300	4.300	4.300	4.300	4.300	4.300	4.300	4.300	4.300
	159.000	4.300	26.800	29.800	34.300	22.300	4.300	4.300	4.300	4.300	24.300
Additional Priorities - Funding Opportunities	361.901	16.463	37.809	53.137	54.827	52.414	34.689	24.002	21.250	19.967	47.344

CAPITAL STRATEGY 2020-2030
Additional Funding Pressure

	Total	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Additional Expenditure Priorities	474.580	16.463	37.809	73.256	74.234	35.328	27.783	22.398	93.183	74.767	19.358
Additional Funding Opportunies	361.901	16.463	37.809	53.137	54.827	52.414	34.689	24.002	21.250	19.967	47.344
Funding Pressure (Incremental)	112.678	-	-	20.119	19.407	- 17.086	- 6.906	- 1.603	71.933	54.800	- 27.986
Funding Pressure (Cummulative)		-	-	20.119	39.526	22.440	15.534	13.931	85.865	140.664	112.678
Estimated Revenue Impact		-	-	1.254	2.464	1.399	0.968	0.868	5.352	8.768	7.078

