

Finance and Resources Committee

10am, Friday, 6 December 2019

Half Year Capital Monitoring 2019/20 Position

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| Executive/routine Wards Council Commitments | Executive All |
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1. Recommendations

- 1.1 To note the projected capital outturn position for the General Fund and Housing Revenue Account (HRA) at month six;
- 1.2 To note the Council's prudential indicators at month six;
- 1.3 To note that updated forecasts will be provided at month eight; and
- 1.4 To refer the report to the Governance, Risk and Best Value Committee as part of its workplan.

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Half Year Capital Monitoring 2019/20 Position

2. Executive Summary

- 2.1 The report provides capital expenditure and income forecasts for 2019/20, providing explanations for any variances.
- 2.2 At month six, slippage of £28.681m is forecast against the general fund capital expenditure budget of £281.274m. Capital income is forecast to be £157.263m, due to carry forward of £5.062m on Early Years 1,140 hours programme, resulting in a net requirement of £95.330m in loans fund advances.
- 2.3 At month six, the Housing Revenue Account (HRA) is reporting capital expenditure slippage of £6.893m which is offset by slippage of £6.971m in capital receipts due to delays in completion of new homes at North Sighthill and Craigmillar which is also reflected in the Place - Lending figures.

3. Background

- 3.1 The Council set its capital investment programme for the period 2019-24 at its budget meeting of 21 February 2019. This budget has subsequently been revised to reflect slippage from 2018/19 and up-to-date project cashflows, as reported to this committee on 15 August 2019.
- 3.2 This report sets out forecast capital expenditure and income for the current financial year at month six and compares this with the revised capital budget.
- 3.3 The Capital Budget Strategy 2020-2030 was reported to Finance and Resources Committee on 10 October 2019.

4. Main report

General Fund

- 4.1 At month six, general fund expenditure is projected to be £252.593m, compared with a budget of £281.274m, resulting in projected slippage of £28.681m. Grants and other capital income are forecast to be £157.263m, due to carry forward of £5.062m on Early Years 1,140 hours programme with the remaining expenditure being funded by loans fund advances of £95.330m. A detailed position is provided in Appendix 1.

- 4.2 Within Communities and Families, slippage includes;
- Early Years 1,140 hours programme of £5.062m which will be matched by corresponding carry forward of the Scottish Government grant, however, the Council is still on target to deliver additional hours before the statutory deadline;
 - Castlebrae of £1.883m in order to align expenditure to the final contract programme now that the project is on-site and work commencing;
 - Boroughmuir High School Extension of £1.764m due extension of delivery programme agreed with the school to meet operational requirements; and
 - Rising schools rolls of £1.761m to reflect updated expenditure forecasting for a variety of projects reflecting capacity constraints.
- 4.3 Within the Place Directorate, slippage includes;
- Energy Efficiency Street Lighting Project where there is slippage of £1.715m due to delays in contractor delivery of columns and lanterns;
 - North Bridge where there is slippage of £1.435m due to delays in temporary works scaffolding design and erection and the condition of the concrete deck, necessitating redesign;
 - Local Development Plan Roads Obligations where there is slippage of £1.400m. Work is being undertaken to develop a PMO schedule to deliver this project in-line with the Finance and Resources Committee approval.
 - Leith Theatre where there is slippage of £0.648m due to delays caused by relocation of an electrical substation; and
 - Dunard Centre where there is slippage of £0.500m due to uncertainty caused by the judicial review.
- 4.4 The forecast includes estimated costs for the Tram to Newhaven project which are based on the Final Business Case approved by Council on 14 March 2019 and the updated position following completion of Early Contractor Involvement stage of the project. The budget has been realigned to reflect the revised expenditure profile agreed following Early Contractor Involvement and remains within the time and budget parameters agreed by Council.
- 4.5 Within the Place - Lending figures, there is slippage in National Housing Trust payments where the Shrubhill payment of £4.723m which was due in February 2020 is forecast to slip into April/May 2020. There is also slippage on Edinburgh Living Mid-Market Rent (MMR) on-lending of £6.971m due to delays in completion of new homes at North Sighthill and Pennywell. The Council will delay borrowing to match the revised expenditure profiles.
- 4.6 There is a general slippage bias of 2.5% applied across the programme included in the figures provided in Appendix 1, resulting in additional slippage of £4.036m. This is in recognition of the fact that variances against budgets are likely to occur due to

delays or unforeseen circumstances out with the Council's control. The Directorates have provided forecasts against project budgets and the general provision will be kept under review throughout the year and forecasts will be amended as appropriate.

- 4.7 Additional detail of the slippage and acceleration on capital projects is included in Appendix 2. This is split across five broad categories; however, it is worth noting that a project could exhibit an element of all the categories, but the overriding reason has been considered when applying a variance category.
- 4.8 Income from capital grants and capital receipts includes carry forward of £5.062m for the Early Years 1,140 hours programme. Members should be aware that the value and timing of capital receipts can be impacted by several factors including abnormal costs arising from survey results and offers contingent on planning approvals. Any revisions to the receipts programme will be reported within future capital monitoring reports.

HRA

- 4.9 The HRA capital investment budget is £108.954 million for 2019/20, a 35% increase on the previous year and is the largest annual capital investment programme in Council homes. At period six, it is forecasting a slippage of £6.893m (6.3%) on the approved annual expenditure budget. There is corresponding slippage in capital receipts of £6.971m from Edinburgh Living MMR as clarified in 4.5, resulting in a net acceleration across the HRA of £0.078m. A detailed position is provided in Appendix 3.
- 4.10 This year's core capital programme includes installation of new heating systems, improved insulation and new windows and doors to enable homes to meet the Energy Efficiency Standard for Social Housing (ESSH); making them easier and cheaper to heat for tenants with 75% of homes expected to meet ESSH by the end of the year. The reported slippage on the core housing improvement programme is due to contractor capacity; including the loss of a major kitchens and bathroom contractor who went into administration at the end of the last financial year. To mitigate this risk in future, a new Housing Capital Framework is currently being procured and expected to be in place from April 2020. This will increase the number of lots and contractors who can be drawn upon to deliver the five-year capital programme.
- 4.11 The 2019/20 Council new build programme budget of £73.323m represents a 72% increase on the previous year's budget and is the largest Council annual new build programme to date. There are currently around 1,000 homes under construction, 2,000 homes in design development and/or procurement; including major strategic sites at Fountainbridge, Powderhall, Meadowbank and Granton. Around 400 new homes are expected to complete by the end of 2019/20. The house building programme is projecting slippage of £2.301m (3%) in gross expenditure in month six. There have been some delays in handover of homes from contractors with damages applied in accordance with contractual agreements. A significant

proportion of this year's budget will be used to purchase land from the General Fund for housing development through the HRA.

Prudential Indicators

- 4.12 The above forecasts are reflected in the Council's prudential indicators, which are set out in Appendix 4.

5. Next Steps

- 5.1 Finance staff will continue work with project and programme managers to monitor capital budgets. A further capital monitoring report will be provided to the Finance and Resources Committee at month eight.

6. Financial impact

- 6.1 The projected 2019/20 general fund outturn outlines loans fund advances of £95.330m. The overall loan charges associated with this over a 30-year period would be a principal amount of £95.330m, interest and expenses of £86.058m, resulting in a total cost of £181.388m based on a loans fund interest rate of 4.6%. The average annual cost would be £6.046m for 30 years.
- 6.2 The projected 2019/20 HRA outturn outlines loans fund advances of £52.618m. The overall loans charges associated with this over a 30-year period would be a principal amount of £52.618m, interest of £47.500m, resulting in a total cost of £100.118m based on a loans fund rate of 4.6%. The average annual cost would be £3.337m for 30 years.
- 6.3 Borrowing required is carried out in line with the Council's approved Treasury Management Strategy.
- 6.4 The loan charge costs outlined above will be met from the general fund and HRA revenue budgets for loan charges.

7. Stakeholder/Community Impact

- 7.1 Consultation on the capital budget was undertaken as part of the Council's budget setting process.
- 7.2 The stakeholder and community impact of individual projects within the Council's capital programme is considered as part of the business cases for those projects.

8. Background reading/external references

- 8.1 [Capital Investment Programme 2019-20 to 2023-24](#), The City of Edinburgh Council, 21 February 2019
- 8.2 [Housing Revenue Account Budget Strategy 2019-24](#), The City of Edinburgh Council, 21 February 2019
- 8.3 [Coalition Budget Motion](#), The City of Edinburgh Council, 21 February 2019

- 8.4 [Edinburgh Tram – York Place to Newhaven Final Business Case](#), The City of Edinburgh Council, 14 March 2019
- 8.5 [Capital Monitoring 2019/20 – Month Three Position](#), Finance and Resources Committee, 15 August 2019
- 8.6 [Capital Budget Strategy 2020-30](#), Finance and Resources Committee, 10 October 2019

9. Appendices

Appendix 1 – Capital Monitoring 2019/20 – General Fund

Appendix 2 – Slippage and Acceleration on Projects

Appendix 3 – Capital Monitoring 2019/20 – HRA

Appendix 4 - Prudential Indicators 2019/20

Appendix 1 Capital Monitoring 2019/20

General Fund Summary

Period 6

| Expenditure | Approved Budget £000 | Adjusts £000 | Revised Budget £000 | Actual to Date £000 | Projected Outturn £000 | Projected Variance £000 | Projected Variance % |
|---|-------------------------|-----------------|------------------------|------------------------|---------------------------|----------------------------|-------------------------|
| Communities and Families | 116,193 | -38,779 | 77,414 | 14,633 | 67,301 | -10,113 | -13.06% |
| Edinburgh IJB | 239 | -122 | 117 | 0 | 117 | 0 | 0.00% |
| Place | 141,766 | -35,116 | 106,650 | 26,772 | 100,646 | -6,004 | -5.63% |
| Place - Tram York Place to Newhaven | 0 | 20,994 | 20,994 | 4,153 | 20,994 | 0 | 0.00% |
| Place - Lending | 18,118 | 22,556 | 40,674 | 6,005 | 28,980 | -11,694 | -28.75% |
| Resources - Asset Management Works | 31,498 | -4,459 | 27,039 | 22,071 | 29,920 | 2,881 | 10.65% |
| Resources - Other | 11,706 | -3,320 | 8,386 | 233 | 8,671 | 285 | 3.40% |
| General slippage in programme 2.5% (excluding lending, TMDF and Tram) | 0 | 0 | 0 | 0 | -4,036 | -4,036 | n/a |
| Total Gross Expenditure | 319,520 | -38,246 | 281,274 | 73,867 | 252,593 | -28,681 | -10.20% |
| Income | | | | | | | |
| <i>Capital Receipts</i> | | | | | | | |
| General Asset Sales | 6,318 | 127 | 6,445 | 2,593 | 6,445 | 0 | 0.00% |
| Ringfenced Asset Sales | 10,000 | 0 | 10,000 | 0 | 10,000 | 0 | 0.00% |
| <i>Total Capital Receipts from Asset Sales</i> | <i>16,318</i> | <i>127</i> | <i>16,445</i> | <i>2,593</i> | <i>16,445</i> | <i>0</i> | <i>0.00%</i> |
| <i>Drawdown from Capital Fund</i> | <i>6,311</i> | <i>0</i> | <i>6,311</i> | <i>0</i> | <i>6,311</i> | <i>0</i> | <i>0.00%</i> |
| <i>Developer and Other Contributions</i> | <i>585</i> | <i>11,931</i> | <i>12,516</i> | <i>10,394</i> | <i>12,516</i> | <i>0</i> | <i>0.00%</i> |
| <i>Developers Contributions Transferred to Investments</i> | <i>0</i> | <i>0</i> | <i>-8,537</i> | <i>-5,854</i> | <i>-8,537</i> | <i>0</i> | <i>0.00%</i> |
| Total Capital Receipts | 23,214 | 12,058 | 26,735 | 7,133 | 26,735 | 0 | 0.00% |
| <i>Grants</i> | | | | | | | |
| Scottish Government General Capital Grant | 58,675 | 71 | 58,746 | 29,638 | 58,746 | 0 | 0.00% |
| Cycling, Walking and Safer Streets | 834 | 59 | 893 | 0 | 893 | 0 | 0.00% |
| Transfer of Management of Development Funding (TMDF) | 33,877 | 11,354 | 45,231 | 5,500 | 45,231 | 0 | 0.00% |
| Early Years and Childcare - Expansion | 14,500 | 0 | 14,500 | 14,500 | 9,438 | -5,062 | -34.91% |
| Town Centre Fund | 0 | 2,613 | 2,613 | 1,307 | 2,613 | 0 | 0.00% |
| Capital Grants Unapplied Account Drawdown | 11,297 | 2,310 | 13,607 | 0 | 13,607 | 0 | 0.00% |
| Total Grants | 119,183 | 16,407 | 135,590 | 50,945 | 130,528 | -5,062 | -3.73% |
| Total Income | 142,397 | 28,465 | 162,325 | 58,078 | 157,263 | -5,062 | -3.12% |
| Balance to be funded through Loans Fund Advance | 177,123 | -66,711 | 118,949 | | 95,330 | -23,619 | -19.86% |

Appendix 2 Capital Monitoring 2019/20

General Fund Summary

Period 6

Slippage and Acceleration on Projects

Slippage on projects is shown as a negative value, while acceleration or overspends are shown as positive values.

Key to variance category

| Type | Explanation |
|---------------------------------------|---|
| 1. Slippage due to unforeseen delays | Slippage that has occurred due to unforeseen circumstances or delays that for the most part, are outwith the Council's control. |
| 2. Slippage due to optimistic budget | Slippage that has occurred due to optimism bias when budget was set. Issues include projecting spend on block budgets when a programme of works has not been considered or designed, not applying a discount factor for adverse weather / risk issues, providing for too much contingency and predicting an optimistic works timetable. |
| 3. Slippage due to timing of payments | Slippage that has occurred where a project is on time and schedule but is as a result of the timing of cash flows. |
| 4. Acceleration on a project | Represents accelerated spend on a project i.e. due to better than anticipated progress. |
| 5. Projected Underspend on a project | Projects where the final outturn is expected to be below budget. |

Note that a project will exhibit an element of all of the above but the overriding reason has been considered when applying a variance category.

| | Period 6 Explanations for Significant Slippage / Acceleration | Variance Category |
|--|--|---|
| | £000 | |
| Communities and Families | | |
| Early Years 1,140 | -5,062 | Slippage will be matched by carry forward of Scottish Government Grant |
| Castlebrae New Wave Four School | -1,883 | Delay in going on-site but forecast matches contract, now on-site and work commencing |
| Boroughmuir High School Extension | -1,764 | Delivery date rescheduled with school's agreement |
| Rising School Rolls General | -1,761 | Expenditure now aligned to delivery programme for several projects |
| Boroughmuir High School | -1,316 | Original build complete - retention being held |
| Leith Victoria Primary School | 1,042 | Acceleration in year |
| Meadowbank Sports Centre | 995 | Timing difference on income and expenditure |
| St Crispin's School | 313 | Acceleration in year |
| Net (slippage) / acceleration on various projects | -677 | Various movements over a number of projects |
| Total Communities and Families | -10,113 | |
| Place (including Lending) | | |
| Edinburgh Living Mid-Market Rent | -6,971 | Delays in completion of new homes at North Sighthill and Craigmillar |
| National Housing Trust | -4,723 | Shrubhill payment of £4.7m due in February 2020 slipped into April/May 2020 |
| Energy Efficiency Street Lighting | -1,715 | Delays in contractor delivery of columns and lanterns |
| North Bridge Major Refurbishment | -1,435 | Delays in temporary works scaffolding design and erection and condition of concrete deck, necessitating redesign. |
| LDP Roads | -1,400 | Developing a PMO schedule to deliver the project |
| Leith Theatre | -648 | Delay caused by relocation of an electrical substation |
| Dunard Centre | -500 | Due to uncertainty caused by the judicial review |
| Net (slippage) / acceleration on various projects | -306 | Various movements over a number of projects |
| Total Place | -17,698 | |
| Resources - Asset Management Works | | |
| Acceleration across the Asset Management Works programme | 2,881 | Various movements over a number of projects |
| Total Resources - Asset Management Works | 2,881 | |
| Resources - Other | | |
| Net (slippage) / acceleration on various projects | 285 | Various movements over a number of projects |
| Total Resources - Other | 285 | |
| Council Wide / Corporate Projects | | |
| Net (slippage) / acceleration on various projects | -4,036 | Various movements over a number of projects |
| Total Council Wide / Corporate Projects | -4,036 | |
| Total for all Services | -28,681 | |
| Summary of Variance Category | | |
| | Period 6 | |
| 1 Slippage due to unforeseen delays | -6,997 | |
| 2 Slippage due to optimistic budget | -12,475 | |
| 3 Slippage due to timing of payments | -14,725 | |
| 4 Acceleration on a project | 5,516 | |
| 5 Projected final underspend | 0 | |
| | -28,681 | |

Appendix 3 Capital Monitoring 2019/20

Housing Revenue Account

Period 6

| Expenditure | Revised Budget | Actual to Date | Projected Outturn | Projected Variance | |
|--------------------------------|----------------|----------------|-------------------|--------------------|--------------|
| | £000 | £000 | £000 | £000 | % |
| Core Programme | 35,631 | 12,216 | 31,039 | -4,592 | -12.9% |
| House Building | 73,323 | 18,889 | 71,022 | -2,301 | -3.1% |
| Total Gross Expenditure | 108,954 | 31,105 | 102,061 | -6,893 | -6.3% |

| Income | Revised Budget | Actual to Date | Projected Outturn | Projected Variance | |
|------------------------------------|----------------|----------------|-------------------|--------------------|---------------|
| | £000 | £000 | £000 | £000 | % |
| Capital Receipts | 17,917 | 3,971 | 10,946 | -6,971 | -38.9% |
| Developers and Other Contributions | 23,000 | 21 | 23,000 | 0 | 0.0% |
| Specific Capital Grant | 8,526 | 756 | 8,526 | 0 | 0.0% |
| Total Income | 49,443 | 4,748 | 42,472 | -6,971 | -14.1% |

| | | | | | |
|--|---------------|--|---------------|-----------|-------------|
| Balance to be funded through Loans Fund Advance | 59,511 | | 59,589 | 78 | 0.1% |
|--|---------------|--|---------------|-----------|-------------|

Appendix 4 Capital Monitoring 2019/20

Prudential Indicators 2019/20 - Period 6

| Indicator 1 - Estimate of Capital Expenditure | 2018/19 | 2019/20 | 2019/20 | 2020/21 | 2020/21 | 2021/22 | 2021/22 | 2022/23 | 2022/23 | 2023/24 | 2023/24 |
|--|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Actual £000 | Estimate £000 | Forecast £000 | Estimate £000 | Forecast £000 | Estimate £000 | Forecast £000 | Estimate £000 | Forecast £000 | Estimate £000 | Forecast £000 |
| Council Wide / Corporate Projects | 26 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Contingency - Meadowbank Stadium | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7,000 | 7,000 |
| Lending | 23,152 | 40,674 | 28,980 | 80,154 | 91,848 | 55,104 | 55,104 | 76,692 | 76,692 | 22,266 | 22,266 |
| Communities and Families | 28,431 | 77,414 | 67,301 | 96,617 | 96,617 | 1,707 | 1,707 | 165 | 165 | 165 | 165 |
| Edinburgh Integration Joint Board | 138 | 117 | 117 | 5,000 | 5,000 | 5,000 | 5,000 | 0 | 0 | 0 | 0 |
| Place | 109,572 | 106,650 | 100,646 | 84,984 | 84,984 | 29,963 | 29,963 | 36,785 | 36,785 | 19,835 | 19,835 |
| Resources | 2,652 | 8,386 | 8,671 | 5,000 | 5,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| Resources - Asset Management Works | 21,770 | 27,039 | 29,920 | 30,000 | 30,000 | 25,516 | 25,516 | 20,450 | 20,450 | 14,000 | 14,000 |
| Trams | 0 | 20,994 | 20,994 | 90,804 | 90,804 | 58,004 | 58,004 | 29,731 | 29,731 | 0 | 0 |
| General slippage / acceleration across programme (5% 2.5% 19/20) | 0 | 0 | -4,036 | 0 | -7,044 | 0 | 7,971 | 0 | 239 | 0 | 1,170 |
| Total General Services Expenditure | 185,741 | 281,274 | 252,593 | 392,559 | 397,209 | 175,294 | 183,265 | 163,823 | 164,062 | 63,266 | 64,436 |
| Housing Revenue Account Expenditure | 108,954 | 102,061 | 142,251 | 142,251 | 142,251 | 177,531 | 171,392 | 171,392 | 171,392 | 273,984 | 273,984 |
| Total Capital Expenditure | 185,741 | 390,228 | 354,654 | 534,810 | 539,460 | 352,825 | 360,796 | 335,215 | 335,454 | 337,250 | 338,420 |

The 'estimate' figures relate to those reported as part of the revised Capital Investment Programmes reported to Finance and Resources Committee on 16 August 2019 incorporating the final slippage and realignment after the outturn for 2018/19. Differences between these and the 'forecast' figures relate to slippage or acceleration in the programmes for the General Fund and HRA detailed in Appendices 1, 2 and 3.

The 'Lending' figures relate to lending by the Council to National Housing Trust (NHT) bodies and Edinburgh Living LLPs. The Edinburgh Living LLPs figures are based on a pipeline of development and will be subject to annual approval from Finance and Resources Committee and Council. The figures shown are indicative.

| Indicator 2 - Ratio of Financing Costs to Net Revenue Stream | 2018/19 | 2019/20 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|--|---------|----------|----------|----------|----------|----------|----------|
| | Actual | Estimate | Forecast | Estimate | Estimate | Estimate | Estimate |
| | % | % | % | % | % | % | % |
| General Services | 11.38 | 10.58 | 10.44 | 10.72 | 10.44 | 10.39 | n/a |
| Housing Revenue Account | 39.98 | 41.64 | 42.08 | 44.64 | 46.96 | 49.41 | 50.89 |

Figures for 2020/21 onwards are indicative as neither the Council nor HRA has set a budget for these years. The figures for General Services are based on the current long term financial plan that ends in 2022/23. HRA figures are based on the current business plan.

| Indicator 3 - Capital Financing Requirement | 2018/19 | 2019/20 | 2019/20 | 2020/21 | 2020/21 | 2021/22 | 2021/22 | 2022/23 | 2022/23 | 2023/24 | 2023/24 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Actual | Estimate | Forecast | Estimate | Forecast | Estimate | Forecast | Estimate | Forecast | Estimate | Forecast |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| General Services (including finance leases) | 1,082,132 | 1,209,580 | 1,197,656 | 1,379,227 | 1,360,258 | 1,386,900 | 1,375,902 | 1,359,711 | 1,348,952 | 1,275,202 | 1,265,613 |
| Edinburgh Living LLP | 2,734 | 26,862 | 19,770 | 107,326 | 100,186 | 161,152 | 154,012 | 235,798 | 151,966 | 254,932 | 148,834 |
| NHT LLPs | 87,143 | 103,651 | 98,928 | 107,693 | 107,693 | 107,693 | 107,693 | 107,693 | 107,693 | 107,693 | 107,693 |
| Housing Revenue Account | 377,454 | 415,351 | 408,458 | 415,678 | 408,785 | 479,677 | 472,784 | 526,588 | 519,695 | 675,321 | 668,428 |
| Total Capital Financing Requirement | 1,549,463 | 1,755,444 | 1,724,812 | 2,009,924 | 1,976,922 | 2,135,422 | 2,110,391 | 2,229,790 | 2,128,306 | 2,313,147 | 2,190,568 |

2018/19 Actual reflects audit adjustment. Forecasts include the capital financing requirement relating to PPP assets and advances to NHT and Edinburgh Living LLPs