

Finance and Resources Committee

10.00am, Thursday, 27 August 2020

2020-30 Capital Budget Strategy – 2020/21 Period 3 Monitoring and Revised Budget Update

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1. Recommendations

- 1.1 To note the Capital monitoring position for the General Fund and Housing Revenue Account (HRA) at month three 2020-21;
- 1.2 To note the proposed use of £4.242m contingency funding for North Bridge Refurbishment, subject to approval by Council; and
- 1.3 To refer the report to the Governance Risk and Best Value Committee as part of its work programme.

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2020-30 Capital Budget Strategy – 2020/21 Period 3 Monitoring and Revised Budget Update

2. Executive Summary

- 2.1 The report provides capital expenditure and funding forecasts for 2020/21, providing explanations for variances.
- 2.2 At month three, the General Fund is projected capital expenditure of £284.019m and capital income of £107.991m, resulting in a net requirement of £176.028m in loans fund advances.
- 2.3 At month three, the Housing Revenue Account (HRA) is projecting capital expenditure of £56.969m and capital income of £33.033m, resulting in a net requirement of £23.936m in loans fund advances.
- 2.4 The extent of the impact from COVID-19 is likely to differ between programmes and projects and it is still too early to understand the full cost to the Council.

3. Background

- 3.1 The initial Capital Budget Strategy 2020-2030 was reported to Finance and Resources Committee on 10 October 2019 and approved on 20 February 2020 as part of the budget process.
- 3.2 It was subsequently consolidated with other key strategies into the Council's Capital Strategy which was approved by Council on 12 March 2020. This strategy set out for expenditure of £2,324.800m to 2029/30. While the programme was affordable in the short to medium term, there remained £154.600m which was unfunded and would require the Council to find additional revenue savings or additional funding in future years or lead to projects having to be removed from the capital investment programme or delayed.
- 3.3 Since the setting of the budget, COVID-19 and the measures put in place to protect citizens have created significant financial and logistical challenges and it will no longer be possible to deliver projects within the timescales and budgets previously envisaged. Following guidance from Scottish Ministers, all construction sites were closed and are now re-opening in accordance with the [Coronavirus \(COVID 19\): construction sector guidance](#) six phase plan. This has required changes to working practices to protect both construction workers and the public at large.

- 3.4 A report was considered by Policy and Sustainability Committee on 25 June 2020 which addressed the potential impact COVID-19 would have on the 2020-30 Capital Budget. This report showed that it was difficult to estimate the full impact on the programme until market intelligence, such as tender returns, is available. The result of the modelling undertaken for the General Fund programme showed pressures of £56.207m in 2020/21, although slippage of £217.464m meant that a net slippage position of £161.257m was forecast. This meant that the Council may benefit from a reduced loans charge liability in the current year, but this had already been factored into corporate budgeting assumptions. In future years, however it would result in additional financing costs.
- 3.5 This report provides an update on the 25 June 2020 report and details capital spend to period three in 2020/21 and the interim budget position for 2020/21. A further report will be presented to Committee in the Autumn to set the revised budget for 2020/21 with indicative future budget figures in the 2020-30 Capital Strategy.

4. Main report

2020/21 Capital Monitoring – Period Three

General Fund

- 4.1 The Period Three Monitoring shows general fund expenditure of £49.256m. A breakdown by directorate is provided in Appendix 1.
- 4.2 Within Communities and Families, there has been capital expenditure of £3.998m as at Period Three. Expenditure relates primarily to projects which were well underway prior to COVID-19 lockdown;
- Meadowbank £2.168m;
 - Maybury Primary School £0.458m;
 - Properties for Home Share £0.253m;
 - Trinity Academy Phase One £0.250m; and
 - Castlebrae High School £0.240m.
- 4.3 Within Place, there has been capital expenditure of £40.980m as at Period Three. Expenditure relates primarily to;
- Millerhill Recycling and Energy Recovery Centre (RERC) Capital Contribution £36.900m (including £7.380m share funded by Midlothian Council);
 - Energy Efficiency Street Lighting Programme £0.817m;
 - Carriageways and Footways Improvements £0.562m; and
 - North Bridge Refurbishment £0.502m.
- 4.4 Within Place – Trams to Newhaven, there has been capital expenditure of £3.042m as at Period Three.

- 4.5 Within Resources- Asset Management Works, there has been capital expenditure of £1.212m as at Period Three across various projects which were underway before COVID-19 lockdown.

Housing Revenue Account

- 4.6 The Period Three Monitoring shows HRA capital expenditure of £3.404m for the year to date across various programmes and workstreams relating to new builds and improvements to existing homes. The budget for 2020/21 has been revised from the initial approved budget of £96.468m to £56.969m, an overall reduction in capital expenditure of £39.499m (40.9%), largely due to COVID-19 lockdown.
- 4.7 The Period Three Monitoring shows HRA capital income of £1.068m for the year to date, primarily from Scottish Government grant for the Craigmillar Town Centre development and disposals through the Acquisitions and Disposals Programme. The budget for 2020/21 has been revised from the initial approved budget of £73.122m to £33.033m, an overall reduction in capital income of £40.089m (54.8%). This is primarily due to the slippage of Edinburgh Living capital receipts which are referenced in paragraph 4.17 from a General Fund on-lending perspective.
- 4.8 This results in a projected net requirement of £23.936m in loans fund advance, increased from an originally approved £23.346m. A breakdown by programme is provided in Appendix 2.
- 4.9 At Policy and Sustainability Committee on 25 June 2020, Committee agreed that opportunities should be explored to reallocate capital slippage to strategic land acquisition to support key council aims.
- 4.10 It should be made clear that this is not possible within the General Fund as capital slippage is not a funding source and the programme is already unaffordable over the longer-term. However, additional land assembly is required to deliver the Council's affordable housing and regeneration objectives. Acquisition of public sector sites is being pursued to support the delivery of housing and health and social care outcomes. The HRA business plan contains funding for land acquisitions and officers will continue to review opportunities that support the Council's Sustainable Economy Recovery Plan. It is anticipated that the £12.000m land acquisition budget will be spent in full in 2020/21.

Capital Budget Strategy 2020-2030 – 2020/21 Revised Budget

General Fund

- 4.11 The 2020-30 Capital Budget Strategy for the general fund approved by Council in February 2020 was based on an interim budget which estimated slippage and acceleration as reported at Period Eight 2019/20. The revised 2020-30 Capital Budget Strategy has been adjusted to reflect actual provisional out-turn slippage and acceleration as reported to Policy and Sustainability Committee on 25 June and this is shown in Appendix 3.

- 4.12 The programme has also been realigned and re-phased to ensure that individual project cash flows reflect the most up to date projections. Project managers have considered risks such as COVID-19, adverse weather and other uncontrollable factors that can impact on delivery. This year has been more challenging than ever with the COVID-19 impacts difficult to forecast accurately until market tenders are completed.
- 4.13 As reported to this Committee on 25 June 2020, a COVID-19 assumption uplift of 25% was applied. The result of that modelling showed pressures of £56.207m in 2020/21, although slippage of £217.464m meant that a net slippage position of £161.257m was forecast. This meant that the Council may benefit from a reduced loans charge liability in the current year, but that had already been factored into corporate budgeting assumptions. In future years, however it would result in additional financing costs.
- 4.14 The Period Three Monitoring which can be seen in Appendix 1, shows the re-phased interim 2020/21 budget position based on cash flows and slippage referred to in paragraphs 4.11 and 4.12. The latest net slippage position from the approved budget is £171.184m. However, due to continued uncertainty this doesn't reflect any COVID-19 uplift in-year.
- 4.15 There are various key variables that impact on a percentage uplift, such as contract value, works still to be completed compared to how much has already been completed and manner of works (i.e. internal against external). Having been able to access some data from a broad cross-section of contracts, the previous general 25% uplift appears excessive and is likely to be closer to the region of 5% across the programme. The original 25% was a prudent allowance provided by an independent advisor but will vary depending on specifics of the project and the Council is working with contractors to mitigate the additional costs. A further update on the COVID-19 assumptions and the impact it has on the 2020-30 Capital Budget Strategy will be provided in the Revised Budget set in Autumn 2020.
- 4.16 Members should note that where funding has not been approved or is uncertain, then projects are not included in the 2020-30 Capital Budget. This includes projects funded by capital receipts, grants or contributions which are yet to be secured.
- 4.17 General Fund lending for housing for mid-rent has also been revised to reflect the latest programme with £26.611m assumed on-lending for Edinburgh Living homes at North Sighthill and Craigmillar and the Shrubhill National Housing Trust (NHT) payment of £4.718m due in February 2020 is now forecast in 2020/21 financial year. The budget impact is neutral as borrowing is delayed to match the revised expenditure profiles.
- 4.18 The forecast for the Tram to Newhaven project has been updated to reflect the impact of COVID-19. Costs of site closure, delay, remobilisation and inefficiency due to social distancing are expected to be in the region of £5.000m. This amount can be contained within budget and the project is still anticipated to be delivered within the £207.300m investment approved by Council. The latest cash flow profile has been factored into Appendix 1. A separate report will be presented to this

committee detailing the wider impact of COVID-19 on the project, including impacts on the business case, and the mitigation measures currently being deployed.

- 4.19 In addition, as reported on 25 June 2020, the project budget for North Bridge has been increased by £14.131m to account for COVID-19 impacts and wider emerging cost pressures. It is proposed that the £4.242m contingency in 2020/21 is realigned to fund part of this. The remaining £9.889m will need to be funded through re-profiling of existing capital budgets. Similarly, any overspends in the Energy Efficiency Street Lighting Project will be funded from re-profiling of the existing Street Lighting capital budget.
- 4.20 A further report will be brought to Committee detailing the Revised 2020-30 Capital Budget Strategy in Autumn 2020. This report will provide an update following a wider review of the COVID-19 pressures, accounting for the sustainability agenda and reviewing prioritisation of projects within the programme to fund pressures.

Housing Revenue Account

- 4.21 The HRA Business Plan is reviewed annually; including the 10-year investment strategy and five-year capital programme. This year's review is considering the impacts of COVID-19 on the cost and delivery of investment in existing and new homes. A breakdown of the Revised 2020/21 HRA Capital Budget by project and workstream is included in Appendix 4.
- 4.22 COVID-19 has had an impact on the programmed delivery of new housing which was under construction at the start of the pandemic. The biggest impact has been on Pennywell due to the scale of the project with construction taking place concurrently on a number of sites.
- 4.23 The programme for investment in Council homes and estates has been reviewed with contractors and external groundworks and works to external and common areas of blocks are re-commencing. This year's budget has been reduced accordingly and profiled into future years.
- 4.24 A detailed update on the Revised HRA Capital Investment Programme will also be brought to relevant Committees in Autumn 2020.

5. Next Steps

- 5.1 This report will be referred to Governance, Risk and Best Value committee to consider as part of its programme of work.
- 5.2 The 2020-30 Capital Budget Strategy will be updated and a revised budget will be set in Autumn 2020 along with the Revised Revenue Budget for 2020-21.
- 5.3 Finance staff will continue work with project and programme managers to monitor capital budgets. A further capital monitoring report will be provided to Committee showing the half year position.
- 5.4 Further reports will be presented to Finance and Resource Committee at period eight and period 12 showing the out-turn position against the revised 2020-21 capital budget.

6. Financial impact

- 6.1 The 2020/21 general fund period three forecast outlines loans fund advances of £176.028m. The overall loan charges associated with this over a 30-year period would be a principal amount of £176.028m, interest and expenses of £149.556m, resulting in a total cost of £325.584m based on a loans fund interest rate of 4.39%. The average annual cost would be £10.853m for 30 years.
- 6.2 The 2020/21 HRA period three forecast outlines loans fund advances of £23.936m. The overall loans charges associated with this over a 30-year period would be a principal amount of £23.936m, interest of £20.336m, resulting in a total cost of £44.272m based on a loans fund rate of 4.39%. The average annual cost would be £1.476m 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 [Edinburgh Tram – York Place to Newhaven Final Business Case](#), The City of Edinburgh Council, 14 March 2019
- 8.2 [Capital Budget Strategy 2020-30](#), Finance and Resources Committee, 10 October 2019
- 8.3 [Capital Budget Strategy 2020-30](#), The City of Edinburgh Council, 20 February 2020
- 8.4 [Housing Revenue Account Budget Strategy \(2020-2030\)](#), The City of Edinburgh Council, 20 February 2020
- 8.5 [Capital Strategy 2020-30 – Annual Report](#), The City of Edinburgh Council, 12 March 2020
- 8.6 [Capital Budget Update - 2019/20 Provisional Outturn and 2020/21 COVID-19 Forecast](#), Policy and Sustainability Committee, 25 June 2020

9. Appendices

Appendix 1 – 2020/21 Capital Monitoring Period Three – General Fund

Appendix 2 – 2020/21 Capital Monitoring Period Three – HRA

Appendix 3 – 2020/21 Interim Capital Budget (Incorporating provisional out-turn slippage from 2019/20)

Appendix 4 – 2020/21 Revised Capital Budget – HRA

Appendix 1 - 2020/21 Capital Monitoring

General Fund Summary

Period 3

Expenditure	Approved Budget	Adjustments	Interim Budget	Actual to Date	Projected Outturn	Provisional Variance	
	£000	£000	£000	£000	£000	£000	%
Communities and Families	99,246	(34,327)	64,919	3,998	64,919	-	0.00%
Edinburgh Integration Joint Board	-	284	284	-	284	-	0.00%
Place	192,495	(84,657)	107,838	40,980	107,838	-	0.00%
Place - Lending	43,913	(12,584)	31,329	-	31,329	-	0.00%
Place - Tram York Place to Newhaven	74,939	(15,291)	59,648	3,042	59,648	-	0.00%
Contingency	4,242	-	4,242	-	4,242	-	0.00%
Resources - Asset Management Works	30,000	(21,242)	8,758	1,212	14,126	5,368	61.29%
Resources - Other	5,000	(3,367)	1,633	24	1,633	-	0.00%
Total Gross Expenditure	449,835	(171,184)	278,651	49,256	284,019	5,368	1.93%

Funding	Approved Budget	Adjustments	Revised Budget	Actual to Date	Projected Outturn	Provisional Variance	
	£000	£000	£000	£000	£000	£000	%
<i>Capital Receipts</i>							
General Asset Sales	3,000	-	3,000	2	3,000	-	0.00%
<i>Total Capital Receipts from Asset Sales</i>	3,000	-	3,000	2	3,000	-	0.00%
<i>Drawdown from Capital Fund</i>							
	14,195	-	14,195	-	14,195	-	0.00%
<i>Developer Contributions</i>							
	754	3,390	4,144	587	4,144	-	0.00%
<i>Developers Contributions Transferred to Investments</i>	-	-	-	859	-	-	#DIV/0!
<i>Total Developer Contributions</i>	754	3,390	4,144	1,446	4,144	-	0.00%
Total Capital Receipts and Contributions	17,949	3,390	21,339	1,448	21,339	-	0.00%
<i>Grants</i>							
Scottish Government General Capital Grant	38,225	-	38,225	9,532	38,225	-	0.00%
Other Grants and Contributions	-	8,196	8,196	8,185	8,196	-	0.00%
Cycling, Walking and Safer Streets	2,281	-	2,281	-	2,281	-	0.00%
Transfer of Management of Development Funding (TMDF)	27,950	-	27,950	-	27,950	-	0.00%
Early Years and Childcare - Expansion	10,000	-	10,000	-	10,000	-	0.00%
Capital Grants Unapplied Account Drawdown	2,002	(2,002)	-	-	-	-	0.00%
Total Grants	80,458	6,194	86,652	17,717	86,652	-	0.00%
Total Funding	98,407	9,584	107,991	19,165	107,991	-	0.00%
<i>Borrowing</i>							
New Prudential Borrowing in Year	121,388	(77,367)	44,021	29,520	44,021	-	0.00%
New On-Lending in Year	43,913	(12,584)	31,329	-	31,329	-	0.00%
New Capital Advance - Trams to Newhaven	74,939	(19,431)	55,508	3,042	55,508	-	0.00%
New Capital Advance - General Fund	111,188	(71,386)	39,802	(2,471)	45,170	5,368	13.49%
Balance to be funded through Loans Fund Advance	351,428	(180,768)	170,660	30,091	176,028	5,368	3.15%

Appendix 2 - 2020/21 Capital Monitoring

Housing Revenue Account

Period 3

Expenditure	Approved Budget	Adjustments	Revised Budget	Actual to Date	Projected Outturn	Provisional Variance	
	£000	£000	£000	£000	£000	£000	%
New Homes Development	35,890	(15,124)	20,766	788	20,766	-	0.0%
New Homes Land Costs	12,000	-	12,000	-	12,000	-	0.0%
Improvement to Council Homes and Estates	48,578	(24,375)	24,203	2,616	24,203	-	0.0%
Total Gross Expenditure	96,468	(39,499)	56,969	3,404	56,969	-	0.0%

Income	Approved Budget	Adjustments	Revised Budget	Actual to Date	Projected Outturn	Provisional Variance	
	£000	£000	£000	£000	£000	£000	%
Capital Receipts and Other Contributions	50,524	(24,424)	26,100	320	26,100	-	0.0%
Capital Funded from Current Revenue	3,656	(3,656)	-	-	-	-	0.0%
Specific Capital Grant	18,942	(12,009)	6,933	748	6,933	-	0.0%
Total Income	73,122	(40,089)	33,033	1,068	33,033	-	0.0%

Balance to be funded through Loans Fund Advance	23,346	590	23,936	2,336	23,936	-	0.0%
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Appendix 3 – 2020/21 Interim Capital Budget (Incorporating provisional out-turn slippage from 2019/20)

General Fund

<u>SUMMARY</u>	Planned Budget 2020-21	2019-20 Expenditure Slippage	2019-20 Income Slippage	Planned Budget (inc. slippage) 2020-21	Re-profiled to Later Years 2020-21	Additional Funding 2020-21	Interim Budget 2020-21
	£000	£000	£000	£000	£000	£000	£000
Communities and Families	99,246	21,945	10,120	131,311	(66,401)	9	64,919
Edinburgh Integration Joint Board	-	227	57	284	-	-	284
Place	192,495	4,188	3,669	200,352	(101,199)	8,685	107,838
Place - Lending	43,913	12,536	-	56,449	(25,120)	-	31,329
Place - Tram York Place to Newhaven	74,939	(3,634)	-	71,305	(11,657)	-	59,648
Contingency	4,242	-	-	4,242	-	-	4,242
Resources - Asset Management Works	30,000	(21,507)	265	8,758	-	-	8,758
Resources - Other	5,000	5,513	2	10,515	(8,900)	18	1,633
Total Expenditure	449,835	19,268	14,113	483,216	(213,277)	8,712	278,651

Appendix 4 – 2020/21 Revised Capital Budget

Housing Revenue Account

Category	Programme/Workstream	Approved	Adjustments	Revised
		Budget		Budget
		2020/21		2020/21
		£000	£000	£000
	Pennywell	13,470	(6,974)	6,496
	North Sighthill	707	160	867
	Dumbryden	3,364	(2,464)	900
	Craigmillar Town Centre	3,105	(1,576)	1,529
	Coatfield Lane, Leith	565	(81)	484
	Silverlea	104	242	346
	Bingham Avenue and Parkview	4,657	(157)	4,500
New Homes Development	Fountainbridge	1,449	238	1,687
	Meadowbank	1,553	(1,383)	170
	Western Villages, Granton	3,105	(2,080)	1,025
	Powderhall	1,035	(700)	335
	Post-construction work/ early design development/Staff Costs	2,776	(349)	2,427
	Land Acquisitions	12,000	-	12,000
	Total	47,890	(15,124)	32,766
	Improvement to Tenants Homes	14,739	(10,479)	4,260
	External Fabric	17,298	(8,540)	8,758
Improvement to Council Homes and Estates	Health and Safety	4,590	(1,877)	2,713
	Improvement to Communal Areas	4,080	(726)	3,354
	Environmental, Place Making and Staff Costs	7,871	(2,753)	5,118
	Total	48,578	(24,375)	24,203
HRA	Total	96,468	(39,499)	56,969