

Finance and Resources Committee

10.00am, Thursday, 29 October 2020

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

Executive/routine Wards Council Commitments	Executive All
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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 five 2020-21;
- 1.2 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 Five 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 five, the General Fund is projecting capital expenditure of £275.169m and capital income of £109.142m, resulting in a net requirement of £166.027m in loans fund advances. This is £3.872m lower than the revised budget update provided in period three due to updated cashflows across the programme.
- 2.3 At month five, the Housing Revenue Account (HRA) is projecting capital expenditure of £56.050m and capital income of £32.509m, resulting in a net requirement of £23.541m in loans fund advances. New build construction, external works and common area projects have been able to recommence. Internal improvement works will be phased in gradually to take account of safe working practices.
- 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.
- 3.5 A further report was considered by Finance and Resources Committee on 27 August 2020 which provided an update on the 25 June 2020 report and detailed capital spend to period three in 2020/21 and the interim budget position for 2020/21. At month three, the General Fund was projecting capital expenditure of £284.019m and capital income of £107.991m, resulting in a net requirement of £176.028m in loans fund advances. The HRA was projecting capital expenditure of £56.969m and capital income of £33.033m, resulting in a net requirement of £23.936m in loans fund advances.
- 3.6 The period three monitoring also showed the re-phased interim 2020/21 general fund budget position based on cash flows and slippage. The net slippage position at that point from the approved budget was £171.184m. Similarly, the HRA showed an overall reduction in capital expenditure of £39.499m (40.9%), largely due to COVID-19 lockdown.
- 3.7 This report provides detailed capital spend to period five in 2020/21, the interim budget position for 2020/21 and the updated forecast out-turn position for the 2020/21 financial year.

4. Main report

2020/21 Capital Monitoring – Period Five

General Fund

- 4.1 The period five monitoring shows general fund expenditure of £77.354m. A breakdown by directorate is provided in Appendix 1.
- 4.2 Within Communities and Families, there has been capital expenditure of £12.475m as at period five. Expenditure relates primarily to projects which were well underway prior to COVID-19 lockdown;
- Meadowbank £4.704m;
 - Broomhill Primary School £1.676m;
 - Castlebrae High School £1.118m;

- Victoria Primary School £0.965m;
- St Crispin's Primary School £0.783m;
- Maybury Primary School £0.657m;
- Canaan Lane Primary School £0.482m; and
- Trinity Academy Phase One £0.308m.

4.3 Within Place, there has been capital expenditure of £49.021m as at period five. 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 £2.387m;
- North Bridge Refurbishment £1.561m;
- Development Funding Projects £1.253m;
- Carriageways and Footways Improvements £1.137m;
- Cycle Projects £0.912m; and
- Bridge Strengthening Projects £0.500m.

4.4 Within Place – Trams to Newhaven, there has been capital expenditure of £11.477m as at period five.

4.5 Within Resources - Asset Management Works, there has been capital expenditure of £4.325m as at period five across various projects as work restarts following the COVID-19 lockdown.

Housing Revenue Account

4.6 The period five monitoring shows HRA capital expenditure of £6.936m 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 the impact of site closures in the earlier phases of COVID-19 lockdown although new build construction and external works have been able to recommence, internal improvement works will be phased in gradually to take account of safe working practices.

4.7 The revised forecast on new homes development is £0.919m lower than the period three estimate to reflect updated cashflows across the existing programme but demonstrates that we are progressing with design, development and pre-construction work across the HRA capital programme.

4.8 Within Housing Property, capital works are currently split into three phases, phase one: return of all external works where appropriate, phase two: return of all common area projects where appropriate and phase three: return of internal works such as kitchens and bathrooms, heating systems, etc. We are currently in phase two and

planning that phase three will only return into the new calendar year. The move to phase three will be subject to change based on Government advice and tenant feedback.

- 4.9 The period five monitoring shows HRA capital income of £1.719m 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 subsequently slipped further to £32.509m, primarily due to the slippage of Edinburgh Living capital receipts which are referenced in paragraph 4.15 from a General Fund on-lending perspective.
- 4.10 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.

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 The period five monitoring which can be seen in Appendix 1, shows the re-phased interim 2020/21 budget position based on cash flows and slippage. The latest net slippage position from the approved budget is £170.794m. However, due to continued uncertainty this doesn't reflect any COVID-19 uplift in-year. A further update on the COVID-19 assumptions and the impact it has on the Capital Budget Strategy will be provided as part of the wider budget setting process.
- 4.14 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.
- 4.15 General Fund lending for housing for mid-rent has also been revised to reflect the latest programme with £23.465m 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.

- 4.16 The cost of delivering the Tram to Newhaven project is still projected to remain within the £207.3m budget approved by the Council in April 2019. Measures on site have been implemented to partially mitigate the anticipated delays to the programme resulting from COVID 19 and additional works required to the sewer on Constitution Street and Baltic Street. The latest cashflow profile has been factored into Appendix 1.
- 4.17 A further report will be brought to Committee in December 2020 detailing the Capital Budget Strategy as part of the wider budget setting process. 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 additional pressures which are currently estimated at an additional c. £87m across the remaining nine years of the programme.

Housing Revenue Account

- 4.18 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.
- 4.19 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.
- 4.20 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.
- 4.21 An update on the HRA strategy and policy framework will be reported to Housing, Homelessness and Fair Work Committee in November 2020 with further budget updates reported to Finance Resources Committee in January 2021.

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 Capital Budget Strategy will be updated in Winter 2020 along with the Revenue Budget Framework.
- 5.3 Finance staff will continue work with project and programme managers to monitor capital budgets.

- 5.4 Further reports will be presented to Finance and Resource Committee at period eight and finally at 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 £166.027m. The overall loan charges associated with this over a 30-year period would be a principal amount of £166.027m, interest and expenses of £141.059m, resulting in a total cost of £307.086m based on a loans fund interest rate of 4.39%. The average annual cost would be £10.236m for 30 years.
- 6.2 The 2020/21 HRA period three forecast outlines loans fund advances of £23.541m. The overall loans charges associated with this over a 30-year period would be a principal amount of £23.541m, interest of £20.001m, resulting in a total cost of £43.542m based on a loans fund rate of 4.39%. The average annual cost would be £1.451m 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
- 8.7 [2020-30 Capital Budget Strategy – 2020/21 Period 3 Monitoring and Revised Budget Update](#), Finance and Resources Committee, 27 August 2020

9. Appendices

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

Appendix 2 – 2020/21 Capital Monitoring Period Five – 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 Five

Expenditure	Approved Budget	Adjustments	Interim Budget	Actual to Date	Projected Outturn	Provisional Variance	
	£000	£000	£000	£000	£000	£000	%
Communities and Families	99,246	(33,939)	65,307	12,475	65,307	-	0.00%
Edinburgh Integration Joint Board	-	284	284	-	284	-	0.00%
Place	192,495	(84,655)	107,840	49,021	106,701	(1,139)	-1.06%
Place - Lending	43,913	(12,584)	31,329	-	28,184	(3,145)	-10.04%
Place - Tram York Place to Newhaven	74,939	(15,291)	59,648	11,477	55,418	(4,230)	-7.09%
Contingency	4,242	-	4,242	-	4,242	-	0.00%
Resources - Asset Management Works	30,000	(21,242)	8,758	4,325	13,400	4,642	53.00%
Resources - Other	5,000	(3,367)	1,633	56	1,633	-	0.00%
Total Gross Expenditure	449,835	(170,794)	279,041	77,354	275,169	(3,872)	-1.39%

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	118	3,000	-	0.00%
<i>Total Capital Receipts from Asset Sales</i>	3,000	-	3,000	118	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	660	4,144	-	0.00%
<i>Developers Contributions Transferred to Investments</i>	-	-	-	1,539	-	-	0.00%
<i>Total Developer Contributions</i>	754	3,390	4,144	2,199	4,144	-	0.00%
Total Capital Receipts and Contributions	17,949	3,390	21,339	2,317	21,339	-	0.00%
<i>Grants</i>							
Scottish Government General Capital Grant	38,225	-	38,225	15,887	38,225	-	0.00%
Other Grants and Contributions	-	9,347	9,347	8,309	9,347	-	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	7,345	87,803	24,196	87,803	-	0.00%
Total Funding	98,407	10,735	109,142	26,513	109,142	-	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	-	28,184	(3,145)	-10.04%
New Capital Advance - Trams to Newhaven	74,939	(19,431)	55,508	11,477	51,278	(4,230)	-7.62%
New Capital Advance - General Fund	111,188	(72,147)	39,041	9,844	42,544	3,503	8.97%
Balance to be funded through Loans Fund Advance	351,428	(181,529)	169,899	50,841	166,027	(3,872)	-2.28%

Appendix 2 - 2020/21 Capital Monitoring

Housing Revenue Account

Period Five

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	2,819	19,847	(919)	-4.4%
New Homes Land Costs	12,000	-	12,000	-	12,000	-	0.0%
Improvement to Council Homes and Estates	48,578	(24,375)	24,203	4,117	24,203	-	0.0%
Total Gross Expenditure	96,468	(39,499)	56,969	6,936	56,050	(919)	-1.6%

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	914	23,016	(3,084)	-11.8%
Capital Funded from Current Revenue	3,656	(3,656)	-	-	-	-	0.0%
Specific Capital Grant	18,942	(12,009)	6,933	805	9,493	2,560	36.9%
Total Income	73,122	(40,089)	33,033	1,719	32,509	(524)	-1.6%

Balance to be funded through Loans Fund Advance	23,346	590	23,936	5,217	23,541	(395)	-1.7%
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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	(67,163)	1,159	65,307
Edinburgh Integration Joint Board	-	227	57	284	-	-	284
Place	192,495	4,188	3,669	200,352	(101,197)	8,685	107,840
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	(214,037)	9,862	279,041

Appendix 4 – 2020/21 Revised Capital Budget

Housing Revenue Account

Category	Programme/Workstream	Approved Budget 2020/21 £000	Adjustments £000	Revised Budget 2020/21 £000
New Homes Development	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
	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 Council Homes and Estates	Improvement to Tenants Homes	14,739	(10,479)
External Fabric		17,298	(8,540)	8,758
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