

Finance and Resources Committee

10.00am, Thursday, 21 January 2021

2020-30 Capital Budget Strategy – 2020/21 Month Eight Monitoring

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 eight 2020-21;
- 1.2 To refer the report to the Governance Risk and Best Value Committee as part of its work programme; and,
- 1.3 To delegate authority to the Executive Director of Place to enter into a Delivery Agreement with Robertson Construction Group Ltd through the Scape Major Works Scotland framework, to construct 49 affordable homes for the contract sum of up to £7.4m. This cost increase will be funded through the HRA Budget Strategy 2021-2031 as reported elsewhere on the agenda.

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2020-30 Capital Budget Strategy – 2020/21 Period Eight Monitoring

2. Executive Summary

- 2.1 The report provides capital expenditure and funding forecasts for 2020/21, providing explanations for variances.
- 2.2 At month eight, the General Fund is projecting capital expenditure of £244.009m and capital income of £116.502m, resulting in a net requirement of £127.507m in loans fund advances. This is £40.247m lower than the revised budget update provided in period three due to updated cashflows across the programme.
- 2.3 At month eight, the Housing Revenue Account (HRA) is projecting capital expenditure of £46.800m and capital income of £32.574m, resulting in a net requirement of £14.226m 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 period three and five monitoring also showed the HRA 2020/21 budget showed an overall reduction in capital expenditure of £39.499m (40.9%), largely due to COVID-19 lockdown.
- 3.7 The period five monitoring report was considered by Finance and Resources Committee on 29 October and at that point, the General Fund was projecting capital expenditure of £275.169m and capital income of £109.142m, resulting in a net requirement of £166.027m in loans fund advances. Whilst the Housing Revenue Account (HRA) was projecting capital expenditure of £56.050m and capital income of £32.509m, resulting in a net requirement of £23.541m in loans fund advances
- 3.8 This report provides detailed capital spend to period eight 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 Eight

General Fund

- 4.1 The period eight monitoring shows general fund expenditure of £145.910m. A breakdown by directorate is provided in Appendix 1.
- 4.2 Within Communities and Families, there has been capital expenditure of £33.135m as at period eight. Expenditure relates primarily to projects which were well underway prior to COVID-19 lockdown such as Meadowbank Sports Centre,

Broomhill Primary School and Castlebrae High School. There is also now forecast slippage of £14.026m in the year, this primarily relates to;

- Early Years of £4.947m, as a result of a COVID-19 lockdown and failure of a contractor followed by appointment of a new contractor to stabilise the condition of the uncompleted works and carry out thorough investigations and defect remediation proposals to form a new scope for the completion contract due to commence in March 2021 and complete in October 2021;
- Rising School Rolls of £4.147m to reflect updated expenditure profiles for a variety of projects including Sciennes Primary School where the Council are still in the early design stages with an expected August 2022 completion and Kirkliston Phase One due to delay in early design changes and client revisions;
- New South Edinburgh Primary of £2.478m due to the project being significantly delayed by utility companies relating to the diversion of a combined sewer, which was further compounded by COVID-19 delays as the new standard operating practices on-site reduced productivity, with a revised opening date for the new school of October 2021 now projected;
- Boroughmuir High School Extension of £1.500m due to contract award being delayed due to COVID-19 restrictions from an expected March sign-off, with work now expected to be completed by August 2022; and
- St Crispin's Special School replacement of £1.486m due to COVID-19 productivity and a cable diversion by a utility company with completion expected by summer 2021.

4.3 Within Place, there has been capital expenditure of £71.395m as at period eight. 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; and Development Funding Projects £9.358m. There is also now forecast slippage of £10.035m in the year, this primarily relates to;

- Energy Efficiency Street Lighting Project of £3.422m due to the entire cashflow being updated to move optimism bias and contingencies to the end of the project and further delays due to the contractor's team self-isolating for several weeks after positive cases;
- Carriageways and Footways Improvements of £2.789m due to design process taking longer than anticipated as working through backlog of planned earlier works which were postponed due to COVID-19 lockdown;
- Town Centre Funding of £2.593m as progress on use of existing funding was revised on 11 June 2020 at Policy and Sustainability Committee and a further £0.954m was received in-year with plans for use of this approved at Housing, Homelessness and Fair Work Committee on 5 November 2020. However, the Council remains on track to commit this funding by the 31

March 2021 deadline and for it to be spent before the 30 September 2021 deadline; and

- Cycle Projects of £0.741m primarily due to construction on Quiet Route 6 and 61 moving back a couple of months into the start of the 2021/22 financial year.

- 4.4 Within Place – Trams to Newhaven, there has been capital expenditure of £24.941m as at period eight, with forecast slippage of £6.508m due to the reprofiling of contingency budgets following the updated quantitative risk assessment (QRA).
- 4.5 Within Place - Lending there has been capital expenditure of £8.889m as at period eight for completed units which have transferred to Edinburgh Living LLP at North Sighthill and Craigmillar Town Centre, with forecast slippage of £11.760m primarily due to delays on completion of units at North Sighthill which are now expected to be completed in 2021/22 for Edinburgh Living LLP lending and slippage of £4.718m in NHT lending as delays on site had pushed projected completion of Phase 3 to late 2020 pre-COVID and that site shutdown during lockdown further exacerbated the delays.
- 4.6 Within Resources - Asset Management Works Programme, there has been capital expenditure of £7.373m as at period eight across various projects as work restarts following the COVID-19 lockdown, with forecast acceleration of spend of £5.055m compared to the revised budget of £8.761m. The closure of Edinburgh Leisure properties allowed the £2.700m refurbishment of Warrender Swim Centre to be brought forward from 2022/23 financial year and the remaining £2.300m is a result of the programmes of work on some of the larger projects being accelerated during the school closures.

Housing Revenue Account

- 4.7 The period eight monitoring shows HRA capital expenditure of £15.768m 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 and necessary national lockdown measures. The underspend will be rephased over the next 18 months. A breakdown by programme is provided in Appendix 2.
- 4.8 The revised forecast on new homes development is £1.041m lower than the period three revised budget estimate to reflect a slight slow-down in progress of works due to safe working practices but good progress is being made across the programme both on site and with design, development and pre-construction work. The latest forecast also assumes that additional land acquisition for Council housebuilding will take place before the end of the financial year.

- 4.9 Due to the current COVID-19 pandemic, the capital improvements work to Council Homes and Estates are currently split into three phases within the recovery plan. 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.
- 4.10 Planning is underway to test safe working practices in advance of the remobilised of phase three. The move to phase three will be subject to change based on Government advice and tenant feedback.
- 4.11 The revised forecast against improvements to Council Homes and Estates is £9.128m lower than estimated at period three when the budget was revised. This assumed construction operations returned to site quicker, however, the vast majority of contractors' staff were on furlough and it took longer than expected to return to full capacity. In addition to this, there were delays in the supply chain and the prolongation of works due to the implementation of safe working practices. The new Delivery Framework was also delayed by six months due to suppliers being furloughed. The new framework was approved at the Finance and Resources Committee on 29 October 2020. Prior to approval, procurement protocols were amended to mitigate risk to the Council of COVID-19 costs and this reduced the number of other works advertised in the interim period.
- 4.12 The period eight monitoring shows HRA capital income of £16.602m for the year to date, primarily from capital receipts from sales to Edinburgh Living LLP, Scottish Government grant and disposals through the Acquisitions and Disposals Programme. The budgeted income 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%). The latest forecast is showing an improvement on that forecast income up to £32.574m, with slippage of Edinburgh Living capital receipts offset by Scottish Government grant income for projects underway.
- 4.13 As a result of COVID-19 and a delay between initial feasibility work and detailed design, the Dumbryden Phase 2 budget requirement has exceeded the project budget originally approved by the Finance and Resources Committee on 27 March 2018. As such a new approval is sought to delegate authority to the Executive Director of Place to enter into the Delivery Agreement for the increased construction cost of £7.4m to allow construction to commence in early 2021. The overall budget (construction cost, land costs, contingency and professional fees) will be increased from £6.25m to £8.3m as part of the HRA Budget Strategy (2021-2031) report which is being approved considered separately on this agenda. This cost increase will be funded through the HRA Budget Strategy 2021-2031 as reported elsewhere on the agenda.
- 4.14 This results in a projected net requirement of £14.226m in loans fund advance, a decrease from the originally approved £23.936m. This will see a revenue benefit next year from lower than expected loan charges with this benefit offset when the capital expenditure is reprofiled and incurred in later years.

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 Finance staff will continue work with project and programme managers to monitor capital budgets.
- 5.3 Further reports will be presented to Finance and Resource Committee 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 eight forecast outlines loans fund advances of £127.507m. The overall loan charges associated with this over a 30-year period would be a principal amount of £127.507m, interest and expenses of £108.331m, resulting in a total cost of £235.838m based on a loans fund interest rate of 4.39%. The average annual cost would be £7.861m for 30 years.
- 6.2 The 2020/21 HRA period eight forecast outlines loans fund advances of £14.226m. The overall loans charges associated with this over a 30-year period would be a principal amount of £14.226m, interest of £12.087m, resulting in a total cost of £26.313m based on a loans fund rate of 4.39%. The average annual cost would be £0.877m 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
- 8.8 [2020-30 Capital Budget Strategy – 2020/21 Period Five Monitoring and Revised Budget Update](#), Finance and Resources Committee, 29 October 2020

9. Appendices

- 9.1 Appendix 1 – 2020/21 Capital Monitoring Period Eight – General Fund
- 9.2 Appendix 2 – 2020/21 Capital Monitoring Period Eight – HRA

Appendix 1 - 2020/21 Capital Monitoring

General Fund Summary

Period Eight

Expenditure	Approved Budget £000	Adjustments £000	Interim Budget £000	Actual to Date £000	Projected Outturn £000	Provisional Variance £000	%
Communities and Families	99,246	(33,939)	65,307	33,135	51,281	(14,026)	-21.48%
Edinburgh Integration Joint Board	-	284	284	1	284	-	0.00%
Place	192,495	(82,541)	109,954	71,395	99,919	(10,035)	-9.13%
Place - Lending	43,913	(12,584)	31,329	8,889	19,569	(11,760)	-37.54%
Place - Tram York Place to Newhaven	74,939	(15,291)	59,648	24,941	53,140	(6,508)	-10.91%
Contingency	4,242	-	4,242	-	4,242	-	0.00%
Resources - Asset Management Works	30,000	(21,239)	8,761	7,373	13,816	5,055	57.70%
Resources - Other	5,000	(3,367)	1,633	176	1,758	125	7.65%
Total Gross Expenditure	449,835	(168,677)	281,158	145,910	244,009	(37,149)	-13.21%

Funding	Approved Budget £000	Adjustments £000	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Provisional Variance £000	%
<i>Capital Receipts</i>							
General Asset Sales	3,000	145	3,145	5,757	5,757	2,612	83.05%
<i>Total Capital Receipts from Asset Sales</i>	<i>3,000</i>	<i>145</i>	<i>3,145</i>	<i>5,757</i>	<i>5,757</i>	<i>2,612</i>	<i>83.05%</i>
<i>Drawdown from Capital Fund</i>	<i>14,195</i>	<i>-</i>	<i>14,195</i>	<i>-</i>	<i>14,195</i>	<i>-</i>	<i>0.00%</i>
<i>Developer Contributions</i>	<i>754</i>	<i>5,470</i>	<i>6,224</i>	<i>3,459</i>	<i>6,224</i>	<i>-</i>	<i>0.00%</i>
<i>Developers Contributions Transferred to Investments</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>2,255</i>	<i>-</i>	<i>-</i>	<i>0.00%</i>
<i>Total Developer Contributions</i>	<i>754</i>	<i>5,470</i>	<i>6,224</i>	<i>5,714</i>	<i>6,224</i>	<i>-</i>	<i>0.00%</i>
Total Capital Receipts and Contributions	17,949	5,615	23,564	11,471	26,176	2,612	11.08%
<i>Grants</i>							
Scottish Government General Capital Grant	38,225	-	38,225	25,419	38,225	-	0.00%
Other Grants and Contributions	-	10,430	10,430	10,916	10,916	486	4.66%
Cycling, Walking and Safer Streets	2,281	-	2,281	-	2,281	-	0.00%
Town Centre Funding	-	954	954	954	954	-	0.00%
Transfer of Management of Development Funding (TMDF)	27,950	-	27,950	9,648	27,950	-	0.00%
Early Years and Childcare - Expansion	10,000	-	10,000	10,000	10,000	-	0.00%
Capital Grants Unapplied Account Drawdown	2,002	(2,002)	-	-	-	-	0.00%
Total Grants	80,458	9,382	89,840	56,937	90,326	486	0.54%
Total Funding	98,407	14,997	113,404	68,408	116,502	3,098	2.73%
<i>Borrowing</i>							
New Prudential Borrowing in Year	121,388	(75,548)	45,840	35,235	44,021	(1,819)	-3.97%
New On-Lending in Year	43,913	(12,584)	31,329	8,889	19,569	(11,760)	-37.54%
New Capital Advance - Trams to Newhaven	74,939	(19,431)	55,508	24,941	49,000	(6,508)	-11.72%
New Capital Advance - General Fund	111,188	(76,111)	35,077	8,437	14,917	(20,160)	-57.47%
Balance to be funded through Loans Fund Advance	351,428	(183,674)	167,754	77,502	127,507	(40,247)	-23.99%

Appendix 2 - 2020/21 Capital Monitoring

Housing Revenue Account

Period Eight

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	8,274	19,725	(1,041)	-5.0%
New Homes Land Costs	12,000	-	12,000	-	12,000	-	0.0%
Improvement to Council Homes and Estates	48,578	(24,375)	24,203	7,494	15,075	(9,128)	-37.7%
Total Gross Expenditure	96,468	(39,499)	56,969	15,768	46,800	(10,169)	-17.8%

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	14,099	24,103	(1,997)	-7.7%
Capital Funded from Current Revenue	3,656	(3,656)	-	-	-	-	0.0%
Specific Capital Grant	18,942	(12,009)	6,933	2,503	8,471	1,538	22.2%
Total Income	73,122	(40,089)	33,033	16,602	32,574	(459)	-1.4%

Balance to be funded through Loans Fund Advance	23,346	590	23,936	(834)	14,226	(9,710)	-40.6%
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