Finance and Resources Committee

10.00am, Thursday, 4 March 2021

Sustainable Capital Strategy 2021-31 – Annual Report

Item number	
Executive/routine	**Executive**
Wards	
Council Commitments	

1. Recommendations

1.1 To note the Capital Strategy, as set out in Appendix 1, and refer to full Council for approval; and,

1.2 To note that capital expenditure priorities are being considered in line with the Council's priorities and approach proposed under the Adaptation and Renewal Programme outlined in the new Council Business Plan.

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Report

Sustainable Capital Strategy 2021-31 – Annual Report

2. Executive Summary

2.1 This report sets out the proposed capital strategy, which provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the infrastructure and provision of services for the benefit of Edinburgh communities and citizens.

3. Background

3.1 Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 7 of the Local Government in Scotland Act 2003. The Prudential Code was revised by CIPFA in 2017. A key element of the revised code is that local authorities should have a long-term capital strategy in place that sets out the long-term context in which capital and revenue decisions are made.

Sustainable Capital Budget Strategy 2021-31

3.2 The Sustainable Capital Budget Strategy 2021-31 is a separate report which was presented to Finance and Resources Committee on 2 February 2021. It details priorities for council capital investment over the medium to long-term and sets out a plan on how they could be funded.

3.3 At its meeting on 18 February 2021 Council approved the Sustainable Capital Budget Strategy 2021-31. The approved Capital Budget Strategy 2021-31 will deliver a total programme of capital expenditure of £1,455.345m to 2030/31.

3.4 The Capital Budget Strategy is expected to come under significant financial pressure as a result of higher tender prices caused by social distancing requirements and associated construction industry changes arising from COVID-19 guidance. There is also renewed focus on embedding the ambitions of a net-zero carbon City contribution from the Council by 2030 into the restart of major capital investment projects, which has had further financial consequences on previous assumptions.

3.5 This report sets out the Council's capital strategy and builds upon the capital strategy annual report approved by Council on 5 March 2020.

4. Main report

4.1 In order to deliver Council priorities and for the city to grow in a sustainable way, the Council needs to invest in its existing assets as well as creating new ones. The capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability.

4.2 The capital strategy is a high-level document, which brings together a number of other key Council strategies. It should be read in conjunction with the following plans and policies

- Sustainable Capital Budget Strategy 2021-2031
- Annual Treasury Management Strategy 2021/22 (on same agenda)
- Council Business Plan and Budget 2021/26
- Council Business Plan and Budget 2021/26 – Risks and Reserves
- Housing Revenue Account (HRA) Budget Strategy (2021-2031)
- Adaptation and Renewal Programme
- 2050 Edinburgh City Vision
- Council Sustainability Programme Short Window Improvement Plan
- Local Development Plan
- Local Development Plan Action Programme
- Corporate Asset Strategy
- Property and Asset Management Strategy
- Transport Asset Management Plan

4.3 In addition to the statutory background, Edinburgh and the Council's role and the Council's Business Plan and Vision, the capital strategy covers the following areas;

- Capital Expenditure and Financing (the Council's capital expenditure plans, and the corresponding financing requirement);
- Treasury Management (how the Council keeps sufficient but not excessive cash to meet the Council's spending needs, while managing risks involved);
- Other investments and long-term liabilities (the Council's non-treasury investments and other liabilities); and
- Knowledge and Skills (the professional skills and knowledge contained within the Council's accounting, treasury and property teams, as supplemented by external advisers).

4.4 The full capital strategy is included in Appendix 1.

5. Next Steps

5.1 This report will be referred to full Council for approval of the capital strategy. The strategy will be updated on an annual basis, with this being the third iteration.

6. Financial impact

6.1 There are no direct financial implications arising from this report. The implications of the expenditure and investment plans contained in the strategy were considered at the Council's budget setting meeting on 18 February 2021.

7. Stakeholder/Community Impact

7.1 The capital strategy is a high-level document which brings together a number of other Council strategies, each of which is the result of appropriate community engagement.

7.2 Approval of the capital strategy ensures the Council continues to have regard to the Prudential Code when carrying out their duties under Part 7 of the Local Government in Scotland Act 2003.

7.3 There are no sustainability impacts directly arising from this report.

8. Background reading/external references

8.1 Local Development Plan Action Programme, January 2019

8.2 Corporate Asset Strategy, Corporate Policy and Strategy Committee, 12 May 2015

8.3 Property and Asset Management Strategy, Finance and Resources Committee, September 2015

8.4 Transport Asset Management Plan (TAMP), Transport and Environment Committee, 6 December 2018

8.5 Sustainable Capital Budget Strategy 2021-2031, Finance and Resources Committee, 2 February 2021

8.6 Council Business Plan and Budget 2021/26, Finance and Resources Committee, 2 February 2021

8.7 Housing Revenue Account (HRA) Budget Strategy (2021-2031) , Finance and Resources Committee, 2 February 2021

8.8 Treasury Management Strategy 2021-22, Finance and Resources Committee, 2 March 2021

9. Appendices

9.1 Appendix 1: Detailed Sustainable Capital Strategy 2021-31

Appendix 1: Sustainable Capital Strategy 2021-31

1. Introduction

1.1 The Sustainable Capital Strategy for City of Edinburgh Council provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the infrastructure and provision of services for the benefit of Edinburgh communities and citizens.

1.2 The Strategy takes a long-term view and covers the period from 2021 to 2031.

1.3 The Council Change Strategy: Planning for Change and Delivering Services 2019-23 reported to Finance and Resources Committee on 10 October 2019 set out the intention to set a policy-based budget through the lenses of poverty, well-being and sustainability with key messages for this year's budget approach linked to these important issues. Despite the COVID-19 budget challenges, these policy lenses remain the focus of the strategy.

1.4 The Sustainable Capital Budget Strategy is expected to come under significant financial pressure as a result of higher tender prices caused by social distancing requirements and associated construction industry changes arising from COVID-19 guidance.

1.5 There is also renewed focus on embedding the ambitions of a net-zero carbon City contribution from the Council by 2030 into the restart of major capital investment projects, which has had further financial consequences on previous assumptions.

1.6 This has also already led to some significant strategic decisions in respect of the City Development Plan Choices document, the City Mobility Plan and specific investment programmes such as the plan to design and build Currie High School to Passivhaus certified standard.

1.7 Since the setting of the last Capital Strategy, 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 opened 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.

1.8 The impact of COVID-19 will have potentially significant implications for the Capital Budget Strategy 2021-2031, namely:

1.8.1 The Council's Adaptation and Renewal Programme is predicated on pausing, reflecting and changing the way the Council will deliver its services in the future. One of the principles expected to be embedded in the way forward is the ambition to be a net-zero carbon City and Council by 2030. This will affect the cost of the approved projects and may also change the priority of certain projects – such as active travel – that deliver this ambition.

1.8.2 Individual project costs are expected to increase due to heightened contractor requirements for ensuring a safe workplace in a COVID-19 environment. The immediate economic outlook is one of recession which is likely to have adverse impacts on the construction sector.

1.9 The Council is being supported by the Edinburgh Centre for Carbon Innovation to develop a carbon scenario tool that will augment current business case analysis of major Council projects and capital investment. This strategy will continue to be reviewed on the basis of this work and wider needs to deliver the 2030 zero carbon target.

1.10 Explicitly adopting these policy priorities as a focus for the development of the Council's capital budget is a helpful development of the Council's wider Change Strategy.

1.11 These policy priorities have also been adopted within the Sustainable Capital Strategy 2021-31.

2. Statutory Background

2.1 Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 7 of the Local Government in Scotland Act 2003. The Prudential Code was revised by CIPFA in 2017. A key element of the revised code is that local authorities should have a long-term capital strategy in place that sets out the long-term context in which capital and revenue decisions are made.

3. Edinburgh and the Council's Role

3.1 Edinburgh is one of the best cities in the world in which to live, work and study. It is a city full of vibrancy and opportunity and, as a council, we are working hard to ensure that all residents can share in our success. We will keep investing in the things that support and sustain growth while confronting the challenges that come with it.

3.2 Edinburgh has seen significant population growth, with a 12.2% increase between 2006 to 2016, compared to a national rise of 5.3%. In 2021 it is forecast that the number of people aged 65 and over will overtake the number of people aged under 18. In comparison to 2018, by 2023 there will be 4,000 more children in our schools and our total population will have increased by 23,000 people.

3.3 This growth will place further demand on a range of frontline services, as such, the Council's budget framework continues to provide additional annual sums in respect of growing numbers of school pupils, at-risk children, older people and those with physical and/or learning disabilities.

3.4 A growing population is one of the most visible signs of the city's economic success. However, not all of our citizens share in that success and alongside our affluent areas, the city contains some of the most deprived communities in Scotland. We know that over 80,000 of our citizens, including almost 1 in 4 of our children, live in poverty and an increasing number of our citizens, even some in work, rely on foodbanks. This cannot be allowed to continue.

3.5 Working together as a city, we have a responsibility to act and a legal duty to end Child Poverty by 2030. Narrowing these gaps and allowing all residents to share in the city's success therefore forms a key strand of the City Vision.

3.6 The proposals contained in our End Poverty in Edinburgh Delivery Plan 2020-2030 report were approved on 1 December 2020 and outline a series of key actions that need to be taken by the Council and partners over the next decade to eradicate poverty in the city by 2030. The comprehensive plan has been drawn up in response to the final report of the Edinburgh Poverty Commission.

3.7 Responding to the global climate crisis is another central part of our plan for the future as we want to be a carbon-neutral city by 2030.

3.8 The three-year Business Plan: *Our Future Council; Our Future City* brings together our strategic priorities into a single plan responding to these needs for change and should also be read alongside this strategy and the wider capital and revenue budgets.

4. City of Edinburgh Council's Business Plan and Vision

Our Future Council; Our Future City

4.1 The Council's new business plan has been developed to cover the next three years. It will act as a guide to make sure we focus on our priorities and deliver real improvements. It is also a guide for our partners, local businesses and communities who are all part of *Our Future Council; Our Future City*.

4.2 A lot has changed in Edinburgh since March 2020, but we have continued our work to support communities and businesses. No matter what new challenges the pandemic brings, this Council will continue to respond quickly to make sure our services are maintained, businesses are supported and the most vulnerable people in the city get the help they need.

4.3 Continuing to respond to an emergency of this scale does not come without additional risks and challenges. So far, the pandemic has brought around £90 million of additional financial pressures to the Council in either increased spend or lost income. Closing the gaps in the Council budget for this year and future years will mean reprioritising our services and reforming how we operate. This means that for the 2021/2022 budget we will be taking forward a number of short-term measures to help us deliver our pandemic responses, while also balancing our financial position and preparing for broader reform and major changes to services from 2022 onwards.

4.4 The Council's Adaptation and Renewal Programme is a key part in helping us achieve this, with it predicated on pausing, reflecting and changing the way the Council will deliver its services in the future. This will affect the cost of the approved projects and may also change the priority of certain projects – such as active travel – that deliver this ambition.

4.5 Both Covid-19 and the financial pressures on our budget mean we need to look again at how we deliver services. Over the coming years we will continue to focus on our three priorities:

- Ending poverty and preventing adverse outcomes such as homelessness and unemployment;
- Becoming sustainable and net zero city; and
- Ensuring wellbeing and equalities are enhanced for all.

4.6 These will be aligned with the priorities set out in the Edinburgh Partnership Community Plan which were developed based on feedback from communities. The priorities shared by all members of the Edinburgh Partnership are outlined in the graphic below;

City Centre Transformation, City Mobility and City Plan 2030

4.7 Central to achieving the net-zero target are our City Centre Transformation strategy, City Mobility Plan, and the City Plan 2030.

4.8 The City Centre Transformation plans to create a vibrant and people focused city centre which aims to improve community, economic and cultural life by prioritising movement on foot, bike and public transport.

4.9 Through our City Mobility Plan, we've already started looking at the way we travel around Edinburgh, changing roads and pavements in response to thinking how we can move around our city more easily and sustainably.

4.10 The Council is developing a funding strategy to deliver City Centre Transformation and the wider City Mobility Plan and this will be reported to a Council Committee at a later date. The expenditure analysis within this Strategy therefore does not include provision for these. Should these projects and funding strategy be approved, this strategy will be amended in future years to reflect Council decisions.

4.11 Preparation of City Plan 2030 is currently underway and the Choices for City Plan consultation took place in Spring 2020. Choices put forward proposals to address climate change and reduce carbon emissions by:

- Supporting the outcomes of the City Mobility Plan;
- Establishing a city-wide green network to connect our paces, parks and greenspaces;
- Requiring all new buildings and refurbishments to meet the platinum standards set out in Scottish building regulations;
- designing all new developments to be in a way which tackles and adapts to climate change;

- Promoting higher density, mixed use neighbourhoods to reduce the need to travel for work and everyday services; and
- Supporting Local Place Plans to achieve resilient places and support community ambitions.

4.12 As the city works towards these objectives, it is also predicted to grow. Its plans for development are set out its Local Development Plan The Local Development Plan Action Programme sets out the new infrastructure that is required to accommodate this growth.

4.13 The City Plan 2030 team is currently reviewing the consultation feedback and are preparing the Proposed Plan.

2050 Edinburgh City Vision

4.14 In the autumn of 2016 the City of Edinburgh Council launched a major conversation about the future of a city and a society, inviting Edinburgh to talk about its aspirations, plans, and concerns, for the first time in a generation: Edinburgh's City Vision for 2050.

4.15 To deliver the 2050 vision and for the city to grow in a sustainable way, the Council needs to invest in its existing assets as well as creating or acquiring new ones. This Capital Strategy for City of Edinburgh Council provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the infrastructure and provision of services for the benefit of Edinburgh communities and citizens. It also provides an overview of how associated risk is managed and the implications for future financial sustainability.

Other Key Plans and Policies

4.16 As well as the strategies, plans and policies outlined above, the capital strategy should be read in conjunction with the following plans and policies for additional background;

- Sustainable Capital Budget Strategy 2021-2031
- Annual Treasury Management Strategy
- Council Business Plan and Budget 2021/26
- Council Business Plan and Budget 2021/26 – Risks and Reserves
- Housing Revenue Account (HRA) Budget Strategy (2021-2031)
- Adaptation and Renewal Programme
- Corporate Asset Strategy
- Transport Asset Management Plan (TAMP)

5. Capital Expenditure and Financing

Capital Expenditure

5.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

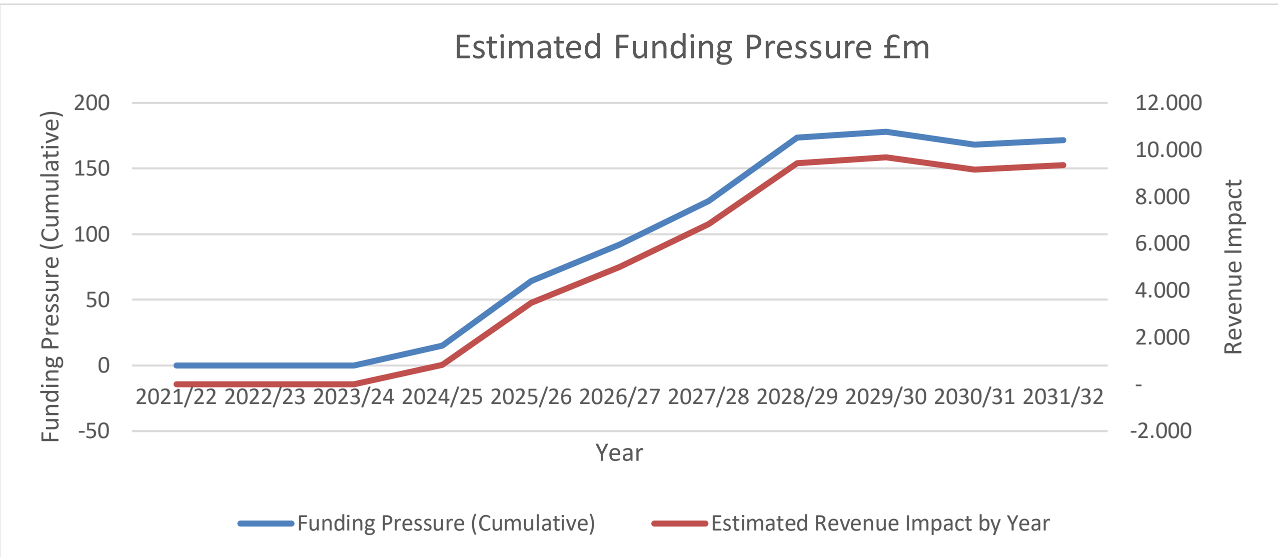
5.2 The Council's policy on capitalisation complies with the accounting requirements for local authorities and is set out in its Audited Annual Accounts. This has been supplemented with a change in accounting policy for capitalisation of interest costs which was approved at Finance and Resources Committee on 21 January 2021.

5.3 The previous Capital Investment Programme 2009-19 has now been superseded by the Capital Budget Strategy 2020-30, which was reported to Finance and Resources Committee on 14 February 2020 and approved at the Council's budget meeting of 20 February 2020. This Capital Budget Strategy will be subject to annual review and will form part of the annual budget setting.

5.4 The latest update was reported to Finance and Resources Committee on 2 February 2021 and approved at the Council's budget meeting of 18 February 2021. The approved Coalition Budget Motion added a further £4m for Parks and Greenspace investment to the plan.

5.5 This Sustainable Capital Budget Strategy 2021-31 set out capital expenditure of £1,455.345m, offset by capital funding of £1,283.565m, resulting in an additional funding requirement of £171.779m in loans fund advances above that already assumed in the strategy. The remaining £171.779m is currently unfunded and will require the Council to find additional revenue savings in future years or lead to projects having to be prioritised within the capital investment programme before they commence. The graph below sets out the funding pressure;

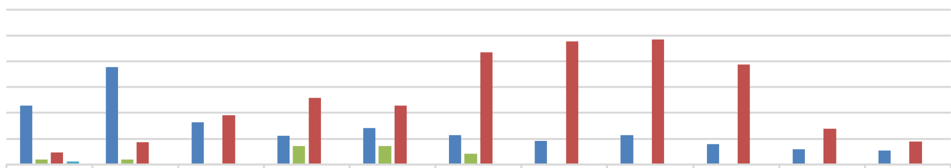
Chart 1: Estimates of Additional Funding Pressure in £ millions



5.6 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 was contingent on the Council approving a balanced medium-term revenue budget on 18 February 2021, however, due to COVID-19, for the 2021/2022 budget we presented a number of short-term measures to help us deliver our pandemic responses, while also balancing our financial position and preparing for broader reform and major changes to services from 2022 onwards. This means that the Sustainable Capital Budget Strategy was aspirational and will require an annual gateway review before commitment to fund projects is made to ensure the Council does not commit to projects which become unaffordable in the medium- to long-term as several projects span a number of financial years.

5.7 In the period 2021/31, the Council is planning capital expenditure of £4,307.714m. Whilst the later years are only indicative at present, they are summarised below:

Chart 2: Prudential Indicator: Estimates of Capital Expenditure in £ millions



	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget	2029/30 Budget	2030/31 Budget
General Fund Services	227.619	378.312	163.622	110.620	141.880	113.367	91.726	114.943	78.380	60.356	55.212
General Fund On-lending	19.569	20.302	4.856	72.000	70.500	41.793	-	-	-	-	-
HRA - Council Housing	46.800	87.386	190.541	259.152	228.348	434.946	476.100	483.949	386.603	138.438	89.381
PPP and Similar Assets	11.500	1.500	1.500	1.500	1.500	1.500	1.500	1.500	1.500	1.500	1.500

General Fund Services General Fund On-lending HRA - Council Housing PPP and Similar Assets

5.8 Significant General Fund capital projects through the 2021-31 strategy include[1]:

- Wave 4 Schools - £323.365m
- Asset Management Works - £204.911m

[1] Values are those included in the Council's Capital Investment Programme and do not recognise any external funding which has not yet been received, including funding from the Edinburgh and South East Scotland City Deal.

- Infrastructure for Population Growth - £161.189m

- Investment in Roads and Transport Infrastructure (including North Bridge) - £155.197m
- Trams to Newhaven - £126.739m[2]

- St James Infrastructure Assets and Picardy Place - £62.900m

Housing Revenue Account

5.9 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately.

5.10 The Housing Revenue Account (HRA) Budget Strategy (2021-2031) sets out planned capital investment of £1,200.373m over the next five years, rising to £2,774.844m over 10 years to deliver tenant priorities, including building new

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[2] This is budget for financial years 2021/22 to completion in 2023/24. The total project budget for the Tram to Newhaven project is £207m as previously approved at Council.

homes, modernising existing homes and help tenants reduce their cost of living. This is summarised in the table below:

Table 1: HRA Five Year Capital Investment Programme and Ten-Year Investment Strategy

Programme Heading	1	2	3	4	5	5 Year	6 to 10	10 Year
	2021/22	2022/23	2023/24	2024/25	2025/26	Total	2026/27 to 2030/31	Total
	£m	£m	£m	£m	£m	£m	£m	£m
New Homes Development*	33.223	95.718	142.628	110.806	328.326	710.701	1,094.736	**1,805.437**
New Home Land Costs	20.000	19.000	19.533	15.933	15.933	90.399	33.466	**123.865**
Tenant's Homes & Services (20-yr borrowing)	10.446	20.828	27.005	27.473	24.362	110.114	116.120	**226.234**
External Fabric and Estates (30-yr borrowing)	23.717	54.995	69.986	74.136	66.325	289.159	330.149	**619.308**
Total Expenditure	**87.386**	**190.541**	**259.152**	**228.348**	**434.946**	**1,200.373**	**1,574.471**	**2,774.844**
Prudential Borrowing	33.084	154.067	118.448	97.870	138.309	541.778	728.812	**1,270.590**
Capital Funded From Revenue	18.300	23.300	28.300	10.800	10.800	91.500	31.500	**123.000**
Capital Receipts and Contributions	4.560	3.880	7.700	25.590	16.644	58.374	89.754	**148.128**
Receipts from LLPs*	19.583	5.282	72.018	70.606	232.259	399.748	569.825	**969.573**
Scottish Government Subsidy (Social)	11.859	4.012	32.686	23.482	36.934	108.973	154.580	**263.553**
Total Funding	**87.386**	**190.541**	**259.152**	**228.348**	**434.946**	**1,200.373**	**1,574.471**	**2,774.844**

**The budget for new build housing includes the upfront capital costs for the Council led development of all 10,000 affordable homes, including homes for mid-market and affordable market that will be purchased by the Council's new LLPs. £25m of the £970m anticipated receipts from LLPs by year ten is for homes already under construction and due to complete in the next two years. Please note these receipts go beyond current approved levels of on-lending, approval will be sought to expand the programme in future years.*

5.11 This investment aims to deliver Council commitments on affordable housing and net zero carbon by 2030. Capital investment will be accompanied by improvements in how we deliver housing services to increase customer satisfaction. The Strategy is aimed at reducing tenants cost of living, with below inflation rent increases at 2% per year since 2015/16 and service charges frozen for the six year in a row.

5.12 The HRA Budget Strategy 2021-2031 will also enable wider area improvements; including the regeneration of Granton Waterfront, Pennywell, Craigmillar, Meadowbank, Fountainbridge, Powderhall and Wester Hailes.

5.13 At the Full Council Budget meeting on 18 February 2021, Council agreed a Composite Amendment from Opposition Groups which froze council house rents for one year. A detailed assessment of this impact will be included in a March report to Housing, Homelessness and Fair Work. The motion also agreed to "acceleration of £1.86m of investment to deliver improvements to internal common stairwells through a prioritised programme of refurbishment across 180 blocks." The motion also approved "additional resource of 2 surveyors and 1 case officer for the Mixed Tenure Improvement Service (MTIS) to accelerate property surveys and work with wonders to bring forward works to the value of £4m." The HRA's share of this work is estimated at £2.8m. These changes have been reflected in the table above.

Housing Limited Liability Partnerships

5.14 The Council also uses general fund resources to increase the provision of affordable housing in the city, through lending to arms' length limited liability partnerships under the Edinburgh Living initiatives with £209.451m provided in the strategy. These projects are self-financing because of income from affordable rents.

However, it should be noted that at present the City of Edinburgh Council only has consent to borrow from the Scottish Government for Edinburgh Living LLPs up to 2023-24 for a total of £248.000m. The Housing Revenue Account (HRA) Business Plan assumes continuation of the consent beyond this point, in the form of capital receipts in the HRA. Options are being reviewed to address the requirement for consent for future years on-lending.

Identifying Capital Priorities

5.15 For new projects to be added to the Council's capital programme. Asset Investment Groups, within each directorate identify their investment priorities and develop business cases supporting those priorities. These priorities are then scored against a set series of prioritisation criteria agreed by the Council's Asset Management Board.

5.16 Priorities for capital expenditure, identified by officers and considered through the operational Asset Management Board and Corporate Leadership Team / Change Board, are aligned to our statutory responsibilities to deliver services together with achieving our strategic objectives.

5.17 The Asset Management Board, which is an officer group chaired by the Executive Director of Resources, appraises all business cases and recommends investment priorities to the Corporate Leadership Team / Change Board of the Council and then to the Finance and Resources Committee, ahead of the full Council budget setting meeting each year. Smaller ad-hoc projects may be added through the year following appropriate approval of project business cases, including those through executive committees or via the full Council itself. For example, within the approved Coalition Budget Motion there was also funding for the Smart Cities Operation Centre, which will support capital investment as well as revenue costs. Details of this will be added to the Strategy once the capital funding position is detailed.

Capital Financing

5.18 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing, Public Private Partnerships and similar instruments). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

Capital Financing	2019/20 Actual	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget	2029/30 Budget	2030/31 Budget
Grants	159.842	87.936	83.468	45.237	73.911	71.482	85.434	118.915	89.266	77.730	64.719	53.950
Asset Sales	81.963	29.860	24.143	9.162	79.718	96.196	248.903	276.805	239.064	110.640	16.907	16.165
Capital Fund	6.311	14.195	6.986	9.186	-	10.828	-	-	-	-	-	-
Supported Borrowing	23.000	100.340	178.289	65.471	46.860	11.637	10.709	10.718	11.415	3.915	3.915	3.300
On-Lending	-	19.569	20.302	4.856	72.000	70.500	41.793	-	-	-	-	-
Other External Income	9.666	17.140	14.498	9.199	1.158	9.893	2.055	4.888	12.794	19.237	15.053	-
PPP and similar arrangements	69.595	11.500	1.500	1.500	1.500	1.500	1.500	1.500	1.500	1.500	1.500	1.500
Loans Fund Advances - Self-Financed	109.634	25.003	157.933	215.529	167.745	169.432	200.453	155.740	246.353	253.461	98.200	71.178
Total	**460.011**	**305.543**	**487.119**	**360.140**	**442.892**	**441.468**	**590.847**	**568.566**	**600.392**	**466.483**	**200.294**	**146.093**

5.19 The grants total above doesn't include external funding where the timing of that funding is uncertain. This includes Sustrans funding for Active Travel.

5.20 To become carbon neutral by 2030, the city will need to tackle its largest sources of carbon emissions. The transport sector is one such significant source and road transport accounts for 68% of total transport emissions. Investing in active travel infrastructure provides the city's residents, visitors and businesses a means of transport that is low carbon and can efficiently move people and goods around the city. Active travel not only has a lower carbon footprint than private vehicles, it is also better for the city's air quality.

5.21 After rent or mortgages, people in Edinburgh spend more per week on transport than anything else. Providing high quality active travel infrastructure can make walking and cycling a realistic and appealing option for many who currently do not feel safe choosing to travel in this way. With the cost of accessing a bike far lower than for accessing a car, good active travel infrastructure can provide a low cost travel option for people to get around the city.

The image below shows George IV Bridge with Meadows to George Street implemented:

Loans Fund Review and Policy

5.22 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 require the statutory loans fund to be administered in accordance with the 2016 Regulations, proper accounting practices and prudent financial management. The Council operates a consolidated loans fund under the terms of these Regulations. Capital payments made by services are financed by capital advances from the loans fund.

5.23 A Loans Fund Review was carried out in 2019/20 with the objective to explore options which could re-profile loans fund repayments in order to assist with delivery of a prudent, sustainable and deliverable medium-term revenue budget strategy, whilst ensuring that the provision remains prudent and appropriate to the benefits that are provided to the community from the associated expenditure.

5.24 The review was reported to Finance and Resources Committee on 14 February 2020. This report revised the Loans Fund debt charge repayment periods, based on a prudent financial management strategy.

5.25 As a result of the Loans Fund Review, the repayments for both historical and new capital advances (with the exception of those detailed below) will be calculated using option 3 – the Asset Life method.

5.26 For capital advances relating to loans to the Edinburgh Living LLPs and capital advances for the Trams to Newhaven project, all advances from the loans fund in the current year have a repayment profile set out using Option 4 – the funding/income method and these capital advances will be repaid using an annuity structure with fixed interest rate and principal repayments.

5.27 The business cases brought forward for other projects involving major capital expenditure funded by borrowing will consider the appropriate repayment method depending on the structure of the business case.

International Financial Reporting Standard (IFRS) 16 - Leases

5.28 The Council will need to adhere to IFRS 16 from the start of financial year 2022/23, with implementation having been delayed from the 2021/22 financial year. However, the first disclosure note on IFRS 16 was prepared for the 2019/20 Annual Accounts.

5.29 The objective of IFRS 16 is to report information that represents lease transactions and provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

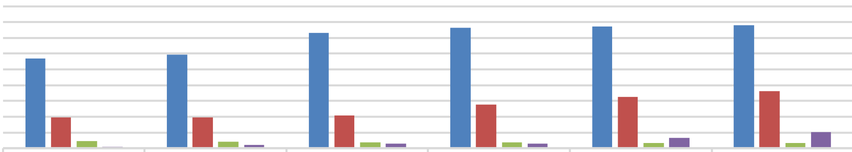
5.30 IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

5.31 The introduction of IFRS 16 within the Accounts will have a significant impact on the balance sheet from its introduction in 2022/23. This will subsequently have an impact on the Capital Financing Requirement (CFR) from the 2022/23 financial year. Therefore, it should be expected to see an increase in the CFR in future years which will be reported to Council as part of subsequent budget decisions.

Capital Financing Requirement

5.32 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with loans fund repayments and capital receipts used to replace debt. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Chart 3: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions



	2019/20 Actual	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget
General Fund Services	1,135	1,190	1,467	1,528	1,543	1,559
HRA - Council Housing	395	395	413	551	649	723
NHT LLPs	94	80	76	72	68	64
Edinburgh Living LLPs	19	38	58	62	133	202

General Fund Services HRA - Council Housing NHT LLPs Edinburgh Living LLPs

Asset Management

5.33 The Council is currently reviewing its approach to the use of its assets to create a 20-minute neighbourhood approach, focusing on how to meet the Poverty and Prevention agenda, and how to move towards a Carbon Neutral City by 2030. This approach would see most of our daily needs being met within a 20-minute round trip walk, cycle or public transport ride, and truly join up service delivery to citizens. As part of this review, the Council needs to consider how to invest in future projects and ensure they align with this approach, to deliver multi service hubs for the whole community, rather than single use buildings.

5.34 The Council Business Plan 2021/26 sets out the 20-minute neighbourhood approach in more detail, showing how it responds to and interacts with all of the Council's priorities, and the way in which those priorities will manifest on the ground.

5.35 To ensure that capital assets continue to be of long-term use, the Council has asset management strategy in place. This was set out in 2015 with two documents; the Corporate Asset Strategy approved by Corporate Policy and Strategy Committee in May 2015, and the subsequent Property and Asset Management Strategy reported to Finance and Resources Committee in September 2015. The Asset Management Strategy sets out the objective to create a credible, focused and sustainable delivery organisation for property and facilities management; provide a fit for purpose, right-sized and safe estate; provide an appropriate level of service at an acceptable and efficient cost; and act in a commercial manner in pursuit of maximising value for the Council.

5.36 We need to make our estate more efficient; we spend £100m a year running the buildings we own. We need to think about how we work alongside our partners and better join up service delivery, with resources like service hubs, offices and depots that can be shared across the public sector. We'll aim to identify sites for new housing, release capital for investment, reduce costs and carbon emissions. We are committed to seeing all our new buildings meet ambitious net zero carbon targets by adopting Passivhaus standards where we can.

5.37 We are also committed to upgrading our existing estate through asset management works, with almost £205m allocated to this purpose in the 10-year capital budget strategy. This will hugely improve the condition and safety of our buildings. We are investigating energy generation, insulation and energy saving measures in our buildings to move forward on our ambition to achieve net zero carbon by 2030.

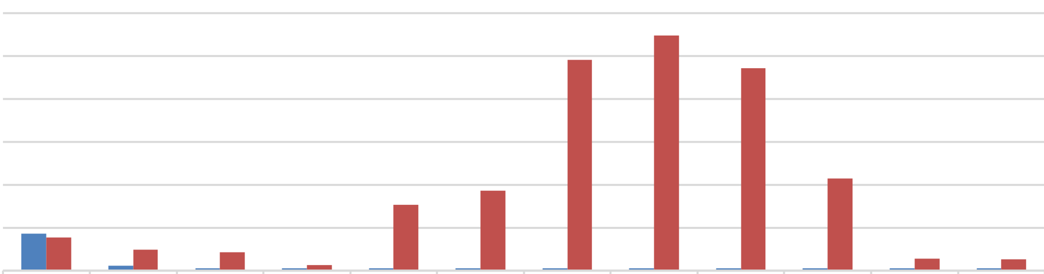
5.38 We continue to develop our Learning Estate with 10 new or replacement primary schools and five replacement secondary schools over the next 10 years, with Queensferry High School being the most recently completed, opening in summer 2020. We will develop our learning estate so that it provides multiservice community hubs, purpose built for the future.

5.39 On the 18 December 2020 the Scottish Government announced that the Council's Liberton High School and Wester Hailes Education Centre Phase 2 projects would both be part of Phase 2 of the Learning Estate Investment Programme. The Scottish Government will pay for ongoing maintenance of the new facilities through an outcomes based funding model. This follows the previous announcement on 9 September 2019 that Currie High School would be include within the Scottish Government's first phase of the Learning Estate Investment Programme.

Asset Disposals

5.40 When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants also generate capital receipts. The Council expects to receive £35.757m of capital receipts in the General Fund in the years 2021/22 to 2030/31 as follows, with significantly more in the HRA through Edinburgh Living:

Chart 4: Capital receipts in £ millions



	2019/20 Actual	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget	2029/30 Budget	2030/31 Budget
General Fund	43.125	5.757	3.000	3.000	3.000	3.000	3.000	3.000	3.000	3.000	3.000	3.000
HRA	38.838	24.103	21.143	6.162	76.718	93.196	245.903	273.805	236.064	107.640	13.907	13.165

6. Treasury Management

Treasury Management

6.1 Treasury management's role is to keep sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent and holds cash reserves, at least in the short-term. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

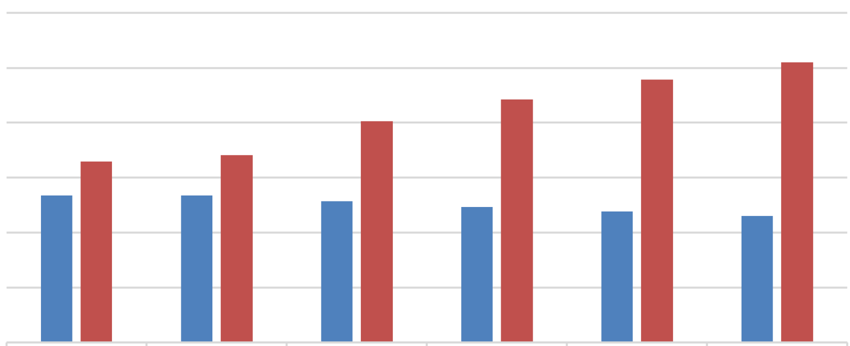
6.2 Due to past borrowing undertaken, at 31 December 2020 the Council had £1,309m borrowing at an average interest rate of 4.46%. We also held c. £247.5m treasury investments at an average rate of 0.06%.

Borrowing Strategy

6.3 The Council's main objective when borrowing is to achieve a low but certain cost of finance while, where possible, managing the Council's future interest rate risk. The current strategy is to balance reducing investments to fund capital expenditure in the short term while managing the Council's longer-term interest rate risk by securing borrowing for future capital expenditure as the delivery becomes more certain. This has been complicated by the increase in PWLB rates which was in effect for most of 2020/21and the substantially reduced capital expenditure due to the global pandemic.

6.4 Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases are shown below, compared with the capital financing requirement as summarised in the chart below:

Chart 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions



	2019/20 Actual	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget
Debt (inc. PPP & Leases)	1,336	1,337	1,285	1,233	1,191	1,151
Capital Financing Requirement	1,644	1,703	2,015	2,213	2,393	2,548

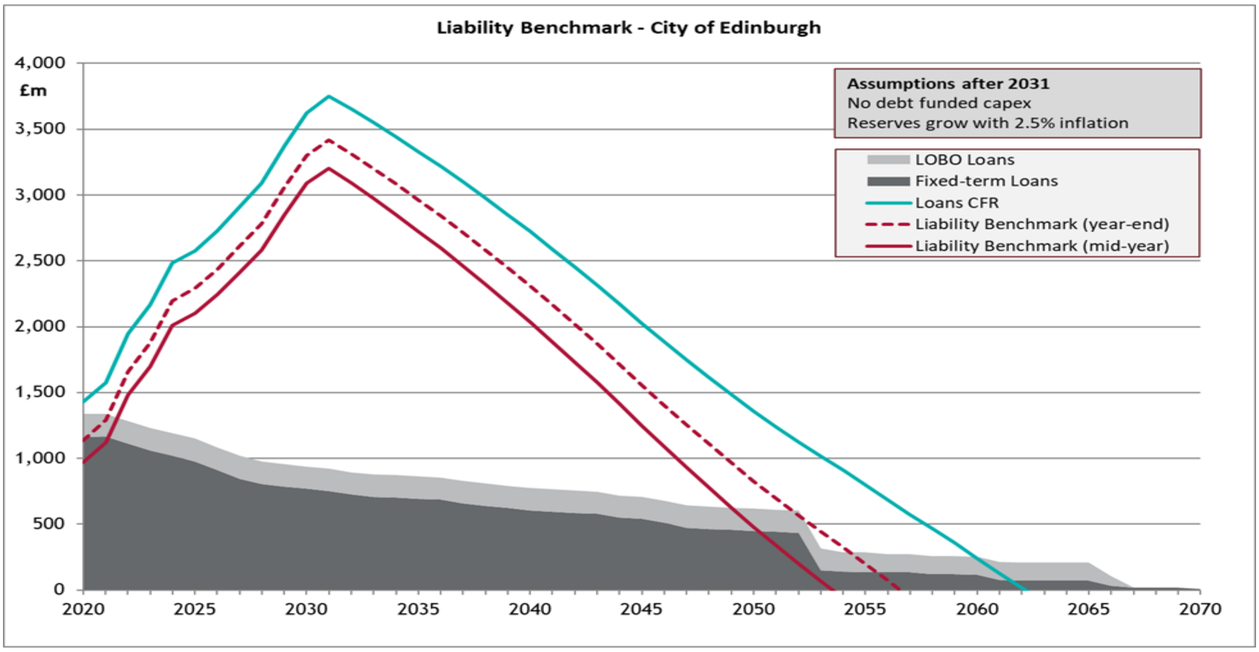
6.5 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from Chart 5, the Council expects to comply with this in the medium term.

Liability Benchmarking

6.6 To compare the Council's actual borrowing against its predicted underlying need to borrow, a liability benchmark has been calculated using the Council's loans and Capital Financing Requirement less its core underlying cash investments.

6.7 The chart below shows the projection of the Council's benchmark produced by the Council's Treasury Advisors:

Chart 6: Liability Benchmark in £ millions



6.8 The chart shows that the Council is projected to be significantly under its liability benchmark over the period. This shows that the Council will require to undertake additional borrowing in the latter years to fund this.

Affordable Borrowing Limit

6.9 The Council sets an affordable borrowing limit (also termed the authorised limit for external debt) each year. A lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 3: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2020/21 Limit	2021/22 Limit	2022/23 Limit	2023/24 Limit	2024/25 Limit
Authorised Limit – Borrowing	2,088	2,566	2,891	2,831	2,725
Authorised Limit – PFI and Leases	256	248	242	235	229
Authorised Limit – Total External Debt	**2,344**	**2,814**	**3,133**	**3,066**	**2,954**
Operational Boundary – Borrowing	1,538	1,959	2,344	2,560	2,725
Operational Boundary – PFI and Leases	256	248	242	235	229
Operational Boundary – Total External Debt	**1,794**	**2,207**	**2,586**	**2,795**	**2,954**

Investment Strategy

6.10 Treasury investments arise from receiving cash before it is paid out again and through reserves and other fund balances. For nearly 7 years from December 2012, the Council did not draw down any external PWLB or market borrowing. The strategy over this period was to fund the Council's borrowing requirement by reducing the Council's temporary investments. The new borrowing undertaken in 2019/20 to de-risk the core funding for the "Trams to Newhaven" project gave the Council additional temporary cash balances. This was used to add duration to the cash fund, significantly increasing its average weighted life. The duration added in December 2019 and March 2020 added significantly to the relative performance of the cash fund as interest rates dropped due to the economic effects of COVID-19 and the lockdown. The lockdowns also created a significant delay in capital expenditure during the year, giving higher cash balances than had originally been anticipated.

6.11 The Council's cash investments are pooled with the sterling cash of Lothian Pension Fund and other associated organisations and invested together. The investment policy for treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Additional liquidity is provided using Money Market Funds. Investments made for service reasons are not generally considered to be part of normal treasury management activity.

6.12 Further details on treasury investments are in Appendix 5 of the Annual Treasury Management Strategy report.

6.13 Decisions on treasury management investment and borrowing are made daily and are therefore delegated by the Council to the Head of Finance and relevant staff, who must act in line with the Treasury Management Policy Statement approved by the Council on the recommendations of the Finance and Resources Committee. Semi-annual reports on treasury management activity are presented to Council. The Governance, Risk and Best Value Committee is responsible for scrutinising treasury management decisions.

7. Other Investments and Long-term Liabilities

Investments

7.1 The Council makes investments to assist local public services, including making loans to and buying share in Council's subsidiaries that assist in the delivery of Council priorities. Examples include investments in the Edinburgh International Conference Centre, the EDI Group, Edinburgh Living LLPs and Energy for Edinburgh. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs.

7.2 Decisions on service investments are made by the relevant Executive Director or Head of Service, in accordance with the scheme of delegation, in consultation with the Head of Finance and are approved by the relevant executive committee of the Council. Most loans and share purchases are capital expenditure and purchases will therefore also be approved as part of the capital programme.

Commercial Activities

7.3 The Council retains a commercial property investment portfolio for city development purposes, but also derives financial gain from this activity. The investment portfolio consists of over 1,130 assets and is forecast to produce a rental income of c. £15m per annum. This figure continues to be monitoring closely as a result of the COVID-19 pandemic. The portfolio is estimated to have a value of c. £230m.

7.4 With economic development being the main objective, the Council accepts higher risk on commercial investment that with treasury investments. The principal risk exposures include voids and falls in capital value. In order to minimise the liability to the Council the portfolio is actively managed on a commercial basis.

7.5 Decisions on commercial investments are made by the Executive Director of Resources in line with the criteria and limits set by the Council as part of the Scheme of Delegation and Financial Regulations, and directly through the Finance and Resources Committee, where appropriate. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

7.6 The council also has commercial activities in Edinburgh International Conference Centre and the EDI group. The commercial activities in the EDI group are in the process of being wound down in accordance EDI transition strategy approved by Council on 31 May 2018.

Integration with Wider Financial Strategy

7.7 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 Capital Budget Strategy 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.

7.8 This strategy should be read in parallel with the Council's Business Plan, *Our future Council, Our Future City* as the revenue impact of additional capital expenditure needs to be contained within a balanced medium-term revenue budget. The section on "Our Finances" goes into detail on the gap between projected expenditure and available funding.

Risks and Reserves

7.9 The Council undertakes an annual review of its risks and reserves in the context of setting the revenue and capital budgets. The most recent update, Council Business Plan and Budget 2021/26 – Risks and Reserves was reported to the Finance and Resources Committee on 2 February 2021 and set out a number of risks (and associated mitigating actions), including potential cost pressures around demographic-led demand, pay awards and the impacts of other legislative changes, as well as the level of future funding settlements and delivery of approved savings.

7.10 The report also sets out the intention to increase the Council's unallocated General Fund reserve balance to £25m, equating to around 2.3% of the Council's net expenditure which brings the Council's position in line with other local authorities in Scotland.

7.11 The report also set aside a series of ringfenced reserves maintained for statutory[3] or specific policy[4] reasons or to reflect timing differences between the receipt of income and its subsequent application, together totalling £55m and a workforce transformation reserve of £15m, less commitments incurred as part of the recent targeted staff release programme for senior managers, to facilitate organisational restructuring and delivery of associated recurring efficiency savings.

7.12 A COVID-19 contingency reserve of £16m was also set up, acknowledging the continuing uncertainty of the recurring impacts of the pandemic on, in particular, income levels in key areas such as parking, commercial rentals and other fees and charges.

Revenue Budget Implications of Capital Strategy

7.13 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and loans fund repayments are charged to revenue, offset by any investment income receivable. The net annual charge as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general grants. It should be noted that the comparatively low figure in 2021/22 recognises the Council's proposed application of available financial "flexibilities" spreading the pandemic's cost impacts over a longer period.

Table 4: Prudential Indicator: Proportion of financing costs to net revenue stream

	2019/20 Actual	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget
Financing costs (£m) – General Fund Services	104,710	79,611	56,524	98,337	108,665	108,507
Proportion of net General Fund revenue stream	10.50%	7.42%	4.73%	8.77%	9.78%	9.85%
Financing costs (£m) – Housing Revenue Account	39,148	36,337	37,556	40,652	46,252	51,963
Proportion of net HRA revenue stream	37.65%	35.23%	35.89%	37.75%	41.00%	44.27%

7.14 In addition to financing costs, the Council makes provision for all running costs and lifecycle maintenance of assets in its revenue budget planning process. Before

[3] Including the Insurance Fund, Council Tax Discount Fund (ringfenced for the provision of affordable housing), licensing reserves and sums set aside under the Devolved School Management (DSM) scheme.
[4] Including the Spend to Save and City Strategic Investment Funds.

inclusion in the capital programme, a business case is created for every new project which sets out the revenue implications and how they will be funded.

7.15 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The implications of capital expenditure have been built into the Council's long-term financial planning assumptions to ensure that the proposed capital programme is prudent, affordable and sustainable.

8. Knowledge and Skills

8.1 The council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

8.2 The Finance function, within the Council's Resources Directorate, has qualified accountants working throughout the Division. The accountancy function is an accredited employer with regard to Continuing Professional Development (CPD) with the following accountancy bodies: CIPFA, CIMA, and ACCA. This accreditation is assessed externally every 3 years.

8.3 The accounting function has been externally assessed as being a Best Practice Employer with regard to training by CIPFA in recognition of the continuing development opportunities provided to staff.

8.4 Benchmarking information (2018) shows that the Council has an above average number of qualified staff compared with other local authorities across the UK with over 66% of staff being qualified or part-qualified. Support is provided for those engaged in study for accounting, treasury and insurance qualifications. The CPD assessment undertaken by CIMA examines the provision of training and guidance available to staff on ethical issues including whistleblowing and money laundering legislation.

8.5 The 2019 CIPFA Benchmarking showed the Council to be 20.5% below the peer group staffing cost and 35% below peer group staffing numbers. While the definition of Finance was slightly wider, Scotland-specific benchmarking published in 2019 showed the Council to have the lowest relative expenditure on Finance support of any council in Scotland.

8.6 As well as finance qualifications, the Treasury Team hold a range of Treasury, Investment and Banking qualifications including the CIPFA/ACT Certificate in International Treasury Management – Public Finance and the Investment Management Certificate. The team also has a wide range of knowledge and experience in investment instruments as well as debt and other funding structures.

8.7 The Property function, within the Council's Resources Directorate, through which the property investment portfolio is managed, has RICS qualified surveyors working across the Division, the majority of which are also members of the Registered Valuers scheme.

8.8 In addition, use is made of external advisers and consultants that are specialists in their field, when specialist technical advice is required. This approach is more cost effective that employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

9. Conclusion

9.1 The Capital Strategy is a reporting requirement introduced by the 2017 edition of the CIPFA Prudential Code, with the first iteration published in March 2019 and annual updates provided thereafter.

9.2 The Capital Strategy takes account of the City of Edinburgh Council's Business Plan and Vision whilst considering any new investment within the context of growing in a sustainable way.

9.3 COVID-19, revenue funding pressures and the true costs of creating Carbon Neutral infrastructure will have an impact on what the Council can afford, and it needs to ensure that the projects taken forward are the right choices with more limited resources. It also needs to consider a total place approach where new buildings are not built in isolation but consider the full range of services offered, their role and accessibility within the local community.

9.4 This Capital Strategy for City of Edinburgh Council provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the infrastructure and provision of services for the benefit of Edinburgh communities and citizens. It also provides an overview of how associated risk is managed and the implications for future financial sustainability.