

Finance and Resources Committee

10.00am, Thursday, 9 December 2021

Capital Monitoring 2021/22 - Month Six Position

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 six of the 2021/22 financial year;
- 1.2 To note that various plans such as City Plan 2030, City Centre Transformation and EnerPHit are currently unfunded within the 2022-2032 Sustainable Capital Budget Strategy;
- 1.3 To note that it has been agreed that the Finance and Resources Committee has oversight for and approval of the whole Capital Investment Programme; and
- 1.4 To refer the report to the Governance, Risk and Best Value Committee as part of its work programme.

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2. Executive Summary

- 2.1 The report provides the capital expenditure and funding position as at month six and full-year outturn projections for the 2021/22 financial year, providing explanations for key variances.
- 2.2 At month six, the General Fund is projecting capital expenditure of £345.179m and capital income of £113.959m, resulting in a net requirement of £231.220m in loans fund advances. This is £23.258m lower than the revised budget update provided in month three due to updated cashflows across the programme.
- 2.3 At month six, the Housing Revenue Account (HRA) is projecting capital expenditure of £80.798m and capital income of £33.863m, resulting in a net requirement of £46.935m in loans fund advances. This capital financing requirement is aligned to budget expectations due to a reduction in Capital Funded from Current Revenue (CFCR) to assist in offsetting capital expenditure slippage of £23.189m.
- 2.4 The Council's capital programme is expected to come under further financial pressure as a result of higher tender prices caused by current market conditions. The extent of the impact is likely to differ between programmes and projects and it is still too early to understand the full cost the pandemic has had on the Council's capital programme. This is notable in the scarcity and cost pressures in various key construction materials, e.g. steel and timber, which is leading to slippage and cost pressures on delivery of projects. It is also important to note that supply chain pressures associated with staff shortage and higher prices continue to affect delivery schedules.

3. Background

- 3.1 The Sustainable Capital Budget Strategy 2021-2031 was approved by Council on 18 February 2021. This report detailed priorities for council capital investment of £1,492.494m, in alignment with the new Council Business Plan, over the medium to long-term and set out a plan on how they could be funded.
- 3.2 The Capital Strategy - Annual Report was approved by Council on 11 March 2021. 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.

- 3.3 The month three capital monitoring position and the revised 2021/22 capital budget strategy position was reported to Finance and Resources Committee on 12 August 2021. This report incorporated outturn slippage from 2020/21 and rolled forward the capital investment programme for the period 2021-2031 to create the revised capital budget. In creating the revised budget, realignments were made between financial years to reflect the most up to date cash flow projections available. The budget was also adjusted to reflect funding received since the Council set its budget in February.

4. Main report

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General Fund Capital

- 4.1 At month six, general fund expenditure is projected to be £345.179m, compared against a budget of £370.022m, resulting in projected capital expenditure slippage of £24.843m. Grants and other capital income are forecast to be £113.959m with the remaining expenditure being funded by loans fund advances of £231.220m. This is £23.258m lower than the revised budget update provided in month three due to updated cashflows received across the programme. A breakdown by directorate is provided in Appendix 1, with additional commentary provided in sections 4.2 to 4.6.
- 4.2 Within Education and Children's Services, there has been capital expenditure of £41.064m as at month six. Expenditure relates primarily to projects which were well underway prior to COVID-19 lockdown such as Castlebrae High School, Meadowbank Sports Centre, St Crispin's School, new Victoria Primary School and Frogston Primary School. There is also now forecast slippage of £3.197m in the year, this primarily relates to Rising School Rolls and other contingency expenditure slippage due to delays caused to projects principally as a result of COVID-19 and on-going market conditions. Rising costs and shortfalls in supply chains has caused many projects to be frozen prior to tender processes until a review of the appropriate course of action has been identified to mitigate the impact of market conditions.
- 4.3 Within Place, there has been capital expenditure of £89.800m as at month six. Expenditure relates primarily to St James GAM assets £56.400m, social housing through the housing development fund £12.741m, North Bridge £5.135m, Energy Efficiency Street Lighting Programme £2.715m and Carriageways and Footways £2.079m. The projected outturn slippage of £15.785m in the year primarily relates to;
- General Place programme slippage of around £7.000m due to construction industry materials and labour shortages which are likely to result in slippage across several projects and programmes;

- Active Travel of £4.290m due to programme delays caused by pausing projects pending the review and alignment with the Places for Everyone Programme and the Council's existing and emerging priorities as reported to Transport and Environment Committee on 14 October 2021 as part of the 'Active Travel Investment Programme Update';
- Road Safety and Public Transport of £2.525m due to programme delays as a result of reprioritisation and rephasing of Active Travel Strategy to ensure the strategy is affordable. Wider review of Public Transport to align with City Mobility Plan, construction cost inflation, contractor availability and supply chain issues causing material delays to project progress; and
- Parks and Greenspace of £1.980m due to surveying of priority sites only being completed in Autumn 2021, resulting in construction delays as reported to Culture and Communities Committee on 15 June 2021.

- 4.4 Within Place – Trams to Newhaven, the project is forecasting in-year outturn spend at month six of £2.227m less than was originally forecast, with capital expenditure sitting at £27.263m, taking total expenditure on the project to date to £114.704m. This in-year underspend is a result of less work being undertaken than had been scheduled due to concrete and skilled labour shortages which resulted in the re-phasing of the activities particularly around public realm works. While an underspend is currently reported, the project is expected to complete on time and within the approved budget of £207.3m.
- 4.5 Within Place - Lending there has been capital expenditure of £2.143m as at month six for completed units which have transferred to Edinburgh Living LLP at North Sighthill and Pennywell Phase Three. There is forecast slippage of £3.003m primarily due to delays on completion of units at Pennywell Phase Three which will now be completed in the 2022/23 financial year. The General Fund capital budget impact is neutral as borrowing is delayed matching the revised expenditure profiles.
- 4.6 Within Asset Management Works Programme, there has been capital expenditure of £15.653m as at month six across various projects, with outturn acceleration of spend of £1.752m forecast compared to the revised budget of £20.413m. This is due to the closure of properties due to the COVID-19 pandemic permitting more work than anticipated to be carried out ahead of schedule, especially within the learning estate.
- 4.7 At Governance, Risk and Best Value Committee on 9 November 2021 concerns were raised by Committee regarding decisions which are made that can result in unfunded pressures in the general fund budget. These related to reference to City Plan 2030, City Centre Transformation and EnerPHit within the 2022-32 Sustainable Capital Budget Strategy report which had been referred from 7 October 2021 Finance and Resources Committee. A further update on the 2022-32 Sustainable Capital Budget Strategy will be brought to Finance and Resources Committee on 3 February 2022 considering these unfunded pressures.

Housing Revenue Account (HRA) Capital

- 4.8 The month six monitoring shows HRA capital expenditure of £19.032m for the financial year so far across various programmes and workstreams relating to the Council housebuilding programme and improvements to existing council homes and estates, with forecast capital expenditure slippage of £23.189m in the year. A breakdown by programme is provided in Appendix 2, with additional commentary provided in sections 4.8 to 4.11.
- 4.9 The forecast capital expenditure outturn on the Council Housebuilding Programme is slippage of £5.523m which is primarily due to delays on projects under construction through the impacts of material shortages and COVID measures extending programmes.
- 4.10 The forecast capital expenditure outturn on the Land element of the Council Housebuilding Programme is slippage of £2.800m. Negotiations are advancing in relation to purchase of a site but unlikely to conclude until next financial year. We are on track to purchase the Liberton hospital site this year as well as land at Craigmillar that will be transferred from EDI.
- 4.11 The forecast capital expenditure outturn against Improvements to Council Homes and Estates is slippage of £14.866m primarily due to supply chain disruption, including shortages of materials, contractor availability and gaining access to carry out works within tenant's homes as a result of COVID-19. In relation to external fabric upgrades for multi storey blocks at Craigmillar and Peffermill Courts, engagement with residents was paused due to COVID-19 – this will now recommence with an opportunity to enhance specification to achieve EnerPHit standard, causing a significant delay.
- 4.12 In addition to the operational challenges identified above, it has been noted through an increase in refusals that tenants remain cautious about allowing operatives or contractors into their homes as the capital programme is remobilised.
- 4.13 The month six monitoring shows HRA capital income of £6.372m for the financial year so far, primarily from capital receipts from sales to Edinburgh Living LLP and disposals through the Acquisitions and Disposals Programme. The forecast capital income shows forecast income of £33.863m, resulting in £23.189m in income slippage. This has been achieved by lowering the Capital Funded from Current Revenue amount to ensure the borrowing requirement remains consistent with the budgeted requirement of £46.935m in loans fund advance.

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 officers 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 month 8 and month 12 showing the position against the revised 2021/22 capital budget.

6. Financial impact

- 6.1 The 2021/22 General Fund projected outturn outlines loans fund advances of £231.220m. The overall loan charges associated with this over a 30-year period would be a principal amount of £231.220m, interest and expenses of £186.786m, resulting in a total cost of £418.006m based on a loans fund interest rate of 4.20%. The average annual cost would be £13.934m for 30 years.
- 6.2 The 2021/22 HRA projected outturn outlines loans fund advances of £46.935m. The overall loans charges associated with this over a 30-year period would be a principal amount of £46.935m, interest of £39.779m, resulting in a total cost of £86.714m based on a loans fund rate of 4.38%. The average annual cost would be £2.890m 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 [Sustainable Capital Budget Strategy 2021-2031](#), Finance and Resources Committee, 21 January 2021
- 8.2 [Sustainable Capital Strategy 2021-31 – Annual Report](#), Finance and Resources Committee, 4 March 2021
- 8.3 [Updated Housing Revenue Account \(HRA\) Capital Programme](#), Housing, Homelessness and Fair Work Committee, 3 June 2021
- 8.4 [Parks and Greenspace Investment](#), Culture and Communities Committee, 15 June 2021
- 8.5 [2021-31 Sustainable Capital Budget Strategy – Outturn 2020/21 and Revised Budget 2021/22](#), Finance and Resources Committee, 12 August 2021

- 8.6 [Sustainable Capital Budget Strategy 2022/32](#), Finance and Resources Committee, 7 October 2021
- 8.7 [Active Travel Investment Programme Update](#), Transport and Environment Committee, 14 October 2021
- 8.8 [Housing Revenue Account \(HRA\) Capital Programme – Update on Projects](#), Housing, Homelessness and Fair Work Committee, 4 November 2021

9. Appendices

- 9.1 Appendix 1 – 2021/22 Capital Monitoring Month Six – General Fund
- 9.2 Appendix 2 – 2021/22 Capital Monitoring Month Six – HRA

Appendix 1 - 2021/22 Capital Monitoring

General Fund Summary

Month Six

Expenditure	Approved Budget £000	Adjustments £000	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Outturn Variance	
						£000	%
Education and Children's Services	108,237	(37,193)	71,044	41,064	67,847	(3,197)	-4.50%
Edinburgh Integration Joint Board	-	284	284	-	284	-	0.00%
Place	169,147	14,389	183,536	89,800	167,751	(15,785)	-8.60%
Place - Lending	13,260	4,769	18,029	2,143	15,026	(3,003)	-16.66%
Place - Tram York Place to Newhaven	65,523	6,577	72,100	27,263	69,873	(2,227)	-3.09%
Asset Management Works	25,916	(5,503)	20,413	15,653	22,165	1,752	8.58%
Corporate Services	2,213	2,403	4,616	1,343	2,233	(2,383)	-51.62%
Total Gross Expenditure	384,296	(14,274)	370,022	177,266	345,179	(24,843)	-6.71%
Funding	Approved Budget £000	Adjustments £000	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Outturn Variance	
						£000	%
<i>Capital Receipts</i>							
General Asset Sales	3,000	113	3,113	500	3,113	-	0.00%
Ringfenced Asset Sales	-	801	801	801	801	-	0.00%
Capital from Current Revenue	-	4,000	4,000	3,957	4,000	-	0.00%
<i>Total Capital Receipts from Asset Sales and Revenue</i>	3,000	4,914	7,914	5,258	7,914	-	0.00%
<i>Drawdown from/ (to) Capital Fund</i>							
	6,986	-	6,986	-	6,986	-	0.00%
<i>Developer Contributions</i>							
	436	15,378	15,814	10,849	15,437	(377)	-2.38%
<i>Developers Contributions Transferred to Investments</i>	-	(14,127)	(14,127)	(15,380)	(15,380)	(1,253)	8.87%
<i>Total Developer Contributions</i>	436	1,251	1,687	(4,531)	57	(1,630)	-96.62%
Total Capital Receipts and Contributions	10,422	6,165	16,587	727	14,957	(1,630)	-9.83%
<i>Grants</i>							
Scottish Government General Capital Grant	38,360	678	39,038	19,180	39,038	-	0.00%
Other Grants and Contributions	-	1,652	1,652	1,256	1,652	-	0.00%
Cycling, Walking and Safer Streets	2,299	-	2,299	-	2,299	-	0.00%
Place Based Investment Programme	-	1,998	1,998	1,998	1,998	-	0.00%
Transfer of Management of Development Funding (TMDF)	27,950	24,468	52,418	9,724	52,418	-	0.00%
Regeneration Funding	-	1,258	1,258	1,258	1,258	-	0.00%
Other Government Grants	-	294	294	339	339	45	15.31%
Capital Grants Unapplied Account Drawdown	14,442	(14,442)	-	-	-	-	0.00%
Total Grants	83,051	15,906	98,957	33,755	99,002	45	0.05%
Total Funding	93,473	22,071	115,544	34,482	113,959	(1,585)	-1.37%
<i>Borrowing</i>							
New Prudential Borrowing in Year	85,127	(7,718)	77,409	61,231	62,052	(15,357)	-19.84%
New On-Lending in Year	13,260	4,769	18,029	2,143	15,026	(3,003)	-16.66%
New Capital Advance - Trams to Newhaven	65,143	6,957	72,100	27,263	69,873	(2,227)	-3.09%
New Capital Advance - General Fund	127,293	(40,353)	86,940	52,147	84,269	(2,671)	-3.07%
Balance to be funded through Loans Fund Advance	290,823	(36,345)	254,478	142,784	231,220	(23,258)	-9.14%

Appendix 2 - 2021/22 Capital Monitoring

Housing Revenue Account

Month Six

Expenditure	Approved Budget	Adjustments	Revised Budget	Actual to Date	Projected Outturn	Projected Outturn Variance	
	£000	£000	£000	£000	£000	£000	%
Council Housebuilding Programme	33,223	-	33,223	10,494	27,700	(5,523)	-16.6%
Council Housebuilding Programme - Land	20,000	-	20,000	50	17,200	(2,800)	-14.0%
Improvement to Council Homes and Estates	34,163	16,601	50,764	8,488	35,898	(14,866)	-29.3%
Total Gross Expenditure	87,386	16,601	103,987	19,032	80,798	(23,189)	-22.3%

Income	Approved Budget	Adjustments	Revised Budget	Actual to Date	Projected Outturn	Projected Outturn Variance	
	£000	£000	£000	£000	£000	£000	%
Capital Receipts and Other Contributions	4,560	2,750	7,310	2,407	5,701	(1,609)	-22.0%
Capital Funded from Current Revenue	18,300	-	18,300	-	4,316	(13,984)	-76.4%
Receipts from LLPs	19,583	-	19,583	2,032	15,026	(4,557)	-23.3%
Specific Capital Grant	11,859	-	11,859	1,933	8,820	(3,039)	-25.6%
Total Income	54,302	2,750	57,052	6,372	33,863	(23,189)	-40.6%

Balance to be funded through Loans Fund Advance	33,084	13,851	46,935	12,660	46,935	-	0.00%
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