

Governance, Risk and Best Value Committee

10.00am, Tuesday 11 October 2022

2022-32 Sustainable Capital Budget Strategy – Outturn 2021/22 and Revised Budget 2022/23 – referral from the Finance and Resources Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

- 1.1 The Finance and Resources Committee has referred a report on the 2022-32 Sustainable Capital Budget Strategy – Outturn 2021/22 and Revised Budget 2022/23 to the Governance, Risk and Best Value Committee for part of its work programme.

Richard Carr
Interim Executive Director of Corporate Services

Contact: Emily Traynor, Assistant Committee Officer
Legal and Assurance Division, Corporate Services Directorate
Email: emily.traynor@edinburgh.gov.uk

Referral Report

2022-32 Sustainable Capital Budget Strategy – Outturn 2021/22 and Revised Budget 2022/23 – referral from the Finance and Resources Committee

2. Terms of Referral

- 2.1 On 8 September 2022, the Finance and Resources Committee considered the 2022-32 Sustainable Capital Budget Strategy – Outturn 2021/22 and Revised Budget 2022/23 report. The report provided capital expenditure and funding outturns for 2021/22, providing explanations for key variances.
- 2.2 The Finance and Resources Committee agreed:
 - 2.2.1 To note the 2021/22 unaudited capital outturn for the Council's General Fund and Housing Revenue Account.
 - 2.2.2 To refer the report to the Governance Risk and Best Value Committee as part of its work programme.
 - 2.2.3 To approve the revised capital budget strategy for the financial year 2022/23, as set out in Appendix 3.
 - 2.2.4 To note a further update on the Sustainable Capital Budget Strategy would be brought to Finance and Resources Committee in November 2022, with a focus on addressing the funding pressure identified in this report.
 - 2.2.5 To note the Council's Prudential Indicators for the Revised Budget 2022/23, as set out in Appendix 5.

3. Background Reading

- 3.1 [Finance and Resources Committee – 8 September 2022 - Webcast](#)
- 3.2 Minute of the Finance and Resources Committee – 8 September 2022

4. Appendices

- 4.1 Appendix 1 – report by the Interim Executive Director of Corporate Services

Finance and Resources Committee

10.00am, Thursday, 8 September 2022

2022-32 Sustainable Capital Budget Strategy – Outturn 2021/22 and Revised Budget 2022/23

Executive/routine Wards Council Commitments	Executive All
---	------------------

1. Recommendations

- 1.1 To note the 2021/22 unaudited capital outturn for the Council's General Fund and Housing Revenue Account (HRA);
- 1.2 To refer the report to the Governance Risk and Best Value Committee as part of its work programme;
- 1.3 To approve the revised capital budget strategy for the financial year 2022/23, as set out in Appendix 3;
- 1.4 To note a further update on the Sustainable Capital Budget Strategy will be brought to Finance and Resources Committee in November 2022, with a focus on addressing the funding pressure identified in this report; and
- 1.5 To note the Council's Prudential Indicators for the Revised Budget 2022/23, as set out in Appendix 5.

Richard Carr

Interim Executive Director of Corporate Services

Contact: Matt Jones, Senior Accountant,

Finance and Procurement, Corporate Services Directorate

E-mail: Matt.Jones@edinburgh.gov.uk | Tel: 07863 561 145

Report

2022-32 Sustainable Capital Budget Strategy – Outturn 2021/22 and Revised Budget 2022/23

2. Executive Summary

- 2.1 The report provides capital expenditure and funding outturns for 2021/22, providing explanations for key variances.
- 2.2 At month 12, the General Fund capital expenditure totalled £371.115m with capital income of £150.674m, resulting in a net requirement of £220.441m in loans fund advances. This is £34.037m lower than the revised budget update provided in month three due to slippage across the programme.
- 2.3 At month 12, the Housing Revenue Account (HRA) capital expenditure totalled £64.850m and capital income of £29.486m, resulting in a net requirement of £35.364m in loans fund advances. This is £11.571m lower than the revised budget update provided in month three primarily due to a land purchase not proceeding as expected and additional grant funding being received in March than projected.
- 2.4 Slippage from 2021/22 is rolled forward and added to the capital investment programme for the period 2022-2032 to create the revised capital budget. In creating the revised budget, realignments have been made between financial years to reflect the most up to date cash flow projections available. The budget has also been adjusted to reflect funding received since the Council set its budget in February.
- 2.5 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, but will result in projects being delayed or postponed, if additional resources are not identified. 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 In February 2021 the Council set out priorities for its 10 year programme of capital investment totalling £1,492.494m for general services and £2,774.844m for the

Housing Revenue Account. This investment was aligned with the Council Business Plan, over the medium to long-term. This budget was then revised on 12 August 2021 with realignments between financial years to take account of slippage from the previous financial year and reflect the most up to date cash flow position available.

- 3.2 Detailed forecasts for financial year 2021/22 were reported at months 3, 6 and 8, with the most recent update provided to Finance and Resources Committee on 3 February 2022. The report showed the General Fund was projecting capital expenditure of £342.616m and capital income of £121.025m, resulting in a net requirement of £221.591m in loans fund advances. Within the same report, it showed the Housing Revenue Account (HRA) was projecting capital expenditure of £61.980m and capital income of £23.244m, resulting in a net requirement of £38.736m in loans fund advances.
- 3.3 At its budget meeting of 24 February 2022, the expenditure priorities and available funding were reconsidered and an updated programme of investment was approved for the period 2022-2032. The [Sustainable Capital Budget Strategy 2022-2032](#) set out a fully funded investment programme of £1,459.874m, aligned with the Council Business Plan. The [Housing Revenue Account \(HRA\) Budget Strategy \(2022-32\)](#) set out £2,934.365m of investment in new affordable housing and improvements to existing homes over the 10 year period.
- 3.4 This report sets out the outturn position for 2021/22, revisions to the 2022-32 capital budget and the forecast outturn for 2022/23 based on the month 3 position.

4. Main report

2021/22 Capital Monitoring – Month 12

General Fund

- 4.1 The month 12 monitoring shows general fund expenditure of £371.115m against a revised budget of £407.447m resulting in a total of £36.332m (8.92%) in expenditure slippage. A breakdown by directorate is provided in Appendix 1.
- 4.2 Within Education and Children's Services, there has been capital expenditure of £95.726m as at month 12 against a revised budget of £95.834m. Expenditure relates primarily to projects which were well underway prior to COVID-19 lockdowns such as Meadowbank Sports Centre, Castlebrae High School, new Victoria Primary School and Frogston Primary School. The outturn slippage of £0.108m in the year, primarily relates to;
 - Rising School Rolls, Maybury Primary School and other smaller project variances and other contingency expenditure slippage of £13.328m 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 have caused projects to be frozen prior to tender processes until a review of the appropriate course of action to mitigate the impact of market conditions has been undertaken.

This slippage was largely offset by acceleration in the following projects:

- Castlebrae High School acceleration of £11.407m due to the school now being complete but the final funding from EDI dividend payment and capital receipt from sale now not anticipated until the 2022/23 financial year;
- St Crispin's Special School acceleration of £2.029m due to the school nearing completion but the final funding from the capital receipt now not anticipated until the next financial year.

4.3 Within Place, there has been capital expenditure of £176.181m as at month 12 against a revised budget of £197.507m. The outturn slippage of £21.326m in the year, primarily relates to;

- General Place programme slippage of around £13.880m due to construction industry materials and labour shortages across several projects and programmes;
- Active Travel of £4.921m 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'; and
- Road Safety and Public Transport block funding of £2.525m due to programme delays as a result of reprioritisation and rephasing of Active Travel Strategy to ensure the strategy is affordable. A wider review of Public Transport to align with City Mobility Plan, construction cost inflation, contractor availability and supply chain issues are causing material delays to project progress.

4.4 Within Place – Trams to Newhaven, there has been capital expenditure of £68.486m as at month 12 against a budget of £72.100m. This in-year underspend of £3.614m is a result of a rescheduling of works due to the impact of Covid and industry wide material and skilled labour shortages. While an in-year underspend is currently reported, the project is still expected to complete on time and within the approved budget of £207.3m

4.5 Within Place - Lending there has been capital expenditure of £4.167m as at month 12 against a revised budget of £18.029m. This follows the purchase of completed homes by Edinburgh Living LLP at North Sighthill and Pennywell. This means there was a total outturn slippage of £13.862m primarily due to delays on completion of the final homes at Pennywell and North Sighthill 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 Place - Asset Management Works Programme, there has been capital expenditure of £23.236m as at month 12 across various projects, with outturn acceleration of spend of £4.323m compared to the revised budget of £18.913m. 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.

Housing Revenue Account

- 4.7 The month 12 monitoring shows HRA capital expenditure of £64.850m for the financial year across various programmes and workstreams relating to new builds and improvements to existing homes. This is against a revised budget of £103.987m resulting in a total of £39.137m (37.6%) in expenditure slippage. A breakdown by programme is provided in Appendix 2, with additional commentary provided in sections 4.8 to 4.12.
- 4.8 The outturn on new homes development is slippage of £5.848m which is primarily due to delays on projects under construction through the impacts of material shortages and COVID measures extending programmes.
- 4.9 The outturn capital expenditure on land for new homes shows slippage of £17.340m. This is primarily due to a delay to the purchase of [Liberton Hospital](#) to the 2022/23 financial year at the request of NHS Lothian. This sale is now being progressed with a revised target date of Autumn 2022.
- 4.10 The outturn against improvements to existing homes and estates shows slippage of £15.949m. This was due to supply chain disruption, including shortages of materials, contractor availability and gaining access to carry out works within tenants' 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 has now recommenced with an opportunity to enhance specification to achieve EnerPHit standard, causing a significant delay.
- 4.11 The month 12 monitoring shows HRA capital income of £29.486m for the financial year, primarily from Scottish Government grant, disposals through the Acquisitions and Disposals Programme and capital receipts from sales to Edinburgh Living LLP. The outturn shows slippage on the budgeted income of £27.566m.
- 4.12 This results in a net requirement of £35.364m in loans fund advance, a reduction in borrowing requirement from the revised budget of £11.571m.

Revised Sustainable Capital Budget Strategy 2022-2032

- 4.13 The Sustainable Capital Budget Strategy 2022-2032 for the general fund was approved by Council on 24 February 2022 and was based on an interim budget which estimated slippage and acceleration. This sets out a fully funded investment programme of £1,459.874m, which is aligned with the Council Business Plan. While the plan is balanced over the 10 year period, this is subject to a number of significant risks, which are set out in the report.
- 4.14 The Revised Sustainable Capital Budget Strategy 2022-2032 has been adjusted to reflect actual levels of slippage and acceleration and is shown in Appendix 3. It has also been realigned and re-phased to ensure that individual project cash flows reflect the most up to date projections. Project managers have considered risks such as adverse weather or other uncontrollable factors that can impact on delivery and to build this into budgeted cash flows. Forecasts also take account of the

current challenging economic climate, including high inflation, potential labour and materials shortages and procurement difficulties.

- 4.15 The revised Sustainable Capital Budget Strategy also reflects projects where funding has been approved following the Council's budget meeting. This includes the Scottish Government funding for Place Based Investment Programme (PBIP), Cycling, Walking and Safer Routes (CWSR) and TMDF.
- 4.16 Members should note that where funding has not been approved or where the amount or timing is still to be confirmed, then projects are not included in the revised Sustainable Capital Budget Strategy. This includes projects funded by capital receipts, grants or contributions which are yet to be secured.
- 4.17 As the overall funding position of the Sustainable Capital Budget Strategy in Appendix 3 shows, the programme is now funded over the 10-year period. However, if a funding gap in the strategy emerges through failure to deliver revenue savings or project cost pressures increase, then further re-profiling of priorities, reduction in scope of projects or additional revenue savings to fund the borrowing costs to deliver the Capital Budget Strategy will be required ahead of future budget setting to comply with the terms of the Prudential Code. This could potentially mean that later phases of the programme could not be delivered within the ten-year strategy.
- 4.18 A further update on the Sustainable Capital Budget Strategy will be brought to Finance and Resources Committee in November 2022. This report will look ahead to 2023/24 Budget Setting, with a focus on addressing emerging pressures and priorities against a backdrop of continuing funding constraint.

HRA Capital Budget Strategy 2022-2032

- 4.19 The Housing Revenue Account (HRA) Budget Strategy (2022-32) was approved by Council on 24 February 2022. This sets out £2,934.365m of investment in new affordable housing and improvements to existing homes over the 10 year period. In an amendment to the report prepared by officers, members approved the acceleration £5m of investment into 2022/23.
- 4.20 The budget has been reviewed to incorporate the most up to date cash flow projections for individual projects and programmes. The revised budget for 2022/23 now includes annual investment of £118.755m in 2022/23, which is the largest annual HRA capital programme presented to Committee to date. There are risks associated with delivery of a programme of this scale at this time, particularly in view of the challenging economic climate. However, project managers have considered these risks and, while there are likely to be variances in individual projects and programmes, it is considered that this level of expenditure remains achievable and no changes have been made to the overall HRA capital budget.

2022/23 Capital Monitoring – Month 3

- 4.21 Capital monitoring for the first quarter of 2022/23 for the General Fund and HRA is set out in Appendices 6 and 7 respectively. As this report revises budgets to take

account of latest expenditure and income forecasts, no variances are currently projected.

- 4.22 Members should note that the market is currently experiencing shortages in commodities, materials and labour required for construction projects as well as high inflation. The impact is likely to vary from project to project, but there is a risk that projects may be delayed or experience cost pressures. This situation will be monitored and built into forecasts as information becomes available.
- 4.23 Further reports will be presented to Finance and Resource Committee at month six, month eight and month 12 showing the position against the revised 2022/23 capital budget.

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 month six, month eight and month 12 showing the position against the revised 2022/23 capital budget.
- 5.4 A further report on the 2023/24 to 2032/33 Sustainable Capital Budget will be brought to Finance and Resources Committee on 10 November 2022.

6. Financial impact

- 6.1 The loans charges associated with 2021/22 outturn, 2022/32 budget and 2022/23 forecast set out in this report are detailed in the table below:

	Loans Fund Advance	Interest and Charges	Total Cost	Average Annual Cost (30 years)
	£m	£m	£m	£m
Outturn 2021/22				
General Fund	220.441	160.647	381.088	12.703
HRA	35.364	28.555	63.919	2.131
Budget 2022/2023				
General Fund	111.887	85.634	197.521	6.584

HRA	82.330	67.490	149.819	4.994
-----	--------	--------	---------	-------

Forecast 2022/23

General Fund	111.887	85.634	197.521	6.584
--------------	---------	--------	---------	-------

HRA	82.330	67.490	149.819	4.994
-----	--------	--------	---------	-------

- 6.2 Borrowing required is carried out in line with the Council's approved Treasury Management Strategy.
- 6.3 The loan charge costs outlined above will be met from the general fund and HRA revenue budgets for loan charges.
- 6.4 The Council's Prudential Indicators for the Revised Budget 2022/23 are set out in Appendix 5.

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 [Liberton Hospital, Edinburgh – Proposed Acquisition](#), Finance and Resources Committee, 4 March 2021
- 8.4 [Updated Housing Revenue Account \(HRA\) Capital Programme](#), Housing, Homelessness and Fair Work Committee, 3 June 2021
- 8.5 [Parks and Greenspace Investment](#), Culture and Communities Committee, 15 June 2021
- 8.6 [2021-31 Sustainable Capital Budget Strategy – Outturn 2020/21 and Revised Budget 2021/22](#), Finance and Resources Committee, 12 August 2021
- 8.7 [Sustainable Capital Budget Strategy 2022/32](#), Finance and Resources Committee, 7 October 2021
- 8.8 [Active Travel Investment Programme Update](#), Transport and Environment Committee, 14 October 2021

- 8.9 [Housing Revenue Account \(HRA\) Capital Programme – Update on Projects](#), Housing, Homelessness and Fair Work Committee, 4 November 2021
- 8.10 [Capital Budget Monitoring 2021/22 – Month Six Position](#), Finance and Resources Committee, 9 December 2021
- 8.11 [Capital Budget Monitoring 2021/22 - Month Eight Position](#), Finance and Resources Committee, 3 February 2022
- 8.12 [Sustainable Capital Budget Strategy](#), Finance and Resources Committee, 3 February 2022
- 8.13 [Sustainable Capital Strategy 2022-32 – Annual Report](#), Finance and Resources Committee, 3 March 2022

9. Appendices

- 9.1 Appendix 1 – 2021/22 Capital Monitoring Month 12 Outturn – General Fund
- 9.2 Appendix 2 – 2021/22 Capital Monitoring Month 12 Outturn – HRA
- 9.3 Appendix 3 - 2022-32 Revised Sustainable Capital Budget Strategy
- 9.4 Appendix 4 - 2022-32 HRA Capital Budget Strategy
- 9.5 Appendix 5 – 2022/23 Revised Budget Prudential Indicators
- 9.6 Appendix 6 – 2022/23 Capital Monitoring Month Three – General Fund
- 9.7 Appendix 7 – 2022/23 Capital Monitoring Month Three – HRA

Appendix 1 - 2021/22 Capital Monitoring

General Fund Summary

Month 12

Expenditure	Approved Budget £000	Adjustments £000	Revised Budget £000	Actual Outturn £000	Outturn Variance £000	%
Education and Children's Services	108,237	(12,403)	95,834	95,726	(108)	-0.11%
Edinburgh Health and Social Care Partnership Place	-	448	448	164	(284)	-63.39%
Place - Lending	169,147	28,360	197,507	176,181	(21,326)	-10.80%
Place - Tram York Place to Newhaven	13,260	4,769	18,029	4,167	(13,862)	-76.89%
Place - Asset Management Works	65,523	6,577	72,100	68,486	(3,614)	-5.01%
Corporate Services	25,916	(7,003)	18,913	23,236	4,323	22.86%
	2,213	2,403	4,616	3,155	(1,461)	-31.65%
Total Gross Expenditure	384,296	23,151	407,447	371,115	(36,332)	-8.92%
Funding						
	Approved Budget £000	Adjustments £000	Revised Budget £000	Actual Outturn £000	Outturn Variance £000	%
<i>Capital Receipts</i>						
General Asset Sales	3,000	-	3,000	4,889	1,889	62.97%
Ringfenced Asset Sales	-	2,498	2,498	2,498	-	0.00%
Capital from Current Revenue	-	15,047	15,047	15,043	(4)	-0.03%
<i>Total Capital Receipts from Asset Sales and Revenue</i>	3,000	17,545	20,545	22,430	1,885	9.17%
<i>Drawdown from/ (to) Capital Fund</i>						
	6,986	164	7,150	7,150	-	0.00%
<i>Developer Contributions</i>						
Developer Contributions	436	38,570	39,006	34,811	(4,195)	-10.75%
Developers Contributions Transferred to Investments	-	(30,573)	(30,573)	(31,035)	(462)	1.51%
<i>Total Developer Contributions</i>	436	7,997	8,433	3,776	(4,657)	-55.22%
Total Capital Receipts and Contributions	10,422	25,706	36,128	33,356	(2,772)	-7.67%
<i>Grants</i>						
Scottish Government General Capital Grant	38,360	1,679	40,039	40,039	-	0.00%
Other Grants and Contributions	-	7,858	7,858	8,335	477	6.07%
Cycling, Walking and Safer Routes	2,299	1,384	3,683	3,683	-	0.00%
Place Based Investment Programme	-	1,998	1,998	1,998	-	0.00%
Transfer of Management of Development Funding (TMDF)	27,950	24,468	52,418	52,418	-	0.00%
Regeneration Funding	-	1,628	1,628	1,628	-	0.00%
Other Government Grants	-	5,756	5,756	5,756	-	0.00%
Capital Grants Unapplied Account Drawdown	14,442	(10,981)	3,461	3,461	-	0.00%
Total Grants	83,051	33,790	116,841	117,318	477	0.41%
Total Funding	93,473	59,496	152,969	150,674	(2,295)	-1.50%
<i>Borrowing</i>						
New Prudential Borrowing in Year	85,127	(7,718)	77,409	68,712	(8,697)	-11.24%
New On-Lending in Year	13,260	4,769	18,029	4,167	(13,862)	-76.89%
New Capital Advance - Trams to Newhaven	65,143	6,957	72,100	68,486	(3,614)	-5.01%
New Capital Advance - General Fund	127,293	(40,353)	86,940	79,076	(7,864)	-9.05%
Balance to be funded through Loans Fund Advance	290,823	(36,345)	254,478	220,441	(34,037)	-13.38%

Appendix 2 - 2021/22 Capital Monitoring

Housing Revenue Account

Month 12

Expenditure	Approved Budget	Adjustments	Revised Budget	Actual	Outturn Variance	
	£000	£000	£000	£000	£000	%
Council Housebuilding Programme	33,223	-	33,223	27,375	(5,848)	-17.6%
Council Housebuilding Programme - Land Improvement to Council Homes and Estates	20,000	-	20,000	2,660	(17,340)	-86.7%
	34,163	16,601	50,764	34,815	(15,949)	-31.4%
Total Gross Expenditure	87,386	16,601	103,987	64,850	(39,137)	-37.6%

Income	Approved Budget	Adjustments	Revised Budget	Actual	Outturn Variance	
	£000	£000	£000	£000	£000	%
Capital Receipts and Other Contributions	4,560	2,750	7,310	7,208	(102)	-1.4%
Capital Funded from Current Revenue	18,300	-	18,300	-	(18,300)	-100.0%
Receipts from LLPs	19,583	-	19,583	3,906	(15,677)	-80.1%
Specific Capital Grant	11,859	-	11,859	18,372	6,513	54.9%
Total Income	54,302	2,750	57,052	29,486	(27,566)	-48.3%

Balance to be funded through Loans Fund Advance	33,084	13,851	46,935	35,364	(11,571)	-24.65%
--	---------------	---------------	---------------	---------------	-----------------	----------------

Appendix 4 : 2022-32 HRA Capital Budget Strategy

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
	2022/23	2023/24	2024/25	2025/26	2026/27	Total	2027/28 to 2031/32	Total
	£m	£m	£m	£m	£m	£m	£m	£m
New Homes Development	37.724	107.049	162.503	398.595	401.714	1,107.585	837.356	1,944.941
New Home Land Costs	14.344	2.500	17.500	29.433	25.466	89.243	42.322	131.565
Tenant's Homes & Services (20-yr borrowing)	12.337	11.115	14.458	14.786	15.337	68.033	82.227	150.260
External Fabric and Estates (30-yr borrowing)	54.350	53.923	72.244	69.899	72.513	322.929	384.669	707.598
Total Expenditure	118.755	174.587	266.705	512.713	515.030	1,587.790	1,346.574	2,934.364
Prudential Borrowing	82.330	104.216	127.158	167.115	182.537	663.356	569.712	1,233.068
Capital Funded From Revenue	20.844	18.300	10.800	10.800	10.800	71.544	45.856	117.400
Capital Receipts and Contributions	5.000	7.920	37.912	39.135	48.046	138.013	129.382	267.395
Receipts from LLPs	6.444	15.567	56.437	244.445	199.967	522.860	422.517	945.377
Scottish Government Subsidy (Social)	2.537	26.664	32.158	50.258	72.720	184.337	174.307	358.644
Scottish Government Subsidy (Acquisition)	1.600	1.920	2.240	0.960	0.960	7.680	4.800	12.480
Total Funding	118.755	174.587	266.705	512.713	515.030	1,587.790	1,346.574	2,934.364

2022/23 Revised Budget Prudential Indicators

Indicator 1 - Estimate of Capital Expenditure

The actual capital expenditure that was incurred in 2021/22 and the estimates of capital expenditure to be incurred for the current and future years:

	Capital Expenditure - General Services					
	2021/22 Actual £000	2022/23 Forecast £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Rolled Forward Capital Investment Programme						
Education and Children's Services	95,726	25,342	71,215	103,555	83,314	31,563
Place	176,181	101,212	133,294	79,075	76,013	20,239
Place - Lending	4,167	20,029	62,413	70,500	41,793	10,804
Place - Trams to Newhaven	68,486	54,700	3,507	0	0	0
Place - Asset Management Works	23,236	22,102	26,441	33,677	31,484	20,473
Corporate Services	3,155	1,276	4,091	1,597	669	678
Edinburgh Health and Social Care Partnership	164	284	0	0	0	0
Contingency	0	0	0	0	5,000	5,000
General Slippage in Programme	0	-21,694	-18,660	-5,573	4,574	17,928
Total General Services Capital Expenditure	371,115	203,251	282,300	282,830	242,847	106,685

The Place - Trams to Newhaven figures include capitalised interest following a change in accounting policy approved by Finance and Resources Committee on 21 January 2021. Note that the 2022-2027 Capital Investment Programme includes slippage / acceleration brought forward based on projected capital expenditure reported at the month three stage.

	2021/22 Actual £000	2022/23 Forecast £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Rolled Forward Capital Investment Programme						
Housing Revenue Account	64,850	118,755	174,587	266,705	512,713	515,030

Indicator 2 - Ratio of Financing Costs to Net Revenue Stream

Estimates of the ratio of financing costs to net revenue stream for the current and future years and the actual figures for 2021/22 are:

	Ratio of Financing Costs to Net Revenue Stream					
	2021/22 Actual %	2022/23 Forecast %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %
General Services	6.8%	7.3%	8.1%	8.1%	8.2%	8.2%
Housing Revenue Account (HRA)	32.0%	35.7%	37.7%	40.5%	44.2%	47.9%

Note: Figures for 2023/24 onwards are indicative at this stage as the Council has not set a General Services or HRA budget for these years. The figures for General Services are based on the current long term financial plan. HRA figures are based on the business plan which was reported to Finance and Resources Committee on 2 February 2021.

The estimates of financing costs include current commitments in the capital plans set out in Appendices 3 and 4.

Indicator 3 - Capital Financing Requirement

Estimates of the end of year capital financing requirement for the authority for the current and future years and the actual capital financing requirement at 31 March 2022 are:

	Capital Financing Requirement					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
General Services (including Finance Leases)	1,411	1,448	1,502	1,547	1,580	1,547
Housing Revenue Account (HRA)	394	458	542	646	788	941
NHT LLPs	56	32	15	15	0	0
Edinburgh Living LLPs	42	61	123	192	234	244
Total Capital Financing Requirement	1,903	2,000	2,181	2,401	2,602	2,732

The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. The authority has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all of the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

The capital financing requirement for the NHT LLPs includes an estimate for repayments of advances. Exit strategies are still to be finalised for the remaining three LLPs, however four have repaid their loans in full.

CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence.

In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

	Gross Debt and the Capital Financing Requirement					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Gross Debt	1,780	1,720	1,670	1,622	1,548	1,474
Capital Financing Requirements	1,903	2,000	2,181	2,401	2,602	2,732
(Over) / under limit by:	123	280	511	779	1,053	1,258

The authority does not currently envisage borrowing in excess of its capital financing requirement over the next few years. This takes into account current commitments, existing plans and assumptions around cash balances and the proposals in this budget. The figures do not include any expenditure and associated funding requirements, other than projects specifically approved by Council, for the Local Development Plan (LDP) or City Deal.

In 2022/2023, the Authority will apply IFRS 16 Leases as adopted by the Code of Accounting Practice. This will subsequently have an impact on the Capital Financing Requirement (CFR) as from the 2022/23 financial year. Therefore, it should be expected to see an increase in the CFR in future years. This will similarly have an impact on the authorised limit and operational boundary for external debt.

Indicator 4 - Authorised Limit for External Debt

The authorised limit should reflect a level of borrowing which, while not desired, could be afforded, but may not be sustainable. "Credit Arrangements" as defined by Financial Regulations, has been used to calculate the authorised and operational limits requiring both the short and long term liabilities relating to finance leases and PFI assets to be considered. In respect of its external debt, the following authorised limits for its total external debt gross of investments for the next four financial years was approved in February 2022. These limits separately identify borrowing under credit arrangements including finance leases and PFI assets. Council have approved these limits and to delegate authority to the Service Director for Finance and Procurement, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and credit arrangements, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the Council at its meeting following the change.

	Authorised Limit for External Debt					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m	£m	£m
Borrowing	1,640	1,983	2,333	2,798	3,260	3,713
Credit Arrangements (including leases)	289	284	279	274	268	262
Authorised Limit for External Debt	1,929	2,267	2,612	3,072	3,528	3,975

These authorised limits are consistent with the authority's current commitments, existing plans and the proposals in this budget for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of most likely (but not worst case) scenario with sufficient headroom to allow for operational treasury management. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

Indicator 5 - Operational Boundary for External Debt

The Council has also approved, in February 2022, the following operational boundary for external debt for the same period. The proposed operational boundary equates to the estimated maximum of external debt. It is based on the same estimates as the authorised limit but reflects directly the estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements. The operational boundary represents a key management tool for in year monitoring. Within the operational boundary, figures for borrowing and credit arrangements are separately identified. The Council has also delegated authority to the Service Director for Finance and Procurement, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and credit arrangements, in a similar fashion to the authorised limit. Any such changes will be reported to the Council at its next meeting following the change.

	Operational Boundary for External Debt					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m	£m	£m
Borrowing	1,640	1,933	2,283	2,748	3,260	3,713
Credit Arrangements (including leases)	289	284	279	274	268	262
Operational Boundary for External Debt	1,929	2,217	2,562	3,022	3,528	3,975

The Council's actual external debt at 31 March 2021 was £1,347m of borrowing (including sums repayable within 12 months).

Indicator 6 - Loans Charges Associated with net Capital Investment expenditure plans

Under the changes to the Prudential Code which came into force in December 2017, the requirement to measure and report on the incremental impact on the Council Tax / rents was removed from the Code. The authority can set its own local indicators to measure the affordability of its capital investment plans. The Service Director for Finance and Procurement considers that Council should be advised of the loans charges cost implications which will result from the spending plans being considered for approval. These cost implications have been included in the Council's Revenue and HRA budgets for 2022/23 and for future years will be considered as part of the longer term financial frameworks.

	Loans Charges Liability					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000	Estimate £001
General Services (excluding On-Lending and Tram to Newhaven) - New Loans Fund Advances						
Loans Fund Advances in year	147,789	33,525	104,556	109,420	104,671	41,993
Year 1 - Interest Only	2,997	680	2,120	2,219	2,122	851
Year 2 - Interest and Principal Repayment	8,597	1,950	6,082	6,365	6,089	2,443
Housing Revenue Account (HRA) - New Loans Fund Advances						
Loans Fund Advances in year (excl. LLP programme *)	35,364	82,330	104,216	127,158	167,115	182,537
Year 1 - Interest Only	761	1,772	2,243	2,737	3,597	3,929
Year 2 - Interest and Principal Repayment	2,120	4,935	6,247	7,622	10,017	10,941

* The loans charges associated with the borrowing required for the house building programme for onward transferred to the LLPs will be met from the LLPs and does therefore not have a net impact on the HRA or General Services revenue budget. Tram repayments are based on the income model and will commence in 2023/24 when the line to Newhaven becomes operational.

Consideration of options for the capital programme

In considering its programme for capital investment, Council is required within the Prudential Code to have regard to:

- affordability, e.g. implications for Council Tax or house rents;
- prudence and sustainability, e.g. implications for external borrowing;
- value for money, e.g. option appraisal;
- stewardship of assets, e.g. asset management planning;
- service objectives, e.g. strategic planning for the authority;
- practicality, e.g. achievability of the forward plan.

Appendix 6 - 2022/23 Capital Monitoring

General Fund Summary

Period 3

Expenditure	Adjusted		Revised Budget	Actual to Date	Projected Outturn	Projected Outturn	
	Approved Budget	Adjustments				Variance	%
	£000	£000	£000	£000	£000	£000	%
Education and Children's Services	33,040	(7,698)	25,342	11,877	25,342	-	0.00%
Place	104,983	(3,771)	101,212	13,883	101,212	-	0.00%
Place - Lending	16,972	3,057	20,029	-	20,029	-	0.00%
Place - Tram York Place to Newhaven	39,503	15,197	54,700	12,079	54,700	-	0.00%
Place - Asset Management Works	29,425	(7,323)	22,102	2,235	22,102	-	0.00%
Corporate Services	807	469	1,276	58	1,276	-	0.00%
Edinburgh Health and Social Care Partnership	-	284	284	1	284	-	0.00%
Contingency	-	-	-	-	-	-	0.00%
Slippage Assumption	(21,694)	-	(21,694)	-	(21,694)	-	0.00%
Total Gross Expenditure	203,036	215	203,251	40,135	203,251	-	0.00%
Funding	Approved Budget	Adjusted	Revised Budget	Actual to Date	Projected Outturn	Projected Outturn	
	£000	£000	£000	£000	£000	£000	%
<i>Capital Receipts</i>							
General Asset Sales	3,000	-	3,000	932	3,000	-	0.00%
Ringfenced Asset Sales	-	-	-	81	-	-	N/A
Capital from Current Revenue	-	1,480	1,480	1,170	1,480	-	0.00%
Less Fees Relating to Receipts	-	-	-	-	-	-	N/A
Less Fees Relating to General Receipts	-	-	-	-	-	-	N/A
<i>Total Capital Receipts from Asset Sales</i>	3,000	1,480	4,480	2,182	4,480	-	0.00%
<i>Drawdown from/ (to) Capital Fund</i>	-	-	-	-	-	-	N/A
<i>Developer Contributions</i>	-	-	-	4,944	-	-	N/A
<i>Developers Contributions Transferred to Investments</i>	-	-	-	-	-	-	0.00%
<i>Total Developer Contributions</i>	-	-	-	4,944	-	-	N/A
Total Capital Receipts and Contributions	3,000	1,480	4,480	7,126	4,480	-	0.00%
<i>Grants</i>							
Scottish Government General Capital Grant	40,221	-	40,221	10,157	40,221	-	0.00%
Other Grants and Contributions	-	-	-	321	-	-	N/A
Cycling, Walking and Safer Streets	2,310	1,068	3,378	-	3,378	-	0.00%
Town Centre Funding / Place Based Investment Programme	1,735	-	1,735	1,741	1,735	-	0.00%
Transfer of Management of Development Funding (TMDF)	45,182	-	45,182	-	45,182	-	0.00%
Early Years and Childcare - Expansion	-	-	-	-	-	-	N/A
Regeneration Funding - Powderhall Stables	-	-	-	-	-	-	N/A
Other Government Grants	-	-	-	(4,816)	-	-	N/A
Capital Grants Unapplied Account Drawdown	-	-	-	-	-	-	0.00%
Total Grants	89,448	1,068	90,516	7,402	90,516	-	0.00%
Total Funding	92,448	2,549	94,997	14,528	94,997	-	0.00%
<i>Borrowing</i>							
New Prudential Borrowing in Year	9,340	875	10,215	-	10,215	-	0.00%
New On-Lending in Year	16,972	3,057	20,029	-	20,029	-	0.00%
New Capital Advance - Trams to Newhaven	39,503	15,197	54,700	-	54,700	-	0.00%
New Capital Advance - General Fund	44,773	(21,462)	23,311	25,607	23,311	-	0.00%
Balance to be funded through Loans Fund Advance	110,588	(2,334)	108,254	25,607	108,254	-	0.00%

Appendix 7 - 2022/23 Capital Monitoring

Housing Revenue Account

Period 3

Expenditure	Approved Budget £000	Adjustme nts £000	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Outturn Variance	
						£000	%
New Homes Development	43,332	(5,608)	37,724	2,948	37,724	-	0.0%
New Homes Land Costs	16,800	(2,456)	14,344	44	14,344	-	0.0%
Improvement to Council Homes and Estates	66,687	-	66,687	8,470	66,687	-	0.0%
Total Gross Expenditure	126,819	(8,064)	118,755	11,462	118,755	-	0.0%

Income	Approved Budget £000	Adjustme nts £000	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Outturn Variance	
						£000	%
Capital Receipts and Other Contributions	-	-	-	1,441	-	-	#DIV/0!
Capital Funded from Current Revenue	23,300	(2,456)	20,844	6,987	20,844	-	0.0%
Prudential Borrowing	87,938	(5,608)	82,330	(9)	82,330	-	0.0%
Receipts from LLPs	6,444	-	6,444	3,042	6,444	-	0.0%
Scottish Government Subsidy	4,137	-	4,137	-	4,137	-	0.0%
Specific Capital Grant	5,000	-	5,000	-	5,000	-	0.0%
Total Income	126,819	(8,064)	118,755	11,462	118,755	-	0.0%

Balance to be funded through Loans Fund Advance	-	0	-	-	-	-	0%
--	----------	----------	----------	----------	----------	----------	-----------