

Finance and Resources Committee

10.00am, Tuesday, 21st November 2023

Capital Monitoring 2023-24 - Month Five Position

Executive/routine
Wards

Executive
All

1. Recommendations

- 1.1 To note the capital monitoring position for the General Fund and Housing Revenue Account (HRA) at month five of the 2023-24 financial year.
- 1.2 To note the Prudential Indicators in appendix 3.
- 1.3 To refer the report to the Governance Risk and Best Value Committee as part of its work programme.

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Report

Capital Monitoring 2023-24 - Month Five Position

2. Executive Summary

- 2.1 The report provides the capital expenditure and funding position as at month five and full-year outturn projections for the 2023-24 financial year, providing explanations for key variances.
- 2.2 An update on the Sustainable Capital Budget Strategy is also brought to Finance and Resources Committee on this agenda. This report will look ahead to 2024-25 Budget Setting, with a focus on addressing emerging pressures and priorities against a continuing funding constraint.

3. Background

- 3.1 The [Sustainable Capital Budget Strategy 2023-33](#) was approved by Council on 23rd February 2023 following referral from the Finance and Resources Committee. The report detailed priorities for capital investment of £1,474.5m for general services. In setting the budget, the Council looked to address the pressures arising from the financial climate, to ensure delivery of priority and in-progress projects.
- 3.2 The Council also approved the [HRA Budget Strategy 2023-33](#) setting out plans for investment of £1,714.5m over the next 10 years. The strategy was updated to reflect the current financial climate and changes in assumptions regarding rental increases and the cost of borrowing.

4. Main report

Capital Monitoring 2023-24 – Month Five Position

General Fund

- 4.1 At month 5, the General Fund expenditure is projected to be £243.3m, against a budget of £233.2m. This would result in net capital expenditure acceleration of £10.1m (4.3%). A summary is provided in Appendix 1 with the drivers being;
 - 4.1.1 Castlebrae High School (acceleration £5.4m) which, although complete and has a fully funded business case, is awaiting ringfenced capital receipts and a dividend from EDI that will not be fully realised this financial year.

- 4.1.2 Rising School Rolls (acceleration £5.8m) which has major works at the Royal High School, Sciennes PS, Castleview and Kirkliston programmed in for the year.
- 4.1.3 MacMillan Hub (acceleration £1.0m) which, as agreed by Committee in September 2022, will be front funded by the council in lieu of contributions to be generated by North Edinburgh Arts. A standard security has been put in place. The project has encountered difficulties in connecting with the existing building, increasing the cost for essential works and subsequent time on site.
- 4.1.4 Roads inc. Carriageways and Footways will see acceleration of £4.3m, which was originally slipped into future years during the budget setting process in February 2023. It is, however, anticipated that the planned programme will be delivered within the year.
- 4.1.5 The Active Travel programme (slippage £8.3m) has had confirmation of Active Travel Transformation Funding (£5.6m), and a change in the funding profile for CCWEL (£3.8m), which both do not affect delivery but will see increased income in the year.
- 4.1.6 The IMPACT Project, the Dunard Centre, is also not expected to require the Council's contribution to funding this year (slippage £4.0m). It is however, facing increased costs and the Council has been approached to add to its contribution.
- 4.2 General Fund income is expected to total £177.2m, resulting in Loans Fund Advances of £66.1m. This is £10.1m (17.9%) more than the revised budget, reflecting the acceleration in expenditure.
- 4.3 An update on the Sustainable Capital Budget Strategy is also brought to Finance and Resources Committee on this agenda. This report will look ahead to 2024-25 Budget Setting, with a focus on addressing emerging pressures and priorities against a backdrop of continuing funding constraint.

Housing Revenue Account

- 4.4 HRA expenditure is projected to be £124.7m against revised budget of £124.8m, slippage of £0.1m (0.1%). A breakdown is in Appendix 2.
 - 4.4.1 Housebuilding & Land;
 - 4.4.1.1 There has been little change in the cost forecasts for the major developments since the budget revision at Month 3, when £40.4m was slipped into future years.
 - 4.4.1.2 The budget was developed in December 2022 under the assumption that construction of another 355 homes would begin early in the financial year.
 - 4.4.1.3 Higher than expected cost plans have resulted in short term delays for Greendykes K&L, Fountainbridge, Murrayburn Gate and Pennywell Town Centre, resulting in significant slippage of £30m across the four developments. These plans have been reviewed to

ensure delivery is affordable and to the required standard.

Fountainbridge also suffered from delays in relation to relocating a substation.

4.4.1.4 Silverlea (£12.3m) has faced planning delays and increased costs, with a Non-Material Variation also required to achieve a more affordable design.

4.4.1.5 Western Villages had £16.1m of budget accelerated due to it progressing well.

4.4.2 Existing homes;

4.4.2.1 Similarly to the Housebuilding programme, there has been little change in projections since the P3 budget revision when £8.1m of budget was slipped into future years.

4.4.2.2 This slippage was linked to delays in the procurement for the Windows and Doors programme which has now been resolved.

4.4.2.3 Additionally, there has been significant contractor underperformance across several projects. Work has been moved to other contractors where practical and performance management arrangements have been put in place to limit the impact.

4.4.2.4 The Whole House Retrofit programme in four multi story blocks (Oxcars/Inchmickery and Craigmillar/Peffermill) has been delayed into early 2024/25. More detailed surveys have been required to adequately inform the scope of works and a limited market response led to delays in contracts being awarded.

4.5 HRA Income is expected to total £57.0m, which is £1.1m (1.9%) more than the revised budget. This would result in a net requirement of £67.7m in Loans Fund Advances, £1.1m (1.7%) less than 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 seven and month 12 showing the position against the revised 2023-24 capital budget.

5.4 A further report on the 2024-25 to 2033-34 Sustainable Capital Budget will be brought to Finance and Resources Committee on 21st November 2023.

6. Financial impact

- 6.1 The 2023-24 General Fund projected outturn outlines loans fund advances of £66.1m. The overall loan charges associated with this over a 30-year period would be a principal amount of £66.1m, interest and expenses of £49.4m, resulting in a total cost of £115.5m based on a loans fund interest rate of 3.9%. The average annual cost would be £3.9m for 30 years.
- 6.2 The 2023-24 HRA projected outturn outlines loans fund advances of £67.7m. The overall loan charges associated with this over a 30-year period would be a principal amount of £67.7m, interest and expenses of £63.5m, resulting in a total cost of £131.2m based on a loans fund interest rate of 4.8%. The average annual cost would be £4.4m 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.
- 6.5 The Council's Prudential Indicators for the Revised Budget 2023-24 are set out in Appendix 3.

7. Equality and Poverty Impact

- 7.1 The equality and poverty impact of individual projects within the Council's capital programme is considered as part of the business cases for those projects.

8. Climate and Nature Emergency Implications

- 8.1 Public sector climate change duties have been strengthened in 2022 with a new requirement to ensure alignment of spending plans and use of resources with sustainability ambitions. To this end, a new methodology developed by the Institute for Climate Economics (ICE) has been trialled to better understand the climate impacts of the Council's capital budget strategy.
- 8.2 Key findings show that, for the expected expenditure for 2023-33
 - 59 % of the total investment (£ 875 m) is in line with the Council's climate ambition (labelled as either "favourable under conditions", or "very favourable")
 - 33 % is considered as neutral
 - 4 % is unfavourable
 - 4 % is classified as "undefined" as the expenditure did not match with any item in the taxonomy

9. Risk, policy, compliance, governance and community impact

- 9.1 The budget is monitored by officers on an ongoing basis with due consideration given to existing and emerging risks, and recommendations to address them given to members where and when required.
- 9.2 The Capital Budget Strategy is approved and monitored against the underlying Prudential Code, which ensures the Council carries out its duties under Part 7 of the Local Government in Scotland Act 2003
- 9.3 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.

10. Background reading/external references

- 10.1 [Housing Revenue Account \(HRA\) Budget Strategy \(2023-33\)](#). Referral from Finance and Resources Committee, 23 February 2023
- 10.2 [Sustainable Capital Budget Strategy 2023-33](#). Referral from Finance and Resources Committee, 14 March 2023
- 10.3 [Capital Strategy 2023-33 – Annual Report](#). Referral from Finance and Resources Committee, 16 March 2023

11. Appendices

- 11.1 Appendix 1 – 2023-24 Capital Monitoring Month 5 Position – General Fund
- 11.2 Appendix 2 – 2023-24 Capital Monitoring Month 5 Position – HRA
- 11.3 Appendix 3 – 2023-24 Revised Budget Prudential Indicators

Appendix 1 - 2023/24 Capital Monitoring

General Fund Summary

Period 5

Expenditure	Approved Budget	Adjustments	Revised Budget	Actual to Date	Projected Outturn	Projected Outturn Variance	
	£m	£m	£m	£m	£m	£m	%
Learning Estate	90.403	-24.272	66.131	23.437	75.432	9.301	14.06%
Edinburgh Living LLPs	62.413	-48.649	13.764	8.573	13.764	0.000	0.00%
Trams to Newhaven	3.507	8.774	12.281	7.327	12.281	0.000	0.00%
Asset Management Works	1.689	8.186	9.875	3.028	8.517	-1.358	-13.76%
Transport & Infrastructure	69.438	-5.652	63.785	33.543	59.553	-4.232	-6.63%
Place - Other	49.392	26.603	75.995	27.502	71.947	-4.048	-5.33%
Corporate Services	4.091	-2.664	1.427	0.630	0.778	-0.649	-45.49%
Edinburgh Health and Social Care Partnership	0.000	0.000	0.000	0.092	0.000	-0.000	-100.00%
Other Community	2.065	3.886	5.951	2.574	6.990	1.040	17.47%
Contingency	0.000	0.000	0.000	0.000	0.000	0.000	0.00%
Slippage Assumption	-31.233	15.233	-16.000	0.000	-6.000	10.000	-62.50%
Total Gross Expenditure	251.764	-18.555	233.209	106.706	243.262	10.053	4.31%
Funding	Approved Budget	Adjustments	Revised Budget	Actual to Date	Projected Outturn	Projected Outturn Variance	
	£m	£m	£m	£m	£m	£m	%
<i>Capital Receipts</i>							
General Asset Sales	7.000	8.536	15.536	1.267	15.536	0.000	0.00%
Capital from Current Revenue	0.000	0.492	0.492	0.000	0.492	0.000	0.00%
Other Capital Contributions (Edinburgh Living)	0.000	0.000	0.000	0.000	0.000	0.000	0.00%
Developers Contributions Applied	6.369	10.096	16.465	0.012	16.465	0.000	0.00%
<i>Total Capital Receipts from Asset Sales</i>	13.369	19.124	32.493	1.279	32.493	0.000	0.00%
<i>Drawdown from/ (to) Capital Fund</i>	27.650	0.000	27.650	0.000	27.650	0.000	0.00%
Total Capital Receipts and Contributions	41.019	19.124	60.143	1.279	60.143	0.000	0.00%
<i>Grants</i>							
General Capital Grant	53.382	0.404	53.786	20.521	53.786	0.000	0.00%
Less: Contribution to Capital Fund (Pay Award)	-9.709	0.005	-9.704	0.000	-9.704	0.000	0.00%
Capital Grants Unapplied Account	0.000	8.696	8.696	0.000	8.696	0.000	0.00%
Specific Capital Grants - TMDF	27.950	17.103	45.053	11.627	45.053	0.000	0.00%
Specific Capital Grants - CWSS	2.299	0.000	2.299	0.000	2.299	0.000	0.00%
Specific Capital Grants - Place Based Investment Program	1.209	0.004	1.213	0.000	1.213	0.000	0.00%
Specific Grants - Other	0.000	15.695	15.695	11.775	15.695	0.000	0.00%
Total Grants	75.131	41.907	117.038	43.922	117.038	0.000	0.00%
Total Funding	116.150	61.031	177.181	45.202	177.181	0.000	0.00%
<i>Borrowing</i>							
New Prudential Borrowing in Year	13.012	4.916	17.929	0.000	17.648	-0.281	-1.57%
New On-Lending in Year	62.413	-48.649	13.764	8.573	13.764	0.000	0.00%
New Capital Advance - Trams to Newhaven	3.507	-1.309	2.198	7.327	2.198	0.000	0.00%
New Capital Advance - General Fund	56.682	-34.545	22.137	45.605	32.471	10.334	46.68%
Balance to be funded through Loans Fund Advance	135.614	-79.586	56.028	61.505	66.080	10.053	17.94%

Appendix 2 - 2023/24 Capital Monitoring

Housing Revenue Account

Period 5

Expenditure	Approved Budget	Adjustments	Revised Budget	Actual to Date	Projected Outturn	Projected Outturn Variance	
	£m	£m	£m	£m	£m	£m	%
New Homes Development	99.027	-38.547	60.480	25.353	60.240	-0.239	-0.4%
New Homes Land Costs	2.064	-1.889	0.175	0.047	0.175	0.000	0.1%
Improvement to Council Homes and Estates	72.271	-8.127	64.143	21.185	64.318	0.175	0.3%
Total Gross Expenditure	173.361	-48.563	124.798	46.586	124.734	-0.064	-0.1%

Income	Approved Budget	Adjustments	Revised Budget	Actual to Date	Projected Outturn	Projected Outturn Variance	
	£m	£m	£m	£m	£m	£m	%
Capital Funded From Revenue	23.300	0.000	23.300	0.000	23.300	0.000	0.0%
Energy (HEEP:ABS) grant funding	0.000	0.000	0.000	1.076	1.076	1.076	0.0%
Developer contribution/market sales	14.520	-6.820	7.700	4.080	7.700	0.000	0.0%
Receipts from LLPs*	45.809	-31.059	14.750	4.502	14.750	0.000	0.0%
Scottish Government Subsidy (Social and Acquisition)	28.051	-17.867	10.184	4.360	10.184	0.000	0.0%
Total Income	111.680	-55.746	55.934	14.018	57.010	1.076	1.9%

Balance to be funded through Loans Fund Advance	61.681	7.183	68.864	32.568	67.724	-1.140	-1.7%
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Appendix 3 - 2023/24 Budget Prudential Indicators**Indicator 1 - Estimate of Capital Expenditure**

The actual capital expenditure that was incurred in 2022-23 and the estimates of capital expenditure to be incurred for the current and future years:

	Capital Expenditure - General Services					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual £000	Forecast £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Rolled Forward Capital Investment Programme						
Learning Estate	46,465	75,432	146,907	140,895	52,237	10,233
Asset Management Works	10,497	8,517	35,677	41,635	26,071	16,000
Transport and Infrastructure	65,393	59,553	42,750	31,680	25,633	25,043
Place - Other Projects	77,257	71,947	70,510	50,779	29,200	29,200
Corporate Services	2,304	778	7,446	669	678	615
Edinburgh Health and Social Care Partnership	1,297	0	279	0	0	0
Other Community (inc Libraries and Sports Centres)	3,691	6,990	2,528	165	165	165
Trams to Newhaven	53,419	12,281	0	0	0	0
Edinburgh Living LLPs	27,400	13,764	70,500	92,071	10,804	0
Contingency	0	0	324	5,000	5,000	5,000
General (slippage) / acceleration across the programme	0	-6,000	-15,765	5,775	14,880	11,601
Total General Services Capital Expenditure	287,722	243,262	361,157	368,667	164,668	97,857

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 2023-2028 Capital Investment Programme includes slippage / acceleration brought forward based on projected capital expenditure reported at the month three stage.

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000
Rolled Forward Capital Investment Programme						
Housing Revenue Account	121,335	124,734	238,504	202,249	232,711	220,729

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 2022-23 are:

	Ratio of Financing Costs to Net Revenue Stream					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual %	Forecast %	Estimate %	Estimate %	Estimate %	Estimate %
General Services	7.2%	7.6%	8.0%	8.2%	8.4%	8.4%
Housing Revenue Account (HRA)	33.9%	31.0%	32.2%	34.8%	36.2%	36.9%

Note: Figures for 2024/25 onwards are indicative at this stage as the Council has not set a General Services or HRA budget for these years.

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 2023 are:

	Capital Financing Requirement					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual £m	Forecast £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
General Services (including Finance Leases / Right of Use Assets)	1,500	1,590	1,722	1,835	1,846	1,799
Housing Revenue Account (HRA)	423	470	549	570	616	699
NHT LLPs	44	32	24	15	0	0
Edinburgh Living LLPs	59	72	142	232	240	237
Total Capital Financing Requirement	2,026	2,165	2,436	2,652	2,702	2,735

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 five have now 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					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual £m	Forecast £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
Gross Debt	1,783	1,910	2,023	2,079	2,087	2,094
Capital Financing Requirements	2,026	2,165	2,436	2,652	2,702	2,735
(Over) / under limit by:	243	255	413	573	615	642

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.

From 2022/2023, the Authority has applied 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. The capital financing requirement has been adjusted by £51m for 'Right of Use Assets' under IFRS16. 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. These limits separately identify borrowing under credit arrangements including finance leases and PFI assets. Council has delegated 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					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m	£m
Borrowing	1,900	2,106	2,474	2,831	2,958	3,010
Credit Arrangements (including leases and Right of Use assets)	328	405	394	384	377	372
Authorised Limit for External Debt	2,227	2,512	2,868	3,215	3,336	3,383

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 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					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m	£m
Borrowing	1,850	2,056	2,424	2,781	2,908	2,960
Credit Arrangements (including leases)	328	405	394	384	377	372
Operational Boundary for External Debt	2,177	2,462	2,818	3,165	3,286	3,333

The Council's actual external debt at 31 March 2023 was £1,783m (including sums repayable within 12 months).

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

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 2023-24 and for future years will be considered as part of the longer term financial frameworks.

	Loans Charges Liability					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000
General Services (excluding On-Lending and Tram to Newhaven) - New Loans Fund Advances						
Loans Fund Advances in year	42,890	50,119	198,623	184,153	82,670	26,663
Year 1 - Interest Only	858	1,002	3,972	3,683	1,653	533
Year 2 - Interest and Principal Repayment	3,145	3,675	14,566	13,505	6,062	1,955
Housing Revenue Account (HRA) - New Loans Fund Advances						
Loans Fund Advances in year (excl. LLP programme *)	46,777	67,724	100,207	45,137	70,986	110,480
Year 1 - Interest Only	994	1,439	2,129	959	1,508	2,348
Year 2 - Interest and Principal Repayment	1,988	2,878	4,259	1,918	3,017	4,695

* 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 from 2023/24 as the line to Newhaven is 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.