

Finance and Resources Committee

10.00a.m, Thursday, 30 October 2014

Capital Monitoring 2014/15 – Half year position

Item number 7.3
Report number
Executive/routine
Wards

Executive summary

The month five position shows that the Council is projecting to borrow £20.213m and will be in receipt of grants and capital income amounting to £102.105m. Together this will fund projected capital investment of £122.318m. The level of borrowing is projected to be £0.415m more than budget based on a net surplus in capital receipts/grant income being offset by an acceleration of gross expenditure. Over the five year period of the capital programme, capital receipts are forecast to match the budget.

Links

Coalition pledges	P3; P8; P30; P31; P33; P42
Council outcomes	CO1; CO16; CO20; CO23; CO25
Single Outcome Agreement	SO3; SO4

Capital Monitoring 2014/15 – Month three position

Recommendations

- 1.1 Finance and Resources Committee is requested to:
- 1.1.1 note the projected capital outturn positions on the General Fund and HRA at month five;
 - 1.1.2 note the prudential indicators at month five; and
 - 1.1.3 note that the Acting Director of Services for Communities is closely monitoring the capital receipts position.

Background

- 2.1 This report sets out the overall position of the Council's capital budget at the half year position (based on month five data) and the projected outturn for the year.

Main report

- 3.1 The position at month five is summarised in the table below, while further details can be seen in Appendix 1.

	Outturn Variance at Month Five £000	Outturn Variance at Month Three £000	Movement from Month Three £000
Net (slippage) / acceleration in gross expenditure	1,309	0	1,309
Net (surplus) / deficit in capital receipts / grant income	(894)	0	(894)
Net increase / (decrease) in borrowing requirement	415	0	415

- 3.2 As detailed in the table at 3.1 above, the month five position reports £1.309m of acceleration in gross expenditure, compared to a balanced position at month three. At month five, the projection of income generated from capital receipts/grant income has moved from a balanced position to marginally exceeding the budgeted level by £0.894m. The net effect of the variances projected at month

five is a minor increase of £0.415m in the amount that the Council requires to borrow corporately to support its capital programme.

- 3.3 Explanations for significant slippage and accelerations projected at month five are presented in appendix 2. The acceleration on gross expenditure of £1.309m reported at month five relates mainly to better than anticipated progress on various projects within Services for Communities.
- 3.4 The month five position shows that the Council is projecting to borrow £20.213m and will be in receipt of grants and capital income amounting to £102.105m. Together this will fund projected capital investment of £122.318m. The level of borrowing is projected to be £0.415m more than budget based on a net surplus in capital receipts/grant income being offset by an acceleration of gross expenditure. Over the five year period of the capital programme, capital receipts are forecast to match the budget.

Capital receipts/grant income

- 3.5 A review of capital receipts from asset sales undertaken by colleagues within Services for Communities estimates that net receipts of £12.359m will be realised in 2014/15, compared to a revised budget of £11.465m resulting in a receipts surplus of £0.894m. The increase from the month three position relates to a mixture of revised estimates and revised settlement dates for receipts. The receipts affected include East Market Street/Canongate Venture, Newcraighall North and Lauriston Farm House.
- 3.6 Although a surplus against budget is projected in 2014/15, it should be noted that this is based on a number of high value receipts that are due in the final half of the year. Therefore, there remains a risk that unforeseen and uncontrollable factors delay settlement of these and that this surplus against budget is reduced. Colleagues within Services for Communities are closely monitoring the capital receipts position. Over the five year period of the capital programme, capital receipts are forecast to match budget.
- 3.7 Following a review at year end, the Head of Finance may recommend to transfer an element of capital receipt income to the Capital Fund. Any potential transfer would allow future flexibility in realising capital procurement savings within the revenue general fund budget or to fund capital expenditure/offset principal repayments.

Prudential Indicators

- 3.8 The prudential indicator monitoring at month five is shown in Appendix 3.

Housing Revenue Account (HRA)

- 3.9 The Housing Revenue Account is forecasting to balance to budget (no move from month three) as shown in Appendix 4. At month five, the forecast is gross expenditure of £47.142m, capital receipts/grant income of £11.497m and prudential borrowing of £35.645m.

Measures of success

- 4.1 Completion of capital projects as budgeted for in the 2014/15 capital programme.
- 4.2 Identifying slippage at the earliest opportunity and accelerating projects where possible to ensure best use of available resources.

Financial impact

- 5.1 The projected 2014/15 general fund outturn outlines capital borrowing of £20.213m. The overall loan charges associated with this borrowing over a 20 year period would be a principal amount of £20.213m, interest of £13.158m, resulting in a total cost of £33.371m based on a loans fund interest rate of 5.1%. The loan charges will be interest only in the first year, at a cost of £0.531m, followed by an annual cost of £1.642m for 20 years. The borrowing required is carried out in line with the Council's approved Treasury Management Strategy.
- 5.2 The loan charge costs outlined above can be met from this year's revenue budget for loan charges.

Risk, policy, compliance and governance impact

- 6.1 Significant budget virements have complied with relevant financial rules and regulations.
- 6.2 Capital monitoring and budget setting processes adopted ensure effective stewardship of resources. The processes applied aim to ensure projects are delivered on time and budget whilst fulfilling the financial criteria of value for money.
- 6.3 Monitoring of major capital projects including risk assessment is carried out by the Council's Corporate Programmes Office (CPO).

Equalities impact

- 7.1 The Council's capital expenditure contributes to the delivery of the public sector equality duty to advance equality of opportunity and foster good relations e.g. enhancement works related to the Disability Discrimination Act, works on Children and Families establishments and capital expenditure on Council housing stock.
- 7.2 There is little contribution with regard to capital expenditure and the duty to eliminate unlawful discrimination, harassment or victimisation.

Sustainability impact

- 8.1 The impacts of the projects set out within the appendices of this report in relation to the three elements of the Climate Change (Scotland) Act 2009 Public Bodies Duties have been considered, and the outcomes are summarised below. Relevant Council sustainable development policies have been taken into account.
- 8.2 The proposals in this report will help achieve a sustainable Edinburgh because they are ensuring funding for key strategic projects that will enhance facilities and infrastructure in the city. A carbon impact assessment shall be carried out on each new project to achieve the most sustainable outcome for the city in each case.
- 8.3 The proposals in this report will increase the city's resilience to climate change impacts because they are securing funding for flood prevention projects.

Consultation and engagement

- 9.1 Consultation on the budget will be undertaken as part of the budget process.

Background reading/external references

None.

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Links

Coalition pledges	<p>P3 – Rebuild Portobello High School and continue progress on all other planned school developments, while providing adequate investment in the fabric of all schools</p> <p>P8 – Make sure the city's people are well-housed, including encouraging developers to build residential communities, starting with brownfield sites</p>
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	<p>P30 – Continue to maintain a sound financial position including long-term financial planning</p> <p>P31 – Maintain our City’s reputation as the cultural capital of the world by continuing to support and invest in our cultural infrastructure</p> <p>P33 – Strengthen Neighbourhood Partnerships and further involve local people in decisions on how Council resources are used</p> <p>P42 – Continue to support and invest in our sporting infrastructure</p>
Council outcomes	<p>CO1 – Our children have the best start in life, are able to make and sustain relationships and are ready to succeed</p> <p>CO16 – Edinburgh draws new investment in development and regeneration</p> <p>CO20 – Culture, sport and major events – Edinburgh continues to be a leading cultural city where culture and sport play a central part in the lives and future of citizens</p> <p>CO23 – Well-Engaged and Well-Informed – Communities and individuals are empowered and supported to improve local outcomes and foster a sense of community</p> <p>CO25 – The Council has efficient and effective services that deliver on objectives</p>
Single Outcome Agreement	<p>SO3 - Edinburgh’s children and young people enjoy their childhood and fulfil their potential</p> <p>SO4 - Edinburgh’s communities are safer and have improved physical and social fabric</p>
Appendices	<p>1 - Capital Monitoring 2014/15 – General Fund</p> <p>2 – Slippage / Acceleration on capital projects 2014/15</p> <p>2 - Prudential Indicators 2014/15</p> <p>3 - Capital Monitoring 2014/15 - HRA</p>

Capital Monitoring 2014/15

General Fund Summary

Period 5

Expenditure	Revised Budget £000	Adjusts £000	Total Budget £000	Actual to Date £000	Projected Outturn £000	Projected Variance £000 %	
Children and Families	17,985	384	18,369	3,369	18,369	-	0.00%
Economic Development	52	-	52	-	52	-	0.00%
Corporate Governance	5,946	-	5,946	1,934	5,946	-	0.00%
Health and Social Care	2,985	-	2,985	1,371	2,985	-	0.00%
Services for Communities	75,862	2,896	78,758	29,545	80,067	1,309	1.66%
Services for Communities-Asset Management	14,216	-	14,216	4,320	14,216	-	0.00%
Council Wide / Corporate Projects	683	-	683	571	683	-	0.00%
Total Gross Expenditure	117,729	3,280	121,009	41,110	122,318	1,309	1.08%

Resources

<i>Capital Receipts</i>							
General Services	8,000	-	8,000	270	8,000	-	0.00%
Less General asset sales for property rationalisation savings	(6,200)	6,200	-	-	-	-	n/a
Ringfenced Asset Sales to be provided as part of carryforward	454	-	454	3,073	3,073	2,619	576.87%
Ringfenced Asset Sales	-	11	11	11	11	-	n/a
Asset Sales to reduce Corporate borrowing	3,000	-	3,000	-	1,525	(1,475)	n/a
Less Fess Relating to Receipts	-	-	-	(35)	(250)	(250)	n/a
Less Transfer to Capital Fund	-	-	-	-	-	-	n/a
<i>Total Capital Receipts from Asset Sales</i>	<i>5,254</i>	<i>6,211</i>	<i>11,465</i>	<i>3,319</i>	<i>12,359</i>	<i>894</i>	<i>7.80%</i>
Developer and other Contributions	6,561	3,253	9,814	1,060	9,814	-	0.00%
<i>Total Capital Receipts</i>	<i>11,815</i>	<i>9,464</i>	<i>21,279</i>	<i>4,379</i>	<i>22,173</i>	<i>894</i>	<i>4.20%</i>
<i>Grants</i>							
Scottish Government General Capital Grant	50,658	-	50,658	21,514	50,658	-	0.00%
Cycling, Walking and Safer Streets	762	-	762	-	762	-	0.00%
Management Development Funding	28,512	-	28,512	5,464	28,512	-	0.00%
<i>Total Grants</i>	<i>79,932</i>	<i>-</i>	<i>79,932</i>	<i>26,978</i>	<i>79,932</i>	<i>-</i>	<i>0.00%</i>
Total Resources	91,747	9,464	101,211	31,357	102,105	894	0.88%

Balance to be funded through borrowing	25,982	(6,184)	19,798	20,213	415	2.10%
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CAPITAL MONITORING 2014/2015 - Period 5**Slippage and Acceleration on Projects**

Slippage on projects is shown as a negative value, while acceleration or overspends are shown as positive values.

Key to variance category

<i>Type</i>	<i>Explanation</i>
1. Slippage due to unforeseen delays	Slippage that has occurred due to unforeseen circumstances or delays that for the most part, are out with the Council's control.
2. Slippage due to optimistic budget	Slippage that has occurred due to optimism bias when budget was set. Issues include projecting spend on block budgets when a programme of works has not been considered or designed, not applying a discount factor for adverse weather / risk issues, providing for too much contingency and predicting a optimistic works timetable.
3. Slippage due to timing of payments	Slippage that has occurred where a project is on time and schedule but is as a result of the timing of cash flows.
4. Acceleration on a project	Represents accelerated spend on a project i.e. due to better than anticipated progress,

Note that a project will exhibit an element of all of the above but the over riding reason has been considered when applying a variance category.

	Period 5 £000	Period 3 £000	Movement between periods £000	Explanations for Significant Slippage / Acceleration	Variance Category
<u>Services for Communities</u>					
George IV Bridge library improvement works	-351	0	-351	Based on revised cash flow projection.	2
Zero waste - Millerhill	-347	0	-347	Based on revised cash flow projection.	2
Waste service re-design	331	0	331	Accelerated requirement for new bin purchases as part of service re-design roll out.	4
Water of Leith - Phase 2	1,013	0	1,013	Better than anticipated progress based on funding shortfall issue being resolved.	4
Cycle Projects	405	0	405	Design stage progressed quicker than originally envisaged allowing delivery maximisation.	4
Net (slippage) / acceleration on other projects	258	0	258		4
Total Services for Communities	<u>1,309</u>	<u>0</u>	<u>1,309</u>		

Summary of Variance Category	Period 5	Period 3	Movement between periods	Explanations for Significant Slippage / Acceleration	Variance Category
	Period 5 £000	Period 3 £000	Movement between periods £000		
1. Slippage due to unforeseen delays	0	0	0		
2. Slippage due to optimistic budget	-698	0	-698		
3. Slippage due to timing of payments	0	0	0		
4. Acceleration on a project	2,007	0	2,007		
	<u>1,309</u>	<u>0</u>	<u>1,309</u>		

PRUDENTIAL INDICATORS 2014/15 - Period 5**Indicator 1 - Estimate of Capital Expenditure**

	2013/14	2014/15	2014/15	2015/16	2015/16	2016/17	2016/17	2017/18	2017/18	2018/19	2018/19
	Actual	Estimate	Forecast	Estimate	Forecast	Estimate	Forecast	Estimate	Forecast	Estimate	Forecast
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Children & Families	15,670	31,563	18,369	47,139	62,072	17,112	15,111	16,203	18,060	6,323	6,204
Corporate Governance	4,211	5,433	5,946	3,315	5,707	165	165	165	165	165	165
Economic Development	1	0	52	0	0	0	0	0	0	0	0
Health & Social Care	4,160	3,934	2,985	3,274	5,626	120	120	0	0	0	0
Services for Communities	108,953	93,017	80,067	27,488	45,032	27,852	31,357	19,819	20,417	19,819	16,776
SfC - Asset Management Programme	17,082	25,965	14,216	17,421	22,202	14,000	14,000	14,000	14,000	14,000	14,000
Other Capital Projects	923	933	683	0	0	0	0	0	0	0	0
Trams	53,198	0	4,949	0	0	0	0	0	0	0	0
Total General Services	204,198	160,845	127,267	98,637	140,639	59,249	60,753	50,187	52,642	40,307	37,145
Housing Revenue Account	39,206	48,195	47,142	47,412	47,412	43,566	43,566	47,748	47,748	38,421	38,421
Total	243,404	209,040	174,409	146,049	188,051	102,815	104,319	97,935	100,390	78,728	75,566

The 'estimate' figures relate to those reported in the prudential indicators as part of the budget motion in February 2014. Differences between these and the 'forecast' figures relate to further realignment and rephasing that has taken place as part of the revised budget process.

Indicator 2 - Ratio of Financing Costs to Net Revenue Stream

	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Estimate	Forecast	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%	%
General Services	11.60	12.93	12.93	13.51	13.43	13.20	N/A
Housing Revenue Account	36.01	39.63	35.17	42.35	43.72	45.09	46.66

Forecast and estimates include the financing cost relating to the Trams project

No figure is available for General Services in 2018/19 as the Council has a four year financial plan to the end of the current coalition Council

Indicator 3 - Capital Financing Requirement

	2013/14 Actual £000	2014/15 Estimate £000	2014/15 Forecast £000	2015/16 Estimate £000	2015/16 Forecast £000	2016/17 Estimate £000	2016/17 Forecast £000	2017/18 Estimate £000	2017/18 Forecast £000	2018/19 Estimate £000	2018/19 Forecast £000
General Services (including finance leases)	1,359,100	1,348,879	1,315,286	1,324,575	1,329,724	1,248,007	1,252,817	1,179,697	1,185,109	1,098,572	1,100,296
Housing Revenue Account	369,361	383,810	385,810	391,490	393,490	399,893	401,893	419,844	421,844	429,505	431,505
Total	<u>1,728,461</u>	<u>1,732,689</u>	<u>1,701,096</u>	<u>1,716,065</u>	<u>1,723,214</u>	<u>1,647,900</u>	<u>1,654,710</u>	<u>1,599,541</u>	<u>1,606,953</u>	<u>1,528,077</u>	<u>1,531,801</u>

Forecasts include the capital financing requirement relating to PFI assets and Trams project

Indicator 4 - Authorised Limit for External Debt

	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Borrowing	1,713,337	1,690,753	1,664,390	1,634,248	1,568,826
Other Long-Term Liabilities	194,596	186,973	179,304	172,139	164,719
Total	<u>1,907,933</u>	<u>1,877,726</u>	<u>1,843,694</u>	<u>1,806,387</u>	<u>1,733,545</u>

Other Long-Term Liabilities includes finance lease repayments for PFI assets

Indicator 5 - Operational Boundary for External Debt

	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Borrowing	1,618,496	1,589,072	1,560,338	1,529,591	1,465,548
Other Long-Term Liabilities	194,596	186,973	179,304	172,139	164,719
Total	<u>1,813,092</u>	<u>1,776,045</u>	<u>1,739,642</u>	<u>1,701,730</u>	<u>1,630,267</u>

Other Long-Term Liabilities includes finance lease repayments for PFI assets

Indicator 6 - Impact on Council Tax and House Rents

	2014/15	2014/15	2015/16	2015/16	2016/17	2016/17	2017/18	2017/18	2018/19	2018/19
	Estimate	Forecast	Estimate	Forecast	Estimate	Forecast	Estimate	Forecast	Estimate	Forecast
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
for the band "D" Council Tax	-3.22	-7.25	-9.18	-17.38	-10.95	-7.38	-26.45	-22.36	N/A	N/A
for the average weekly housing rents	0.05	0.12	0.16	0.39	0.29	0.52	1.02	1.25	3.39	3.62

The revised 2014-2019 CIP includes an estimate of each year's Scottish Government General Capital Grant settlement for the period 2015/16 to 2018/19, which is currently out with the scope of the current three year settlement. These estimates did not feature in the previous CIP presented to Committee in August 2013. As such, the estimate of the incremental impact of capital investment decisions on band 'D' Council Tax is reduced based on this grant income which was not factored into the previous CIP.

The changes between the forecast and the original estimate reflect the realignment of the Capital Investment Programme reported to Finance and Resources Committee in August 2014.

CAPITAL MONITORING 2014/15**Housing Revenue Account Summary****Period 5**

	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Variance	
				£000	%
Gross Expenditure	47,142	12,033	47,142	0	0.0%
Total Gross Expenditure	47,142	12,033	47,142	0	0.0%

Resources					
Capital Receipts	-2,350	-579	-2,350	0	0.0%
Developers and Other Contributions	-7,522	-2,616	-7,522	0	0.0%
Capital Grants Unapplied Account Drawdown	0	0	0	0	0.0%
Specific Capital Grant	-1,625	0	-1,625	0	0.0%
Total Resources	-11,497	-3,195	-11,497	0	0.0%

Borrowing					
Borrowing	35,645	8,838	35,645	0	0.0%
Total	35,645	8,838	35,645	0	0.0%