

Report

Report to:	South Lanarkshire Council
Date of Meeting:	18 January 2023
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Capital Challenges
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ provide the Council with information regarding the capital challenges faced by the council to set the scene for consideration of the 2023/2024 capital programme

2. Recommendation(s)

2.1. The Council is asked to approve the following recommendation(s):-

- (1) That the contents of this paper in relation the capital programme funding constraints, spending pressures and challenges are noted

3. Background

3.1. In the same way as the Revenue Budget, the Council is experiencing unique expenditure pressures on its Capital Budget. This paper will provide the Council with an insight on the detail of these pressures, prior to presenting a paper on the 2023/2024 Capital Programme for members' consideration at a later meeting.

3.2. This paper will articulate some of the challenges which will be faced when considering the Capital Programme going forwards, specifically:

- Funding constraints – section 4
- Expenditure pressures – section 5
- Challenges to overcome – section 6

4. Funding constraints

4.1. In previous financial years, General Capital Grant funding of £28 million was provided from the Scottish Government. However, since financial year 2020/2021 we have seen a reduction in grant and for 2023/2024 we expect a grant of £21.207 million (excluding specific funding for pay award, play parks and free school meals). This is a reduction of £6.793 million (24%) on previous levels of grant pre 2020/2021. This lower level of funding will continue until at least 2025/2026 therefore we have less funding to undertake capital works than we had in previous years.

4.2. There are additional funds available to the council for other specific work (such as City Deal projects) but this funding is not available for other, general capital works.

4.3. Borrowing can also fund capital works, but this does require to be paid back and there is an impact on the revenue budget.

5. Expenditure Pressures

- 5.1. There are a number of ongoing programmes of work that require to be included in our capital programme each year. This includes spend on the contract to deliver Schools Information Communication Technology (ICT) Development, IT infrastructure, Housing Scheme of Assistance, Planned Asset Management and Lifecycle Replacement within schools. If we also include investment in Roads (which has formed a significant element of our capital programmes over recent years) this commits almost all of the General Capital Grant the Council receives.
- 5.2. This means that there is limited scope for additional capital spend which can be met from our capital grant, and therefore any large scale, facility replacement programmes have to be considered over a number of years capital programmes.
- 5.3. There is also the impact on capital projects from inflationary pressures that have pushed costs up. This means that we can do less with the same amount of money, and it will not be possible to undertake everything that we would like within the funding envelope available. For example, Roads Services have advised that industry price increases on jobs are looking around 25-30% but this can vary significantly depending on the job. Housing and Technical Resources state that Construction Industry data regularly references 14% increases. Where possible, efficiencies will be sought through looking at different materials which can be used, however that has proved challenging in that last 18 months.
- 5.4. On top of these challenges, there are also carbon reduction targets which are approaching, which are likely to be extremely costly, and for which there is no funding being made available to undertake the necessary works to meet these targets. This was discussed as part of a paper written by the Director of Housing and Technical Resources which was presented to the Climate Change and Sustainability Committee (link below). Feasibility studies will be undertaken to establish early estimations of costs.

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- 5.5. All of these challenges relate to the traditional, asset-based approach to capital investment – however the need for investment to facilitate change is also a consideration. This is covered further at section 6.4.

6. Challenges to Overcome

- 6.1. For the reasons covered in sections 4 and 5 there requires to be a recognition that the Council will not be able to undertake all the capital works that are required, and will not be able to replace everything on a like for like basis.
- 6.2. There will have to be consideration of when works are done, taking into account funding that is available, but also considering whether it is currently the right time to undertake works, given the cost increases we are currently seeing. This may mean waiting to undertake a project until prices come down.
- 6.3. The Council has a very wide asset base – in order to maintain essential assets at an acceptable standard to deliver key services, we will have to work to reduce the extent of our asset base. This will mean that some difficult strategic decisions will be needed on what assets we can keep, on a Council wide basis, and protecting specific assets in wards will not always be possible.

- 6.4. Given the challenges around capital investment, and the revenue budget pressures that we are facing, investment to facilitate change also needs to be considered. This is broader than physical asset-based investment – it is about investment in changing how services are delivered, to be more efficient, including technological and workforce changes. There is capacity for decisions on capital investment to protect and contribute towards improving the revenue budget position.

7. Summary and Next Steps

- 7.1. In advance of being presented with a 2023/2024 Capital Programme for consideration at a further meeting, this paper provides members with details of the pressures being faced in terms of the Council's Capital Budget.
- 7.2. Section 4 details the reduction in capital grant and explains that if we borrow to fund Capital spend, then there is a consequence in the Revenue Budget. Section 5 highlights the ongoing programmes of work that we need to consider (section 5.1), which means there is limited scope for additional capital spend (section 5.2). In addition, price increases being experienced mean we are getting less for the money we do have (section 5.3). From a funding and expenditure perspective, the development of a capital programme is seriously constrained, and that is only exacerbated by net zero obligations moving forward and by the extent of our asset base (section 5.4). All of this means that our ability to undertake new projects is severely limited.
- 7.3. Section 6 of the paper details the challenges we need to overcome in setting a Capital Budget and notes that there requires to be a recognition that we will not be able to undertake all the capital projects that are required, and we will not be able to replace everything on a like for like basis (section 6.1). The section finishes with a key point, that fundamentally, decisions on capital investment can protect (and contribute towards improving) the Revenue Budget position and this involves giving consideration to capital projects which will have a Revenue Budget benefit (sections 6.3 and 6.4).
- 7.4. Moving forward, a paper will be drafted which will present members with a 2023/2024 Capital Programme for their consideration in advance of the new financial year (2023/2024). This will be based on the known level of Government Grant for 2023/2024 as well as previously approved borrowing (including borrowing for City Deal) and other external funding sources.

8. Employee Implications

- 8.1. There are no employee implications as a result of this report.

9. Financial Implications

- 9.1. There are no direct financial implications from this report.

10. Climate Change, Sustainability and Environmental Implications

- 10.1. There are no implications for climate change, sustainability or the environment in terms of the information contained in this report.

11. Other Implications

- 11.1. This paper highlights the challenges and risks around capital investment. As noted in section 7.4, consideration of the Council's Capital Programme for 2023/2024 will be made before the start of the new financial year.

12. Equality Impact Assessment and Consultation Arrangements

- 12.1. This report does not introduce a new policy, function or strategy or recommend a change to existing policy, function, or strategy and therefore no impact assessment is required.
- 12.2. There was also no requirement to undertake any consultation in terms of the information contained in this report.

Paul Manning

Executive Director (Finance and Corporate Resources)

6 January 2023

Link(s) to Council Vision/Priorities/Values

- ◆ Accountable, Effective, Efficient and Transparent

Previous References

- ◆ none

List of Background Papers

None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:

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