Council Offices, Almada Street
Hamilton, ML3 0AA

Tuesday, 10 January 2023

Dear Councillor

South Lanarkshire Council

The Members listed below are requested to attend a special meeting of the Council to be held as follows:-

Date: **Wednesday, 18 January 2023**
Time: **10:00**
Venue: **Hybrid - Council Chamber, Council Offices, Almada Street, Hamilton, ML3 0AA**

The business to be considered at the meeting is listed overleaf.

Yours sincerely

Cleland Sneddon
Chief Executive

Members

Alex Allison, John Anderson, Ralph Barker, John Bradley, Walter Brogan, Robert Brown, Archie Buchanan, Mathew Buchanan, Janine Calikes, Andy Carmichael, Maureen Chalmers, Ross Clark, Gerry Convery, Margaret Cooper (Provost), Poppy Corbett, Andrea Cowan, Margaret Cowie, Maureen Devlin, Colin Dewar, Mary Donnelly, Joe Fagan, Allan Falconer, Grant Ferguson, Gladys Ferguson-Miller, Elise Frame, Alistair Fulton, Ross Gowland, Geri Gray, Lynsey Hamilton, Celine Handibode, Graeme Horne, Mark Horsham, Martin Hose, Cal Johnston-Dempsey, Gavin Keatt, Susan Kerr, Ross Lambie, Martin Lennon, Richard Lockhart, Eileen Logan, Katy Loudon, Hugh Macdonald, Julia Marrs, Monique McAdams, Ian McAllan, Catherine McClymont, Kenny McCreary, Lesley McDonald, Elaine McDougall, Mark McGeever, Davie McLachlan, Richard Nelson, Carol Nugent, Norman Rae, Mo Razzaq, Kirsten Robb, John Ross, Dr Ali Salamati, Graham Scott, David Shearer, Bert Thomson (Depute Provost), Helen Toner, Margaret B Walker, David Watson

BUSINESS

1 Declaration of Interests

Item(s) for Noting

2 Update on the Budget Strategy 2023/2024 3 - 26
Report dated 6 January 2023 by the Executive Director (Finance and Corporate Resources). (Copy attached)

Item(s) for Decision

3 Service Concessions 27 - 42
Report dated 5 January 2023 by the Executive Director (Finance and Corporate Resources). (Copy attached)

Item(s) for Noting

4 Capital Challenges 43 - 46
Report dated 6 January 2023 by the Director (Finance and Corporate Resources). (Copy attached)

Urgent Business

5 Urgent Business
Any other items of business which the Provost decides are urgent.

For further information, please contact:-

Clerk Name:	Susan Somerville
Clerk Telephone:	07557323097
Clerk Email:	susan.somerville@southlanarkshire.gov.uk

SOUTH LANARKSHIRE COUNCIL

Report

Agenda Item

2

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

Subject:	**Update on the Budget Strategy for 2023/2024**

1. Purpose of Report

1.1. The purpose of the report is to:

- provide members with an update on the Budget position for 2023/2024 for noting.

2. Recommendation(s)

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

(1) that the update to the Budget Strategy, including the update on the Settlement for the council, resulting in a residual budget gap of £16.318 million (section 4.13 / Table 1), be noted;
(2) that the options to meet the budget gap as detailed in section 5 (Council tax, Service Concessions and Savings) are noted
(3) that that Summary and next steps (section 7/8), be noted.

3. Background

3.1. A report titled Update on the Budget Strategy for 2023/2024 was presented to the Executive Committee on 2 November 2022. That paper gave an update on the previous report to Council in September 2022 and detailed a revised Budget Gap of £10.5 million. This was the same position noted in the presentation to members on the 2023/2024 Budget (18 November 2022).

3.2. The report and the presentation noted that the £10.5 million budget gap excluded the impact of any increase in Council Tax or the use of any Service Concession monies to fund the shortfall in the 2022/2023 Pay Award. However, it did include additional savings/efficiencies that have been identified as coming from Reviews. Members were advised that any savings/efficiency proposals requiring member approval will be provided to members at a later date.

3.3. Subsequent to the presentation to members on 18 November 2022, two meetings of the Council's Budget Working Group have taken place on 15 and 22 December 2022. These meetings presented further areas for consideration by members.

3.4. This report will therefore provide an updated position to Council, and will focus on the following:

- Update to the 2023/2024 Budget Strategy since November Executive Committee / Members' Presentation (section 4),
- Options to Meet the 2023/2024 Budget Gap (section 5),
- A summary and next steps (sections 7/8).

4. Update to the 2023/2024 Budget Strategy (as at 18 January 2023)

4.1. Previous budget updates to members noted a number of risk items that were not included in the budget gap of £10.5 million. An update on the areas that could affect the 2023/2024 Budget is detailed below:

4.2. **Rates Revaluation into 2023/2024:** There is a general Scotland wide non-domestic revaluation taking place in advance of 2023/2024. Now the rates revaluation roll has been published we can see the impact on the rates valuation. The result of this is an increased rateable value for all Council properties, such as schools and the impact on SLLC. Estimates suggest that this could mean an additional £2.995 million on the Council's rates bill.

Increase to Budget Gap: £2.995 million

4.3. **2023/2024 Pay Award / Inflation :**
The pay award for 2023/2024 has not been settled. Given the level of pay award agreed for 2022/2023, there is a risk that the award for 2023/2024 could be higher than budgeted. For the 2022/2023 pay award, councils had to pick up an element of the additional costs, and it is therefore suggested that we prepare for something similar into 2023/2024. This would increase the costs already budgeted for pay award in 2023/24.

4.4. In relation to waste and PPP Inflation / RPI, the initial Budget Strategy for 2023/2024 (June 2022) included an increase for the core (normal) increase in inflation for two of the Council's significant contract areas (PPP and Waste) and also an exceptional increase based on inflation predictions available at that time (around 11% included in total). The level of RPI affecting these contracts will be known in February, but it is expected to be higher than the estimate included in the budget strategy to date. It is deemed prudent to prepare for this further inflationary requirement.

The impact of pay award and inflation would mean an increase to the budget gap of £9.200 million. It is noted that this excludes any allocation to the Health and Social Care partnership or South Lanarkshire Leisure and Culture Trust.

Increase to Budget Gap: £9.200 million

4.5. **Utilities and Water:** Current estimated prices are higher than originally budgeted for 2023/2024. It is anticipated that this can be managed across the current and next financial year, but that further investment may be required into 2024/2025. This position will continue to be monitored as more energy is purchased for 2023/2024 and 2024/2025.

4.6. In relation to Water charges, into 2023/24 these will increase by CPI (as at October 2022) +2%. This means an increase of 13.1%. There is also an impact of the change in rateable values of properties (section 4.2) on water bills. It is expected that water bills for council properties (not including SLLCT) will increase by around £0.400 million.

Increase to Budget Gap: £0.400 million

4.7. **Parking Permits**: As agreed following a motion at the Council meeting on 7 December 2022, the previous year's saving for parking permits was reversed. This will add £0.025m to the budget pressure.

Increase to Budget Gap: £0.025 million

4.8. **Settlement – December 2022:** On Tuesday 20 December 2022, we received the Finance Circular (FC11/2022) that formally gives details of our 2023/2024 settlement. This Circular is still under review and further updates may be received which changes the councils position.

4.9. On a like for like basis the movement in grant into 2023/2024 is an increase of £4.880 million. As part of our budget strategy, we had assumed a reduction in grant of £1.360 million. Therefore, an actual, like for like movement of £4.880 million represents a benefit to the strategy of £6.240 million. There is still a period of time where changes to the settlement are possible, and therefore the figure could change

Reduction in Budget Gap: £6.240 million

4.10. **2023/2024 Savings from Reviews:** Up to this point in the budget strategy process there has been an assumption that review savings would be accepted by members. We are no longer making that assumption. This means that all the savings proposals (see section 5.11 / Appendix 2) can be considered on the same basis by Members. Therefore at this stage, it is appropriate to restate the Budget Gap and increase it by the 2023/2024 Review savings that require approval (£1.272 million).

In addition, the budget gap that was presented previously for 2023/24 included a saving for Garden Waste (Charging for Burgundy Bin) that will now slip into 2024/25, and therefore the budget gap will increase by £0.280m.

Increase to Budget Gap: £1.552 million

4.11. **2024/2025 Savings from Reviews:** There are further benefits from Reviews that are anticipated into 2024/2025. These total £2.680 million and are split between Managerial and Operational (£2.140 million) and those needing member approval (£0.540 million).

4.12. The 2024/2025 Managerial and Operational Savings from Reviews can be used to reduce the 2023/2024 Budget Gap, but as they will not be available until 2024/2025, a temporary solution would be required in 2023/2024. The use of Service Concessions funding could be considered as a temporary solution in 2023/2024. This would reduce the Budget Gap by £2.140 million.

Reduction in Budget Gap: £2.140 million

(one-off but replaced in 2024/2025 by Savings from Reviews)

4.13. Taking the movements covered in sections 4.2 to 4.12 the budget gap would now be **£16.318 million.** This is summarised in Table 1.

Table 1 – Updated 2023/2024 Budget Strategy

	£m
Budget Gap (as at 02 November 2022) *(section 3.1)*	**10.526**
Add:	
- Rates Revaluation *(section 4.2)*	2.995
- 2023/2024 Pay Award and inflation (*section 4.3 and 4.4)*	9.200
- Water Bills *(section 4.6)*	0.400
- Parking Permits *(section 4.7)*	0.025
Less:	
- Benefit from Grant Settlement *(section 4.8)*	(6.240)
Add:	
- 2023/2024 Savings from Reviews that Require Approval or have slipped (Burgundy Bins Charging Proposal) *(section 4.10)*	1.552
Less:	
- Use of Service Concessions as a Temporary Bridging Solution to the use of 2024/2025 Review Savings *(section 4.12)*	(2.140)
Revised Budget Gap / Savings Requirement	**16.318**

4.14. This Revised Budget Gap of £16.318 million does not include any increase in relation to Council Tax, nor does it include the use of Service Concessions.

4.15. All risk areas will continue to be reviewed with an update provided as we move through into the budget setting process.

5. Options to meet the 2023/2024 Budget Gap

5.1. There are options to close the restated Budget Gap of £16.318 million. These include potential increases in Council Tax (see section 5.2), the use of Service Concessions (section 5.6) and the consideration of proposed savings (section 5.11).

5.2. **Council Tax:** Members will be aware that a lever available to the Council in managing its overall budget position and any Budget Gap is the ability to increase Council Tax. In arriving at the restated Budget Gap detailed in Table 1, no account has been taken of any increase in Council Tax.

5.3. Each 1% increase in Band D would generate successive amounts of £1.452 million.

5.4. As members will recall over recent budget papers, the Council is experiencing extraordinary financial pressures due to inflation levels on areas including Pay, Utilities and Contracts. The 2022/2023 Pay Award averaged around 7% for staff and contracts linked to RPI could see increases of between 12% and 15%. Alongside that, Utility price increases across financial years 2022/2023 and 2023/2024 are expected to be in excess of 200% for Gas and 88 % for Electricity.

5.5. Table 2 shows the impact of a range of Council Tax increases that could reduce the budget gap.

Table 2 – Council Tax Increases

Percentage Increase	Band D £	Annual Increase £	Monthly Increase (over 10 payments) £	Reduction to Budget Gap £m
0%	1,233.00	-	-	-
1%	1,245.33	12.33	1.23	1.5
2%	1,257.66	24.66	2.47	2.9
3%	1,269.99	36.99	3.70	4.4
3.50%	1,276.16	43.16	4.32	5.1
4%	1,282.32	49.32	4.93	5.8
5%	1,294.65	61.65	6.17	7.3
6%	1,306.98	73.98	7.40	8.7

5.6. **Service Concessions:** As previously reported as part of updates on the budget the Council is able to implement a change in accounting for Service Concessions (PPP Contracts). A separate paper presented to this meeting of the Council is seeking approval of the adoption of the Service Concession guidance

5.7. Adopting the new guidance will release a retrospective benefit (expected to be £64 million) that would increase Council general fund reserves. Budget papers that will follow will then look for approval on how the Service Concession money is used. Included within the restated Budget Gap of £16.318 million (Table 1) is the recurring benefit from implementing Service Concessions (£4 million).

5.8. There are options around how the retrospective benefit is used. The November Executive Committee paper noted that £5.7 million of the retrospective benefit could be used to fund the increased Pay Award for 2022/2023. Section 4.12 of this paper also proposes the use of £2.140 million of Service Concession monies to support the savings from Reviews that will not materialise until 2024/2025.

5.9. Given that the 2023/2024 Budget Gap includes the recurring impact of the increased 2022/2023 Pay Award, it will be proposed in the 2023/24 budget paper that consideration be given to covering the £5.7 million cost of the 2022/2023 Pay Award in 2023/2024 from the retrospective Service Concession benefit. This would reduce the Budget Gap in 2023/2024 by £5.7 million.

5.10. If the Service Concessions were used to fund the impact of the 2022/2023 pay award in 2023/2024 (£5.700 million), this would leave £50.460 million of Service Concessions monies still to be allocated. The November Executive Committee paper suggested how this money could help future Budget Strategies – this is replicated in Appendix 1 for information. If that same basis of allocation was adopted then this would leave £7.860 million of service concessions unallocated.

5.11. **Savings:** Further areas of budget savings totalling £13.094m (£10.754m for 2023/24 and £2.340 for 2024/25) are proposed for members' consideration. These are detailed in Appendix 2 and include savings from Reviews and Flexibilities.

5.11.1. **Reviews:** Appendix 2 includes savings from Reviews that require members' approval – these total £1.272 million for 2023/2024 and also the full year impact of these savings into 2024/2025 (£0.540 million). If the savings to be realised in 2024/2025 are accepted for 2023/2024, then a temporary solution could be put in place in order to allow the value of the savings to be taken in the 2023/2024 budget process. The service concession balance of funds (as detailed at section 5.10) could be used to bridge the gap for 2023/24.

5.11.2. **Flexibilities:** Appendix 2 also includes proposals in relation to Flexibilities. CoSLA and Local Authorities approached the Scottish Government with a list of potential areas of flexibility that could be called upon which may release funding that can help with councils' funding pressures. COSLA identified a list of areas where funding had been provided by the Scottish Government for specific government policies (such as additional teachers) and approached the Government with this list.

5.11.3. Scottish Government have, via the Depute First Minister, issued councils with a letter that says 'It is for individual councils, as democratically elected bodies, to consider the needs of their communities with a focus on the most vulnerable, their legal obligations and the totality of resource funding available to them, and to then take the decisions necessary, openly and transparently, to operate as effectively as possible within this context. In doing so, I would request that councils remain mindful of our shared priorities in the National Performance Framework. Where funding is provided as specific revenue grant (and therefore legally ring-fenced), councils should engage with the relevant Scottish Government directorate'.

5.11.4. The common interpretation is that in engaging will be advising and not seeking permission from the Scottish Government. However, recent discussions with civil servants suggest that there may be ministerial reaction where policy commitments are not met. Clarification on this is being sought.

5.11.5. For the savings in Appendix 2 linked to Flexibilities, this is marked in the heading. If there are savings into future years, this is noted in the narrative in Appendix 2.

5.11.6. One of the flexibilities for consideration in Appendix 2 is in relation to spend on teachers / teacher numbers (EDR05). The Scottish Government have advised that funding previously provided for 2021/22 teachers pay award is now included within funding previously provided for additional teachers. This effectively means that there is a cut in funding for additional teachers. Appendix 2 limits the extent to which the Council takes a saving in each year to match the anticipated staff turnover levels. Given the cut in funding imposed by the Scottish Government, it is proposed that we can still attempt to do what is presented in the Appendix 2, but it will require to be over a longer period of time. It is proposed that we consider using the retrospective service concessions benefit (as covered at section 5.10) , to manage the timing of this, if this saving is agreed.

5.11.7. Also, in relation to the potential Flexibility on Integrated Joint Board (IJB) budgets (SWR01), this was included as it is one of the flexibilities sought by COSLA to which (collectively as a package of flexibilities) the Scottish Government responded on as per section 5.11.3 above. Wording that could be considered contradictory to that permission to be flexible around IJB budgets was included in a letter to NHS and IJB chief officers at the time the Scottish Budget was announced, and we are currently seeking clarity on this. A potential outcome may be that this saving may not be deliverable.

5.12. **Other areas – 2022/2023 Probable Outturn / Council Tax / :** we are currently concluding work on this year's Probable Outturn exercise, and initial indications are that there is likely to be a positive position in comparison to the budget. Part of this positive position is better that anticipated levels of council tax income. This may present an option to help with the 2023/24 position including the ability to bridge the gap until 2024/25 savings are realised. The position on Probable Outturn and Council

Tax Income will be reported to the Executive Committee on 1 February and will also feature in updates to the Budget Working Group.

6. South Lanarkshire Leisure and Culture Trust (SLLCT) and Integrated Joint Board (IJB)

6.1. This paper outlines the significant financial challenges faced by the Council. It should be noted that these challenges are also experienced by SLLCT. This will mean an impact on SLLCT income and expenditure including pay. SLLCT board will require to take decisions in order to arrive at a balanced budget position and to achieve a sustainable financial position.

6.2. In relation to the IJB specifically, any increasing costs experienced would require to be funded by Government monies or by efficiencies identified within the operations of the partnership itself. Any efficiency savings identified would require to be approved by the IJB.

7. Summary

7.1. Section 4 of this report updates the Budget Strategy presented in November, taking account of additional areas of pressure as well as the benefit from the Local Government Settlement (section 4.9). Table 1 takes the original Budget Gap of £10.5 million to a revised Budget Gap of £16.318 million.

7.2. Section 5 provides items for members' consideration in terms of potential solutions to reduce the Budget Gap. These include

- the level of Council Tax that could be set (section 5.2),
- the use of the potential retrospective benefit from the changes to Service Concession accounting (section 5.6), and
- Savings from Reviews and Flexibilities (5.11 / Appendix 2).

The change to accounting for Service Concessions is included in a separate report to this meeting of the Council.

7.3. This information is provided to allow Members to consider the options to close the budget to allow a balanced budget position to be agreed.

7.4. As noted earlier, the next paper in this meeting's agenda will look for approval for service concessions guidance to be implemented to release retrospective one off and recurring funds. This budget update paper points to the Service concession funds as a means of reducing the budget gap (with a recurring £4m saving), to contribute towards the 22/23 pay award costs in 2023/24 and also to help temporarily bridge a funding gap until 2024/25 savings are realised. If the service concession paper is not approved, then the extent to which solutions are required to meet the budget gap in 2023/24 will increase.

7.5. The Probable Outturn exercise will conclude over the coming weeks and this may present further options to contribute towards the 2023/24 budget gap.

7.6. The medium-term outlook shown in Appendix 1 illustrates that the use of service concessions funding can help manage budget gaps over a longer period of time, but even with service concessions the estimated budget gap into 2025/2026 is still significant (£39.6 million).

7.7. Over the period to 2025/2026 measures to close that budget gap will need to be developed. This will almost certainly involve consideration of the savings included in Appendix 2, even if these are not accepted as part of the 2023/2024 budget.

8. Timeline to Approval

8.1. There is a legal deadline for setting the council budget (11 March 2023), however there are critical dates before then, including dates for issuing Council Tax and Rent bills.

8.2. The timeline below is a proposal for approving budgets (for General services and for Housing)

January	Special Housing Committee to consider HRA budget *(23 January)*
February	**1 February:** Executive Committee to consider HRA budget
	22 February: Special Council to cover HRA budgets, Council Budget and Council tax setting

8.3. Budget consultation will be concluded and shared with members in advance of the special committee on 22 February 2023 (see section 13)

9. Workforce Implications

9.1. There are workforce implications associated with the savings proposals that require approval. These are detailed in Appendix 2.

9.2. It is estimated that there would be a reduction in 2023/24 of 23 FTE if the options at Appendix 2 are accepted. There would be a further impact of 50 FTE into 2024/2025

9.3. As in previous years, employee implications arising from any agreed staffing reductions will be managed within resources, with implications dealt with through a combination of anticipated turnover, and redeployment through Switch2.

10. Financial Implications

10.1. The financial implications are summarised within the report.

11. Climate Change, Sustainability and Environmental Implications

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

11.2. Climate Change targets will have an impact on the Council's future financial strategies. This will be included in future Budget Strategy papers.

12. Other Implications

12.1. The financial strategy is a way of managing a number of key risks which directly impact on the funding available to deliver Council outcomes. As detailed in the report, the Strategy is based on a number of assumptions some of which, including Government Grant allocations, will crystallise over the coming months.

12.2. There is still uncertainty around a number of cost areas as well as other potential budget solutions. These include the impact of inflation as well as other cost pressures, and also the potential benefit from accounting for Service Concessions. The potential increase in costs will continue to be monitored and will be reported to members as appropriate.

13. Equality Impact Assessment and Consultation Arrangements

13.1. Equality Impact Assessments will be done for those savings proposals in Appendix 2 that require them. These will be made available to members before any decisions are taken, so that they can be considered as part of the decision-making process. In addition, an assessment will be carried out in line with the Fairer Scotland Duty. For details of work undertaken, please contact the Employee Development and Diversity Manager, Finance and Corporate Resources.

13.2. Each of the savings options will be assessed with regard to any potential negative impact on the environment (refer section 12).

13.3. In terms of consultation, the Trade Unions will be consulted. With regard to consultation with the public, all members of the public will be invited to comment on budget options through a dedicated e-mail address and an online survey. This will be advertised through the use of Social Media (Twitter and Facebook).

13.4. In addition, as in previous years, there will also be face to face engagement.

13.5. The outcome of the consultation will be advised to all Elected Members in a separately issued briefing paper later in the budget setting process.

Paul Manning
Executive Director (Finance and Corporate Resources)

6 January 2023

Link(s) to Council Values/Priorities/Outcomes

- Accountable, Effective, Efficient and Transparent

Previous References

- Executive Committee, 02 November 2022

List of Background Papers

- None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:
Paul Manning, Executive Director, Finance and Corporate Resources
Ext: 4530 (Tel: 01698 454530)

Appendix 1

Table copied from Executive Committee 2 November 2022

	2022/ 2023 £m	2023/ 2024 £m	2024/ 2025 £m	2025/ 2026 £m	2026/ 2027 £m	2027/ 2028 £m	Total 2023/24 to 2027/28 only £m	Total Use of Service Concession £m
Budget Gap (for 2024/2025 to 2027/2028, the Budget Gap is as per the September Executive Committee)	**5.7**	**24.7**	**32.0**	**27.2**	**5.2**	**11.1**	**100.2**	
Finance Exercise - includes reinstatement of 2023/2024 solutions into 2024/2025 (section 5.2, Table 1)	-	(6.1)	4.8	-	-	-	(1.3)	
Outcome from reviews (section 5.4)	-	(0.6)	-	-	-	-	(0.6)	
Service Concessions – Annual Cost Reduction (section 5.8)	-	(4.0)	-	-	-	-	(4.0)	
Reduction in National Insurance Budget (section 5.10)	-	(3.5)	-	-	-	-	(3.5)	
Budget Gap (Before Use of Retrospective Service Concessions)	**5.7**	**10.5**	**36.8**	**27.2**	**5.2**	**11.1**	**90.8**	
Use of Retrospective Service Concessions (Reserves) to meet the impact of the 2022/2023 Pay Award and Support Future Year Budget Strategies	(5.7)	(5.7)	(27.5)	(15.1)	-	-	(48.3)	(54.0)
Reinstatement of Previous Year Use of Reserves	-	-	5.7	27.5	15.1	-	48.3	
Revised Budget Gap		**4.8**	**15.0**	**39.6**	**20.3**	**11.1**	**90.8**	

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
Community and Enterprise Resources				
CER01	Planning and Economic Services	**Planning and Building Standard Fees (Flexibilities)** There are options to consider that would generate more income in planning and building standards. Legal have advised that legislation prescribes the level of many fees so we cannot simply decide to increase these. There is discretion to reduce or wave a few, but not increase. The Resource has advised that there is the ability to charge for - non-material variations (fixed fee) - estimated income for year £4,500 - discharge of conditions (fixed fee) - estimated income £61,300 - 25% surcharge on retrospective applications – estimated income £6,000 These additional charges will result in around £72,000 of additional income		0.072
CER02	Facilities, Waste and Grounds Services	**Other Children and Young People funding – free school meals (remove for P4/5)** This option revisits the policy intent to provide free school meals for P4/5 and revert back to charging for these groups. Children entitled to free school meals would still receive them. There is no statutory requirement to provide free meals for these groups of children. SLC Funding received for this policy in 2022/23 of £2.596m. To achieve a saving we would reintroduce charges for P4 and P5		0.839

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
		A prudent assumption may be that all meals continue and are charged for. 407,360 paid meals based on pre UFSM 2020 figures would bring in **£0.839m.**		
CER03	Facilities, Waste and Grounds Services	**Christmas Trees and lighting** Budget reduction due to rationalisation of trees and festive lighting to eight main geographical areas to Hamilton, East Kilbride, Rutherglen, Carluke, Blantyre, Cambuslang Larkhall and Lanark. There is expected to be an overall saving of up to £0.086m from this option – there may be other costs that would require to be confirmed therefore at present the value of the saving has been limited to £0.037m.	-	0.037
CER04	Facilities, Waste and Grounds Services	**Food Waste Liners** Cease the provision of food waste liners for food recycling saving the cost of the liners and associated staff costs.	0.5	0.100
CER05	Facilities, Waste and Grounds Services	**Xmas Lights Switch On** This option would see a budget reduction due to rationalising the Christmas Switch On events. The Council currently supports six switch on events across South Lanarkshire, in Hamilton, East Kilbride, Rutherglen, Cambuslang, Lanark and Carluke. This proposal would instead see the creation of a Christmas events fund of £0.030m for distribution to community groups to support local decorations or events. In a number of areas, it is anticipated that local businesses, BID companies or Development Trusts will be in a position to support future events There is expected to be an overall saving of up to £0.084m from this option which includes creating the Christmas events fund – there may be other costs that would require to be confirmed therefore at present the value of the saving has been limited to £0.030m.	-	0.030

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
CER06	Facilities, Waste and Grounds Services	**Cremations** This proposal is to move the Council’s charges for Cremations towards the average charge across all other council areas. The average figure for 2022/2023 for local authority crematoria is £808.33 per cremation, ranging from South Lanarkshire at the lowest (£680.05) to Highland at £959.00. It is proposed that the Council’s charge per cremation is increased to the average charge of £808.33 (an increase of £128.28 per Cremation) and this would achieve additional income of £0.200 million. This charge is higher than our closest neighbour in Glasgow City (£699.00), and therefore the projected income takes account of some customers choosing the Glasgow facilities of Daldowie and Linn instead. A 10% reduction in cremations have been assumed in these figures.	-	0.200
CER07	Facilities, Waste and Grounds Services	**Special / Bulk Uplifts** South Lanarkshire residents are currently allowed one free bulky uplift per year which allows for the collection of up to 20 items. Subsequent requests are charged at £33.05. A benchmarking exercise has shown that most councils across Scotland now charge for all uplifts, with the average cost for a 10 item uplift at £61.32. This proposal is to remove the first free bulky uplift and introduce a £37.50 charge for all requests. The number of items per uplift will also reduce to a maximum of 10 at a time. Based on our current bulky uplift data and an estimated uptake of 25% for paid uplifts (based on other councils’ experience), income of £0.395m is projected for 2023/24. Future year income projections will be refined following the first full year of operation.	-	0.395

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
CER08	Facilities, Waste and Grounds Services	**Garden Waste (Burgundy Bins) – 2024/25 saving** The household waste collection service provides a burgundy bin for the disposal of food and garden waste. The collection of garden waste is a non-statutory service however food waste is a statutory service. There are around 5,000 households within the Clydesdale area who are not currently included in the burgundy bin service, as permitted by a rural exemption within the food waste regulations. In addition, approximately 30% of households in South Lanarkshire live in flatted accommodation and do not have gardens. There are now 14 local authorities in Scotland who charge for the collection of garden waste. These charges range from £30 to £45 with an average of £36. This proposal is to incorporate those Households in Clydesdale currently without a service, and to introduce a charge to account for the increased cost. Based on estimated uptake levels and an annual subscription charge of £40 for an expanded garden waste collection service would mean income of **£0.440m** could be achieved in 2024/2025 (net of start-up costs) and a further £0.650m from 2025/26 onwards. It should also be noted that the Scottish Government are considering making garden waste a mandatory waste stream collection. This would mean that we would be unable to charge for the service, however additional budget would be expected to reflect any new statutory designation.	-	*0.440
CER09	Facilities, Waste and Grounds Services	**Other Garden Uplifts** Currently, residents can request a free uplift of garden waste that is too large to fit into the household burgundy bin and there are no limits to the number of requests that can be made. It is proposed to introduce a £37.50 charge for this service. Based on an estimated 25% uptake of the current service users, income of £0.055m is projected for 2023/24.	-	0.055

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
CER10	Facilities, Waste and Grounds Services	**Secondary School Meals** The average charge of a school meal across Scottish Councils has risen to £2.40 and South Lanarkshire currently charges £2.00. The highest is North Lanarkshire who currently charge £3.15. This proposal is to increase the charge of secondary school meals to the average charge (£2.40 in 2022). This equates to a 40p increase on the current charge of £2.00, a 20% increase. Assuming a 10% reduction in uptake, this proposal is expected to generate income of £0.355 million. Uptake of meals and income will continue to be monitored. South Lanarkshire would move from being the lowest school meal price in Scotland to 13th position (assuming other councils do not increase their charges). Note that children entitled to free school meals will continue to receive these.	-	0.355
CER11	Roads and Transportation	**Parking at Key Attractions (£0.100m 2024/25)** This proposal is to introduce a £2 charge for parking at key attractions across various Council services including South Lanarkshire Leisure and Culture attractions. The income would be retained by the Council. Examples include Tinto Hill, Chatelherault Country Park, Calderglen Country Park and James Hamilton Heritage Park.	-	* 0.200
		Total	**0.5**	**2.723**
Education Resources				
EDR01	Education	**Other Children and Young People funding – Summer Funding (Flexibilities)** Funding was provided by the Scottish Government to deliver a government policy to provide school holiday programme. As a saving option this	1.0	0.577

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
		proposal looks at revisiting the policy intent. SLC received funding in 2022/23 of £0.577m. To achieve a saving we could reduce the level of funding for summer programmes by the government funding received. This would save £0.577m. Removal of summer programmes for families including lunch provision would remove support for childcare across summer period. Also new supports around most vulnerable and ASN would be impacted. A small core budget of £0.143m would be retained in the education budget. This reduction in spend would impact on services provided by the Council, by the 3rd sector and by South Lanarkshire Leisure and Culture. Note - the that the Scottish Government have still to confirm how this funding will be passed to councils in 2023/24.		
EDR02	Education	**Other Children and Young People funding – School Counselling (Flexibilities)** Funding was provided by the Scottish Government to deliver a government policy to provide school counselling. As a saving option this proposal looks at revisiting the policy intent. SLC received funding in 2022/23 of £0.960m. To achieve a saving we could cease any further commissioning of counselling that utilised this funding (£0.960m). Service implications would be the removal of counselling support for young people in schools across primary, secondary and ASN sectors, also programmes including play therapy, gypsy travellers, Kooth and Action for Children would be removed. There is a balance of funds in reserves that would allow a continuation of some commissioning for a period of time but when that is utilised, the additional provision would end.	1	0.960

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
		There is also permanent staffing funded via this initiative including 1FTE Quality Improvement Officer that would have to be managed. There is no committed financial obligation through any contract.		
EDR03	Education	**Other Children and Young People funding – Community Health and Wellbeing (Flexibilities)** Funding was provided by the Scottish Government to deliver a government policy to enhance community health and wellbeing. As a saving option this proposal looks at revisiting the policy intent. SLC received funding in 2022/23 of £0.835m Currently this is SW funding with some allocated to Education supporting permanent staff for Inclusion including Psychologist, Research Assistant, Quality Improvement Officer (Virtual HT) and Action for Children programme. Staffing would be surplus and would need to be redeployed and programmes to support mental health would cease. Moving forward, the majority of all of the funding will be managed by Education – plans are being put in place currently to consider how this is spent. If this saving is agreed, this work will require to be paused.	5.5	0.835
EDR04	Education	**Other Children and Young People funding – Access to Period Products (Flexibilities)** Funding was provided by the Scottish Government to deliver a government policy to allow access to free period products in schools and communities. SLC received funding in 2022/23 of £0.301m There is a legislative requirement to ensure that products are available free of charge. To achieve a saving we would reduce the provision of access to period provision in schools and communities but still look to ensure the legislative obligations are met.		0.100

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value *(2024/25 savings marked with an asterisk)* £m
EDR05	Education	**Teacher Numbers (Flexibilities) – 2024/25 Saving** This option would look to reduce additionality in relation to the recruitment of 3500 teachers, and 500 classroom assistants nationally (£65.5m nationally for 1000 teachers / 500 classroom assistants) and reduce additionality in relation to the £80m national baselined funding for extra teachers / support through pandemic SLC Funding £9.379m in total. This option could see funding released of - £4.6m This proposal would see 73 teachers removed from the establishment reflecting 50% of the additional funding provided and 17 SSA (Primary 38FTE, 32.5FTE secondary, 2.5FTE ASN and 17 SSA across 2 school sessions (three financial years) The profiling of how budget could be released reflects the school session and the expected time frame to achieve natural turnover of teaching staff Further savings of £2.200m and £0.600m can be made in future years Note comment at section 5.11.6 in the report. Due to reduced funding from the Scottish Government this saving would now be delivered a year later than originally believed. Therefore if this saving is accepted then we will require the use of one off funding to bridge the gap until this saving is made.	2023/24 – no FTE (*90 fte over remaining 3 years of saving)*	*1.800
EDR06	Education	**Pupil Equity Fund (PEF) / Scottish Attainment Challenge (SAC) Monies (Flexibilities)** This flexibility was targeted at either utilising specific funding in other ways or utilising underspends.	2023/24 – 15 fte (further 15 *fte in 2024/25)*	2.858

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
		SLC 2022/2023 Funding is £8.9m for PEF (which is a specific grant) and £1.4m for SEF (formerly SAC).There is an option to save £5.7m over 2 years The PEF funding is currently split: - £3.946m permanent staffing - £0.450m temp staffing - £0.700m SSA/other staffing including enhancements - £3.827m non staffing spend - This is variable each year subject to staffing levels and funding. Therefore a reduction in spend of £4.977m of the funding could be achieved through stopping non staffing spend and ending temp staff contracts / SSA / enhancements. Pupil Equity Funding goes directly to schools and funding is allocated on levels of pupil deprivation. As spending across schools is not split over categories on the same ratios as above, then the saving would have to be taken from the schools spending in this way. Therefore the removal of budget would not be in the same basis across the PEF schools. Permanent staffing could only be released through natural turnover over a period of time however that would be after 2024/2025 (as natural turnover has been built into the reduction in teachers covered in the Teacher Number line). This will also affect the ability to continue to meet Newly Qualified Teacher commitment as this is a route through which this is managed. A reduction in spend of £0.740m on SEF funding could be achieved through stopping non staffing spend and ending temp staff contracts (£0.400m reduction via temp staff and £0.340m non staffing)		

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
		This funding is currently grant claimed and based on an agreed spending plan for the specific purpose of closing the poverty related attainment gap, therefore discussions with the Scottish Government on releasing this saving will be required. . **Further saving in 24/25 of £2.859m.**		
EDR07	Schools	**Early Learning and Childcare (Flexibilities)** Funding was provided by the Scottish Government to deliver a government policy around provision of early learning and childcare. SLC received specific grant funding in 2022/23 of £31.6m This proposal is specifically in relation to utilising reserves held for ELC currently held for early level teachers and pupil growth for 23/24. This is a time limited saving and will need to be removed into 2024/25. It may be possible to make this a permanent savings through looking at option for flexibility including levels of parental choice and the service will consider options here.	0	1.500
EDR08		**Other Children and Young People funding – reinstate core curriculum / music tuition charges (Flexibilities)** Funding was provided by the Scottish Government to deliver a government policy around removing charges to pupils for core curriculum lessons and music tuition. SLC Funding received for these policies in 2022/23 was £0.472m/£0.451m To achieve a saving we would require to re-introduce a level of charging for music tuition, and contributions towards practical lessons. A charge at 10% of the previous charges would result in income of around £0.092m . There is a potential impact on curriculum delivery if funding reduced and income is not collected.		0.092
		Total	**22.5**	**8.722**

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
Finance and Corporate Resources				
FCR01	Transactions	**Other Children and Young People funding – FSM holiday support (Flexibilities)** Scottish Government funding was provided to allow payments for Free school meals in holiday periods. This proposal looks at revisiting the policy intent and reducing the daily payment by 10%. SLC Funding received for this in 2022/23 was £1.499m. The current daily payment is £2.50. A reduction of 10% would mean a daily payment of £2.25 and would generate a saving of £0.149m.		0.149
		Total		**0.149**
Housing and Technical Resources				
HTR01	Housing Services	**Second Homes / Reliefs (Flexibilities)** The flexibility proposed here was to look at removing the ringfencing of second home council tax charges. The average income in relation to second homes has been around £0.5m over the past 3 years (2019/2020 £0.462m, 2020/2021 £0.501m, 2021/2022 £0.540m) Currently funds are ringfenced for investment to support a range of specified purposes associated with affordable housing activities		0.500

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
		We do not consider that the guidance that advises this money should be ringfenced as legally enforceable and therefore there is the option to redirect this funding to manage budget gaps. This will have the impact of reducing funds available to Housing for investment. In relation to the guidance, whilst not legally enforceable , there is a risk that council funding may be reduced if this funding is redirected. This will be taken up through Cosla and the Scottish Government.		
		Total	**-**	**0.500**

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
Social work Resources				
SWR01	Adults and Older People	**Remove restrictions in passing over funding to the Health and Social Care partnership (Integrated Joint Boards - IJB) (Flexibilities)** This option would be to reduce the contribution currently made to the IJB. This option proposes £1m. This would require to be considered by the IJB as to what action it would need to take to manage this reduced funding level in their 2023/24 budget. This is included as it is one of the flexibilities sought by Cosla to which (collectively as a package of flexibilities) the scottish government responded on. Wording that could be considered contradictory to that permission to be flexible around IJB budgets was included in a letter to NHS and IJB chief officers and finance around the time the Scottish Budget was announced, and we are currently working with Cosla to get clarity on this. A potential outcome may be that this saving may not be deliverable.	Unknown	1.000
		Total	**-**	**1.000**

	2023/24 & 2024/25 * £m	FTE 2023/24	FTE 2024/25
Community and Enterprise	2.723	0.5	
Education	8.722	22.5	50
Finance and Corporate	0.149		
Housing and Technical Resources	0.500	-	
Social work	1.000	-	
Total	**13.094**	**23.0**	**50**

*of the above £13.094m of savings . £2.340m will happen in 2024/25 and could be covered until then by use of service concession money

Agenda Item

Report

3

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

Subject:	**Service Concessions**

1. Purpose of Report

1.1. The purpose of the report is to:

- Provide information on the changes permitted to how councils account for the repayment of debt on “Services Concessions” and seek approval to implement the change.

2. Recommendation(s)

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

(1) that the implementation of the guidance on Service Concessions, detailed in section 4, be approved;
(2) that the retrospective benefit of £64 million to the end of 2022/2023 (section 5.3) and the recurring saving of £4 million from 2023/2024 (section 5.4), be noted;
(3) that the costs incurred in years beyond the contract term be met from the budget released (section 5.8), be noted;
(4) that the cost of borrowing to use the retrospective funds released by implementing the guidance on Service Concessions can be met from monies we had already planned to spend on paying for interest through existing Loans Fund budgets (section 5.11), be noted

3. Background

3.1. As part of the Spending Review in May 2022, the Scottish Government announced that the implementation of Service Concessions Guidance was accessible to councils. As noted in the September Executive Committee report (Budget Strategy – 2023/2024 Update and Longer-Term Financial Outlook), the guidance on Service Concessions was being considered by officers with the implications being reported back to a future committee. Implementation of the guidance requires full Council approval.

3.2. Accounting for Service Concessions refers to how the Council accounts for its Secondary Schools PPP as well as a minor transaction relating to the payment arrangements for the Glasgow Southern Orbital (GSO) agreement with East Renfrewshire Council.

3.3. The Council entered the secondary schools’ PPP agreement in June 2006. This financed the building of the secondary schools.

3.4. The Contractor built the schools and the Council agreed to make an annual contract payment for 33 years (a Unitary Charge Payment) until 2039/2040, being the initial 3 years of set-up and then the 30 years of the full contract. This is £38 million for financial year 2022/2023 and is a payment for the provision of the schools.

3.5. As part of the process of establishing the PPP arrangements, the Council added assets of £319 million to its balance sheet. After taking into account capital contributions made by the Council of £48m, a long-term liability (debt) of £271m was created. These are for accounting purposes only and as part of the year-end accounting requirements, the Unitary Charge Payment is split into 3 elements: Payment for Services, Repayment of Debt and Interest payable.

3.6. The element relating to the Repayment of Debt is used to reduce the long-term liability in the Balance Sheet. In effect, the accounting regulations followed mean that the Council was paying for the assets over the life of the contract (33 years). By the end of the 33 years, the debt outstanding will be nil and the assets will be transferred to the Council's ownership, with a remaining useful life.

3.7. At the end of 2021/2022, the long-term liability (notional debt) for the Secondary Schools' PPP is £186 million.

3.8. In 2005/2006 the Council accounted for the GSO arrangement by creating a liability of £0.681m on the balance sheet. An annual payment of £0.050 million is due for 30 years and at the end of 2021/2022, the debt outstanding is £0.462 million.

3.9. This paper will explain the principles behind the implementation of the Service Concessions Guidance (section 4) and will detail the financial implications of this guidance, including costs that need to be managed (section 5). It will also detail how these monies could be used (section 6). Section 7 summarises the position.

4. Service Concessions Guidance

4.1. The Council has a 33-year PPP contract for its secondary schools. At the end of the 33 years, the ownership of the schools' transfers to the Council. The schools are subject to a repairs and maintenance regime and are anticipated to be in a good condition when they transfer. This is not the end of their useful life.

4.2. The new guidance referred to in section 3.1 affords councils the ability to account for the payment for the assets over their expected useful life (50 years), rather than over the contract term (33 years). In effect, the benefit from the Service Concessions Arrangement is achieved by better matching the debt costs of PPP schools to the expected useful lives of the schools and, therefore, repaying the cost of debt across a longer period of time. In this instance it is suggested that the repayment period be extended from 33 years to 50 years.

4.3. A similar approach can be applied to how we account for the GSO with the benefit from this arrangement being better matched to the costs by extending the repayment period from 30 years to 40 years.

4.4. This does not change what we pay the contractors in cash every year. This is simply about the accounting transactions to pay for the assets. Neither does it change the term over which we pay the contractors, it is just how we account for the repayment of the debt in the Council's Revenue Budget.

4.5. Councils are allowed to apply this change in accounting treatment retrospectively. This means we can now reflect how we would have accounted for paying for the assets had we always been permitted to do so, over the life of the asset rather than the contract. This creates an overpayment in our accounts with too much having been charged to the Revenue Account to pay for the assets.

4.6. While this does not release cash (the contractors do not pay us money back), it means that we can increase the Council's General Fund Reserve balance by reversing part of the charge that has been made which sits in an unusable reserve (Capital Adjustment Account).

5. Financial Implications

5.1. As noted in section 4.2, the guidance allows the debt repayments to be better aligned to the life of the asset, and also allows councils to decide on their preferred approach to making the debt repayments. The options are to make debt repayments using either the equal instalments of principal (EIP) method or an annuity method.

5.2. This report assumes the calculation of the debt repayment on the annuity basis as it best represents the consumption of the assets over their useful lives. The annuity method is used as standard practice in most PPP arrangements. Calculation of the debt liability repayments using the annuity method is considered a prudent approach as it reflects the time value of money (the impact of inflation) as well as providing a charge that is better matched to how the benefits of the asset are consumed over its useful life – it reflects the fact that an asset's deterioration is slower in the early years of life and accelerates towards the latter years. Therefore the economic use of the asset is greater in the latter years. The use of the annuity basis is appropriate for our specific Service Concessions.

5.3. By implementing the new guidance, section 4.6 notes that there will be a retrospective gain to the Council. This was originally estimated as a benefit of at least £61 million to the end of 2022/2023 (November paper to Executive Committee). However, following clarification in the guidance, officers have now finalised the calculations and the retrospective benefit to the end of 2022/2023 is £64 million. The new profile of repayments means that we will have 'over-paid' debt to the value of £64 million to the end of 2022/2023. This can be taken as a financial benefit and transferred to Reserves. The increase in the Council's Reserves balance can be used to support the Council's Revenue Budget Strategy going forward.

5.4. In addition, there will be a £4 million benefit from 2023/2024 which means that a permanent budget saving can be taken up to the level of around £4 million for the next 17 years from 2023/2024. This has been included in the 2023/2024 Budget Strategy to reduce the Budget Gap (Executive Committee, 2 November 2022).

5.5. Appendix 1 provides more information on how the benefit is arrived at.

5.6. **Repayment Over a Longer Term:** As a result of lengthening the repayment period as it is now aligned to asset life, there will be an extra cost each year for the 17 years after the end of the PPP contract. This amounts to £6.5million in 2040/2041, increasing to £14.9million in 2056/2057.

5.7. Taking into account an estimate for inflation over the remaining years and reducing the PPP Unitary Charge budget by the Level Playing Field Support which will no longer be provided by the Government after the end of the contract (£11 million), it is anticipated that a net budget (after Level Playing Field Support is deducted) in excess of £44 million is likely to be available by 2040/2041.

5.8. It is suggested that this PPP Unitary Charge budget (in excess of £44 million) that is no longer required to fund PPP payments as the payments to the contractor will have ceased, is then used to fund the additional payments resulting from lengthening the repayment period (section 5.6).

5.9. The additional costs of lengthening the repayment period will not, therefore, represent any additional revenue budget pressure as they can be managed within the PPP Unitary Charge budget available. We are not paying the contractor for longer and are not paying the contractor more.

5.10. **Costs linked to using the retrospective benefit:** As noted in section 4.6, this is not a cash benefit, but an accounting benefit. If we want to use the retrospective benefit to support the Budget Strategy, and ultimately to pay for expenditure, then we have to access cash funds to do that. One way of doing this is through borrowing. The need to borrow, and any resultant interest costs arise from how we choose to use the retrospective benefit, rather than because we are adopting the service concession guidance and implementing the change in accounting. How we choose to use the funds will influence how much borrowing is required, the timing of that, and the costs incurred.

5.11. In order to manage the costs of borrowing, we have developed a strategy that allows us to manage the costs of this approach within the existing budget. Based on the draft proposals detailed in section 6 the potential costs of borrowing can be met from within the monies we had already planned to spend on paying for interest. It does not represent any additional cost in comparison to what we had already planned for. The interest cost of borrowing linked to service concessions has been calculated and amounts to £0.226m in 2023/2024 and peaks at £5.487m in 2035/2036. The total interest amounts to £95.653m.

5.12. It is possible to calculate how costs incurred in the future compare to costs today. Due to inflation, costs incurred in the future are worth less than the same cost today. Taking into account this time value of money, the interest costs of £95.653m equates to £58.157 million at today's values.

5.13. This strategy takes detailed account of our levels of reserves and forecasts of our borrowing patterns across years that will allow the borrowing to be managed without having to add anything into the loan charges budget.

5.14. A summary of the strategy is provided in Appendix 2.

6. Use of Service Concessions Benefit

6.1. This paper is looking for agreement to implement the guidance on Service Concessions as detailed in this report. Future budget strategy reports will look for approval on how the benefits from implementation can be used.

6.2. Whilst this paper will not look for approval on how the released funding is used, we have noted in this paper, and in previous papers options around this. As noted in section 5.3, if the Service Concessions Guidance is implemented in 2022/2023, there will be a retrospective gain of £64 million. There will also be a permanent saving of £4 million from 2023/2024 onward (section 5.4).

6.3. The paper to the Executive Committee on 2 November 2022 noted that the 2023/2024 Budget Strategy includes the 2023/2024 impact of the 2022/2023 pay award (£5.7 million). There is also a shortfall of the increased pay award in financial year 2022/2023 itself (£5.7 million).

6.4. The paper proposed that consideration be given to covering the £11.4 million cost of the 2022/2023 Pay Award across 2022/2023 and 2023/2024 (2 years at £5.7 million per year) from the retrospective Service Concession benefit. It will be proposed that given the need to fund the 2022/2023 pay award, that Council approves the use of £5.7 million in the current year to pay for the 2022/2023 Pay Award, and that the impact into 2023/2024 be considered as part of the 2023/2024 Budget paper.

6.5. Taking this into account, consideration could then be given to using £42.6 million of the retrospective benefit to support the Council's medium term Budget Strategies (across 2024/2025 and 2025/2026). Taking account of the proposals to fund the 2022/2023 Pay Award (section 6.4) and the Budget Strategy, leaves £10 million of the £64 million retrospective benefit unallocated. These proposals were noted as being subject to member approval of the implementation of Service Concessions.

6.6. Consideration of these proposals will be included in the next report to members on the 2023/2024 Budget Strategy.

6.7 This paper proposed the principle of using service concessions but does not seek approval for the use of the potential benefit. These will feature in subsequent budget papers.

7. Summary

7.1. Reprofiling the debt in relation to the PPP schools would mean a retrospective gain of £64 million (section 5.3) and an annual benefit of £4 million starting in 2023/2024 (section 5.4). This £4 million has been referenced in the 2023/2024 Budget Strategy to reduce the Budget Gap.

7.2. While there will be extra costs after the PPP schools contract ends, these will be managed from the budget no longer required to pay for the PPP contract itself (section 5.8).

7.3. As the retrospective benefit is on an accounting basis, in order to use this benefit to spend on real expenditure items, the Council will have to fund this. Funding this from borrowing will result in interest costs (section 5.10).

7.4. The need to borrow, and any resultant interest costs arise from how we choose to use the retrospective benefit, rather than because we are adopting the service concession guidance and implementing the change in accounting. How we choose to use the funds will influence how much borrowing is required, the timing of that, and the costs incurred.

7.5. Based on the draft proposals detailed in section 6 the potential costs of borrowing can be met from within the monies we had already planned to spend on paying for interest. It does not represent any additional cost in comparison to what we had already planned for. As explained in section 5.11, we have developed a strategy that will allow the costs of borrowing to be managed within the existing budget. In this paper we are not asking members to approve how the funds are used.

7.6. The approach we have proposed in relation to service concessions demonstrates that implementing the Service Concessions Guidance is:

- **Affordable** – Ongoing costs of repaying debt after the end of the PPP contract are affordable from the remaining net PPP budget. Any interest costs can be managed within the current Loan charges Budget.
- **Sustainable** – the Loan Charges Budget can be maintained at current levels, and the generation of the retrospective benefit helps sustain the councils budget for a period of time.
- **Prudent** – the approach better matches the costs of repaying debt to the useful life of the asset.

8. Employee Implications

8.1. There are no direct employee implications from this report.

9. Climate Change, Sustainability and Environmental Implications

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

9.2. Climate Change targets will have an impact on the Council's future financial strategies. This will be included in future Budget Strategy papers.

10. Other Implications

10.1. The review of financial resilience is a way of understanding the key financial risks to the Council. The financial strategy is the way in which the Council can manage a number of these key risks which directly impact on the money available to deliver Council outcomes.

10.2. We will continue to monitor and report on these resilience indicators as appropriate.

11. Equality Impact Assessment and Consultation Arrangements

11.1. This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and, therefore, no impact assessment is required.

11.2. There is no requirement to undertake any consultation in terms of the information contained in this report.

Paul Manning
Executive Director (Finance and Corporate Resources)

5 January 2023

Link(s) to Council Values/Priorities/Outcomes

- Accountable, Effective, Efficient and Transparent

Previous References

- Executive Committee, Budget Strategy – 2023/2024 Update and Longer-Term Financial Outlook, 21 September 2022
- Executive Committee, Update on the Budget Strategy for 2023/2024, 2 November 2022

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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Column		(A)	(B)	(C)	(D)	(E)	(F)
Repayment Profiles of Service Concession Arrangements							
		Roads		**Schools**		**Total Benefit**	
Row	**Year**	**Current**	**Revised**	**Current**	**Revised**	**Annual**	**Cumulative**
1	Pre 2022/2023	219,054.55	111,060.03	85,064,657.87	25,439,553.09	59,733,099.30	59,733,099.30
2	2022/23	21,825.02	11,065.22	7,135,211.86	2,513,419.77	4,632,551.89	64,365,651.19
3	2023/24	23,156.35	11,740.20	7,074,375.88	2,648,516.08	4,437,275.95	68,802,927.14
4	2024/25	24,568.88	12,456.35	7,365,319.64	2,790,873.82	4,586,558.35	73,389,485.49
5	2025/26	26,067.58	13,216.19	7,572,569.38	2,940,883.29	4,644,537.48	78,034,022.97
6	2026/27	27,657.71	14,022.38	7,565,643.12	3,098,955.77	4,480,322.68	82,514,345.65
7	2027/28	29,344.83	14,877.74	7,018,180.87	3,265,524.64	3,767,123.32	86,281,468.97
8	2028/29	31,134.86	15,785.29	6,825,634.49	3,441,046.59	3,399,937.47	89,681,406.44
9	2029/30	33,034.09	16,748.19	7,448,625.10	3,626,002.84	3,838,908.16	93,520,314.60
10	2030/31	35,049.17	17,769.83	8,636,950.88	3,820,900.49	4,833,329.73	98,353,644.33
11	2031/32	37,187.17	18,853.79	10,197,280.56	4,026,273.90	6,189,340.04	104,542,984.37
12	2032/33	39,455.58	20,003.87	11,427,189.58	4,242,686.12	7,203,955.17	111,746,939.54
13	2033/34	41,862.37	21,224.10	12,800,649.74	4,470,730.50	8,350,557.51	120,097,497.05
14	2034/35	44,415.98	22,518.78	14,149,049.91	4,711,032.26	9,459,914.85	129,557,411.90
15	2035/36	47,125.35	23,892.42	14,985,303.33	4,964,250.24	10,044,286.02	139,601,697.92
16	2036/37	0.00	25,349.86	15,384,406.69	5,231,078.70	10,127,978.13	149,729,676.05
17	2037/38	0.00	26,896.20	15,165,140.03	5,512,249.18	9,625,994.65	159,355,670.70
18	2038/39	0.00	28,536.87	16,517,232.32	5,808,532.57	10,680,162.88	170,035,833.58
19	2039/40	0.00	30,277.62	8,559,578.75	6,120,741.19	2,408,559.94	172,444,393.52
20	2040/41	0.00	32,124.55	0.00	6,449,731.03	-6,481,855.58	165,962,537.94
21	2041/42	0.00	34,084.15	0.00	6,796,404.08	-6,830,488.23	159,132,049.71
22	2042/43	0.00	36,163.28	0.00	7,161,710.80	-7,197,874.08	151,934,175.63
23	2043/44	0.00	38,369.24	0.00	7,546,652.75	-7,585,021.99	144,349,153.64
24	2044/45	0.00	40,709.77	0.00	7,952,285.34	-7,992,995.11	136,356,158.53
25	2045/46	0.00	43,193.57	0.00	8,379,720.67	-8,422,914.24	127,933,244.29
26	2046/47	0.00	0.00	0.00	8,830,130.66	-8,830,130.66	119,103,113.63
27	2047/48	0.00	0.00	0.00	9,304,750.18	-9,304,750.18	109,798,363.45
28	2048/49	0.00	0.00	0.00	9,804,880.50	-9,804,880.50	99,993,482.95
29	2049/50	0.00	0.00	0.00	10,331,892.83	-10,331,892.83	89,661,590.12
30	2050/51	0.00	0.00	0.00	10,887,232.07	-10,887,232.07	78,774,358.05
31	2051/52	0.00	0.00	0.00	11,472,420.79	-11,472,420.79	67,301,937.26
32	2052/53	0.00	0.00	0.00	12,089,063.41	-12,089,063.41	55,212,873.85
33	2053/54	0.00	0.00	0.00	12,738,850.57	-12,738,850.57	42,474,023.28
34	2054/55	0.00	0.00	0.00	13,423,563.79	-13,423,563.79	29,050,459.49
35	2055/56	0.00	0.00	0.00	14,145,080.34	-14,145,080.34	14,905,379.15
36	2056/57	0.00	0.00	0.00	14,905,379.15	-14,905,379.15	0.00
37	**Totals**	**680,939.49**	**680,939.49**	**270,893,000.00**	**270,893,000.00**	**0.00**	

This table shows the difference between how the Council currently accounts for the GSO and its Secondary Schools PPP and how it would do so if the revised guidance on Service Concessions as detailed in Section 4 of the report was implemented.

The current costs of repaying the debt are shown in Column A for the GSO and Column C for the schools with the revised costs shown in Columns B and D respectively.

The annual difference between the two arrangements is shown in Column E with the cumulative difference shown in Column F.

Pre 2022/2023 we had accounted for debt repayments of £0.219m for the GSO and £85.065m for the schools PPP, £85.284m in total. Under the revised guidance we should only have accounted for £0.111m and £25.440m, £25.551m in total, and a difference of £59.733m.

For 2022/2023, we are due to account for £0.022m of the debt relating to the GSO and £7.135m for the schools PPP. By applying the revised guidance, these can be reduced to £0.011m and £2.513m respectively. The total difference is £4.633m. This is combined with the pre 2022/2023 difference to give a total retrospective benefit of £64.366m as shown in Row 2 Column F in the table and explained in Section 5.3 of the report.

Column E shows the annual difference between the two arrangements, and it can be seen that applying the revised guidance results in lower debt repayments from 2023/2024 to 2039/2040. This allows the Council to take a permanent budget saving of £4m as referred to in Section 5.4 of the report.

Column E also shows that from 2040/41, by lengthening the repayment period to align with the life of the assets, there are additional costs each year after the end of the PPP contract as explained in Section 5.6 of the report. These can be managed within the available PPP Unitary Charge budget, Section 5.8 of the report.

Row 37 shows that the total repayments under both approaches remain the same. It is simply the timing of the repayment that has changed.

Service Concessions – Strategy to Manage Cost of Borrowing

1. Introduction

1.1. Service Concession guidance allows the debt repayments to be better aligned to the life of the asset, and also allows councils to decide on their preferred approach to making the debt repayments. The repayment options are to make debt repayments using either the equal instalments of principal (EIP) method or an annuity method. Calculating the debt repayment on the annuity basis best represents the consumption of the assets over their useful lives. Repayments start low and increase over time, reflecting the fact that an asset's deterioration is slower in the early years of life and accelerates towards the latter years. This repayment method has been assumed in the Council's implementation of the Service Concession guidance.

1.2. By implementing the new guidance, there will be a retrospective gain to the Council of £64 million which can be taken as a financial benefit and transferred to Reserves. The increase in the Council's Reserves balance can be used to support the Council's Revenue Budget Strategy going forward. In addition, there will be a £4 million benefit from 2023/2024 which means that a permanent budget saving can be taken up to the level of around £4 million for the next 17 years from 2023/2024.

1.3. These primarily represent an accounting benefit. If we want to use the retrospective benefit to support the Budget Strategy, we have to find a way of funding the expenditure. This could be through borrowing. This borrowing, and resultant interest costs arise from how we chose to use the retrospective benefit , rather than simply because we are adopting the guidance. How we chose to use the funds will influence how much borrowing is required, the timing of that, and the costs incurred.

1.4. Based on the draft proposals detailed in section 6 the potential costs of borrowing can be met from within the monies we had already planned to spend on paying for interest. It does not represent any additional cost in comparison to what we had already planned for.

1.5. Borrowing for this expenditure will result in interest costs amounting to £0.226 million in 2023/2024, peaking at £5.487 million in 2035/2036. The total interest amounts to £95.653m. This is shown in Table 1 below.

Table 1: Interest

Year	Interest £m	Year	Interest £m	Year	Interest £m
2023/2024	0.226	2032/2033	3.407	2041/2042	4.503
2024/2025	1.104	2033/2034	3.791	2042/2043	4.823
2025/2026	1.978	2034/2035	5.081	2043/2044	5.174
2026/2027	2.442	2035/2036	5.487	2044/2045	4.866
2027/2028	2.597	2036/2037	5.356	2045/2046	4.302
2028/2029	2.750	2037/2038	5.149	2046/2047	3.469
2029/2030	2.918	2038/2039	4.978	2047/2048	2.947
2030/2031	3.127	2039/2040	4.425	2048/2049	2.038
2031/2032	3.290	2040/2041	4.422	2049/2050	1.003

1.6. It is possible to calculate how costs incurred in the future compare to costs today. Due to inflation, costs incurred in the future are worth less than the same cost today. Taking into account this time value of money, the interest costs of £95.653m equates to £58.157 million at today's values.

1.7. We have developed a strategy that allows us to manage the costs of this approach within the existing budget. Section 2 provides details of the Strategy.

2. Strategy to Manage Borrowing Costs

2.1. **Levels of Borrowing:** The Council estimates the amount of money it has to borrow in order to fund its capital expenditure, after taking account of any other funding such as government grant and capital receipts. This is called the Capital Financing Requirement (CFR) and this represents the underlying need to borrow for capital expenditure.

2.2. In modelling the Council's loan charges, up to now it has been assumed that the Council would borrow up to the level of its CFR.

2.3. However, in recent years, the Council has held sizeable reserves and cash balances and as such, the level of borrowing actually required has been lower than the CFR. A lower than estimated level of borrowing, has meant that the level of interest costs has been reduced, enabling savings to be identified.

2.4. **Use of Reserves and Cash Balances:** Rather than continuing to assume that we borrow at the CFR moving forward, it is proposed that we formally recognise the level of reserves and cash balances, and that this is the basis of the Strategy being implemented to manage the cost of borrowing.

2.5. By building assumptions on the level of reserves (£17 million) and cash balances (£75 million) into the Council's loan charge model and taking account of the borrowing for the Service Concessions (£88 million), there is actually a net reduction in the anticipated borrowing requirement of £4million.

2.6. A prudent estimate of reserve balances going forward is that core reserves of £13 million for General Fund and £4 million for HRA can be used in lieu of borrowing. In addition to this, it is estimated that other reserves of £60 million will be available in 2022/2023, but that these will decrease by £10 million per annum from 2023/2024. This is based on the profile of use moving forward.

2.7. Average cash balances over the last three financial year ends have been £75.526 million, and so an estimate of £75 million has now been assumed in 2022/2023 and has been built into the Council's strategy for loan charges.

2.8. **Impact on Borrowing Requirements:** Table 2 shows the impact of the strategy on borrowing requirements in the medium term, to 2032/2033. It takes the original borrowing, and builds in the borrowing for service concessions before building in assumptions for reserves and cash balances.

Table 2: Revised Borrowing Requirement

Year	Borrowing Requirement					
	Original (£m)	Service Concessions (£m)	Use of Reserves (£m)	Cash Balances (£m)	**Revised** (£m)	Movement (£m)
2022/2023	**185.140**	0.000	(77.000)	(75.000)	**33.140**	(152.000)
2023/2024	**46.312**	14.400	10.000	0.000	**70.712**	24.400
2024/2025	**38.282**	31.500	10.000	0.000	**79.782**	41.500
2025/2026	**96.216**	18.100	10.000	0.000	**124.316**	28.100
2026/2027	**38.754**	4.000	10.000	0.000	**52.754**	14.000
2027/2028	**35.713**	4.000	10.000	0.000	**49.713**	14.000
2028/2029	**29.566**	4.000	10.000	0.000	**43.566**	14.000
2029/2030	**30.012**	4.000	0.000	0.000	**34.012**	4.000
2030/2031	**60.085**	4.000	0.000	0.000	**64.085**	4.000
2031/2032	**32.486**	4.000	0.000	0.000	**36.486**	4.000
2032/2033	**0.000**	0.000	0.000	0.000	**0.000**	0.000
Total	**592.566**	88.000	(17.000)	(75.000)	**588.566**	(4.000)

2.9. Table 2 shows that by using reserves and taking recognition of reserves and cash balances, the Council can reduce its borrowing requirement by £92.000 million in the medium term and by doing so lower its forecasted interest charges.

2.10. **Impact on Interest Costs:** By taking detailed account of our levels of reserves and cash balances, and the resultant impact on borrowing patterns across years (as illustrated in Table 2), there is an impact on the cost of interest incurred by the Council.

2.11. Table 3 shows the anticipated loan charges over the next 18 years in comparison to the available budget. It shows that in the early years, the profile of loan charges will generate an underspend in the years from 2022/2023 to 2025/2026. These underspends will require to be set aside to manage anticipated overspends in the years 2026/2027 to 2031/2032.

Table 3: Comparison of Loan Charges to Budget

Year	Loan Charges £m	Budget £m	(Over) / Underspend £m	Cumulative (Over) / Underspend £m
2022/2023	33.279	35.261	1.982	1.982
2023/2024	34.160	37.918	3.758	5.740
2024/2025	37.544	39.833	2.289	8.029
2025/2026	49.429	49.787	0.358	8.387
2026/2027	56.212	54.342	(1.870)	6.517
2027/2028	56.346	54.342	(2.004)	4.513
2028/2029	56.667	54.342	(2.325)	2.188
2029/2030	56.067	54.342	(1.725)	0.463
2030/2031	55.452	54.342	(1.110)	(0.647)
2031/2032	54.521	54.342	(0.179)	(0.826)
2032/2033	53.780	54.342	0.562	(0.264)
2033/2034	53.545	54.342	0.797	0.533
2034/2035	53.534	54.342	0.808	1.341
2035/2036	53.257	54.342	1.085	2.426
2036/2037	52.787	54.342	1.555	3.981
2037/2038	52.278	54.283	2.005	5.986
2038/2039	52.394	54.283	1.889	7.875
2039/2040	51.386	54.283	2.897	10.772

Note: The Loan Charges Budget for years 2022/2023 to 2025/2026 have been adjusted to reflect the impact of the Loans Fund Review (agreed June 2020). Details are provided in Appendix 3.

2.12. In short, this means that the cost of the borrowing required as a result of utilising funds generated through implementing Service Concessions can be managed without having to add anything into the loan charges budget.

2.13. It should be noted that if we did not implement the Service Concession guidance then the approach detailed in this appendix that takes account of reserves and cash balances to reduce the borrowing requirement could be used to deliver savings for the Council. However, it would not deliver the retrospective benefit of £64 million achieved through implementing the revised Service Concession guidance.

3. Summary

3.1. Revised guidance on service concession arrangements allows the Council to better align the debt repayments to the life of the asset. In order to use the benefit arising from the application of the revised guidance for service concession arrangements, the expenditure has to be funded. Borrowing for this will result in interest costs. (Sections 1.1 to 1.4).

3.2. In order to manage the interest costs, a strategy has been developed that uses the reserves and cash balances that are available to the Council to reduce its borrowing requirement. (Sections 2.1 to 2.9).

3.3. By doing so there is an impact on the interest costs incurred by the Council which results in underspends in loan charges over the years 2022/2023 to 2025/2026 which can be set aside to manage anticipated overspends in the years 2026/2027 to 2031/2032. This allows the cost of the borrowing for service concessions to be managed without having to add anything in to the loan charge budget (Sections 2.10 to 2.12) and shows that the strategy is affordable, sustainable and prudent.

3.4. Finally, it is noted that the approach detailed in this appendix could be used (out with the service concession approach) to deliver savings for the Council. However it would not bring the £64 million retrospective benefit that implementing the revised service concession guidance delivers (Section 2.13)

Loan Charges Budget – Movement Following Loans Fund Review Adjustments

Following the implementation of the Loans Fund Review (agreed by Executive Committee in June 2020), a retrospective benefit was realised. This benefit was realised through a reduction in Loan Charges in the years 2020/2021 to 2025/2026.

At the start of each year, the unrequired Loan Charges budget is moved to the Council's Corporate Items Budget Line, with the resultant underspend taken to Reserves at each year end.

To reflect this, the original Loan Charges budgets for the years 2022/2023 to 2025/2026 (in the table below) are reduced by the Transfers to Corporate Items/Reserves, to give a revised Loan Charges budget for those years.

This is the budget that the projected Loan Charges should be compared to after the implementation of the Service Concessions guidance. This is illustrated in Table 1.

Table 1: Loan Charges versus Revised Budget (after Loans Fund Review transfers)

Year	**Loan Charges £m**	Original Loan Charges Budget* £m	Reduction to Reflect Transfer to Corporate Items / Reserves £m	**Revised Loan Charges Budget £m**	(Over) / Underspend £m	Cumulative (Over) / Underspend £m
2022/2023	**33.279**	51.158	(15.897)	**35.261**	1.982	1.982
2023/2024	**34.160**	53.129	(15.211)	**37.918**	3.758	5.740
2024/2025	**37.544**	54.142	(14.309)	**39.833**	2.289	8.029
2025/2026	**49.429**	54.342	(4.555)	**49.787**	0.358	8.387
2026/2027	**56.212**	54.342	-	**54.342**	(1.870)	6.517
2027/2028	**56.346**	54.342	-	**54.342**	(2.004)	4.513
2028/2029	**56.667**	54.342	-	**54.342**	(2.325)	2.188
2029/2030	**56.067**	54.342	-	**54.342**	(1.725)	0.463
2030/2031	**55.452**	54.342	-	**54.342**	(1.110)	(0.647)
2031/2032	**54.521**	54.342	-	**54.342**	(0.179)	(0.826)
2032/2033	**53.780**	54.342	-	**54.342**	0.562	(0.264)
2033/2034	**53.545**	54.342	-	**54.342**	0.797	0.533
2034/2035	**53.534**	54.342	-	**54.342**	0.808	1.341
2035/2036	**53.257**	54.342	-	**54.342**	1.085	2.426
2036/2037	**52.787**	54.342	-	**54.342**	1.555	3.981
2037/2038	**52.278**	54.283	-	**54.283**	2.005	5.986
2038/2039	**52.394**	54.283	-	**54.283**	1.889	7.875
2039/2040	**51.386**	54.283	-	**54.283**	2.897	10.772

* *The original Loan Charges Budgets for 2022/2023 and 2023/2024 reflect the temporary reduction for in-year savings, agreed as part of the Budget Strategy.*

Report 4

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

Subject:	**Capital Challenges**

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.

HOUSING AND TECHNICAL RESOURCES (cmis.uk.com)

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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