SOUTH LANARKSHIRE COUNCIL

Minutes of the special meeting held via Confero and the Council Chamber on 18 January 2023

Chair:
Provost Margaret Cooper

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

Councillors' Apologies:
Councillor John Bradley, Councillor Archie Buchanan, Councillor Lynsey Hamilton, Councillor Gavin Keatt, Councillor Monique McAdams, Councillor Richard Nelson, Councillor John Ross

Chief Executive's Service
C Sneddon, Chief Executive
Community and Enterprise Resources
D Booth, Executive Director
Education Resources
T McDaid, Executive Director
Finance and Corporate Resources
P Manning, Executive Director; N Docherty, Administration Assistant; T Little, Head of Communications and Strategy; G McCann, Head of Administration and Legal Services; K McVeigh, Head of Personnel Services; S Somerville, Administration Manager; J Taylor, Head of Finance (Strategy)
Housing and Technical Resources
S Gibson, Executive Director
Social Work Resources/Health and Social Care
S Sengupta, Director, Health and Social Care

1 Sederunt and Declaration of Interests

No interests were declared.

2 Update on the Budget Strategy for 2023/2024

A report dated 6 January 2023 by the Executive Director (Finance and Corporate Resources) was submitted providing an update on the Budget position for 2023/2024.

At its meeting held on 2 November 2022, the Executive Committee noted a revised budget gap of £10.5 million which was the same position noted in the presentation to all members on 18 November 2022. This 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 identified as coming from reviews. Members were advised that any savings/efficiency proposals requiring member approval would be provided to members at a later date.

Previous budget updates to members had noted a number of risk items that were not included in the budget gap of £10.5 million. An update on the following areas that could affect the 2023/2024 budget was provided:-

- Rates Revaluation into 2023/2024
- 2023/2024 Pay Award/inflation
- utilities and water
- parking permits
- settlement – December 2022
- 2023/2024 savings from reviews
- 2024/2025 savings from reviews

As outlined in Table 1 of the report, this left a revised budget gap of £16.318 million. This did not include any increase in relation to Council Tax or the use of Service Concessions.

All risk areas would continue to be reviewed with updates provided, as appropriate, throughout the budget setting process.

Options to close the revised budget gap of £16.318 million included potential increases in Council Tax, the Use of Service Concessions and the consideration of proposed savings, details of which were contained in the report.

COSLA and local authorities had approached the Scottish Government with a list of potential areas of flexibility, where funding had been provided by the Scottish Government for specific government policies which might release funding that could help with councils' funding pressures. The response from the Depute First Minister was detailed in paragraph 5.11.3 of the report and advised that, where funding was provided as specific revenue grant, councils should engage with the relevant Scottish Government directorate. The common interpretation was that, in engaging, local authorities would be advising and not seeking permission from the Scottish Government, however, clarification on that matter was being sought.

Proposals in relation to flexibilities were included in Appendix 2 to the report.

Work was currently being concluded on this year's Probable Outturn exercise and initial indications were that there was likely to be a positive comparison to the budget. This was due, in part, to better than anticipated levels of Council Tax income. This might present an option to help with the 2023/2024 position, including the ability to bridge the gap until 2024/2025 savings were realised. This would be reported to the Executive Committee on 1 February 2023 and via the Budget Working Group.

It was highlighted that the significant financial challenges faced by the Council would also be experienced by the South Lanarkshire Leisure and Culture Trust and the Integration Joint Board.

A timeline for approving budgets was outlined at section 8 of the report and it was noted that the budget consultation exercise would be shared with members in advance of the special Council meeting scheduled for 22 February 2023.

In response to a member's question, the Executive Director (Finance and Corporate Resources) confirmed that the contents of this paper had been discussed with the trade unions and advised that, as in previous years, questions on the budget proposals were invited from individuals or Groups, with answers to those questions shared with all elected members and the trade unions.

The Council decided:

(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, as detailed in paragraph 4.13 and table 1 of the report, be noted;

(2) that the options to meet the budget gap, as detailed in section 5 of the report, be noted; and

(3) that the summary and next steps, as detailed in sections 7 and 8 of the report, be noted.

[Reference: Minutes of the Executive Committee of 2 November 2022 (Paragraph 10)]

3 Service Concessions

A report dated 5 January 2023 by the Executive Director (Finance and Corporate Resources) was submitted seeking approval on the implementation of changes permitted to how councils accounted for the repayment of debt on 'Service Concessions'.

As part of the Spending Review in May 2022, the Scottish Government announced that the implementation of Service Concessions guidance was accessible to councils.

Accounting for Service Concessions referred to how the Council accounted 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.

The Council entered the secondary schools' PPP agreement in June 2006 to finance the building of its secondary schools and agreed to make an annual contract payment for 33 years until 2039/2040. The amount for financial year 2022/2023 was £38 million.

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 £38 million, a long-term liability of £271 million was created. As part of the year-end accounting requirements, the Unitary Charge Payment was split into the following 3 elements:-

- payment for services
- repayment of debt
- interest payable

The element relating to the Repayment of Debt was used to reduce the long-term liability in the Balance Sheet. In effect, the accounting regulations followed meant that the Council was paying for the assets over the life of the contract. By the end of the 33 years, the debt outstanding would be nil and the assets transferred to the Council's ownership, with a remaining useful life as they had been subject to a repairs and maintenance regime.

At the end of 2021/2022, the long-term liability for the secondary schools' PPP was £186 million.

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

The new guidance would afford councils the ability to account for the payment of the assets over their expected useful life rather than over the contract term. In terms of the secondary schools' PPP, it was proposed that the repayment period be extended from 33 years to 50 years. For GSO, it was proposed that the repayment period be extended from 30 years to 40 years.

This would not change the amount the Council paid the contractors in cash each year or the term over which they were paid. It was simply about the accounting transactions to pay for the assets. Councils were allowed to apply this change in accounting treatment retrospectively. This meant that consideration could be given to how the Council had accounted for paying for the assets over the life of the asset rather than the contract. This created an overpayment in the accounts, with too much having been charged to the Revenue Account to pay for the assets. While this did not release cash, it meant that the Council's General Fund Reserve balance could be increased by reversing part of the charge that had been made which sat in an unusable reserve.

The guidance allowed councils to decide on their preferred approach to making the debt repayments. The options were to make debt repayments using either the equal instalments of principal method or an annuity method. Calculation of the debt liability repayments using the annuity method was considered a prudent approach as it reflected the time value of money as well as providing a charge that was better matched to how the benefits of the asset were consumed over its useful life.

By implementing the new guidance, there would be a retrospective gain to the Council. The new profile of repayments would mean that the Council had 'overpaid' debt to the value of £64 million to the end of 2022/2023. This could be taken as a financial benefit and transferred to reserves. The increase in the Council's reserves balance could then be used to support the Council's Revenue Budget Strategy going forward.

In addition, there would be a £4 million benefit from 2023/2024, which meant that a permanent budget saving could be taken up to the level of around £4 million for the next 17 years from 2023/2024. Appendix 1 to the report provided more information on how the benefit was arrived at.

As a result of lengthening the repayment period, there would be an extra cost each year for the 17 years after the end of the PPP contract. 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 would no longer be provided by the Government after the end of the contract, it was anticipated that a net budget in excess of £44 million was likely to be available by 2040/2041.

It was proposed that this PPP Unitary Charge budget, which would no longer be required to fund PPP payments as the payments to the contractor would have ceased, be used to fund the additional payments resulting from lengthening the repayment period. The additional costs of lengthening the repayment period would not, therefore, represent any additional revenue budget pressure as they could be managed within the PPP Unitary Charge budget available.

As highlighted previously, this was not a cash benefit but an accounting benefit. If the Council wanted to use the retrospective benefit to support the Budget Strategy, it would have to access cash funds. One way to do that would be through borrowing. A strategy had been developed which would allow the Council to manage the costs of borrowing within the existing budget. This strategy took detailed account of the Council's level of reserves and forecasts of borrowing patterns across years that would allow the borrowing to be managed without having to add anything into the loan charges budget. A summary of the strategy was attached as Appendix 2 to the report.

While approval was not currently being sought on how the released funding would be used, section 6 of the paper outlined some options which would be included for members' consideration as part of future budget strategy reports.

In response to a member's question in terms of forward planning for refurbishments/replacements of schools at the end of the 50 year period, the Executive Director (Finance and Corporate Resources) referred to the maintenance regime within the current contract and advised that, over the next 10 years, the Council would prepare for the time when the schools came into Council ownership, taking into account carbon reduction and net zero targets.

The Council decided:

(1) that the implementation of the guidance on Service Concessions, as detailed in section 4 of the report, be approved;

(2) that the retrospective benefit of £64 million to the end of 2022/2023 and the recurring saving of £4 million from 2023/2024, as detailed in paragraphs 5.3 and 5.4 of the report, be noted;

(3) that the costs incurred in years beyond the contract term to be met from the budget released, as detailed in paragraph 5.8 of the report, be noted; and

(4) that the cost of borrowing to use the retrospective funds released by implementing the guidance on Service Concessions to be met from monies already planned to spend on paying for interest through existing Loans Fund budgets, as detailed in paragraph 5.11 of the report, be noted.

[Reference: Minutes of the meetings of the Executive Committee of 2 November 2022 (Paragraph 10) and 21 September 2022 (Paragraph 11)]

Councillor Logan joined the meeting during this item of business

In terms of Standing Order No 14, the Provost adjourned the meeting at 10.55am following this item of business. The meeting reconvened at 11.02am without the attendance of Councillors Corbett and Razzaq

4 Capital Challenges

A report dated 6 January 2023 by the Executive Director (Finance and Corporate Resources) was submitted on the capital challenges faced by the Council.

The Council was experiencing unique spending pressures on its Capital Budget. In previous financial years, General Capital Grant funding of £28 million was provided from the Scottish Government. However, since financial year 2020/2021, the Council had seen a reduction in grant and, for 2023/2024, it was anticipated the grant would be £21.207 million, which excluded specific funding for pay award, play parks and free school meals. This was a reduction of £6.793 million (24%) on previous levels of grant pre 2020/2021. This lower level of funding would continue until at least 2025/2026.

There were additional funds available to the Council for other specific works, such as City Deal projects, however, this funding was not available for other, general capital works. Borrowing could also fund capital works, however, this would impact on the revenue budget in terms of repayments.

There were a number of ongoing programmes of work that required to be included in the Council's capital programme each year, details of which were included in paragraph 5.1 of the report. This meant that there was limited scope for additional capital spend and, therefore, facility replacement programmes had to be considered over a number of years' capital programmes.

In addition, there was an impact on capital projects from inflationary pressures. On top of those challenges, there were also carbon reduction targets for which there was no funding being made available to undertake the necessary works to meet those targets.

Given all of the above challenges, it was highlighted that the Council would not be able to undertake all the capital works that were required and would not be able to replace everything on a like for like basis. Consideration would also have to be given on the timing of works, given the current cost increases.

It was highlighted that the Council had a very wide asset base and, in order to maintain essential assets at an acceptable standard to deliver key services, there would be a requirement to reduce that asset base. This would mean that some difficult strategic decisions would need to be taken. Investment to facilitate change would also need to be considered. This was broader than physical asset-based investment and would mean investment in changing how services were delivered to be more efficient, including technological and workforce changes.

A paper on the 2023/2024 Capital Programme would be submitted to a future meeting for members' consideration.

The Executive Director (Finance and Corporate Resources) responded to members' questions in terms of sourcing materials and the impact of decisions on both the capital and revenue budgets.

The Provost concluded by thanking the Executive Director (Finance and Corporate Resources) and Head of Finance (Strategy) for the papers on this agenda which clearly explained complex financial matters.

The Council decided: that the capital programme funding constraints, spending pressures and challenges be noted.

5 Urgent Business

There were no items of urgent business.