Council Offices, Almada Street
Hamilton, ML3 0AA

Tuesday, 13 February 2024

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, 21 February 2024**
Time: **11:00 (or immediately following the Executive Committee, whichever is the later)**
Venue: **Hybrid - Council Chamber, Council Offices, Almada Street, Hamilton, ML3 0AA**

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

Yours sincerely

Paul Manning
Chief Executive

Members

Margaret Cooper (Provost), Bert Thomson (Depute), 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, 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, Graham Scott, David Shearer, Helen Toner, Margaret B Walker, David Watson, Kirsty Williams

BUSINESS

1 **Declaration of Interests**

Item(s) for Decision

Urgent Business

6 **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
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Agenda Item

Report

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Report to:	**South Lanarkshire Council**
Date of Meeting:	**21 February 2024**
Report by:	**Chief Executive**

Subject:	**Overall Position of Revenue Budget and Level of Local Taxation for 2024/2025**

1. Purpose of Report

1.1. The purpose of the report is to:

- ♦ update the Council on the 2024/2025 budget position, present the updated savings proposals and the Council Tax level for 2024/2025 for approval, and present the Revenue Budget for 2024/2025, including the base budget allocations to Resources, for approval.

2. Recommendation(s)

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

(1) that the Budget Gap of £20.570 million (section 4.1), be noted;
(2) that the assumptions detailed at paragraph 7.2, used to arrive at the Budget presented in section 7, be noted;
(3) that the amount of savings, the level of Council Tax and the Use of Reserves to be used to balance the 2024/2025 Budget (detailed in section 6), be considered;
(4) that the budget figures detailed at section 7 (based on the assumptions in section 7.2 and 7.3) are to be updated following agreement of the Budget, be noted;
(5) that the potential impact of savings beyond 2024/2025 (section 9), be noted; and
(6) that the Revenue Budget for 2024/2025, including the base budget allocations to Resources, as shown in Appendix 3, be approved, subject to Members' decision on recommendation 3.

3. Background

3.1. At its meeting on 21 June 2023, the Executive Committee approved the Revenue Budget Strategy for 2024/2025. The Strategy assumptions resulted in an initial Budget Gap of £29.207 million. This Budget Gap was the result of a number of expenditure items including Pay Award assumptions and inflation on significant Council contracts, offset in part by some corporate solutions including Council Tax from additional property numbers and the one-off use of Reserves arising from the implementation of accounting for Service Concessions.

3.2. Subsequent to this, update papers have been presented to members, including the 2024/2025 Revenue Budget Update and Savings Proposals (Executive Committee, November 2023), and most recently, an Update on the Budget Strategy for 2024/2025 (Executive Committee, 24 January 2024). This latest paper revised the Budget Gap to £20.570 million. This position reflects the impact of the 2024/2025 Local Government Settlement received in December 2023.

3.3. This report will cover the main elements of the Budget Process to date including an update to the 2024/2025 Revenue Budget Strategy (section 4) and a proposal to address the Budget Gap for 2024/2025 (section 5). Achievement of a balanced budget is covered at section 6.

3.4. Thereafter, the report will provide details of the position in relation to the total Revenue Budget and Council Tax (section 7) and section 8 provides details of the Budget Bill and Local Government Finance Order. Section 9 provides information on the potential impact of savings beyond 2024/2025.

4. 2024/2025 Revenue Budget Strategy – inc. Local Government Settlement

4.1. At the Executive Committee meeting in January 2024, Members were presented with an update to the Budget Strategy which resulted in a Budget Gap of £20.570 million. This position assumed no increase in Council Tax and was based on the Local Government Settlement received in December 2023.

4.2. Members will recall that the impact of the Local Government Settlement received in December 2023 was included in the Budget Gap position reported to the Executive Committee in January 2024. At that point, it was noted that the Circular was still under review and further updates may be received which changes the Council's Government grant allocation.

4.3. The 2024/2025 Finance Order has not yet been approved (refer section 8) so further changes could arise. Members will be notified on the final settlement value as appropriate.

4.4. **Social Work IJB:** The Council's proposed Revenue Budget for 2024/2025 includes a Budget for Social Work Resources. This includes budget for the delegated services of the IJB (Adults and Older People), as well as non-delegated services such as Children and Families.

4.5. As Members have previously been advised, the recent actuarial valuation of Strathclyde Pension Fund has meant that the level of Employer Pension Contributions will be reduced into 2024/2025. As is the case for the Council, this means that the IJB will not incur the same level of costs in 2024/2025. The total Social Work Resources Budget for 2024/2025 will remain the same, but funds released as a result of the reduced pension contributions for the IJB in 2024/2025 (£7.7 million) can be used to contribute towards continued pressures in Children and Families. This adjustment would be made between the delegated IJB budget and the Children and Families budget, on a temporary basis in 2024/2025.

5. Options to Address the Budget Gap

5.1. **In order to eliminate the Budget Gap of £20.570 million, there are options available for members' consideration:**

- **to approve savings proposals from the savings package presented in the** 2024/2025 Revenue Budget Update and Savings Proposals **(see sections 5.3 to 5.4 for an update), and**
- **to consider the Band D Council Tax level including the potential Council Tax Freeze (sections 5.9 to 5.12).**

5.2. Each of these is taken in turn:

5.3. **Savings Proposals:** Budget savings totalling £18.589 million had been proposed for Members' consideration as detailed in the 2024/2025 Revenue Budget Update and Savings Proposals. This total includes Management and Operational Savings of £3.300 million along with Resource savings proposals of £15.289 million for consideration. That savings pack included a proposed reduction of £1.500 million in the Management Fee for South Lanarkshire Leisure and Culture. Section 5.4 contains an update to this savings proposal.

5.4. **South Lanarkshire Leisure and Culture (SLLC) Savings/Management Fee (CER11):** Work has been ongoing to identify efficiencies within the SLLC operations in order to manage the proposed reduction of £1.500 million in the Management Fee paid by the Council in 2024/2025. The work undertaken by SLLC and presented to Members, will mean that a £1.000 million reduction in the Management Fee is achievable. This position would therefore reduce the savings proposal by £0.500 million and take value of the savings pack in total to £18.089 million. Members are asked to note some edits to savings EDR06 and EDR08. An updated pack of savings proposals is included at Appendix 1.

5.5. **Teacher Numbers:** As noted in the 2024/2025 Revenue Budget Update and Savings Proposals (Executive Committee, November 2023), the package of savings includes two proposals that impact on teacher numbers. These are EDR10 – Extended Support Team (Inclusion Service) and EDR12 – Reduce Area Cover in Schools.

5.6. In 2023/2024, the grant settlement did include a holdback for Retained Teacher Support. This was on the basis that teacher numbers would be maintained. The 2024/2025 grant settlement received in December 2023 does not include any similar holdback. However, following the laying of the draft Order on 8 February 2024, the Council received correspondence from COSLA which highlighted that unlike the grant settlement received in December 2023, the Order does not include an amount of £145.5 million nationally in relation to funding for the school workforce and the maintenance of teacher numbers. No information has been received at a Council level however, the Order laid suggests that the Council's grant allocation could be reduced by £9.614 million. No account has been taken of this in this paper due to the uncertainty regarding the value and the expectations/sanctions related to this. An update will be provided to Members as it becomes available.

5.7. At this point last year, the Scottish Government did hold back an amount of £45 million in relation to teacher numbers. This amount was not distributed to councils, but was held as an allocation, and this Council sets its budget based on us receiving its assumed proportionate share. In setting this budget, the figures in the Appendix and in the tables in section 7 make the same assumption (that our proportionate share of the held back funding will be received).

5.8. The Council has now received notification that the allocation of funding for teacher numbers of £145.5 million for 2024/2025 will be distributed via Specific Resource Grants, and those grants will be conditional on councils agreeing at the outset to maintain teacher numbers. For that reason, I would have to advise that it would not be prudent to accept the savings that relate to teacher numbers *(EDR10 and EDR12).*

5.9. **Council Tax/Council Tax Freeze:** As previously detailed in the Budget Strategy report to Executive Committee on 24 January 2024, a national allocation of £144 million has been advised for a Council Tax Freeze. The Council's indicative share of this national allocation of £144 million is £7.869 million. This was not included in the Local Government Settlement received in December 2023. Any allocation of these monies to the Council would be conditional on the Council approving a Council Tax Freeze. In arriving at the Budget Gap (section 4.1), no account has been taken of any increase in Council Tax nor of any Scottish Government Funding for a Council Tax Freeze.

5.10. Each 1% increase in Band D would generate successive amounts of £1.550 million, towards meeting the 2024/2025 Budget Gap. A 5% increase in Council Tax would generate £7.750 million.

5.11. Any increase in Council Tax Band D would mean that the Council forfeits the Scottish Government's Allocation of the Council Tax Freeze monies of £7.869 million but will generate additional income from Council Tax. Table 1 shows the impact of a range of Council Tax increases that could reduce the Budget Gap.

Table 1 – Council Tax Increases

Percentage Increase	Band D £	Annual Increase £	Monthly Increase (over 10 payments) £	Decrease in Budget Gap £m
0% / Freeze	1,300.81	-	-	7.741
1%	1,313.82	13.01	1.30	1.550
2%	1,326.83	26.02	2.60	3.100
3%	1,339.83	39.02	3.90	4.650
3.50%	1,346.34	45.53	4.55	5.425
4%	1,352.84	52.03	5.20	6.200
5%	1,365.85	65.04	6.50	7.750
6%	1,378.86	78.05	7.80	9.300

5.12. Members are asked to note that the Council's Band D rate at 2023/2024 levels (£1,301) is the lowest for a mainland Scottish council.

5.13. **2023/2024 Probable Outturn Underspend/Use of Reserves:** The 2023/2024 Revenue Monitoring and Probable Outturn paper to Executive Committee on 24 January 2024 sought approval to Transfer £6.000 million to Reserves. The report noted that this presented an option to help with the Council's Budget Strategy, bearing in mind the previously identified savings requirement of £95.8 million across the 4 years from 2024/2025.

5.14. Appendix 2 illustrates the budget gap over these next 4 years. When considering how this is used, Members should consider the need to make permanent savings in the short to medium term. As this funding is one-off, the use of this funding cannot be used to replace the need for permanent savings, however, it may help in phasing in the delivery of agreed savings or delay the need to make savings for a period of time. Any use of these one-off monies in place of making permanent savings would require to be reinstated in the Budget Strategy in future years. This would increase the savings requirement in those years where we are already facing significant savings requirements which may be exacerbated if inflationary pressures continued, and costs exceeded the levels currently built into our budget assumptions.

5.15. Members are asked to consider a need to use these Reserves as a contingency should cost pressures in 2024/2025, specifically Pay, be higher than we have included in the Budget Strategy. Recent Pay Claim figures presented have identified a risk that any pay deal for 2024/2025 will exceed the funding that has been included in the Council's Budget Strategy for Pay in 2024/2025. Members should give consideration to using these Reserves as a contingency in the event of higher than budgeted costs for Pay.

5.16. When considering the use of these Reserves, Members are also asked to note pressures faced in our Capital Programme due to reduced core and partner funding.

6. Achievement of a Balanced Budget

6.1. To recap on what is said in section 5.1, in order to address the Budget Gap, there are options available for Members' consideration:

- **to approve savings proposals from the savings package presented in Appendix 1 (see sections 5.3 and 5.4 for an update),**
- **to consider the Band D Council Tax level including the potential Council Tax Freeze (sections 5.9 to 5.12)**

6.2. Members can consider the level of savings they approve from the overall savings package of £18.089 million. In relation to Council Tax, Members can choose to freeze Council Tax and receive £7.869 million in Scottish Government Grant or, increase Council Tax Band D and forfeit the Scottish Government Grant. The impact of a number of percentage increases is shown in Table 1.

6.3. As noted in section 5.15, Members are asked to consider the use of the Reserves generated by the 2023/2024 underspend and set them aside as a contingency should cost pressures in 2024/2025, particularly Pay, be higher than we have included in the Budget Strategy. Recent Pay Claims suggest a pay award for 2024/2025 could be higher than is included in the Council's Budget Strategy for 2024/2025. Members should give consideration to using these Reserves as a contingency in the event of higher than budgeted costs for Pay. The use of these monies to support the Council's Capital Programme could also be considered (section 5.16).

7. Total Revenue Budget Summary 2024/2025 and Council Tax

7.1. Taking into account the Government Grant allocated to the Council through the Settlement and assuming no year-on-year increase in Council Tax (section 5.9), means that the total proposed Budget for 2024/2025 is now £956.076 million.

7.2. **For the purposes of this paper, in arriving at this position, the following has been assumed:**

- **that there will be no increase to Council Tax, meaning that the Council will receive Scottish Government Grant of £7.869 million,**
- **that there will be an acceptance of savings to a value of at least £12.701 million from the package of savings at Appendix 1, and**
- **that the £6.000 million from the 2023/2024 Probable Outturn (section 5.15) has been set aside as contingency against higher than budgeted costs including Pay Claims.**

7.3. In the absence of any decision being taken by the Council in relation to the savings, it is proposed that the full package of savings is taken.

7.4. The detailed allocation of the budget to each Resource is shown at Appendix 3. The main figures from Appendix 3 are summarised overleaf.

Summary of Council Budget 2024/2025

Current Year Base Budget £m		2024/2025 Proposed Budget £m
1,163.411	Total Services' Gross Expenditure * *(Appendix 3, page ii)*	1,215.987
(325.443)	Deduct: Total Services Gross Income *(Appendix 3, page ii)*	(331.907)
837.968	**Net Service Spending**	884.080
54.091	Add: Loan Charges	55.418
-	Add: CFCR	-
21.084	Add: Corporate Items inc. Service Concession Annual Benefit	29.279
-	less: 2024/2025 Savings	(12.701)
913.143	**Net Expenditure**	956.076

** Restated to show the Teachers Holdback monies as included.*

7.5. Table 2 shows how this 2024/2025 budget is funded, resulting in the net Sum Funded by Council Tax, £158.043 million.

Table 2: Net Sum Funded by Council Tax

Indicative Budget for 2024/2025 *(Appendix 3)*	£956.076m
Deduct: Government Grant	(£750.533m)
Deduct: Use of Reserves / Underspends in the Budget Strategy	(£47.500m)
Resultant Net Sum to be Funded Locally from Council Tax	**£158.043m**

7.6. The 2024/2025 net Council Tax figure comprises the 2023/2024 budget of £155.824 million, increased to reflect the additional property numbers included in the Strategy (net £2.219 million net of Council Tax Reduction Scheme). It assumes no year-on-year increase in Council Tax Band D (section 7.2).

7.7. The Net Sum Funded by Council Tax (£158.043 million) is detailed in Table 3, showing the Council Tax Budget for the year 2024/2025. Table 3 also shows the estimated amount of income for each £1 of Gross Council Tax.

Table 3: 2024/2025 Council Tax Budget

Gross Council Tax 2024/2025	£181.587m
Deduct: Council Tax Reduction Scheme	(£23.544m)
Resultant Net Sum to be Funded Locally from Council Tax	£158.043m

Estimated Product of £1 Gross Council Tax at 97.125% collection £139,575

7.8. Should the Council approve the budget for 2024/2025, then the Band D Council Tax for 2024/2025 will be applied at the figure decided and necessary billing and collection mechanisms will be set in motion. The ten monthly Council Tax instalments will commence in April. Appropriate scrutiny will continue to ensure the process of reviewing budgetary performance is continued.

7.9. The level of Council Tax is property based. All houses are classified into eight bands, A to H, with band H properties paying more than three times the level of band A. The Council's declared tax is for band D and all other rates are fixed using the following scale:

Table 4: Property Ranges and Proportion of Band D Payable

Property Ranges in South Lanarkshire for Council Tax			
Property Value Range	**Band**	**Proportion of Band D Tax Payable**	**Proportion of South Lanarkshire Property in each band January 2024**
£27,000 and under	A	67%	22.69%
£27,001 to £35,000	B	78%	19.41%
£35,001 to £45,000	C	89%	17.02% (Total A to C: 59.12%)
£45,001 to £58,000	D	100%	14.07%
£58,001 to £80,000	E	131%	13.15%
£80,001 to £106,000	F	162%	8.79%
£106,001 to £212,000	G	196%	4.50%
Over £212,000	H	245%	0.37%

7.10. The Council's declared tax will be at the Band D level but only around 22,100 properties (13.98%) are in band D. Over the past few years, there has been an upward movement in the valuation of properties. However, approximately 59.12% of properties still remain in Bands A, B and C, so the effect of any increase in Council Tax is reduced by 33%, 22% and 11% respectively for most properties.

7.11. The number of houses in the tax base for South Lanarkshire exceeds 157,700 as advised by the Assessor for the Lanarkshire Valuation Joint Board. From this figure, an allowance is deducted for single person discounts, students, disabled, vacant premises etc. to produce an estimated yield for £1 on a Band D basis at 100% collection of £143,707.

7.12. The Council must set an appropriate level allowing for non-collection. Council Tax collection rates have improved markedly in recent years due to the number of changes initiated by the Council.

7.13. A yield of £139,575 for £1 tax at Council Tax Band D has been used in the 2024/2025 budget (an increase on 2023/2024 due to an increase in the number of properties). At an assumed 97.125%, this represents a continuation of the collection rate performance achieved in recent years.

7.14. This position assumes no year-on-year increase in Council Tax, as detailed in Section 7.2 and therefore sets/retains the Council Tax Band D at £1,300.81.

8. Local Government Finance Order / UK Spring Budget

8.1. As has been the case in previous years, although the Council received its grant settlement on 21 December 2023, the level of grant may change as the Finance Budget Bill progresses through Parliament to the Finance Order: Stages 1 to 3 of the Finance Budget Bill will be presented to Parliament between 8 to 27 February with the Debate on the Local Government Finance Order taking place on 28 February 2024. Details of this are provide in section 5.6, however, as no formal information has been received to date and therefore no change has been made to this paper.

8.2. The Council has a statutory requirement to set its Council Tax by 11 March 2024. While the Council has not yet received final confirmation of its Budget as a result of the Finance Order, it can set its Budget for the coming year using the settlement information received to date, and it can set its Council Tax.

8.3. As noted in section 8.1, this budget paper is based on the Local Government Settlement received on 21 December 2023. As the Budget Bill process continues, there may be changes to the level of grant allocation. However, at the date of writing it is not anticipated that this will change the Council's Budget position.

8.4. For Members' information, the UK Spring Budget is set for 6 March 2024. There is a risk that this could affect the Scottish Government / Scottish Public Sector Budgets, if there are fundamental changes from those just agreed in the Scottish Budget (late 2023). There is no information available on this at present.

9. Position Beyond 2024/2025 – Impact of Savings

9.1. This paper focuses on financial year 2024/2025, however 2 savings presented in Appendix 1 could have an impact on future years' financial position: M&O06 Early Learning and Childcare Reserves (£2.150million) and EDR08 – Mentoring and Learner Journey Reserves (£0.380 million). These savings are achieved through the one-off use of Reserves. If a permanent saving is not progressed, then the one-off use of Reserves will need to be reinstated and will add to the 2025/2026 Budget Strategy.

10. Employee Implications

10.1. Any employee implications arising from the savings proposed in Appendix 1 will be managed within Resources, with any staffing implications dealt with through a combination of anticipated turnover and redeployment through SWITCH 2.

10.2. A full analysis of the proposed savings has taken place in relation to potential areas at risk and potential areas where employees can be redeployed to through the SWITCH2 process. Detail has also been gathered around current vacancies and any posts filled on a temporary basis to aid redeploying employees.

11. Financial Implications

11.1. As detailed within this report.

12. Climate Change, Sustainability and Environmental Implications

12.1. As agreed at the Climate Change and Sustainability Committee (20 September 2023), a Sustainability Impact Assessment has been completed in respect of the Revenue Budget process and the Savings proposals themselves.

12.2. The impact assessment process aims to ensure that factors related to carbon reduction, climate change adaptation and the wider principles of sustainable development are included within Revenue Budget process. Elements feeding into this current Budget Strategy reflect increases in cost of current activity, rather than any change to existing practices and therefore should have no direct environmental impact change as a result.

12.3. Members have been issued with a Sustainability Impact Assessment for consideration in the decision-making process (5 February 2024).

13. Other Implications

13.1. The assumptions on which the budget is based are defined within the Financial Strategy for the Council as initially reported to the Council in June 2023 and updated during the year for additional pressures, corporate solutions and the Local Government Finance Settlement received on 21 December 2023. The Financial Strategy is a way of managing a number of key risks which directly impact on the funding available to deliver the Council's Objectives.

13.2. **Requirement to Set a Budget:** Under statute and internal governance rules, Council Members have duties around setting budgets. Failure to set a balanced budget would have serious implications, not just for the Council but also potentially for individual members who could incur personal responsibility for failure to comply with their statutory duty.

13.3. Any failure to set a balanced budget would almost certainly provoke intervention by Scottish Ministers and the Accounts Commission who have legislative powers to carry out investigations and make recommendations which could result in Scottish Ministers issuing binding directions to the Council. Under the Local Government (Scotland) Act 1973, special reporting processes exist (Section 102) which, if the Controller of Audit is not satisfied with the Council's steps to remedy such an issue, then he/she can make a special report to the Accounts Commission on the matter.

13.4. The Commission can then recommend that Scottish Ministers direct the Council to rectify the issue. Individual members who unreasonably contribute to the failure or delay in setting a budget could be ultimately censured, suspended or disqualified from standing for election for a prescribed period of time by the Standards Commission.

13.5. If a new budget is not set, then the Council could not enter into any new unfunded commitments, including contracts, and spend would be restricted to meeting existing liabilities. As the Council's current position is that there is a budget shortfall that requires to be met through identified solutions, without Council agreement on a 2024/2025 budget, a gap in our budget would remain that has to be addressed before the start of the financial year.

13.6. **Expenditure Subject to External Influences Including Pay Award**: Whilst the budget for 2024/2025 can be set with certainty, there are areas of expenditure that are subject to external influences which we will continue to monitor as the year progresses. Most significantly, this includes the impact of potential pay awards. This should be considered when looking at the option available to balance the Budget and the use of reserves set aside for Budget Strategies which are covered at sections 5.13-5.16. While the 2024/2025 Budget Strategy assumes an increase in costs into that year, and no pay deal has been agreed for 2024/2025 as yet, given the most recent Pay Claim figures presented, there is a risk that that any pay deal agreed will exceed the funding that the Council has identified for pay. The Reserves generated through the 2023/2024 Probable Outturn Underspend could be used as a contingency in the event of higher than budgeted costs for Pay.

13.7. **Job Evaluations:** As part of normal Council processes, Job Evaluation exercises continue across a number of Services. There are currently 4 appeals to job evaluation outcomes and the outcome of these may have financial implications on recurring costs for the Council as well as the potential for back pay implications. Any back pay implications would be dependent on the outcome of these appeals.

13.8. If all appeals were successful, the costs of back pay could be significant however at this point in time, no funding has been included for these costs given the outcome of the appeals are not known. The initial outcome of the Job Evaluations was that there was no change to the grade, however, these outcomes have been appealed and the appeals are expected to be known by March. No funding has been included for these costs as the exercise is ongoing.

14. Equality Impact Assessment and Consultation Arrangements

14.1. Equality Impact Assessments have been undertaken for the Budget and Savings Proposals. These have been issued to members (5 February 2024) to assist in the decision-making process. In addition, an assessment has been carried out in line with the Fairer Scotland Duty and this has also been issued to Members (5 February 2024). For details of work undertaken, please contact the Head of Personnel, Finance and Corporate Resources.

14.2. Meetings have taken place with the Trade Unions. With regard to external consultation, the public and partners were invited to comment on two Phases of Budget Consultation. Members will be aware that initial Budget communications commenced on 16 October and ran until Friday, 10 November 2023, and these gave information on the Council's financial position and context to the level of savings required. Feedback on this first phase of the consultation was provided to Members (20 November 2023).

14.3. The second phase of consultation ended on Friday, 19 January 2024, and looked at the savings proposals specifically. Feedback on this savings consultation has been presented to Members for their consideration (6 February 2024).

Paul Manning
Chief Executive

9 February 2024

Link(s) to Council Values/Priorities/Outcomes
- Accountable, Effective, Efficient and Transparent

Previous References

List of Background Papers
- Local Government Finance Circular 8/2023
- Council, 24 January 2024 – Update on the Budget Strategy for 2024/2025

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:
Jackie Taylor, Head of Finance (Strategy)
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E-mail jackie.taylor@southlanarkshire.gov.uk

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
Management & Operational Savings				
Council Wide				
M&O01	All	**Overtime** Through converting time and a half overtime to plain time, a saving of around one fifth of the costs can be made. This pack does not currently pick up, as part of any other savings proposals, any apparent planned reductions in overtime. It is proposed that the level of enhanced rate overtime is reduced. An element of the overtime will be in relation to HRA and IJB, however, through targeting a reduction of other services enhanced overtime by around 60% an estimated saving of over £0.300m could be made. This assumes that all hours worked on overtime is required.	-	0.300
M&O02	All	**Charging** A 3% increase on all Council charges is proposed. This would generate additional income of £0.200m and would mean a 3% increase on all charges that the Council is able to change (and excluding charges for Adults and Older People Services).	-	0.200
Total Council Wide			-	**0.500**
Community & Enterprise Resources				
M&O03	Grounds	**Alternative Working Patterns** This proposal would see golf course grounds staff moving to contracts covering 7 days as an alternative to weekend overtime working. The saving would be in reduced overtime. Note linked to golf courses / SLLC savings.	-	0.075

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
M&O04	Streets	**Mechanical Sweeping – Large** This proposal will see the introduction of alternative working patterns for staff operating large mechanical sweepers that are used on Class A, B and C roads, country roads and other main thoroughfare. The saving based on a reduction of fleet rather than reduced employee numbers. This would require a change to employees' contracts.	-	0.150
Total Community and Enterprise Resources			**-**	**0.225**
Education Resources				
M&O05	Support Services	**Central Administration Support** Following a restructure of the central administration support service this proposal is to remove 11.9 FTE posts. There are already existing vacancies totalling 5.9 FTE. The remaining 6 FTE equates to 3 posts at Grade 2 and 3 posts at Grade 1 (non-teaching posts).	11.9	0.375
M&O06	Early Years	**Early Learning and Childcare Reserves** This proposal is specific to the utilising reserves for ELC currently held for pupil growth for future years. It may be possible to make this a permanent saving through looking at an option for flexibility including levels of parental choice and the service will consider options in the future. The permanent element of this is not yet quantified and will require a full review of ELC service provision to determine achievability. This proposal can be achieved in 2024/2025 as a one-off contribution from reserves.	-	2.150
Total Education Resources			**11.9**	**2.525**

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
Finance & Corporate Resources				
M&O07	Finance – Transactions	**Additional Income from Statutory Additions** The council receives income from summary warrants issued in relation to Non-Domestic Rates. Based on a review of the 2022/2023 position, additional budgeted income of £0.050 million is estimated from 2024/2025.	-	0.050
Total Finance & Corporate Resources			**-**	**0.050**
Total Management & Operational Savings			**11.9**	**3.300**

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
Savings for Approval				
Community & Enterprise Resources				
CER01	Facilities, Waste and Grounds	**Waste** **Bulky Waste - R*emove Free Bulky Uplift*** 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 £40 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 £0.415m is projected for 2024/2025. Future year income projections will be refined following the first full year of operation. Comparative charges from other councils are attached at Appendix 2b. **Charging for Bulky Garden Waste Collection** 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 £40 charge for this service. Based on an estimated 25% uptake of the current service users, income of £0.045m is projected for 2024/2025.	-	0.460
CER02	Facilities, Waste and Grounds	**School Crossing Patrollers** There are a number of options that could be considered for the school crossing patrol service, from full removal of service to removing crossing points that are located at assisted crossing points (zebra crossings). The responsibility for children safely walking to school is for parents – the school crossing patrollers are a non-statutory additional service.	0.6	0.010

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
		Current establishment of 126 (30.11 FTE) has 13 posts (3.7 FTE) vacant on average at any given time. There are 129 staffed crossing points. The proposal is to remove the 3 remaining crossing points that are co-located with zebra crossing (0.6 FTE at Grade 1). All staff would be required to be redeployed into a current vacancy. The standard contract for school crossing patrollers is 10hrs. The locations of the three crossing points are shown below: • High Blantyre Road/Udston Road (St John Ogilvie High, Glenlee PS, St Cuthberts PS), • Udston Road/Farm Road (same schools as above), and • Auchinraith Road (Holy Cross, Beckford PS).		
CER03	Facilities, Waste and Grounds	**Countryside and Greenspace** This will involve considering the range of activities undertaken by the service and may impact on level of external funding received from the Scottish Government. The annual budget is currently £0.663m and the saving equates to a reduction of circa 18%. Current establishment – 15.1 FTE and the proposed saving would mean 3 FTE would require to be redeployed (G2 L3). The proposal would require the reduction or cessation of activities in relation to the following services: • Core Path Network • Countryside Access • Ranger activities • Projects with Community Groups and Third Sector • Volunteering/ Community Clean Ups • Advice and support for legislative duties i.e. Planning Applications.	3	0.120
CER04	Roads, Transportation and Fleet	**Roads Spend (Investment / Reactive / Core Maintenance)** The level of spend on roads and infrastructure investment including reactive and core maintenance would reduce. Overall spend in this area is focussed on a range of repair works including on	10	1.800

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
		carriageways and footways, drainage, lining and signing and safety defects. A 20% reduction in this investment area will see the network condition regress and an increase in the level of claims. Investment will require to be prioritised towards safety related defects meaning less proactive / preventative repairs are undertaken and more substantial investment required in the future. In addition, prioritisation of spend would be required to reduce the likely need for temporary or permanent road or bridge closures, increased risk of flooding, disruption for communities, business and public transport services due to unplanned restrictions and to minimise the impact of reduced wider support to communities (e.g. events) due to employee resources being directed towards managing increasing defects and complaints. This saving may impact on our ability to adequately fulfil our core statutory obligations in terms of safely managing and maintaining our network however the same position will be faced by all local authorities. The current Revenue spend budget is £8.879m, the current Capital budget for Roads is £10.4m (a core budget of £10m and a net carry forward £0.4m). £7.5m is being spent directly on Carriageways and the balance on other infrastructure projects including footways, structures, traffic signals etc.). An estimate of £10m has been included for planning purposes for 2024/2025. The saving would be a reduction of circa 20% and would mean an estimated reduction in Road Operatives of 10 FTE.		
CER05	Enterprise and Sustainable Development	**Christmas Events** This option would see a budget reduction due to removing 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 remove the events programme. There would be no council provided Christmas events in town centres. This savings proposal would remove all the budget for this area (£0.045m).	-	0.045
CER06	Enterprise and Sustainable Development	**Christmas Trees and Lighting** The proposal is a budget reduction to rationalise trees and festive lighting to eight main geographical areas: Hamilton, East Kilbride, Rutherglen, Carluke, Blantyre, Cambuslang, Larkhall and Lanark.	-	0.037

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
		There is expected to be an overall saving of up to £0.086m from this proposal – 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.		
CER07	Facilities, Waste and Grounds	**Food Waste Liners** This proposal is to cease the provision of food waste liners for food recycling. This would save the cost of the liners and associated staff costs (0.5 FTE).	0.5	0.100
CER08	Facilities, Waste and Grounds	**Secondary Meals Price Increase** The average charge of a school meal across Scottish Councils has risen to £2.40 and a proposal was put forward to increase charges by 40p. A 20p increase was agreed. The service has experienced exceptionally high increases in food costs and staff costs arising from pay awards – the increase in charges agreed is considerably lower than these increases. Comparative charges from other councils are attached at appendix 2c. This proposal would be to increase charges to the amount recommended last year (that is, a further 20p increase). Note that children entitled to free school meals will continue to receive these. Currently around 16.9% of secondary children are registered for free school meals.	-	0.177
CER09	Roads, Transportation and Fleet	**Parking at Key Attractions** This proposal is to introduce a £2 charge for parking at Tinto Hill, Chatelherault Country Park, Calderglen Country Park and James Hamilton Heritage Park. Any further charges at other attractions would be subject to further approval. Traffic Regulation Orders are required for any new charging proposals. Following approval of the saving there will be the requirement to develop systems and for a statutory period, (6 to 9 months) there will be the requirement to promote the necessary traffic regulation orders. There will therefore be partial implementation of the saving in 2024/2025. Falkirk and Glasgow City councils have adopted similar principles with Falkirk's Muiravonside Park charge rising from £1 to £2, and Glasgow's Pollock Park £2.50 for 4 hrs and £4.50 for all day parking. Many National Trust sites / Forestry Commission parks across Scotland charge for parking.	-	0.100

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
		Income of £0.100m is now proposed for 2024/2025. A further saving of £0.100m will be made in 2025/2026.		
CER10	Enterprise and Sustainable Develop-ment	**Business Support Programmes** This proposal would see a reduction in the staff supporting business support and placing reliance on partners such as Business Gateway to provide business support. This will impact on the delivery of the Economic Strategy and specifically jobs created/retained. Both North Lanarkshire Council and the Council's Community and Enterprise Committee have now agreed to bring 'Business Gateway' in-house with NLC taking the lead role. NLC is working through TUPE issues with the existing provider but there may be an opportunity for some staff to be re-deployed to Business Gateway/NLC to serve the needs of SLC businesses. Delivery and operational structures are currently being developed. Due to the multi functionality of the teams, there would be other activities that would cease or be limited in their extent, such as providing advice to businesses, the assessment and monitoring of business grants and supporting third sector organisations. There will be less support for external funding programmes. These are non-statutory services. There is currently a Revenue budget of £0.187m within Economic Development for Business Support Grants and £0.089m for Tourism, Supplier Development Programme (SDP) contribution and Business Development Initiative (BDI). The saving would remove 37% of spend in each year. The staff reduction would be 2 FTE being, 1 Grade 3 post and 1 Grade 2 post.	2	0.070
CER11	Leisure and Culture	**Leisure and Culture** The Council currently pay a Management Fee to South Lanarkshire Leisure and Culture (SLLC) to deliver leisure and cultural services. This budget currently totals £21.3m and it is proposed that this is reduced commensurate with the level of savings that the Council is required to make from its budget. The saving would remove c5% of the Council contribution to SLLC. This will have an adverse impact on SLLC's income generation as well as an impact on its expenditure budget. As a result, it could mean that the level of service reduction could be more, and this is in addition to their current budget pressures.	tbc	1.000 (reduced from 1.500)

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
		Any proposal to balance the SLLC budget would require to be agreed by the SLLC Board.		
CER12	Grounds	**Grass Cutting** This proposal would see a reduction in the grass cutting specification. Low amenity areas – 14 cuts to 7 cuts per year High amenity areas – 18 cuts to 14 cuts per year (Low amenity includes public open space. High Amenity includes cemeteries, high footfall areas, public buildings) This will reduce costs by £0.900m. It will mean that grass will be much longer between cuts and the general maintenance appearance will differ from current specification. Grass arisings will be left on the surface of those areas cut as grass collection will only remain in cemeteries. In additional to the 17 FTE affected, there will be a reduction of 20 FTE seasonal staff.	17	0.900
CER13	Grounds	**Weedkilling** This proposal will reduce weedkilling from 2 applications to one per annum. The reduction applies across all current areas of hardstanding, shrub beds and grass edges. There will be greater weed growth over the growing season.	14.5	0.550
CER14	Grounds	**Winter Shrub Beds** This proposal will see the removal of over mature winter shrub beds and reduced maintenance on those remaining. The removed shrub beds will be grassed over, and the remaining shrub beds will see a reduced maintenance regime.	25	0.700
CER15	Grounds	**Bedding and Hanging Baskets** This proposal would see the removal of all summer bedding and hanging baskets.	-	0.144

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
		Current summer bedding areas will be grassed over, including war memorials and baskets removed including parks. There will be a reduction of 3.5 FTE seasonal staff.		
CER16	Grounds	**Support for Gala Days** This proposal would see the removal of grounds staff supporting gala days. This includes costs of bunting and the costs of overtime for staff supporting gala days.	-	0.055
CER17	Streets	**Mechanical Sweeping – Small** There would also be a reduction in the number of smaller Swingo vehicle used on footpaths, shop fronts and town centres and some roads within housing areas and industrial estates. (27% reduction in vehicles). This will mean less street sweeping. Remaining vehicles will be targeted to high footfall areas. Smaller fleet will mean means less resilience in ad hoc / urgent response situations.	6	0.300
CER18	Streets	**Litter collection** This proposal would see a 10% reduction in litter picking and bin emptying. The saving would include staffing and fleet vehicles. Bin infrastructure is being looked at to reduce numbers of bins but increase capacity.	10	0.280
Total Community and Enterprise Resources			**88.6**	**6.848**

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
Education Resources				
EDR01	Support Services	**Librarians** There are 11 FTE school librarians working across our secondary schools who operate a library service ranging between 2 to 5 days per week, based on the size of the school. The proposal is to reduce the service by approximately 50%. This would be undertaken by moving to a reduced service for all schools of 1- 2 days per week. This saving would start from April 2024 rather than the academic year, and a 50% reduction would equate to 6 FTE posts at Grade 2 (non-teaching posts).	6	0.240
EDR02	Support Services	**Secondary Schools Technician Service** Cluster Team Technicians support the delivery of the curriculum within the secondary sector. This is carried out in 3 distinct disciplines, Science, Technical and Audio Visual. The are approximately 54 FTE school technicians and the proposal is to reduce the service by 25%. This would be undertaken by implementing a partial reduction in staffing across each secondary school based on size. In order to minimise disruption in supporting learning and teaching and protect the health and safety aspect of technical support, it is expected that the discipline of audio visual may be proportionately higher affected by this saving than the areas of science and technical. This saving would start from **April 2024** rather than the academic year, and a 25% reduction would equate to 15 FTE posts at Grade 2. There are currently some temporary positions.	15	0.590
EDR03	Support Services	**Period Poverty (Flexibilities)** There is a legislative requirement to ensure that sanitary products are available free of charge for those who need them within schools and the wider community.	-	0.080

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
		The spend over the last 2 years has been less than the funding awarded by the Scottish Government. This funding is now part of each council's financial 'flexibilities' as agreed between the Scottish Government and COSLA.		
EDR04	Support: ELC	**ELC Quality Support and Service Delivery** This proposal will see the removal of 2.5 FTE clerical support from Personnel Services supporting the recruitment for expansion, as the expansion is now in place. These are Grade 1 Level 3 from April 2024 (£75,000) (non-teaching post). In relation to the **Equity and Excellence Leads (EELs)** There are currently 26 FTE. These posts were identified in 2018, to support Local Authorities to close the poverty related attainment gap. The priorities for these posts are: • SIMD • Higher concentration of vulnerable and in need families • High level of multi agency input • Eligible 2-year-olds • Free school meal entitlement • Early Intervention • Rurality The EELs are placed within Local authority and funded provider settings for a period of time to work alongside the manager and staff to provide very targeted support to upskill practitioners and support capacity for improvement. At this time, we have 2 FTE posts vacant, and 13 term time posts. We propose to remove 3.8 FTE providing a potential saving of approximately £170,000 at this time. These are grade 2 level 4 posts from April 2024 (non-teaching posts). In addition, the proposal is to remove a post supporting the development of Seemis NAMS Early Years system. This activity will need to be managed from within the remaining be Education central admin team when the project goes live. This post is currently vacant (£45,000). This is 1 FTE grade 2 level 4 post from April 2024 (non-teaching post).	7.3	0.300

<table>
<tr><th>Reference</th><th>Service</th><th>Name and Brief Description of Saving</th><th>FTE (24/25)</th><th>Saving 24/25 £m</th></tr>
<tr><td></td><td></td><td>Also, proposed is a £0.010 million saving in relation to contribution to SPELL (Support for Play and Early Learning in Lanarkshire). SPELL provide support to the parent and toddler groups and voluntary sector playgroups. This includes training and development which complements the training that is delivered centrally.</td><td></td><td></td></tr>
<tr><td>EDR05</td><td>Support: CQIS</td><td>Delivery of the Curriculum Quality and Improvement Service (CQIS)

This may impact on school improvement and inspection, literacy, numeracy and health and wellbeing, parental engagement and involvement, attainment including qualification, digital learning and leadership development.

The consequences of this saving will be a reduction in the resource available from officers to support schools and the services described above.

Proposed measures include:
Reduction in supported study programme (£0.005m)
Recharge copyright licences to schools, currently paid for by CQIS. This is an essential service but the costs going forward will need to be met by schools from existing budgets. (£0.120m)
Remove funding to support Outdoor learning risk assessment (£0.010m)
Remove power language support to schools (£0.005) *
Remove support for career Academy (£0.002m) *
Recharge Scholar Programme* This is a 1 year contracted service currently paid by CQIS which will need to be supported by schools from existing budgets in 2024/25 and will be removed permanently thereafter. (£0.040m)
Phase out consortium transport support (transport for Advanced Higher pupils) in favour of virtual academy (£0.003m)
Cost recovery for CPD, catering and lets associated with training events delivered by CQIS (£0.105m).
Remove 1 Mentoring post (£0.060)
* These are optional services for schools, and should they wish to continue, schools will need to fund directly from devolved budgets which are also subject to a saving in this pack.</td><td>1</td><td>0.350</td></tr>
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Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
		The post would need to be removed from the service from April 2024 to achieve these proposals. This is a post is a grade 3 level 8 (non-teaching post).		
EDR06	Early Years	**Early Learning and Childcare Food Provision** This relates to the provision for children attending morning only and afternoon only ELC settings where food provision (brunch and afternoon tea respectively) is in addition to Milk and Healthy snack. Children will still be offered snacks, brunch and afternoon tea (where applicable). There will be a reduction in food choice, with a view to reducing the service marginally to align to hours in attendance, overall food provision and budgets available. Any revised arrangements will be fully compliant with nutritional standards.	- (reduced from 1.5)	0.150
EDR07	Primary	**Remove SLC Summer Programme Provision** This option would see a removal of the councils funding that has contributed holiday play club provision from 2024/2025. This is a continuation of programme reduction following a reduction in Scottish Government funding in Summer 2023. The saving would remove the remaining element of Council funding and the programme would only continue if Scottish Government funding was provided and would be scaled accordingly. If no Scottish Government funding is received, then no provision will be provided. If the Scottish Government continue to provide funding then we will continue to provide clubs. Clubs were provided last year in the following areas: • Halfmerke Primary School, East Kilbride • West Mains School, ASN, East Kilbride • Greenburn School, ASN, East Kilbride • Douglas Universal Connections • St Mary's Primary School, Lanark • St. Athanasius Primary School, Carluke • Neilsland Primary School, Hamilton • St. Paul's Primary School, Whitehill, Hamilton • Cairns Primary School, Cambuslang • Burgh Primary School, Rutherglen • Craigbank Primary School, Larkhall (run by Machan Trust) Parents of any child entitled to a free school meal will continue to receive a payment of £2.50 per day during school holidays.	2.8	0.143

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
		This proposal reflects a reduction in non-teaching posts of 2.8 FTE posts (1.8 FTE at grade 2 and 1 FTE at grade 3) as well as funding for food provision and resources.		
EDR08	Secondary	**Mentoring and Learner Journey Reserves** This proposal is to utilise reserves that were identified for mentoring support and improved learner journey experience for vulnerable young people as a saving. This proposal can be achieved in 2024/2025 as a one-off contribution from reserves. A permanent saving will be considered around mentoring support and other support available within schools.	- (reduced from 9)	0.380
EDR09	Youth, Family and Community Learning	**Payments to RegenFX** Remove Council support to RegenFX for youth services. RegenFX (Youth Trust) was established as a charity in 2007 and aims to identify, design and deliver solutions to ease youth poverty, associated anti-social behaviour and provide youth diversion activities within the regeneration areas of South Lanarkshire. The organisation directly delivers youth projects and recruits, trains and supports volunteers. It helps to administer funding streams for groups and individuals and provides several youth work training courses. The payments to RegenFX total £0.115m and are made up as follows: • Staff Costs Contribution - £0.031m • Youth, Family and Community Learning Contribution - £0.020m • Universal Connections Contribution - £0.064m **Note link to FCR04.**	-	0.115

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
EDR10	Inclusion	**Extended Support Team (Inclusion Service)** Propose reduction in teacher staffing of Extended Support Teams. This is a locality based peripatetic teaching support service for children and young people with additional support needs attending mainstream primary and secondary schools. The service delivers advice, training and guidance to schools on a range of additional support needs including English as an additional language, dyslexia, autism, mental health and wellbeing and distressed behaviour and provides direct teaching support to children and young people. The Service is an element of Stage 3 (out with school and within education authority) of the staged intervention of support for children and young people with additional support needs. Reduction in the service will require capacity building in school-based staff in the development of knowledge and specialist understanding of the nature and range of additional support needs and deployment of school-based teaching resources to provide additional support to children assessed as requiring it. The current proposal relates to removal of 8 FTE teachers with a full year saving of £0.520m and £0.320m from August 24 to March 25. **This represents a 15% reduction in teacher numbers in the service**. *Note teachers' impact.*	8	0.320
EDR11	Early Years/ Primary/ Secondary/ ASN	**Per Capita / Devolved School Management Spend** This saving proposes a reduction in the per capita allocation to Early Learning and Childcare (ELC) / primary and secondary schools (i.e. the amount we provide to establishments to spend per pupil). Total "per capita" spend is £3.6m. This allowance has been subject to savings in recent years, particularly as part of procurement efficiencies. The consequences would be that the ability for establishments to spend on classroom materials and resources would be reduced. A 13% reduction in per capita allocation of £0.480m will give a per pupil allocation of £21.71 primary, £91.96 secondary, £745.97 ASN and £74.34 ELC based on census 2022 pupil numbers. Any further reduction to schools' budgets will be additional to this saving proposal.	-	0.480

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
EDR12	Primary / Secondary	**Reduce Area Cover in Schools** This proposal is a reduction of 18FTE teachers in each of both the primary and secondary area cover pools. This relates to 36 FTE with a full year saving of £2.304m. £1.477 from August 24 to March 25 and the remainder in the following year (£0.827m). This will result in up to 18 further absences in each sector not being covered on a daily basis with a reduced number of cover teachers available. This will impact on learning and teaching in schools and management time support. This may result in Managers / Head Teachers and Depute Head Teachers having to cover classes. *Note teachers' impact.*	36	1.477
Total Education Resources			**76.1**	**4.625**

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
Finance and Corporate Resources				
FCR01	Admin, Legal and Licencing	**Community Grants, Civic Events and Gifts** This budget covers grants to national, regional and local voluntary organisations, community grants and gala grants. The recipients have mainly been in receipt of the grants for a number of years although they have to apply annually and satisfy the criteria. The budget also covers civic events and gifts. A review has been undertaken re the current use of the budget alongside the grants criteria and whether it continues to meet the council values and objectives and the needs of its residents, in order to determine whether better use could be made of some or all of this budget in service delivery. This has resulted in a proposal to either reduce some grants or remove some grants altogether as well as a reduction in civic events and civic gifts. The staffing impact would be a reduction of 0.5 FTE (Grade 1). The overall budget of £0.685m includes community grants, civic events and gifts. £0.211m is payments to Citizens Advice. The saving will reduce the budget by 50%. Appendix 2d provides information on the grants allocated in 2023/24 and the impact into 2024/25.	0.5	0.340
FCR02	Finance – Transactions	**Council Tax and Benefits Call Centre** This proposal will reduce the establishment working in the Council Tax and Benefits call centre. This would reduce the current establishment of 11 FTE by 3 FTE and would result in callers waiting longer to speak to an operator. Average call waiting times are likely to increase from the current 2 minutes to approximately 5 minutes with the longest waiting times increasing from 21 minutes to over 30 minutes. There are online alternatives for contacting the service. The staffing impact would be a reduction of 3 FTE (at G2 L1).	3	0.096

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
FCR03	Comm's and Strategy	**Community Engagement** The Council engages in community planning including a formal Community Planning Partnership that involves and engages communities. There also has to be a Local Outcome Improvement Plan - focussed on inequalities and looking at the Scottish Government National Outcomes. Within that we have a formal duty to report on priority areas as identified through the SIMD and therefore our 10 priority areas that we have local neighbourhood plans for. Other statutory work relates to the Child Poverty Act 2010. There are 19.5 FTE in this area and a budget of £0.868m. The saving would be a 50% reduction in budget. The staffing implications would be a reduction of 9.5 FTE across all grades. This unit delivers work beyond the minimum required to meet those statutory obligations so this saving will result in a reduction in the work we do with communities. Statutory obligations mean it will be impossible to withdraw or reduce from some specific areas of service, notably support provided for Community Asset Transfer (which is also a priority in terms of rationalising of council assets), work in support of the Community Planning Partnership and period products. For this reason, the saving would be required from community engagement activities – in essence, reducing this to core activities such as neighbourhood planning, with fewer non-statutory engagement projects. A consequence of this could be reduced engagement and consultation with communities.	9.5	0.430
FCR04	Comm’s and Strategy	**Payment to Regen:Fx** The Service currently contributes £0.394m towards Regen:Fx youth trust, which provides diversionary activities for young people. This proposal would see a reduction of £0.200m in that contribution. Regen:Fx are a charitable organisation and they would require to look to other external funding sources to enable current activities to continue. **(Note the link to saving EDR09 where reduction in grant is also proposed).**	-	0.200
Total Finance & Corporate Resources			**13**	**1.066**

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
Housing & Technical Resources				
HTR01	Housing (non HRA)	**Community Safety Budget** This proposal will reduce the level of funding currently used to support Community Safety initiatives. It would remove funding for partners and community safety initiatives that could be sought from other sources. In recent years, this has involved the 'Move the Goal Posts' initiative, therefore the consequence of this is that communities would not have the opportunity to commission any youth diversionary scheme. All consultation and bids from Joint Problem-Solving Unit partners will cease this year in line with the removal of this funding. The current budget is £0.101m and the saving would reduce this by 45%.	-	0.046
HTR02	Housing (non HRA)	**Housing Strategy Service** The Housing General Fund currently makes a contribution to the Housing Revenue Account for the Housing Strategy Service, in line with current work undertaken. It is proposed that this approach changes which will result in a different model for Housing Strategy Service and financial implications for the Housing Revenue Account. The savings into 2024/2025 are estimated at £0.113m, which will be realised by increasing the HRA contribution from 73% to 78% of the cost. The implications of this continuation of savings will be minimal for General Services Housing. The increase from 73% to 78% in monetary value equates to £0.113m. This would prevent any job losses and ensure that the high levels of service are maintained particularly at a time when the Affordable Housing Supply Programme is a key priority along with the development and implementation of the integrated housing management system. HRA will require to make a compensatory saving. The current service budget is £0.677m.	-	0.113

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
HTR03	Property Services	**CCTV** We currently operate a fully staffed 24-hour service. We will move to night-time only staffed service with 24-hour recording. This will require a change in supervision arrangements, hours of operation and staff shift patterns. Assessment would include considering the implications of increased cost of communications lines and stability of current Police Scotland contribution. The consequence of this would be the Council no longer providing a fully staffed 24-hour service, however the service would be more sustainable and focused on peak demand. The current budget is £0.464m. The saving would reduce the FTE by 2 posts.	2	0.039
HTR04	Property Services	**Scheme of Assistance (Housing)** This saving will be achieved by reducing the budget available for grants to be provided to homeowners and those who rent a private property, to repair, maintain, improve, and adapt their homes. Requests for funding would be prioritised within the remaining budget. There is also an element of capital funding provided for Scheme of Assistance (£1m per annum) – it is proposed that 50% of that funding is also reduced. There is a statutory obligation to provide advice and assistance in relation to tolerable standard and disability. Other forms of assistance however are optional and can be provided through advice etc. Updated guidance is awaited from Scottish Government. The consequence of this saving is that there would be less funding available for scheme of assistance grants going forward, and there could be consequences in terms of people continuing to live at home independently and potentially on the delivery of the Housing Investment programme. The current budget is £0.707m plus £1m capital. The proposed savings would remove c80% of Housing Revenue Budget and 50% of capital. The £0.500m capital saving would be released by funding a lower level of capital spend from the Revenue budget.	-	1.052
Total Housing & Technical Resources			**2.0**	**1.250**

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
Social Work Resources				
SWR01	Adult and Older People	**Reduce the Subsidy of the In-House Residential Care Home Services** It is proposed to increase the charge for in-house residential care services. The charge for in-house residential care services is currently based on the national care home contract rate of £762.62 per week. It is proposed to base the charge on the average unit cost of in-house residential care services of £1,469.73 per week. The charge made will increase from £762.62 to £1,469.73. The contribution made towards residential care service costs, both in-house and external, is subject to ability to pay. The proposed increase would only be paid by self-funders i.e. individuals who have capital in excess of £32,750. As the contribution is based on ability to pay, in-house care-home residents who are not paying the full charge will not pay any more under this proposal. Also, residents for whom the Council currently pays the cost of the service, will not be affected by this proposed increase. This saving assumes an average of 42 self-funders with the ability to pay the full amount. The projected increase in income is £1.580m per annum. This will be shared 50% to the Council and 50% to the IJB	-	0.790
SWR02	Adult and Older People	**Increase the Taper for Non-Residential Care Services from 60% to 70%** This proposal covers all services chargeable under the non-residential charging policy and includes home care, supported living and day services. The charging policy for non-residential care services will continue to be based on an assessment of the service user's ability to pay towards the cost of care services. In line with previous years, the charging policy in respect of non-residential care services will be amended to reflect the thresholds	-	0.147

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
		recommended by COSLA for 2024/2025, effective from April 2024. If the income of service users falls below this threshold, no contribution would be required. In arriving at the contribution payable by service users towards the cost of their care services, a calculation is completed to determine their assessable income (leftover disposable income) to which a percentage taper is then applied. In line with the COSLA guidance for charging, Local Authorities can set the percentage taper. This then determines the maximum level of contribution that the service user will make. The taper is therefore the amount that the Local Authority will take as a contribution from the assessable income towards the cost of care services. The proposal is to increase the taper to 70% (from the current 60%). This will only affect the service users who are assessed as having the ability to pay. 574 service users (85%) would be affected by the increase in the taper. The impact of the increase would range from £0 to £34.03 per week and only affects those people who currently have the ability to pay a higher percentage of their disposable income to the Council for services used, up to the value of the services they receive. The impact of the increase is shown below:		

Increase of Between	No. of Service Users
£0 to £5	243
£5.01 to £10	100
£10.01 to £15	154
£15.01 to £20	63
£20.01 to £25	10
£25.01 to £30	3
£30.01 to £35	1
	574

Based on the current financial profile of service users, the average increase would be £8.31 per week. The projected increase in income is £0.294m per annum. This will be shared 50% to the Council and 50% to the IJB.

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
SWR03	Adult and Older People	**Reduce the subsidy of the In-House Day Services** The current charge for day services is as follows: Older People Services £34.98 per day Adult Services £36.45 per day It is proposed to increase the daily rate by £3.40. The revised charge for 2024/2025 would therefore be as follows: Older People Services £38.38 per day Adult Services £39.85 per day Access to day services is based on assessed need and self-directed support arrangements agreed with the service user. There are currently 184 service users accessing day services. The charge applied to access day services, and other non-residential care services, is based on an assessment of the service user's ability to make a contribution towards the cost of care services. The projected increase in income is £0.040m per annum. This will be shared 50% Council, 50% IJB.	-	0.020
SWR04	Adult and Older People	**Introduce a New Charge for the Installation of Key Safes at each Service User's Home** The installation of a key safe gives carers and community alert alarm responders access to the service user's home. This would be a new one-off charge of £97 to cover the cost of installation of the key safe. The average number of key safes installed each year is approximately 887. The projected increase in income is £0.086m per annum. This will be shared 50% to the Council and 50% to the IJB (SLC - £0.043m, IJB - £0.043m).	-	0.043
Total Social Work Resources			**-**	**1.000**

Reference	Service	Name and Brief Description of Saving	FTE (24/25)	Saving 24/25 £m
		Savings for Approval		
		Community & Enterprise Resources	88.6	6.848
		Education Resources	76.1	4.625
		Finance & Corporate Resources	13.0	1.066
		Housing & Technical Resources	2.0	1.250
		Social Work Resources	-	1.000
		Savings for Approval (before Council Tax)	**179.7**	**14.789**
		Management & Operational Savings	**11.9**	**3.300**
		Total Savings (before Council Tax)	**191.6**	**18.089**

Appendix 1b

Bulky Waste Charging Data Across Councils

Local Authority	Uplift Services - Oct 2023 info
Aberdeenshire	£31.47 up to 4 items / £62.94 up to 8 items / £40.42 Individual items (priced per item).
Aberdeen City	£33 up to 4 standard items / £16.50 for 4 standard items if you receive Housing Benefits. Council tenants are entitled to have 4 standard household items collected for free each year as part of their tenancy agreement.
Angus	£30.70 for up to 3 items each additional item thereafter £9.40 / £40.10 x 4 / £49.50 x 5 / £58.90 x 6 / £68.30 x 7 / £77.70 x 8 items / £87.10 x 9 times / £96.50 x 10 items and so on to £190.50 x 20. Up to 20 items at one time.
Argyll and Bute	£76.30 per 10 minute collection (longer than 10 minutes may be charged for additional time).
City of Edinburgh	£5 per item, max 5 items.
Clackmannanshire	£50 per uplift (up to 8 items).
Dumfries & Galloway	£13.95 up to 3 items or up to 10 bags (quote required for further items, dependent on size/type).
Dundee City	£29 up to 6 items £50 x 12 items outside your property at ground floor level.
East Ayrshire	1-3 items £15:93 / 4-5 items £29:21 / £3:49 per additional item with a maximum of 10 additional items allowed per uplift. Resident in receipt of benefit relating to Council Tax or Housing Benefit are eligible to a 50% discount on published charges.

Local Authority	Uplift Services - Oct 2023 info
East Dunbartonshire	£24:22 per uplift. Sometimes your uplift is not eligible for the standard charge. In this instance we will contact you with the cost.
East Renfrewshire	£51:85 per standard request.
East Lothian	£5 per item
Falkirk	1 free uplift / additional uplifts £35 max 5 items.
Fife	Free uplift for max of 18 items
Glasgow City	£5 per item - £50 for up to 10 items / £80 per special items
Highland	£25.75 up to 3 items / £51.50 up to 6 items.
Inverclyde	1/2hr charge £92:65 / 3/4hr charge £139 / 1hr charge £185:25 / Fridge disposal £46:60.
Midlothian	£27 up to max 7 items / £27.00 for a fridge/freezer / £40:00 for a bespoke quote for items such as bathroom suites and fitted furniture.
Moray	£28.80 for 5 items plus max 2 black bags.
Wester Isles	£30.50 for 5 items / special collection/hr (1 man + pickup £63.55.
North Ayrshire	£26.46 up to 5 items / additional items £5.29 each.
North Lanarkshire	£36.75 for max 10 items or x 20 bags

Local Authority	Uplift Services - Oct 2023 info
Orkney Islands	Mainland and Linked South Islands Up to 5 items £65 / 6-10 items £273 - Non linked North & South Isles up to 5 items £24 / 6-10 items £101 / Lorry Load £204
Perth & Kinross	£35 up to 5 items (3 bags=1 item) / additional items may incur further charges.
Renfrewshire	£37.15 for 1-20 items / white goods £37.15 each.
Scottish Borders	£45 for up to 5 items.
Shetland Isles	£40 up to 6 items / 7-12 items £80 Concession of £16 for 6 items if receiving certain benefits.
South Ayrshire	First item £25 / further 6 items can be added @ £5.00 each.
Stirling	£48.80 up to 5 items, 6 if including a fridge/freezer. If all members of your household are over 60 years council will collect up to 2 special uplifts free of charge per year.
West Lothian	£36.58 up to 5 items.

School Meal Comparative Charges

	Secondary £
East Ayrshire	1.08
Dumfries & Galloway	2.00
Glasgow City	2.00
North Ayrshire	2.05
Falkirk	2.05
South Lanarkshire	2.20
Angus	2.20
Perth & Kinross	2.30
Fife	2.40
Argyll & Bute	2.40
Midlothian	2.40
West Lothian	2.43
South Ayrshire	2.45
East Lothian	2.50
Scottish Borders	2.50
East Dunbartonshire	2.54
Highland	2.55
East Renfrewshire	2.60
Aberdeen City	2.65
Renfrewshire	2.70
Shetland Islands	2.75
Orkney Islands	2.80
Edinburgh, City of	2.80
Aberdeenshire	2.85
West Dunbartonshire	2.92
North Lanarkshire	3.15
Clackmannanshire	1.35*
Inverclyde	1.50*
Moray	1.70*
Dundee City	2.50*
Stirling	tbc

* Main meal only

Appendix 1d

Grants Information

Budget Type	**Grant Awarded 23/24**	**Potential Grant Award 24/25**
Voluntary Organisations		
Spell	£28,263	£14,130
Cash for Kids	£19,570	£0
Voice	£13,930	£0
East Kilbride Community Transport	£5,552	£2,780
Lanark YMCA	£5,451	£0
Cargill House Club	£5,047	£0
Coalburn Miners Welfare	£2,060	£0
Thornton Road Community Centre	£7,066	£0
Family Mediation	£6,561	£3,280
Particip8 Overton	£3,000	£1,500
Lanarkshire Cancer Care Trust	£7,571	£3,790
Lanarkshire Rape Crisis Centre	£7,167	£3,580
Childcare in the Community	£2,221	£1,110
Eastfield Physically Disabled Club	£404	£0
Hamilton Churches Drop In	£505	£0
Milan Centre Social Club	£2,019	£1,010
Play care out of Schools Care - Parent Action Group	£3,028	£1,510
Special Needs Adventure Playground (SNAP)	£3,533	£1,770
Clydesdale CAB	£52,118	£46,900
East Kilbride CAB	£52,118	£46,900
Hamilton CAB	£54,539	£49,090
Rutherglen CAB	£52,530	£47,280
Hamilton Information Project for Youth	£56,650	£28,330
Lightburn Elderly Association Project	£55,368	£27,680
Unspent in 2023/24	£83,229	£0
Gala Grants		
Lanark Lanimer Day	£4,635	£3,360
Rutherglen Landemar Day	£4,223	£3,000
All other Gala Grants	£15,842	£0
Community Grants		
Community Groups/Playscheme Grants	£103,000	£44,000
Civic Hospitality		
Civic Events	£22,600	£11,300
Civic Gifts	£5,000	£2,500
TOTAL	**£684,800**	**£344,800**

Appendix 1 of report to Executive Committee, 24 January 2024

Use of Pension Contribution Benefit

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	Total £m
Remaining Budget Gap before use of Pension Fund Benefit	**26.7**	**41.4**	**16.7**	**11.0**	**95.8***
Use Pension Fund Benefit – Temporary	**(4.0)**	**(23.5)**	**(17.7)**		**(45.2)**
Requirement to Re-instate Temporary Use of Pension Fund Benefit		**4.0**	**23.5**	**17.7**	**45.2**
Remaining Budget Gap after use of Pension Benefit	**22.7**	**21.9**	**22.5**	**28.7**	**95.8***

Use of Probable Outturn Monies

Use of Probable Outturn Monies	**(2.0)**			**2.0**	**0.0**
Remaining Budget Gap after Use of Pension Benefit and Probable Outturn Monies	**20.7**	**21.9**	**22.5**	**30.7**	**95.8***

**Note that the remaining Budget Gap of £95.8m over the 4 years is the same before and after the use of the pension fund benefit and probable outturn monies.*

South Lanarkshire Council

2024/2025 Revenue Budget Summary

	2023/24 Base Budget £m	2024/25 Rollover £m	2024/25 Proposed Base Budget £m
Community and Enterprise Resources	128.909	4.774	133.683
Education Resources	433.558	33.145	466.703
Finance and Corporate Resources	40.202	(2.242)	37.960
Housing and Technical Resources	13.630	1.546	15.176
Social Work Resources	219.616	9.040	228.656
Joint Boards	2.053	(0.151)	1.902
Total of all Resources plus Joint Boards	**837.968**	**46.112**	**884.080**
Other Budget Items:			
Loan Charges	**54.091**	**1.327**	**55.418**
CFCR	**-**	**-**	**-**
Corporate Items inc. Service Concession Annual benefit	**21.084**	**8.195**	**29.279**
2024/2025 Savings	**-**	**(12.701)**	**(12.701)**
Total Base Budget 2023/2024	**913.143**		
Total Proposed Budget 2024/2025		**42.933**	**956.076**

The 2023/2024 base budget includes adjustments approved during 2023/2024.

South Lanarkshire Council 2024/2025

Revenue Budget Summary

Budgetary Category	2023/2024 Base Budget £m	2024/2025 Proposed Base Budget £m
Employee Costs	589.143	628.095
Property Costs	53.501	66.564
Supplies and Services	62.516	63.524
Transport and Plant Costs	43.124	44.563
Administration Costs	15.803	16.075
Payments to Other Bodies	72.008	71.271
Payment to Contractors	251.777	255.823
Transfer Payments (Housing & Council Tax Benefit)	72.339	67.153
Financing Charges (Leasing Costs)	2.345	2.919
Total Expenditure	**1,162.556**	**1,215.987**
Total Income	**(324.588)**	**(331.907)**
Net Expenditure	**837.968**	**884.080**
Other Budget Items:		
Loan Charges	54.091	**55.418**
CFCR	-	**-**
Corporate Items inc. Service Concession Annual Benefit	21.084	**29.279**
2024/2025 Savings	-	**(12.701)**
Total Base Budget 2023/2024	**913.143**	
Total Proposed Budget 2024/2025		**956.076**

SOUTH LANARKSHIRE COUNCIL

Report

Agenda Item

4

Report to:	**South Lanarkshire Council**
Date of Meeting:	**21 February 2024**
Report by:	**Chief Executive**

Subject:	**2024/2025 Capital Programme Update**

1. Purpose of Report

1.1. The purpose of the report is to:-

- Provide the Council with a proposed General Services Capital Programme for financial year 2024/2025, reflecting the spend requirements identified by Resources and the availability of funding.

2. Recommendation(s)

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

(1) that the 2024/2025 Capital Programme totalling £49.512 million (Section 4.23) and detailed in Appendix 3 be approved; and

(2) that the proposal to fund Larkhall Leisure Centre over the period to 2027/2028, as covered at section 4.10 to 4.14, be approved.

3. Background

3.1. A proposed capital programme for 2024/2025 has been drafted for consideration by Members. This is presented in section 4 and takes consideration of ongoing programmes of work and priorities, commitments from the approved Glasgow City Region City Deal Programme, as well as incorporating the programme moves and additions from financial year 2023/2024.

3.2. The funding available in-year is discussed at Section 5 and includes details of the Council's grant allocations received as part of the 2023/2024 Local Government Finance Settlement released on 21 December 2023. Capital Grant for 2024/2025 has seen a significant reduction of £1.9 million on the funding available in financial year 2023/2024. There have also been reductions in funding allocated to partner organisation which impact on Council projects, and this is discussed further in section 5.

3.3. The areas of capital investment which may be required in future financial years are considered in Section 6.

3.4. Finally, section 7 provides an update on the principles underpinning the Capital Investment strategy in line with the main requirements of the Prudential Code.

4. Proposed 2024/2025 Capital Programme

4.1. In establishing a Capital Programme for financial year 2024/2025, consideration needs to be given to the level of spend required, against the funding available. Spend requirements can come from ongoing programmes of work which require investment to continue, new priority projects identified for 2024/2025 and any approved commitments from previous financial years. These commitments include projects approved as part of the Glasgow City Region City Deal Programme and Education Growth and Capacities Programme (Secondary School Estate). The reduction in General Capital Grant funding, as detailed in Section 3.2, has had an impact on the level of spend proposed. Each of these areas of spend is taken in turn in sections 4.2 to 4.22.

4.2. **Ongoing Programmes of Work (£18.200m)**: There are a number of projects which need to be included in the capital programme to support ongoing programmes of work. These total £18.200 million for 2024/2025 (and are in addition to monies slipped from previous years for these projects). The projects and their values are noted in Appendix 1. The level of funding provided to these ongoing programmes of work takes cognisance of the reduced General Capital Grant provided in 2024/2025 – without the cut in grant funding, more could have been spent on these capital projects in 2024/2025. This is discussed further in Section 5.2.

4.3. **New Priorities Identified for 2024/2025 (£1.500m):** In addition to the projects already identified through existing programmes of work, it is proposed that a project totalling £1.5 million be considered for inclusion in the 2024/2025 Capital Programme for **Public Switched Telephone Network/Alarms**. Following the national programme to modernise the UK's telecommunications infrastructure, there is a requirement to transfer Council lift and alarm lines, small switches and other public switched telephone network lines from analogue to digital before December 2025. This capital allocation will allow the Council to move analogue systems to digital before analogue systems can no longer be used. Alongside this, there is the change to Scottish Fire and Rescue policy changes re call outs.

4.4. **Specific Capital Projects (£1.865m)**: In addition to the projects detailed above, the Local Government Finance Settlement received on 21 December 2023 allocated £1.865 million of grant funding for specific projects. This includes specific grants for Vacant and Derelict Land (£0.425m) and Cycling, Walking and Safer Routes (£1.440m). These projects have been included in the expenditure requirements for 2024/2025.

4.5. The Scottish Government have still to confirm the General Capital Grant funding which will be made available in 2024/2025 to continue the Renewal of Play Parks and Free School Meals Programmes. These additional allocations will be added to the 2024/2025 Capital Programme for these projects, when they are made available.

4.6. **Glasgow City Region City Deal (£4.747m):** There are a number of projects which are being progressed as part of the Glasgow City Region City Deal Programme and allocations for these require to be added to the 2024/2025 Capital Programme. These projects include the Lanark Road Signalisation project at Larkhall, the Hamilton Roads project at Woodfoot Road/Wellhall Road, Hairmyres Park and Ride, Uddingston Grammar and St Andrew's and St Bride's High School. Based on current predictions, additional spend totalling £4.747 million will be incurred in 2024/2025. This excludes slippage from the 2023/2024 Programme (refer section 4.19). This will be funded by borrowing, in line with the approved funding package for the City Deal programme, along with developer contributions for St Andrew's and St Bride's High School (£1.4 million).

4.7. **Clyde Gateway (£0.800m):** A commitment of £0.800 million has been identified as a continuation of our previous support in relation to the Clyde Gateway Regeneration Programme.

4.8. **Leisure and Culture Transformation Fund:** As part of the 2023/2024 Revenue Budget, members approved an allocation of £1.182 million to pay for the cost of borrowing £13 million of capital investment for a Leisure and Culture Transformation Fund. The fund will help modernise the leisure and culture estate, optimise use of assets and assist in the transition towards net zero.

4.9. A process for identifying projects is being drafted and initial proposals will be brought back to Members at the start of the financial year (May Executive Committee). When the profile of project spend is known, this funding will be added to the Capital Programme as required.

4.10. **Larkhall Leisure Centre**: Funding of £11.900 million has previously been approved for the replacement of Larkhall Leisure Centre: Council (£6 million), City Deal (£3 million), Place Based Investment Funding (£1.600 million), Shared Prosperity Fund (£1 million) and Capital Regeneration Fund (£0.300 million). £0.077 million of spend has been spent in previous financial years with a further £0.404 million budget included in the 2023/2024 Capital Programme with the balance being slipped from 2023/2024 into the Programme for 2024/2025 (see section 4.19 '2023/2024 Movements').

4.11. This funding will be insufficient to cover the anticipated cost of the project with the current budget gap estimated to be £12 million. It is proposed that an additional £12 million be earmarked in future Capital Programmes to address this shortfall and allow the project to progress. The proposal is detailed in sections 4.12 and 4.13 below.

4.12. Due to the complex nature and scale of this build, the expenditure is anticipated to cover several financial years (2024/2025 to 2026/2027). In order to deliver this new facility, we can look to the overall expected spend profile for projects and when funding is needed. As a result, it is proposed that £6 million be included in the 2025/2026 Capital Programme for this new facility. This can only be facilitated by reducing the allocations to the core projects in 2025/2026 by £6 million which includes those projects covered under 'Ongoing Programmes of Work' (section 4.2).

4.13. The remaining £6 million would require to be identified from the capital programme for 2026/2027 and it is proposed that £3 million of our capital funding could be allocated to this project in 2026/2027 which means that £3 million less will be spent on core projects in that year. It is proposed that the remaining £3 million required to fund the Leisure Centre can be managed from capacity within the amount we have set aside for borrowing (2026/2027). This capacity exists because the City Deal Stewartfield Way project is taking longer than we had originally planned. In time, however, this funding needs to be replaced. Therefore in 2027/2028 the first £3 million of capital grant funding would require to be earmarked for City Deal Stewartfield Way – this again means that £3 million less will be spent on core projects in 2027/2028.

4.14. Given the timescales involved in design and tendering, only an element of the overall project budget will be required in 2024/2025, and £1.5 million has been included at this point in time in 2024/2025. This funding plan is intended to match the expected time period over which the project will be delivered. When this funding proposal is approved, work will commence on design, planning and construction of this facility. The balance of the original approved funding from previous financial years of £9.919 million has been slipped from 2024/2025 into the Programme for 2025/2026 (see section 4.20 '2024/2025 Movements').

4.15. **Projects Approved During Previous Financial Years (£6.827m)**: Specific projects were approved by Council Committees during previous financial years and for 2024/2025 the remaining budget allocations for these projects will be required for: Our Lady of Lourdes (£5.126 million – Executive Committee, 11 October 2023), Carluke High Mill (£0.485 million – Executive Committee, 13 September 2023), SLC Industrial Estate – Energy Efficiency (£0.883 million – Executive Committee, 24 January 2024), Clyde Bridge (£0.173 million – Executive Committee, 2 November 2022) and Public Space CCTV (£0.160 million, Executive Committee, 13 September 2023).

4.16. The total relating to projects approved in previous years is £6.827 million.

4.17. **Secondary School Estate – Future Capacity Issues**: In September 2022 the Executive Committee approved the extension of 4 secondary schools to help alleviate capacity pressures (Holy Cross High School, St Andrew's and St Bride's High School, Uddingston Grammar and Calderside Academy). These projects had an estimated project cost of £22.8 million, which would be substantially funded from City Deal and Developer Contributions along with a bid to the Scottish Government's Learning Estate Improvement Programme (LEIP).

4.18. It has now been confirmed that the bid to LEIP has been unsuccessful. As reported to the Executive Committee previously, should the LEIP funding bids be unsuccessful then we would need to review the financial position in the wider context of the capital programme. It is proposed that the loss of LEIP funding is managed through using the Developer Contributions previously earmarked for the KEAR Campus project (Executive Committee – September 2022). Education Resources is now considering options regarding the scope and nature of the KEAR project.

4.19. **2023/2024 Movements (£40.008m)**: In addition to the projects identified above, there were project movements from 2023/2024 into 2024/2025 which were approved by Executive Committee throughout the year, up to and including the meeting on 24 January 2024. These movements total £40.008 million and reflect the 2023/2024 budget not required in year.

4.20. **2024/2025 Movements (£23.390m)**: Resources have confirmed that projects totalling £23.390 million are not required in financial year 2024/2025 – these projects will be reinstated into the 2025/2026 Capital Programme. A breakdown of these projects is included in Appendix 2. The impact of this has been included within the full analysis of the proposed 2024/25 capital programme included in Appendix 3.

4.21. **Reduction in Match Funding Requirements (£1.045m)**: Funding was provided as part of the 2022/2023 Capital Programme to strengthen any future bid applications to UK Government Funding pots including Levelling Up Fund (LUF). Confirmation has now been received that the Three Rivers/Clydesdale Way project has been successful in its bid for LUF. This bid is being led by Dumfries and Galloway Council with match funding of £0.755 million required from South Lanarkshire Council in financial year 2025/2026.

4.22. The Shawfield Remediation and Development project has also been successful in obtaining LUF funding and no match is required from the Council. As a result, the balance of £1.045 million from the original £1.8 million provided can be removed from the Capital Programme. It is noted that the £0.8 million contribution to Clyde Gateway has already been reinstated (section 4.7).

4.23. **2024/2025 Capital Programme Summary**: Taking into account the proposals covered in sections 4.2 to 4.22 a budget of £49.512 million is required in 2024/2025. This is summarised in Table 1, with a full list of the projects which make up this £49.512 million detailed in Appendix 3.

Table 1: Compilation of the 2024/2025 Capital Programme

	2024/2025 Capital Programme £m
Ongoing Programmes of Work *(section 4.2 and Appendix 1)*	18.200
New Priority Projects *(section 4.3)*	1.500
Specific Capital Projects (*section 4.4 and 4.5)*	1.865
Glasgow City Region City Deal *(section 4.6)*	4.747
Clyde Gateway (*Section 4.7)*	0.800
Leisure and Culture Transformation Fund (*sections 4.8 – 4.9)*	-
Larkhall Leisure Centre – Additional *(sections 4.10 – 4.14)*	-
Projects Approved in Previous Financial Years *(section 4.15 – 4.16)*	6.827
Secondary School Estate – Capacity Issues *(section 4.17 – 4.18)*	-
2023/2024 Movements *(section 4.19)*	40.008
2024/2025 Movements *(section 4.20)*	(23.390)
Reduction in Match Funding Requirements *(section 4.21 – 4.22)*	(1.045)
Total 2024/2025 Capital Programme	**49.512**

5. 2024/2025 Capital Programme – Funding Available

5.1. A core element of any Capital Programme is the level of funding available to support the programme. For financial year 2024/2025, total funding of £49.512 million is available to fund the Capital Programme. This includes General Capital Grant (£19.276 million) advised as part of the Local Government Finance Settlement received in December 2023 and Specific Capital Grants (£3.651 million), Borrowing (£17.428 million), Developer Contributions (£6.637 million), External grant funding (£0.422 million) and investment funding previously transferred to reserves/CFCR (£2.098 million).

5.2. **General Capital Grant**: As noted at Section 5.1, the General Capital Grant funding allocation for 2024/2025 is £19.276 million. This is a significant reduction of £1.9 million on the funding available in financial year 2023/2024. The Capital Programme for 2024/2025 has been aligned to the funding provided. A detailed breakdown of the funding package is included in Appendix 4.

5.3. **Specific Capital Grant Funding**: Funding has been provided for Cycling Walking and Safer Routes and Vacant and Derelict Land funding in 2024/2025. Confirmation of the continuation of the Place Based Investment Programme funding is awaited. Furthermore, initial bids have recently been submitted to the Scottish Government's Regeneration Capital Grant Fund. The outcome of these is anticipated in February 2024.

5.4. **External Funding**: Bids for additional funding in 2024/2025 have been submitted to Strathclyde Partnership for Transport (SPT) to progress the existing projects at Hairmyres Park and Ride, East Kilbride (£1.8 million across 2 years) and Lanark Interchange (£0.300 million). SPT have advised that funding reductions to their 2024/2025 budget will have an impact on the level of grant funding they can provide to Local Authorities. As a result, this expenditure requirement has not been included in the 2024/2025 Capital Programme at this time. This would have a significant impact on both of the projects at Hairmyres and Lanark Interchange. Discussions with the Scottish Government are ongoing. An update will be provided to members when the outcome of these discussions is known, but it should be noted that there is a risk to the projects if this funding is not received. If Members chose to increase Council capital funding for these (or any other) projects, this would require a reduction to be agreed on the other projects proposed in this paper.

6. Future Capital Investment Requirements

6.1. The key theme running throughout this paper is the affordability of any capital investment requirements against the backdrop of the limited capital funding available. This is not expected to change in the short to medium term. This section sets out the areas where future capital investment may be a priority moving forward.

6.2. As noted at Section 4.17, investment is required on the Secondary School Estate. Although an initial funding package has been developed, further funding may have to be made available in future financial years, given the bid to LEIP was unsuccessful.

6.3. It is suggested that future capital investment plans beyond financial year 2024/2025 may require to focus on the ongoing requirement to achieve the Government's targets for **Net Zero Emissions** through investment in energy reduction measures in our property portfolio and fleet infrastructure. However, given our scarce capital resources, in order to contribute these targets, it is likely external funding will be required, or there would be a significant reduction in any other council capital projects.

6.4. Significant investment will be required in our **Town Centres** including developing proposals for the regeneration of our 2 key town centres in East Kilbride and Hamilton. Working in partnership with the asset managers, a masterplan for the Centre, East Kilbride has been prepared with a master planning exercise for Hamilton also underway. Given the significant scale of investment required, a range of external funding opportunities will be considered.

6.5. Consideration of the level of investment needed in **Ash Die-Back** in the medium to long term, is being undertaken by Community and Enterprise Resources through the development of an Ash Dieback Action Plan (ADAP). For financial year 2024/2025, an investment requirement of £0.200 million has been included in the proposed programme which would cover staff costs, fees and equipment.

6.6. At present, we are not committing future funding to these projects. In agreeing to the programme presented in this paper, it is acknowledged that this limits the ability to spend on other capital projects into future years as capital funding is limited.

6.7. Council officers are pursuing options to maximise external funding to help contribute towards the funding of the capital programme in 2024/2025 and in future years. An update on progress is anticipated in the first quarter of 2024/2025. Any additional funding received, including City Deal, can help contribute towards funding for capital projects.

7. Key Highlights from the Capital Investment Strategy

7.1. As the revised Prudential Code for Capital Finance in Local Authorities 2017 requires councils to produce a Capital Strategy, the Council's Executive Committee approved a Future Capital Investment Strategy (Capital Strategy) on 21 November 2018.

7.2. The key issues and risks that will impact on the delivery of the Capital Strategy, how the Capital Strategy and Treasury Management Strategy are aligned, and the governance framework required to ensure the Capital Strategy can be delivered have been updated for financial year 2024/2025 and are detailed in Appendix 5.

8. Employee Implications

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

9. Financial Implications

9.1. A Capital Programme for financial year 2024/2025 totalling £49.512 million has been proposed in this report. Details as to how this Programme has been arrived at are shown in Section 4. Details of the full Programme are listed in Appendix 3.

9.2. Section 5 details the funding available in-year of £49.512 million with a breakdown included in Appendix 4.

9.3. Moving forward consideration will have to be given to the level of programme which can be delivered, given the funding available. As noted at Section 4.3, agreeing to the new priority project for 2024/2025 will not commit the Council to expenditure in future years. However, projects totalling £23.390 million (Section 4.20) have slipped, along with borrowing of £19.237 million, Place Based Investment Funding (£0.300 million), Regeneration Capital Grant (£0.200 million) and developers' contributions (£0.399 million). Consideration will need to be given to providing funding for the balance (£3.254m) in future years in the first instance, to enable these projects to complete.

9.4. It is anticipated that the council will still be operating in very changeable and fluid market conditions due to the current economic climate. Officers will continue to monitor these conditions however Members should be aware of the potential disruption to the 2024/2025 Capital Programme in similar terms to that experienced over the preceding two financial years.

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. The main risk associated with the Council's Capital Programme is an overspend. There are detailed project management plans prepared and the risk of overspend on each project is monitored through four weekly investment management meetings.

11.2. The Council continues to experience material shortages, longer lead times and extraordinary inflationary price increases and it is anticipated that this will continue to impact the supply chain for the foreseeable future. The impact of this will continue to be monitored through the four weekly investment management meetings. Further updates will be reported in the coming months with any significant increases in contract values being brought to members' attention.

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
Chief Executive

30 January 2024

Link(s) to Council Values/Priorities/Outcomes
- Accountable, Effective, Efficient and Transparent

Previous References
- Executive Committee, 21 September 2022 – Secondary School Estate – Future Capacity Issues
- Executive Committee, 2 November 2022 - Capital Programme – Clyde Bridge Replacement Project
- Executive Committee, 13 September 2023 - Capital Budget 2023/2024 and Monitoring for Period 5 - 1 April 2023 to 11 August 2023
- Executive Committee, 11 October 2023 - Revision of Costs and Increase in Funding to Extend, Adapt and Modernise Our Lady of Lourdes Primary School, East Kilbride
- Executive Committee, 24 January 2024 - Capital Budget 2023/2024 and Monitoring for Period 9 - 1 April 2023 to 1 December 2023

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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Appendix 1

Ongoing Programmes of Work Considered for 2024/2025 Programme *(section 4.2)*

Project Name and Description	2024/2025 (£m)
Schools Information Communication Technology (ICT) Development A contribution towards the costs of delivering the ICT contract to schools. As there is an ongoing commitment to this contract moving forward, funding of £1.600 million per annum is required.	1.600
Roads Carriageways and Associated Infrastructure Investment of £9.5 million in Roads Carriageways and associated infrastructure. This reflects the previous allocation of £10 million less the impact of a reduced capital grant.	9.500
Ash Die Back A continuation of the investment in previous years to mitigate the impact of Ash Die Back Disease.	0.200
IT Infrastructure Investment is required in order to maintain services. It is estimated that an average £0.400 million per annum will be required to cover refresh exercises (servers, networks and storage) as well as data security, resilience and disaster recovery activity.	0.400
Private Housing Scheme of Assistance Housing provide mandatory grants for disabled adaptations in private homes and to encourage private owners in shared blocks to participate in the Housing Investment Programme works. An allocation of £1m would continue the investment provided in previous financial years. This budget could be reduced by the Revenue budget savings proposal (HTR04).	1.000
Planned Asset Management Funding of £4.300 million per annum is required to ensure continued delivery of the Planned Asset Management model. This model aims to maintain all of the Council's new build General Services facilities (constructed since 2000), in a good condition and to a compliant standard.	4.300
Prioritised Urgent Investment in Property Assets The continuation of the previous model to meet urgent essential works needed on all Council properties.	0.700
Lifecycle Replacement – Schools The first school completed under the Primary School Modernisation Programme opened during financial year 2004/05. An allocation was provided in 2020/21 to commence a programme of replacement for major elements of infrastructure during the next capital programme. This requirement is likely to increase as the schools become progressively older.	0.500
Total Ongoing Programmes of Work	**18.200**

<u>2024/2025 Project Movements into 2025/2026</u> *(section 4.20)*

	2024/2025 Budget Setting Movements (£m)
Community and Enterprise Resources	
Extension/Improvement of Cemeteries	0.948
Kildare Park - BMX Trail	0.025
Forth Play Area	0.006
Hairmyres Play Area	0.015
Larkhall Leisure Centre	9.919
Levelling UP Fund – 3 Rivers Match Funding	0.755
Carluke High Mill Community Facility	0.200
<u>Glasgow City Region City Deal</u>	
Sustainable Transport Interventions	0.274
Calderside Academy	3.606
Upgrade St Elizabeths Community Wing and Jock Stein Sports Facilities	0.079
Merryton Roundabout and Link Road	0.856
M74 Works	1.007
Holy Cross	2.428
Stewartfield Way	2.800
Total Community and Enterprise Resources	**22.918**
Social Work Resources	
SWIS Plus Replacement	0.472
Total Social Work Resources	**0.472**
2024/2025 Budget Setting Movements into 2025/2026	**23.390**

Appendix 3

2024/2025 Summary of Capital Programme Expenditure
(including slippage from previous years)

	2024/2025 Proposed Programme (£m)
Community and Enterprise Resources	
Extension/Improvement of Cemeteries (Memorial Headstone Inspections/Remedial Works)	0.200
Fallside Park Play Area	0.010
Alexander Hamilton Memorial Park	0.074
Renewal of Play Parks	0.896
Ash Die Back	0.200
Lanark Library, Lindsay Institute	0.464
Larkhall Leisure Centre	1.500
Clyde Gateway	0.800
Vacant and Derelict Land (includes new allocation for 2024/2025 of £0.425m)	0.925
Carluke High Mill Community Facility – Phase 1	0.786
SLC Industrial Infrastructure – Energy Efficiency	0.883
Glasgow City Region City Deal – Community Growth Areas Inc Secondary Schools)	13.102
Roads Carriageways and Associated Infrastructure	9.500
Cycling, Walking and Safer Routes	1.440
Clyde Bridge	0.173
Community Bus Fund	0.303
Glasgow City Region City Deal – Roads	0.382
Total Community and Enterprise Resources	**31.638**
Education Resources	
Primary School – Extensions	0.409
Schools Information Communication Technology (ICT) Development	1.600
Stonelaw High School Adaptations	0.192
St John the Baptist Nursery Expansion	0.504
Our Lady of Lourdes (£0.700m included under City Deal CGA's)	4.426
Total Education Resources	**7.131**
Finance and Corporate Resources	
IT Infrastructure – Business As Usual	0.746
Public Switch Telephone Network/Alarms (Analogue to Digital)	1.500
Total Finance and Corporate Resources	**2.246**

Appendix 3
(continued)

2024/2025 Summary of Capital Programme Expenditure
(including slippage from previous years)

	2024/2025 Proposed Programme (£m)
Housing and Technical Resources	
Private Housing Scheme of Assistance *(may be impacted by Revenue savings Proposal HTR04)*	1.000
Planned Asset Management	4.300
Prioritised Urgent Investment in Property Assets	0.700
Lifecycle Replacement – Schools	0.500
Lock Ups	0.192
Public Space CCTV	0.160
Springhall Regeneration (Library element)	0.304
Total Housing and Technical Resources	**7.156**
Social Work Resources	
Community Alarms – Analogue to Digital	0.663
SWIS Plus Replacement	0.678
Total Social Work Resources	**1.341**
Total Proposed 2024/2025 Capital Programme	**49.512**

Appendix 4

2024/2025 Capital Programme – Funding Available

Funding Source	Ref	Total Funding Available (£m)
General Capital Grant	1	19.276
General Capital Grant – Play Parks	1	-
General Capital Grant – Free School Meals	1	-
Specific Capital Grant – Regeneration Capital Grant	2	1.086
Specific Capital Grant – Vacant and Derelict Land	2	0.925
Specific Capital Grant – Cycling, Walking and Safer Routes	2	1.440
Specific Capital Grant – Place Based Investment Fund	2	0.200
Capital Receipts		-
Existing Borrowing – Previous Years	3	17.428
Developers Contributions	4	6.637
External Contributions	5	0.422
CFCR / Reserves	6	2.098
Total Funding Available		**49.512**
Proposed 2024/2025 Capital Programme (Appendix 3)		**49.512**
Funding Surplus/(Shortfall)		**-**

1. **General Capital Grant (£19.276m)**
   The Finance Circular (December 2023) announced a 2024/2025 General Capital Grant for South Lanarkshire of £19.276 million.

   The 2024/2025 allocations for Renewal of Play Parks and Free School Meals have still to be advised and will be added to the programme when available.

2. **Specific Capital Grants (£3.651 million)**
   As detailed at Section 4.4, specific grant funding has been provided in 2024/2025 for Vacant and Derelict Land (£0.425 million) and Cycling, Walking and Safer Streets (£1.440 million).

   Specific Grant Funding totalling £1.786 million has also carried forward from previous financial years for Vacant and Derelict Land (£0.500 million), Larkhall Leisure Centre (£0.500 million) and Carluke High Mill Community Facility (£0.786 million). A further £0.200m has been slipped into 2025/2026 for Carluke High Mill.

3. **Borrowing (£17.428 million)**
   The borrowing required for 2024/2025 reflects the requirement to borrow to fund the timing of spend in relation to the Glasgow City Region City Deal programme has already been reported to Executive Committee (11 May 2016). For 2024/2025 the new requirement is £3.347 million (£4.747 million less £1.400 million developer contributions).

   The 2023/2024 General Capital Grant allocation was increased by £0.182 million, as reported to the Executive Committee on 24 January 2024. Given the timing, this additional allocation of £0.182 million was used to fund the existing Capital Programme and reduce the Council's level of borrowing in 2023/2024. For financial year 2024/2025, borrowing has been increased by £0.182 million to provide additional funding for the 2024/2025 Capital Programme. The overall impact on the Council's borrowing across the 2 financial years' is nil.

The balance of £13.899 million relates to previously approved borrowing carried forward from prior financial years.

4. **Developer Contributions (£6.637 million)**
Contributions from developers will be used to undertake specific projects in accordance with the conditions of the relevant Section 75 agreements, mainly growth and capacity projects required within the school estate.

5. **External Contributions (£0.422 million)**
This reflects funding from Scotland's Public Sector Heat Decarbonisation Fund (£0.422 million) for Our Lady of Lourdes. This has still to be confirmed.

6. **CFCR/Reserves (£2.098 million)**
This includes investment funding previously earmarked for the Woodland Management Programme at Alexander Hamilton Memorial Park, Stonehouse (£0.055m).

In addition, £2.043 million relates to contributions from the UK Government's Shared Prosperity Fund for SLC Industrial Infrastructure - Energy Efficiency (£0.883 million), Larkhall Leisure Centre (£1 million) and Public Space CCTV (£0.160 million)

Principles underpinning the Capital Investment Strategy

1. **Key issues and risks that will impact on the delivery of the Capital Investment Strategy and other long-term liabilities**
   The Prudential Code requires the Council to identify the long-term implications, both financial and operational, and the potential risks to service delivery through non-investment in our assets. The Council's appetite for risk is taken into account in establishing the Capital Strategy.

   There are no proposals in this report which would impact on the Council's long-term liabilities that have not been considered, such as long-term borrowing, or provisions.

2. **The Alignment of the Capital Strategy and Treasury Management Strategy**
   The Prudential Code requires that the Council's Capital Strategy be aligned with the Treasury Management Strategy which is approved by the Executive Committee annually as part of the budget setting process. This Treasury Management report is also being presented to this Meeting for approval.

   The capital programme determines the borrowing need of the Council, the Treasury Management process essentially monitors the longer-term cash flow planning, to ensure the Council can manage its capital spending obligations.

   The Capital Strategy details the Council's debt position, including the anticipated level of debt and the authorised borrowing limit.

3. **Governance Framework**
   It is important that the appropriate Governance framework be in place when considering capital investment. In order to mitigate some of the risks associated with poor governance, there is appropriate governance arrangements in place in terms of the Capital Programme and Treasury Management processes. These are detailed below.

   i) **Capital Programme Governance:** The Capital Programme is prepared following an exercise to prioritise projects in line with the Council priorities and links to Asset Management Plans and is subject to approval by the Executive Committee or Council. Any changes to the programme will be agreed by the Executive Committee. The Head of Finance (Strategy) and Head of Property Services monitors the delivery of the capital programme on a monthly basis. This is reported to elected members via the Executive and Resource Committees, along with the Financial Resources Scrutiny Forum. The Capital Programme is subject to Internal and External Audit Review.

   ii) **Treasury Management Governance**: The Council's treasury activities are regulated by the Local Government (Scotland) Acts 1975 and 2003, and a professional code of practice (the CIPFA Treasury Management in Public Services Code of Practice – revised December 2017). It is a requirement of this Code, and the financial regulations of South Lanarkshire Council, that a Treasury Management Strategy is approved by Committee every year. A key requirement of this strategy it to explain both the risks and the management of these risks associated with the treasury function. The Council employs Link Asset Services as its Treasury Management Advisors. Treasury Management is also subject to Internal and External Audit review.

4. **Knowledge and Skills**

   The employees responsible for monitoring the Council's capital programmes, asset management, and treasury management have the appropriate skills and knowledge to ensure the successful delivery of capital investment.

5. **Capital Programme Summary**

   The Future Capital Investment Strategy (November 2018) provided an estimate of potential capital investment and funding package. This was based on the information available at that time and will be subject to further refinement when the ongoing works to develop each of the projects / programmes is complete. As an update to the Capital Strategy, this report provides a proposed programme for 2024/2025.

Agenda Item

Report

5

Report to:	**South Lanarkshire Council**
Date of Meeting:	**21 February 2024**
Report by:	**Chief Executive**

Subject:	**Prudential Indicators, Treasury Management Strategy and Annual Investment Strategy 2024/2025**

1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ provide members with the Prudential Code indicators for 2024/2025 to 2026/2027,
- ♦ provide members with the Treasury Management Strategy for 2024/2025, and
- ♦ provide members with the Annual Investment Strategy for 2024/2025.

2. Recommendation(s)

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

(1) that the Prudential Code indicators for 2024/2025 to 2026/2027 are approved (section 4).
(2) that the 2024/2025 Treasury Management Strategy is approved (section 5)
(3) that the Annual Investment Strategy is approved (section 6)

3. Background

3.1. Through guidance and regulation, the Council is required to produce Prudential Indicators, a Treasury Management Strategy and an Annual Investment Strategy. It has been cited as best practice to combine the information in one document. This paper will therefore cover:

- ♦ Prudential Indicators (Section 4)
- ♦ Treasury Management Strategy (Section 5)
- ♦ Annual Investment Strategy (Section 6)

4. Prudential Code Indicators

4.1. The Prudential Code for Capital Finance in Local Authorities was introduced through the Local Government (Scotland) Act 2003 with the aim of supporting strategic planning for capital investment at a local level.

4.2. The key objectives of the Code are to ensure, within a clear framework, that the capital expenditure plans of local authorities are affordable, prudent and sustainable; and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the organisation.

4.3. The Prudential Indicators for 2024/2025 to 2026/2027 are shown in Appendix 2 along with explanations for each indicator. An updated position for 2023/2024 is also included.

4.4. Through these Prudential Indicators we are laying out what our expectations are for the coming year, and setting limits based on these expectations. A report will be presented to Committee later this year showing actual achievement against the 2023/2024 indicators.

4.5. The first three indicators show details of capital expenditure, how this will be funded and set limits for external borrowing. The fourth indicator demonstrates the financial impact of the expected borrowing and that this is affordable.

4.6. **Capital Expenditure and Asset Management:** The Prudential Indicators includes estimates of capital expenditure. It was through the introduction of the Code that councils are now able to take responsibility for deciding an affordable level of borrowing to fund capital expenditure. This moves away from the previous regime through which central government gave councils consent to borrow defined amounts for capital expenditure. The Prudential Indicators show the level of borrowing required.

4.7. An update to the General Fund capital programme for 2024/2025 was presented to this meeting earlier in the agenda. This allows for investment across priorities consistent with the objectives of the Council Plan.

4.8. The capital expenditure for 2024/2025 included in our indicators is based on the aforementioned report, while for 2025/2026 and 2026/2027 estimated have been made. It includes the General Capital Grant funding allocated by the Scottish Government and projects which will be funded by Specific Capital Grants from the Scottish Government.

4.9. The HRA capital programme for 2024/2025 is also presented to this meeting, following its endorsement by the Executive Committee earlier today. For financial years 2025/2026 and 2026/2027, estimated capital programmes based on the HRA business plan have been included.

4.10. Housing capital expenditure reflects investment priorities of maintaining and improving the housing stock to meet national housing quality and energy efficiency standards. The programme also includes projects to increase the supply of council housing as well as environmental works and legislative compliance programmes to ensure that all safety requirement standards are met.

4.11. The Prudential Code also recognises that in making capital investment decisions the authority should be informed by sound asset management planning and options appraisal.

4.12. When considering potential capital investment, the Council ensures that the objectives of capital investment fit within the Council strategic plans and that the investment is informed through the asset management planning process. The following asset management plans were updated for 2023 and approved by the relevant resource Committees.

- 2023/2024 Information and Communication Technology (ICT) Asset Management Plan presented to Finance and Corporate Resources Committee on 3 May 2023

- Roads Asset Management Plan – 2023 Update presented to Community and Enterprise Resources Committee on 29 August 2023

4.13. An Annual Update to the Property Asset Management Plan was presented to Housing and Technical Resources Committee on 31 May 2023.

4.14. The Fleet Asset Management Plan has been updated and the overall Fleet Strategy is being reviewed taking cognisance of changing service requirements. An updated Fleet Strategy is expected to be presented to an appropriate committee during 2024.

5. Treasury Management Strategy

5.1. The Council's treasury activities are regulated by statute, and a professional code of practice (the CIPFA Treasury Management in the Public Services Code of Practice). It is a requirement of this Code, and the financial regulations of South Lanarkshire Council that a Treasury Management Strategy is approved by Committee every year.

5.2. The Treasury Management Strategy for 2024/2025 is detailed at Appendix 3. The main areas covered by the Strategy are:

- Debt and Investment Projections
- Expected Movement in Interest Rates
- Borrowing Strategies
- Statutory Repayment of Loans Fund Advances

5.3. The level of borrowing required to fund the Council's Capital programme, together with the variable nature of interest rates increases the risks associated with the treasury management function. As a result, the Council will take a cautious approach to its Treasury Strategy by setting treasury management indicators to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of adverse movements in interest rates.

5.4. Key details included in the Indicators include total external net debt which is expected to reach £1,181.567m by the end of 2023/2024. This is gross debt of £1,186.567m less estimated investments of £5.000m. The estimated level of investments reflects the level of reserves held plus an element of working capital.

5.5. External debt includes the liability of £172.036m that is included on the Council's balance sheet for the Secondary Schools and finance leases under International Financial Reporting Standards. It should be noted that while these liabilities are to be classed as external debt, there is no requirement to borrow these amounts and there is therefore no impact on borrowing costs.

6. Annual Investment Strategy 2024/2025

6.1. The Local Government Investments (Scotland) Regulations 2010 provides a formal investment framework for councils. It provides greater autonomy for local authorities in their investment activities but with this greater freedom comes greater responsibility and the onus is on local authorities to act prudently with regard to their investment and treasury management activities.

6.2. The Council can decide what investment tools it will class as permitted investments in the coming year. The Regulations require an Annual Investment Strategy detailing the permitted investments to be approved by the Council.

6.3. The Annual Investment Strategy for 2024/2025 has been included at Appendix 4.

6.4. The two fundamental principles of the Investment Regulations are that:

- ♦ Councils are required to manage their investments and deposits in a way that minimises the risk to the capital sum and optimises the return on the funds consistent with those risks. Security should be considered first, then liquidity, and lastly the yield or return.

- ♦ Councils are able to determine what investments they may make, including both the type and duration of the investment.

6.5. The Annual Investment Strategy is considered to be central to the Regulation. The Council is required to prepare an Annual Investment Strategy prior to the start of the financial year.

6.6. The Regulations require the Council to consider its investment activity as a whole. This includes a range of investments, which covers the depositing of temporary surplus funds with banks and similar institutions, shareholdings in companies or joint ventures, loans to group undertakings and third parties. It also covers investment properties.

6.7. The Council is required to set out in the strategy the types of investment that it will permit in the financial year. These will be known as “permitted investments”. The strategy also limits the amounts that may be held in such investments at any time in the year.

6.8. After consideration of the Council’s requirements to manage funds and our approach to risk, no changes have been made to the permitted investments previously agreed for 2023/2024.

6.9. The Executive Director of Finance and Corporate Resources will ensure that the strategy is adhered to at all times. The Council can only make an investment if that type of investment is detailed in this Strategy.

6.10. **Responsible Investing.** At a meeting of the Council on 28 September 2022 a motion was passed for South Lanarkshire Council to further demonstrate its own climate leadership by:-

- ♦ Reviewing its Investment Strategy and developing and implementing a Responsible Investment Policy to ensure that South Lanarkshire money is invested for positive change and does not fuel the climate and ecological crises; and

- ♦ Reporting back on work to incorporate sustainability into Treasury Management decisions to the Climate Change and Sustainability Committee."

6.11. In the annual investment strategy for 2023/2024 that was approved by South Lanarkshire Council on 22 February 2023, it was noted that attempts had been made to identify counterparties that had a better record around the issues of climate change, sustainability and the environment using research carried out in 2020 by The Ethical Consumer Research Association Limited.

6.12. Due to a combination of credit ratings and lack of market activity, the Council could not place short term deposits with most of the banks rated “middle” or “best” in terms of climate change and sustainability.

6.13. Two building societies rated as “middle" and that met our credit rating criteria were identified and it was agreed that facilities to place short term deposits with them would be opened subject to the yield being paid in comparison to other counterparties.

6.14. Generally, the council does not invest its temporary cash balances in short term deposits with banks or building societies. It was noted that the council had a very restricted list of counterparties and had only placed deposits with three banks, Bank of Scotland, The Royal Bank of Scotland and Clydesdale Bank (Virgin Money).

6.15. Short term deposits would continue to be placed with these banks only for the purposes of immediate liquidity and subject to them continuing to meet the minimum credit rating criteria. As funds are held in an instant access call account the bank is required to hold capital in reserves to cover the deposits meaning that they cannot use the council’s money to invest in any projects.

6.16. We said that we would use our voice as a customer or client of the three banks detailed in 6.14. to influence their actions by writing to them to set out the Council’s position regarding climate change and sustainability, explain that we expect the banks to take positive action in these areas and to ask them what they are doing to address these issues. Specifically, the banks would be asked the following questions:

- How much of your total investments are in projects which increase carbon emissions (i.e. fossil fuel extraction / burning and environmental degradation e.g. deforestation) – expressed as a total financial figure and as a percentage of total investments?

- How much of your total investments are in projects which reduce carbon emissions (i.e. renewables, reforestation) – expressed as a total financial figure and as a percentage of total investments?

- Do you have a deposit account that South Lanarkshire Council can use that can guarantee our deposits will not be used to fund climate change and projects which fuel the ecological crises?

- What sources of investments are available from the bank to invest in low carbon projects/projects to address the ecological crises in South Lanarkshire?

6.17. We said that officers from Finance Services would continue to work with the council’s Treasury Management advisers who were looking at ways to incorporate additional factors covering climate change and sustainability into their creditworthiness assessment service.

6.18. Sections 6.19 to 6.32 provide an update on work in these areas.

6.19. **Opening Facilities with Leeds and Yorkshire Building Societies.** As the yield paid by these organisations for fixed term deposits has has consistently been below that offered by the Debt Management Account Deposit Facility operated by HM Treasury, there has been no requirement to open facilities with either organisation. They remain an option for the council to use.

6.20. **Using our Voice.** During 2023/2024 we wrote to Bank of Scotland, The Royal Bank of Scotland and Clydesdale Bank (Virgin Money) to set out the council's position regarding climate change and sustainability. We explained that we expected the banks to take positive action in these areas and asked them what they are doing to address these issues. Specifically the banks were asked the questions detailed in 6.16.

6.21. The responses from the banks were generally to direct us to the areas of their websites that related to their actions on addressing climate change and sustainability rather than directly answering the questions that we asked of them.

6.22. **Bank of Scotland** directed us to their sustainability report, Building a Sustainable Future and attempted to answer the specific questions we had put to them. The questions and responses are included in Appendix 1.

6.23. Sustainability Fixed Term Deposits support the Bank of Scotland's Sustainability lending which adheres to the following principles:

- Lending to SMEs located in the 30% most economically disadvantaged areas in the UK.

- Lending to healthcare providers located in the 30% most economically disadvantaged areas in the UK.

- Energy efficient real estate lending where:-
  - Commercial properties obtain either a minimum of Building Research Establishment Environmental Assessment Method (BREEAM) Very Good (provided a minimum score of 70% is achieved in the energy category) or an EPC rating of B or higher.
  - Residential properties obtain an Energy Performance Certificate (EPC) Environmental Impact rating of B or higher

- Renewable energy lending for projects in the UK and abroad
  - Offshore wind farms and their associated transmission assets
  - Onshore wind farms
  - Solar energy
  - Tidal energy

6.24. The interest rate is 5 basis points below their standard rates and so there is an opportunity cost of depositing funds in a sustainable fixed term deposit with Bank of Scotland. For every £1m invested, the loss in annual interest amounts to £500.00.

6.25. **The Royal Bank of Scotland** directed us to the following link to the Natwest Group's disclosures on their corporate website which outlined all the "positive action that the organisation is taking to address the climate change and sustainability issues."

Downloads | NatWest Group

6.26. **Virgin Money** directed us to pages 25 to 43 of their Annual Report and Accounts 2022 which detail about their Environmental, Social and Governance policies including climate change and sustainability. These can be found at the following link:

Virgin Money Annual Report and Accounts 2022

6.27. It is worth noting again that the Treasury Management Strategy sets a limit of £10m for investments greater than 364 days and that the Annual Investment Strategy restricts deposits with banks and building societies to 364 days. This means that any deposits the council place with banks or building societies are considered to be short term, meaning that the banks can't use the funds for long term investment in any projects.

6.28. **Creditworthiness Assessment - Climate Change and Sustainability.** This continues to be an evolving process. Our advisors are still investigating how best to upgrade their service offering to clients to cover Environmental, Social and Governance (ESG) measures. This is proving difficult as companies looking to provide a methodology on how best to measure these factors have varied and sometimes inconsistent approaches. When a solution is made available we will report on the suggested approach to the Climate Change and Sustainability Committee.

6.29. **Responsible Investing - Annual Investment Strategy.** The Annual Investment Strategy for 2024/2025 is included in Appendix 3 and includes a section on Responsible Investing.

6.30. Since 1 April 2023, the only bank that the Council has used to place deposits is the Bank of Scotland where a balance of approximately £5m has been held in an instant access call account. This is to mitigate against liquidity risk. As it is held in an instant access account the bank is required to hold capital in reserves to cover the deposits meaning that they cannot use the council's money to invest in any projects.

6.31. Until there is an established methodology that can be used to assess an organisation's approach to climate change, sustainability and the environment, the Council will continue to minimise its deposits with banks while managing Treasury Management risks.

6.32. Deposits with Royal Bank of Scotland and Clydesdale Bank (Virgin Money) will continue to be limited to instant access call accounts where the council's money cannot be used for investment in any projects.

6.33. Deposits with Bank of Scotland will be limited to instant access call accounts and Sustainability Fixed Term Deposits, recognising that there will be an opportunity cost of using these fixed term deposits. The use of the fixed term deposits will be subject to the requirements of the council's cash flow and overall deposits with Bank of Scotland will not exceed the limit of £20m as set out in 5.6. of the Annual Investment Strategy.

6.34. **Borrowing in Advance:-** Borrowing in advance of need increases the level of funds which require to be invested or deposited. Scottish Ministers therefore require local authorities to set out within their Annual Investment Strategy, their approach to borrowing in advance.

6.35. The CIPFA Prudential Code is clear that the Council must not borrow more than, or in advance of needs purely in order to profit from the investment of the extra sums borrowed.

6.36. The Council needs to be able to demonstrate that borrowing is for a legitimate purpose such as the exercise of day to day cash management or the management of borrowing for capital purposes.

6.37. The regulations do not prevent borrowing in advance of need but for it to be allowed the Council must detail its policy for borrowing in advance in the strategy.

6.38. The Executive Director of Finance and Corporate Resources will ensure that borrowing is taken at the most appropriate time to ensure best value and that the requirements of the Prudential Code are met.

7. Employee Implications

7.1. None

8. Financial Implications

8.1. There are no direct funding implications arising from the production of the Prudential Indicators, Treasury Management Strategy or Annual Investment Strategy.

8.2. The financial impact from treasury activity and borrowing for capital expenditure has been built into the long-term revenue budget strategy.

9. Climate Change, Sustainability and Environmental Implications

9.1. Section 6.10 of this report and Section 10 of the Annual Investment Strategy provides information on our approach to responsible investing and how we will ensure that our deposits with banks are not used to fuel the climate and ecologicial crises, and how we will encourage banks to take positive action regarding climate change and sustainability.

10. Other Implications

10.1. South Lanarkshire Council recognises that any treasury management activity will carry an element of risk. It is important that risk is identified, and controls put in place to limit those risks.

10.2. The preparation and approval of Prudential Indicators and the Treasury Management Strategy set a framework for treasury management activities and limits on debt to mitigate risks.

10.3. The CIPFA Treasury Management Code of Practice adopted by the Council, places Credit and Counterparty risk at the forefront of treasury risks.

10.4. South Lanarkshire Council recognises that any investment activity will carry an element of risk. It is important that risk is identified, and controls put in place to limit and manage those risks.

10.5. Section 5 of the Annual Investment Strategy details how South Lanarkshire Council will manage these risks.

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 relation to the content of the report.

Paul Manning
Chief Executive

30 January 2024

Link(s) to Council Values/Priorities/Outcomes
- Value: 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:-
Jackie Taylor, Head of Finance
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E-mail: jackie.taylor@southlanarkshire.gov.uk

Appendix 1

Responses from Bank of Scotland

Bank of Scotland directed us to their sustainability report, Building a Sustainable Future and attempted to answer the specific questions we had put to them

- How much of your total investments are in projects which increase carbon emissions (i.e. fossil fuel extraction/burning and environmental degradation e.g. deforestation) – expressed as a total financial figure and as a percentage of total investments?

  - Page 15 shows financing of high carbon sectors, expressed in £m and as a % of total exposure to high carbon sectors, showing no exposure to the coal mining sector, and £825m of financing to the oil and gas sector.

  - Pages 27-38 details their approach to financing of high carbon sectors incuding sector targets and strategies to reduce financed emissions in these high carbon sectors in line with science-based reduction pathways. This includes a strategy in relation to oil and gas financing, where the following policy points are in place:

    - Direct financing (either via project finance or reserve-based lending) is no longer provided for new greenfield oil and gas developments (fields which did not receive an oil and gas authority approval before the end of 2021).

    - Financing to new clients in the oil and gas sector is not provided unless it is for viable projects into renewable energy and transition technologies and clients have credible transition plans at the point of onboarding.

- How much of your total investments are in projects which reduce carbon emissions (i.e., renewables, reforestation) – expressed as a total financial figure and as a percentage of total investments?

  - Page 11 presents their green financing data points and targets which identify the volume of transactions either for directly green purposes (i.e., via Clean Growth Financing Initiative (CGFI)) or where the transactions are linked to achievement of sustainability KPIs (i.e., Sustainability Linked Loans).

  - Page 56 shows that sustainable financing and investment is included on their Group balanced scorecard, making up 5% of the total weighting.

- Do you have a deposit account that South Lanarkshire Council can use that can guarantee our deposits will not be used to fund climate change and projects which fuel the ecological crises?

  - A Green Deposit is available for Mid Corporate clients. It's a 95-day notice and fixed rate deposit where the funds are 100% invested in green and social assets.

- What sources of investments are available from the bank to invest in low carbon projects / projects to address the ecological crises in South Lanarkshire?

  - The bank advised that their Clean Growth Financing Initiative could provide green lending products and that Bank of Scotland could provide sustainability linked loans Mid Corporate clients.

Prudential Indicators 2023/24 – 2026/2027

The Prudential Indicators are shown below and are split into 2 categories:

- Capital Expenditure and External Debt
- Affordability

Indicators 1 to 3 show statements of the expected borrowing requirement for the years 2023/2024 to 2026/2027 and attributes limits for external borrowing.

Indicator 4 demonstrates the financial impact of the expected borrowing for the years 2023/2024 to 2026/2027 and that this borrowing is affordable.

After year end, the actual position for the Indicators will be reported to the Executive Committee.

Capital Expenditure and External Debt Indicators

1. Prudential Indicator 1 – Capital Expenditure

1.1. This indicator states the capital expenditure plans for the years 2023/2024 through to 2026/2027. The indicator takes account of the anticipated spend for 2023/2024 and 2024/2025. For 2025/2026 and 2026/2027, the Capital Strategy has been used as the basis, adjusted to reflect anticipated spend and funding.

	2023/24 Estimate £ m	2024/2025 Estimate £ m	2025/26 Estimate £ m	2026/2027 Estimate £ m
General Fund Capital Expenditure	**78.296**	**49.512**	**54.936**	**37.412**
Funded by:				
Borrowing	30.106	17.428	34.761	17.626
Capital Receipts and Grants	46.730	29.986	20.175	19.786
Contributions from Reserves	1.422	0.055	0.000	0.000
Revenue Contributions	0.038	2.043	0.000	0.000
Total Funding	**78.296**	**49.512**	**54.936**	**37.412**
HRA Capital Expenditure	**67.443**	**77.303**	**109.433**	**110.433**
Funded by:				
Borrowing	23.166	20.259	30.600	30.970
Capital Receipts and Grants	17.115	23.538	43.200	43.830
Revenue Contributions	27.162	33.506	35.633	35.633
Total Funding	**67.443**	**77.303**	**109.433**	**110.433**

1.2. The table overleaf shows how the borrowing required for the capital programmes and to use the benefit from the service concession flexibility are adjusted for loans fund principal repayments, maturing debt, use of cash balances and reserves and borrowing carried over between financial years to derive the borrowing requirement for the Council in each financial year.

	2023/24 Estimate £ m	2024/2025 Estimate £ m	2025/26 Estimate £ m	2026/2027 Estimate £ m
Borrowing for GF Capital Expenditure	30.106	17.428	34.761	17.626
Borrowing for HRA Capital Expenditure	23.166	20.259	30.600	30.970
Total Borrowing for Capital Expenditure	**53.272**	**37.687**	**65.361**	**48.596**
Less Loans Fund Principal Repayments	(3.269)	(3.784)	(16.052)	(33.004)
Funding for Capital Programmes	**50.003**	**33.903**	**49.309**	**15.592**
Funding for Service Concession Flexibility	68.803	4.587	4.645	4.480
Movement in CFR	**118.806**	**38.490**	**53.954**	**20.072**
Maturing Debt	21.770	33.770	120.153	124.544
Use of Cash Balances and Reserves	(142.000)	10.000	10.000	10.000
External Borrowing Requirement	**(1.424)**	**82.260**	**184.107**	**154.616**
Reprofiling of Service Concession Flexibility	(50.403)	30.913	17.455	(0.480)
Borrowing carried over from previous years.	101.941	50.114	0.000	0.000
Adjusted External Borrowing Requirement	**50.114**	**163.287**	**201.562**	**154.136**
Actual/Planned Borrowing	0.000	163.287	201.562	154.136
Borrowing carried over to future years.	50.114	0.000	0.000	0.000

1.3. The Council has not borrowed in 2023/24, instead it has used its cash balances to fund capital spend. Borrowing to replace these balances will be required going forward and this borrowing requirement is carried forward to 2024/2025.

1.5. The borrowing identified above, and associated costs have been included in the Council's Financial Strategy.

2. Prudential Indicator 2 – Council's Borrowing Need (the Capital Financing Requirement) and Gross Debt

2.1. The Council's Capital Financial Requirement (CFR) is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow for past and present capital expenditure.

2.2. The Council is required to pay off an element of the accumulated balance of borrowing every year through a charge to the revenue account.

2.3. In order that over the medium-term debt will only be for a capital purpose, the Council needs to ensure that debt does not, except in the short term, exceed the total of the Capital Financing requirement (CFR) in 2023/2024 plus the estimates of any additional CFR for 2024/2025 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

2.4. The projected Capital Financing Requirement and Gross Debt is shown in the table below.

	2023/24 Estimate £ m	2024/2025 Estimate £ m	2025/26 Estimate £ m	2026/2027 Estimate £ m
General Fund Capital Financing Requirement	1,113.213	1,124.054	1,143.123	1,134.539
HRA Capital Financing Requirement	315.872	336.131	363.417	384.480
Total Capital Financing Requirement	1,429.085	1,460.185	1,506.540	1,519.019
Gross Debt	1,186.567	1,308.695	1,382.505	1,404.504
Difference	242.518	151.490	124.035	114.515

2.5. It can be seen that the estimated gross debt levels for the period 2023/2024 to 2026/2027 do not exceed the forecast CFR at the end of 2026/2027, demonstrating that borrowing will only be undertaken for capital purposes.

2.6. This indicator sets out the expected CFR based on the capital plans shown at Indicator 1. Actual CFR for 2023/2024 will be presented to committee following year end.

3. Prudential Indicator 3 – Limits to Borrowing

3.1. The **Operational Boundary for external debt** is based on the expected maximum external debt that could be faced in the course of the year. It is set to accommodate the borrowing requirements as detailed at Prudential Indicator 1, and also includes sufficient scope to allow for changes to the capital programme throughout the year and to borrow for the following year should this be considered appropriate. This limit is permitted to be breached during the year. This would be reported in the Prudential Indicators report presented to Committee after year end.

3.2. The **Authorised Limit for External Debt** represents a limit beyond which external debt is prohibited. It represents the level of external debt which could be afforded in the very short term, but is not sustainable in the longer term without consideration to revenue budgets. This limit needs to be set or revised by the full Council who should also be advised if the limit is exceeded or is expected to be exceeded. Again the limits include scope to borrow for the following year should this be considered appropriate.

	2023/24 Estimate £ m	2024/2025 Estimate £ m	2025/26 Estimate £ m	2026/2027 Estimate £ m
Operational Limit for debt	1,250.000	1,410,000	1,460.000	1,570.000
Operational Limit for other liabilities	180.000	180.000	170.000	160.000
Operational Limit	1,430.000	1,590.000	1,630.000	1,730.000
Authorised Limit for debt	1,270.000	1,430.000	1,480.000	1,590.000
Authorised Limit for other liabilities	180.000	180.000	170.000	160.000
Authorised Limit	1,450.000	1,610,000	1,650,000	1,750.000

Affordability Indicators

4. Prudential Indicator 4 – Ratio of Financing Costs to Net Revenue Stream

4.1. This indicator focuses on the extent to which the Council's net revenue budget is used for servicing debt. This is shown for both General Fund and HRA. The figures for General Fund include the reduction in the PPP/Finance Lease Liability as a financing cost.

	2023/24 Estimate £ m	2024/2025 Estimate £ m	2025/26 Estimate £ m	2026/2027 Estimate £ m
General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)	4.93%	3.89%	5.04%	6.98%
HRA General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)	10.22%	11.18%	14.78%	15.54%

4.2. While the Council has prepared a Financial Strategy for 2023/2024 to 2025/2026, at the time of writing this report, we have not been advised of our General Revenue Grant funding beyond 2024/2025. The indicators have been calculated using the assumptions regarding reductions in grant levels built into the Financial Strategy for 2025/2026 and beyond.

4.3. For the HRA, estimates of rental income in each financial year have been used in the calculation.

Prudential Indicator 5 – Ratio of Net Income from Commercial and Service Investments to Net Revenue Stream

4.4. The Prudential Code for Capital Finance in Local Authorities 2021 introduced a new indicator – The Ratio of Net Income from Commercial and Service Investments to Net Revenue Stream.

4.5. The Code defines Commercial Investments as investments taken or held primarily for financial return and not linked to treasury management activity and Service Investments as those directly involved in the delivery of a service, for example, loans to leisure providers, loans to trusts providing services, a shareholding in a shared service vehicle, and investments in local companies for regeneration.

4.6. As the Council has no investments that fall into these categories, there is no requirement to report this indicator.

Appendix 3

Treasury Management Strategy 2024/2025

1. Foreword

1.1. The treasury management function is an important part of the overall financial management of the Council's affairs. The treasury management function considers the effective funding of capital investment plans and works toward ensuring that best practice is followed when making decisions on managing Council deposited funds.

The Council's treasury activities are regulated by the Local Government (Scotland) Acts 1975 and 2003, and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised December 2021). It is a requirement of this Code, and the financial regulations of South Lanarkshire Council, that a Treasury Management Strategy is approved by Committee every year.

A key requirement of this strategy is to explain both the risks and the management of these risks associated with the treasury function. A further report will be produced after the year end to report on actual activity during the year. It is a requirement of the Treasury Management Code of Practice that a mid year monitoring report is produced. This will cover the period 1 April 2024 to 30 September 2024 and will be submitted to Committee after that date.

This strategy covers:

- The Council's debt and investment projections (Section 2)
- The Council's estimates and limits on future debt levels (Section 3)
- The expected movement in interest rates (Section 4)
- The Council's borrowing strategy (Section 5)
- Treasury Management Limits on Activity (Section 6)
- Statutory Repayment of Loans Fund Advances (Section 7)

2. Debt and Investment Projections 2024/2025 – 2026/2027

2.1 The expected levels of external borrowing and investment for 2024/2025 to 2025/2026 are shown in the table below. An updated position for 2023/2024 is also shown.

	2023/24 Estimate £ m	2024/2025 Estimate £ m	2025/26 Estimate £ m	2026/2027 Estimate £ m
External Debt				
Borrowing	£1,014.531	£1,144.049	£1,225.458	£1,255.050
Other long term liabilities	£172.036	£164.646	£157.047	£149.454
Debt at 31 March (including PPP/Finance Lease Liability)	£1,186.567	£1,308.695	£1,382.505	£1,404.504
Investments				
Total Investments at 31 March	£5.000	£40.000	£40.000	£40.000

3. Estimates and Limits on Future Debt Levels

3.1 There are a number of key indicators to ensure the Council operates its activities within well defined limits. These are detailed in the Prudential Indicators Appendix 2, paragraphs 2.1 to 3.2.

4. Expected Movement in Interest Rates

4.1. The interest rate forecast provided by the Council's treasury advisor, Link Asset Services is reproduced below. Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The forecasts below will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year.

Medium Term Interest rates - Annual Averages – Link Asset Services

	Base Interest Rate	5 year PWLB	10 year PWLB	25 year PWLB	50 year PWLB
2024/2025	4.500%	4.250%	4.350%	4.850%	4.650%
2025/26	3.063%	3.775%	3.950%	4.275%	4.075%
2026/2027	3.000%	3.525%	3.700%	4.100%	3.900%

4.2. Since the start of 2022, there has been a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table above shows, Link Asset Services are forecasting a steady, but slow, fall in both Bank Rate and gilt yields during the forecast period to March 2027, with periods of volatility continuing during this forecast period.

4.3. The differential between investment earnings and debt costs remains high and is expected to continue in 2024/2025. This "cost of carrying" needs to be considered if borrowing is taken before our cash flow requires funds as returns on deposits will be lower than the rate paid on borrowing.

5. Borrowing Strategy

5.1. The Council is currently maintaining an under-borrowed position in comparison to its Capital Financing Requirement, using its cash balances rather than borrowing to fund capital expenditure. This strategy is prudent as investment returns remain low in comparison to the rates at which we can borrow, medium and longer dated borrowing rates are expected to fall from their current levels and counterparty risk is still an issue that needs to be considered.

5.2. The Council's borrowing strategy will be to minimise borrowing costs over the medium to long term by considering the borrowing requirement arising from the capital programmes along with expected interest rates and the level of existing cash balances and reserves.

5.3. In conjunction with advice from its treasury adviser, Link Asset Services, the Council will keep under review the options it has in borrowing from the PWLB, the market and other sources up to the available capacity within its CFR and Authorised Limit.

5.4. One of the options to finance capital borrowing is the issuance of Bonds. In the right circumstances, Bonds could be appropriate for the Council but are dependent on the level of borrowing, the repayment period and the mix of other funding sources to fund a large-scale capital programme. To date, their use has not been considered appropriate or necessary given the amount the Council requires to borrow and the repayment period of the borrowing. Moving forward, they will remain an option and will be considered along with other sources of borrowing as required.

5.5. Alongside fixed rate maturity borrowing, other options such as variable rate or short-term borrowing or EIP (equal instalments of principal) loans that help mitigate the impact of the cost of carry are all active considerations.

5.6. The Council will consider debt rescheduling where appropriate to make savings in interest costs or to amend the profile of maturing debt to reduce any inherent refinancing risks, however opportunities will be limited due to the premium that is charged by the PWLB for the early repayment of debt.

5.7. The overall strategy for borrowing will be to monitor interest rates, undertake planned borrowing at the best time, whilst investigating opportunities where possible to improve the structure of our existing loan portfolio.

5.8. The expected borrowing is detailed in the Prudential Indicators Appendix 2, paragraphs 1.1. to 1.2. and is summarised below.

	2023/24 Estimate £ m	**2024/2025 Estimate £ m**	**2025/26 Estimate £ m**	**2026/2027 Estimate £ m**
Expected Borrowing	0.000	163.287	201.562	154.136

6. Treasury Management Limits on Activity

6.1. The Treasury Management in the Public Services - Guidance Notes for Local Authorities details treasury management indicators that are to be reported within the Treasury Strategy. The update in 2021 introduced a new indicator – The Liability Benchmark which is covered in Section 6.3 to 6.8.

6.2. The purpose of the Treasury Management Indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs/improve performance. The indicators are detailed below.

Treasury Management Indicator 1 – Liability Benchmark

6.3. The liability benchmark is a comparison of the existing loan portfolio against committed and planned borrowing needs, while taking into account how reserves, cash balances and the need for short-term liquidity affect the future borrowing requirement.

6.4. The liability benchmark is included in Annex 1 to this strategy. The top line shows the projected loans capital financing requirement. This is the total outstanding capital expenditure that has not been paid for from either revenue or capital resources and is funded by borrowing.

6.5. The dotted line shows the net loans requirement which takes the loans CFR and adjusts it for reserves and cash balances that are available to use in lieu of borrowing.

6.6. The solid line is the liability benchmark which is equal to the net loans requirement plus a short term liquidity requirement. The two shaded areas at the bottom of the chart shows the maturity profile of our actual loan debt outstanding split between LOBOs and PWLB.

6.7. The Treasury Management Code requires that any mismatches between actual loan debt outstanding and the liability benchmark are explained. The years where actual loans are less than the benchmark indicate a future borrowing requirement while any years where actual loans outstanding exceed the benchmark represent an overborrowed position which will result in excess cash requiring investment.

6.8. The liability benchmark for the Council shows a future borrowing requirement. The Council manages the risks inherent in this by having a view of the future course of interest rates and a borrowing strategy that aims to minimise borrowing costs and ensure that these are affordable. The financial impact of borrowing for capital expenditure has been built into the long-term revenue budget strategy.

Treasury Management Indicator 2 – Maturity Structure of Borrowing

6.9. By setting limits on the maturity structure of borrowing, the exposure to large concentrations of debt needing to be replaced at the same time in the future at currently unknown rates can be limited. This effectively places a limit on exposure to longer term interest rate movement. The upper and lower limits for the maturity structure of borrowing is shown in the table overleaf.

Maturity Structure of Borrowing		
	Upper Limit	**Lower Limit**
Under 12 months	30%	0%
12 months and 24 months	40%	0%
24 months and 5 years	50%	0%
5 years and 10 years	60%	0%
10 years and 20 years	60%	0%
20 years and 30 years	70%	0%
30 years and 40 years	80%	0%
40 years and 50 years	90%	0%
50 years and above	90%	0%

Treasury Management Indicator 2 – Investments Greater Than 364 Days-

6.10. Limits on the total principal sums invested for greater than 364 days protects against potential loss that we would suffer if we required to get our money back earlier than the full term of the investment.

6.11. This Council will, at any one time, have no more than £10m invested for periods greater than 364 days, subject to a maximum period of 5 years.

Interest Rate Risk

6.12. As there is no longer a specific recommended indicator in respect of interest rate exposures, councils are asked to explain their strategy for managing interest rate risks.

6.13. Interest rate risk is the risk that movements in interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

6.14. The Council manages this risk by having a view of the future course of interest rates and a borrowing strategy that aims to minimise borrowing costs and ensure that these are affordable. The financial impact of borrowing for capital expenditure has been built into the long-term revenue budget strategy.

Credit Risk

6.15. There is no specific recommended indicator in relation to credit risk, although the Treasury Management Code states that authorities may wish to design and set their own indicators in relation to this.

6.16. Details of how South Lanarkshire Council manages credit risk are included in the Annual Investment Strategy 2022/2023 which is included in Appendix 4 of this report.

7. Statutory Repayment of Loans Fund Advances

7.1 The Scottish Government introduced The Local Authority (Capital Financing and Accounting) Scotland Regulations 2016 with effect from 1 April 2016. These regulations require the statutory loans fund to be administered in accordance with the 2016 Regulations, proper accounting practice and prudent financial management.

Policy for the Statutory Repayment of Loans Fund Advances

7.2. The Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

7.3. A number of options are available to councils so long as a prudent provision is made each year. The Council is recommended to approve the following policy on the repayment of loans fund advances:-

The policy for the repayment of loans fund advances will be to use the most appropriate method of repayment for individual capital schemes or projects from the following methods.

1. **Asset life method** – loans fund advances will be repaid with reference to the life of an asset on an annuity basis.

2. **Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream.

7.4. For loans fund advances repaid using the annuity basis, the annual repayment will be calculated using an appropriate interest rate based on an average cost of funding capital advances to services.

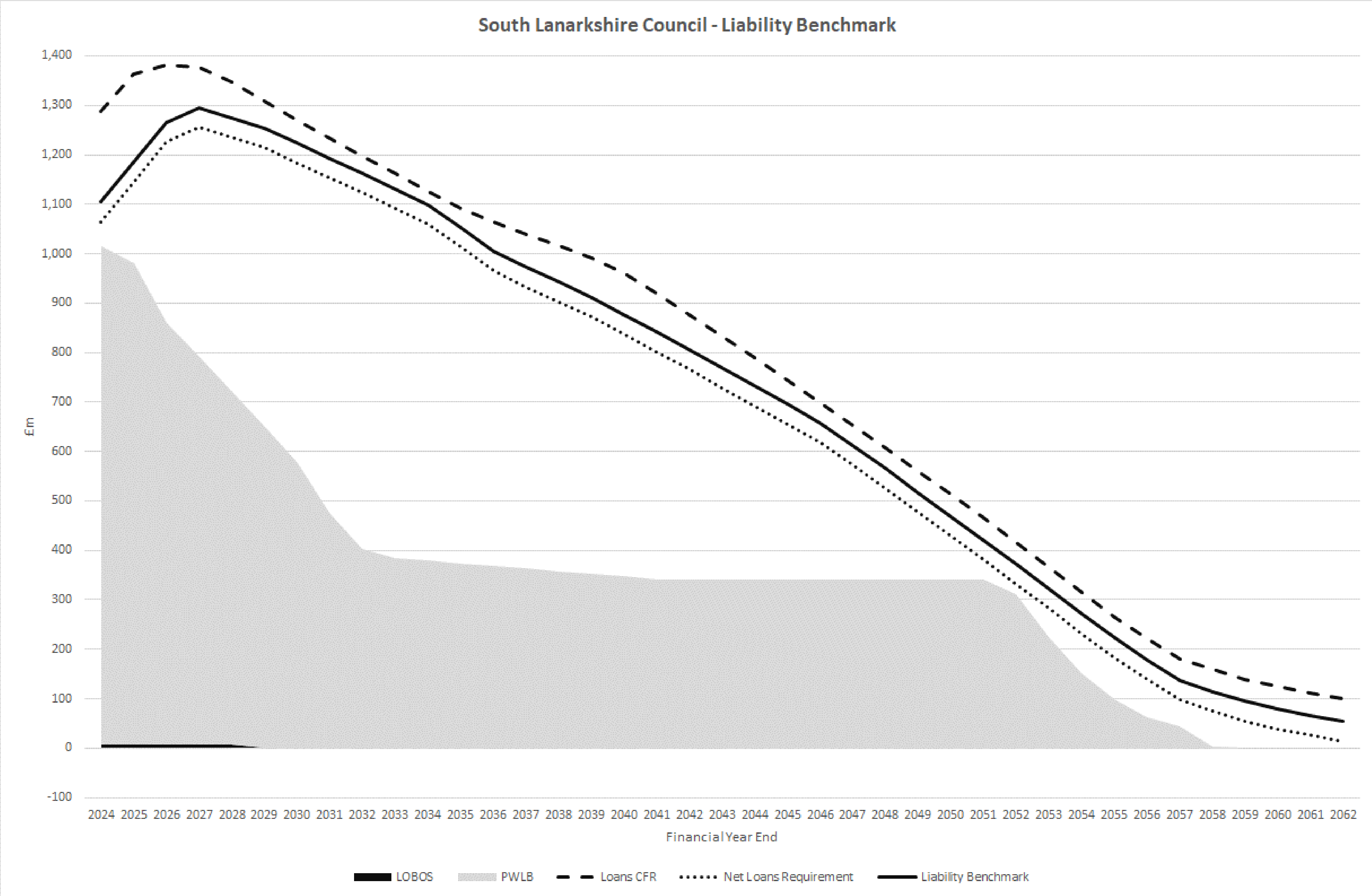
7.5. The Council's strategy for managing debt includes making additional voluntary repayments. These repayments will be used as a tool to reduce interest costs in the short to medium term by lowering the Council's need to borrow. These additional voluntary repayments will be retained and used to offset higher loans fund repayments in the long term. All of this helps to ensure that charges to the revenue account remain prudent and affordable in the long term.

Repayment of Loans Fund Advances

7.6. Borrowing to fund the capital programmes result in new loans fund advances and create a liability to repay those advances from future years' budgets. The Council is required to report on the commitment to repay loans fund advances. This is shown in the following tables.

General Fund	Opening Balance	New Advances	Repayments	Closing Balance
2023/24	843.397	30.106	-3.268	870.235
2024/2025	870.235	17.428	-3.784	883.879
2025/26 – 2028/29	883.879	52.387	-31.832	904.434
2029/30 – 2033/34	904.434	0.000	-53.151	851.283
2034/35 – 2038/39	851.283	0.000	-107.354	743.929
2039/40 – 2043/44	743.929	0.000	-102.492	641.437
2044/45 – 2048/49	641.437	0.000	-130.808	510.629
2049/50 – 2053/54	510.629	0.000	-166.948	343.681
2054/55 – 2058/59	343.681	0.000	-176.725	166.956
2059/60 – 2063/64	166.956	0.000	-112.557	54.399
2064/65 – 2068/69	54.399	0.000	-36.108	18.291
2069/70 – 2073/74	18.291	0.000	-15.776	2.515
2074/75 – 2078/79	2.515	0.000	-2.515	0.000

Housing Revenue Account	Opening Balance	New Advances	Repayments	Closing Balance
2023/24	292.694	23.166	0.000	315.860
2024/2025	315.860	20.259	0.000	336.119
2025/26 – 2028/29	336.119	61.570	-34.824	362.865
2029/30 – 2029/30	362.865	0.000	-56.218	306.647
2034/35 – 2038/39	306.647	0.000	-55.554	251.093
2039/40 – 2043/44	251.093	0.000	-51.003	200.090
2044/45 – 2048/49	200.090	0.000	-55.899	144.191
2049/50 – 2053/54	144.191	0.000	-54.241	89.950
2054/55 – 2058/59	89.950	0.000	-44.722	45.228
2059/60 – 2063/64	45.228	0.000	-35.872	9.356
2064/65 – 2068/69	9.356	0.000	-9.356	0.000


South Lanarkshire Council - Liability Benchmark
£m
1,400
1,300
1,200
1,100
1,000
900
800
700
600
500
400
300
200
100
0
-100
2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036 2037 2038 2039 2040 2041 2042 2043 2044 2045 2046 2047 2048 2049 2050 2051 2052 2053 2054 2055 2056 2057 2058 2059 2060 2061 2062
Financial Year End
LOBOS
PWLB
Loans CFR
Net Loans Requirement
Liability Benchmark

Appendix 4

Annual Investment Strategy 2024/2025

1. Background

1.1. Local authority investment activity is regulated by statute. In Scotland the legislation that local authorities rely on to make investments had consisted of the Trustee Investments Act 1961 and the Local Government (Scotland) Act 1973.

1.2. In response to representation from local authorities that the existing regulation was too prescriptive, provision was made in the Local Government in Scotland Act 2003 for Scottish Ministers to introduce a new regulatory framework.

1.3. Section 40 of the Local Government in Scotland Act 2003 provides local authorities with the power to invest money. This power may be exercised in accordance with regulations made by Scottish Ministers under this section.

1.4. Scottish Ministers have, through Consent and Regulations, provided a formal investment framework, namely The Local Government Investments (Scotland) Regulations 2010 which came into force on 1 April 2010.

1.5. The new regulatory framework introduced by regulations made by Scottish Ministers under Section 40, provides greater autonomy for local authorities in their investment activities. With this greater freedom comes greater responsibility and the onus is on local authorities to act prudently regarding their investment and treasury management activities.

1.6. Local authorities are required to manage their investments in a way that minimises the risk to the capital sum and optimises the return on the funds consistent with those risks.

1.7. Local authorities are required to prepare an Annual Investment Strategy before the start of the financial year.

2. Investment Policy and Strategy

2.1. Scottish Ministers have identified two CIPFA Codes of Practice which local authorities must have regard to in managing their investments:

- Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (Fully Revised Second Edition 2009)

- The Prudential Code for Capital Finance in Local Authorities (Fully Revised Second Edition 2009)

2.2. The first Code referenced covers the whole range of treasury management issues including the fundamental principles for making and managing investments. The second Code deals with capital investment but also includes guidance on Treasury Management.

2.3. This Council in its Treasury Management Policy Statement defines its Treasury Management Activities as:
The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2.4. The main objective when investing surplus funds will therefore be the security of the transaction. The Council must also meet its liquidity requirement and only invest for the period of time that is prudent. Finally, and only after consideration of security and liquidity, the yield that will be gained from the investment will be considered.

3. Treasury Management Risks

3.1. The CIPFA Treasury Management Code of Practice adopted by the Council includes a section on Managing Treasury Management Risks, placing Credit and Counterparty risk at the forefront of treasury risks.

3.2. South Lanarkshire Council recognises that any investment activity will carry an element of risk. It is important that risk is identified and controls put in place to limit those risks.

3.3. Risks when carrying out investment activities can broadly be categorised as follows:

Credit Risk:	failure to receive back the principal and interest on an investment in full and on the due date
Liquidity Risk:	the maturity or terms of the investment are such that insufficient cash is available in the short term
Market Risk:	the effect of market prices on the value of the investment

4. Permitted Investments

4.1. Local authorities are required to list and document all types of investments that they will permit in the financial year. These will be described as the permitted investments for that local authority.

4.2. Local authorities are required to state the limits for the amounts which at any time during the year may be invested in each type of permitted investments, such limit being applied when the investment is made.

4.3. For each type of permitted investment, the objectives of that investment are to be identified along with the associated treasury risks and the controls that will be put in place to limit those risks.

4.4. The permitted investments that South Lanarkshire Council have identified for the financial year 2022/2023 are detailed in Annex 1 to this strategy and listed below:

- Deposits with the Debt Management Account Deposit Facility
- Deposits with UK Local Authorities
- Deposits with Banks and Building Societies
- Certificates of Deposit with Banks and Building Societies
- UK Government Gilts and Treasury Bills
- AAA Rated Bonds Issued by Multilateral Development Banks
- AAA Rated Money Market Funds
- Loans to Third Parties

Inclusion as a permitted investment simply allows the Council to use that investment if considered to be appropriate. It is not necessarily the case that all permitted investments will be used.

5. Risk Management

5.1. The CIPFA Treasury Management Code of Practice adopted by the Council includes a section on Managing Treasury Management Risks, placing Credit and Counterparty risk at the forefront of treasury risks. The Code states:

Credit ratings should only be used as a starting point when considering credit risk. Organisations should make use of generally available market information, such as the quality financial press, market data, and information on government support for banks including the ability and willingness of the relevant government to provide adequate support.

5.2. In managing credit and counterparty risk the Council will be required to:

- Establish a sound diversification policy with high credit quality counterparties
- Set clear minimum credit limits for counterparties.
- Have regard to the credit ratings issued by all three rating agencies and make decisions based on the lowest rating
- Consider country, sector and group limits
- Regularly review credit ratings and other creditworthiness indicators as outlined in 5.6 below and act upon forward looking rating warnings

Deposits with the Debt Management Account Deposit Facility

5.3. Deposits with the Debt Management Office Account Deposit facility provided by HM Treasury will be continued. This facility offers the highest security for investments and deposits will be subject to a maximum period of six months which is the maximum time allowed by the DMO and no maximum deposit size.

Deposits with UK Local Authorities

5.4. Deposits with UK local authorities will be permitted subject to a maximum period of three years and a maximum deposit size of £20m for up to 364 days and £10m beyond this.

5.5. Before placing a deposit with a local authority, an internet search will be carried out to ensure that there are no financial concerns regarding the local authority that may cause reputational damage to this Council through association.

Deposits and Certificates of Deposit with Banks and Building Societies

5.6. The following minimum thresholds will be applied to all deposits with banks and building societies, including Certificate of Deposits.

Rating Agency	Long Term Rating	Maximum Deposit
Fitch	A-	£20m
Moody's	A3	£20m
Standard and Poors	A-	£20m

5.7. Prior to depositing funds with any bank or building society, checks will be made with the Council's treasury adviser, Link Asset Services, that the institution is considered safe and that any deposit conforms to their recommended time duration as determined by their Rating Methodology. This methodology uses credit ratings, rating watches and outlooks and credit default swap (CDS) prices to establish a suggested time duration for deposits.

5.8. Currently all deposits are with UK institutions. Non-UK banks would only be considered if they meet our strict criteria and are recommended by our advisers. Any one foreign country would carry a limit of £20m deposits.

5.9. If two or more organisations in the same group meet the criteria detailed in 5.5. then a group limit of £20m will be applied.

5.10. Deposits with banks or building societies will be restricted to 364 days.

5.11. The existing Counterparty policy sets out a sound approach to depositing cash in normal market circumstances. Whilst this policy still stands, the Executive Director of Finance and Corporate Resources may consider temporarily restricting deposits to those counterparties considered of higher credit quality than the minimum criteria set out in the policy.

5.12. Examples of these restrictions would be greater use of higher rated institutions; increased use of the DMO account and restricting the term of deposits as appropriate.

5.13. Operational banking will continue with our contracted provider. Any deposits with banks or building societies will continue to meet the criteria set in 5.6.

UK Government Gilts and Treasury Bills

5.14. UK Government Gilts and Treasury Bills are bonds issued by HM Treasury. Purchasing these bonds is a means of investing in the UK Government. The UK Government has never failed to make interest or principal payments on these bonds.

5.15. Investments in UK Government Gilts and Treasury Bills carry very little credit risk as they are investments in the UK Government. Gilts and Treasury Bills are marketable, and the price fluctuates from day to day. There is therefore the potential of capital loss if sold ahead of maturity. Gilts and Treasury Bills will be bought by the Council with the intention of holding them to maturity thereby mitigating market risk. There will be no maximum limit to the amount that will be invested in UK Gilts or Treasury Bills for maturities of less than one year. For Gilts with maturities in excess of one year a limit of £10m will be applied and no maturity will exceed five years.

AAA Rated Bonds Issued by Multilateral Development Banks

5.16. These are bonds issued by supranational institutions such as the World Bank or the European Investment Bank.

5.17. Investments in AAA rated bonds issued by Multilateral Development Banks carry very little credit risk as they are backed by several Sovereign States. These bonds carry market risk as their price fluctuates from day to day. There is therefore the potential of capital loss if sold ahead of maturity. These bonds will be bought by the Council with the intention of holding them to maturity, thereby mitigating market risk. The maximum amount that will be invested in AAA rated bonds issued by Multilateral Development Banks is £10m with a maximum period of five years.

5.18. Any investments in these bonds would only be undertaken after careful consideration and with advice from our advisers to ensure security of our investments.

AAA Rated Money Market Funds

5.19. Investments in Money Market Funds will be limited to those funds rated as AAAmmf by Fitch, Aaa by Moody's or AAAm by Standard and Poor's. In the event that the Money Market Fund is rated by more than one credit rating agency, each rating must meet the set criteria.

5.20. In addition to the credit rating, Money Market Funds will also be assessed for suitability on fund size, the strength of the custodian and the stability of invested capital.

5.21. Selection of suitable Money Market Funds will be undertaken in consultation with our advisers.

5.22. Investments in Money Market Funds will be restricted to 0.5% of the Money Market Fund size and to no more than £10m in any individual Money Market Fund.

5.23. Investments in Sterling Government Money Market Funds which only invest in Sterling denominated debt securities issued by the UK Government will be restricted to 2% of the Money Market Fund size and to no more than £10m in any individual Money Market Fund.

Loans to Third Parties

5.24. Any new types of loans to third parties should be approved by The Finance and Corporate Resources Committee with full consideration of the service rationale behind the loan and the likelihood of partial or full default and the impact that this will have on service budgets.

Liquidity Risk

5.25. In order to manage liquidity risk, the Council will endeavour to maintain a minimum balance of £5m in bank accounts and money market funds with instant access (same day notice account). This is dependent on these facilities continuing to be provided by the banks and subject to our minimum lending criteria.

5.26. In addition to retaining a balance of deposits on instant access, South Lanarkshire Council will maintain an appropriate overdraft facility.

5.27. Longer term investments will only be considered where the Council's liquidity requirements are ensured and an assessment of liquidity risk has been carried out. No more than £10m of investments at any one time will be for a period in excess of 364 days.

6. Borrowing In Advance

6.1. Borrowing in advance may be taken if it is considered appropriate, for example if interest rates were expected to increase significantly.

6.2. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

6.3. The risks of holding increased levels of deposits and investments would be managed in accordance with section 5 above. The Council has unlimited access to using the DMO Deposit Facility where necessary. This facility offers the highest security for investments.

7. Investment Projection 2022/2023 – 2024/2025

7.1. Over the period 2022/2023 – 2024/2025, it is estimated that the level of investments will be minimal as reserves and working capital are used to reduce the Council's borrowing requirement.

7.2. Regardless of the level of deposits, the main consideration when investing surplus funds will be the security of the transaction. The Council must also meet its liquidity requirement and only invest for the period of time that is prudent. Finally, and only after consideration of security and liquidity, the yield that will be gained from the investment will be considered.

8. Prudential Indicators

8.1. The regulations require that the Annual Investment Strategy contains details of the relevant prudential indicators for investments.

8.2. The Treasury Management Code requires local authorities to set an upper limit for each forward financial year period for investments longer than 364 days. The purpose is to contain the exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested.

8.3. No more than £10m may be invested for periods in excess of 364 days and that the maximum period for any investment is 5 years.

9. Common Good Investments

9.1. The regulations require local authorities to identify separately the permitted investments relating to the Common Good.

9.2. All investments relating to the Common Good funds administered by South Lanarkshire Council are cash investments in South Lanarkshire Council. These investments are not considered to have any significant risk attached.

10. Responsible Investing

10.1. Until there is an established methodology that can be used to assess an organisation's approach to climate change, sustainability and the environment, the Council will continue to minimise its deposits with banks while managing Treasury Management risks.

10.2. Deposits with Royal Bank of Scotland and Clydesdale Bank (Virgin Money) will continue to be limited to instant access call accounts where the council's money cannot be used for investment in any projects.

10.3. Deposits with Bank of Scotland will be limited to instant access call accounts and Sustainability Fixed Term Deposits, recognising that there will be an opportunity cost of using these fixed term deposits. The use of the fixed term deposits will be subject to the requirements of the council's cash flow and overall deposits with Bank of Scotland will not exceed the limit of £20m as set out in 5.6. of the Annual Investment Strategy.

Permitted Investment	Treasury Risks	Mitigating Controls	Limits
Deposits with the Debt Management Account Deposit Facility	This is a deposit with the UK Government and so credit risk is very low. Liquidity risk has to be considered as deposits can only be broken with the agreement of the counterparty and penalties may apply. There is no market risk as the principal sum invested is not affected by market prices.	There are no mitigating controls required.	There is no maximum monetary limit. A maximum term of deposit of six months as set by the Debt Management Office.
Deposits with UK Local Authorities and other bodies defined as local authorities in the Local Government Scotland Act 2003 (And Equivalent English Act)	These are considered to be quasi UK Government investment and as such credit risk is very low. Liquidity risk has to be considered as deposits can only be broken with the agreement of the counterparty and penalties may apply. There is no market risk as the principal sum invested is not affected by market prices.	There are no mitigating controls required.	The maximum deposit with any local authority will be £20m for deposits less than one year. Deposits in excess of one year will be subject to a maximum term of deposit of three years and be limited to £10m.
Deposits with Banks and Building Societies	These tend to be low risk but credit risk will be higher than deposits placed with the DMO or UK local authorities. Liquidity risk has to be considered as deposits can only be broken with the agreement of the counterparty and penalties may apply. There is no market risk as the principal sum invested is not affected by market prices.	The counterparty selection criteria restricts lending only to high quality counterparties, measured initially by credit ratings from Fitch, Moody's and Standard and Poors. Additional indicators of creditworthiness will also be considered prior to placing any deposits. Liquidity risk can be controlled by the use of instant access call accounts.	The maximum deposit with any bank or building society will be £20m. A maximum term of deposit of 364 days.

Certificates of Deposit with Banks and Building Societies	These are short to medium term dated marketable securities issued by financial institutions. These tend to be low risk investments but credit risk will be higher than deposits placed with the DMO or UK local authorities. Liquidity risk is lower than placing a deposit with a Bank or Building Society as these can be sold on the market. There is a risk of capital loss arising from selling ahead of maturity.	The counterparty selection criteria restricts lending only to high quality counterparties, measured initially by credit ratings from Fitch, Moody's and Standard and Poor's. Additional indicators of creditworthiness will also be considered prior to using this type of instrument. Market risk would be mitigated by holding the instrument to maturity.	The maximum investment with any bank or building society will be £20m. A maximum period of investment of 364 days.
UK Government Gilts and Treasury Bills	These are marketable securities issued by the UK Government and as such credit risk is very low. Liquidity risk is very low as there is a huge market for Gilts and Treasury Bills There is a risk of capital loss arising from selling ahead of maturity.	There are no mitigating controls required for credit risk as the investment is with the UK Government. Market risk would be mitigated by holding the instrument to maturity.	There is no maximum limit to investments in UK Gilts or Treasury Bills for maturities less than one year and a limit of £10m for maturities greater than one year. The maximum period of investment will be five years.
AAA Rated Bonds Issued by Multilateral Development Banks	These are bonds issued by supranational bodies such as the European Investment Bank or World Bank and as a result are backed by several sovereign states and as such credit risk is very low. Liquidity risk is very low as there is a large market for Supranational Bonds. There is a risk of capital loss arising from selling ahead of maturity.	As the investment is effectively spread across a number of sovereign states, the Council will mitigate the credit risk of holding such bonds by considering the sovereign rating of the underlying sovereign states and only holding bonds that have a AAA rating. Market risk would be mitigated by holding the instrument to maturity.	The maximum amount that will be invested in AAA Rated Bonds issued by Multilateral Development Banks is £10m. The maximum period of investment will be five years.

AAA Rated Money Market Funds	Money market funds are pooled funds that invest in short-term money market instruments and other debt instruments. The underlying investments are diversified and Credit risk, liquidity risk and market risk are all very low. Investments in these MMFs are highly liquid (same day liquidity).	Money Market Funds will only be used where they have obtained a AAA rating from the credit rating agencies. In addition to the credit rating, Money Market Funds will also be assessed for suitability on fund size, the strength of the custodian and the stability of invested capital.	Investments in Money Market Funds will be limited to 0.5% of the Money Market Fund Balance and to no more than £10m in any one Fund. Investments in Sterling Government Money Market Funds which only invest in Sterling denominated debt securities issued by the UK Government will be restricted to 2% of the Money Market Fund size and to no more than £10m in any individual Money Market Fund.
Loans to Third Parties	These are service investments which may exhibit credit risk and are likely to be highly illiquid.	Any new types of loans to third parties should be approved by Members through the appropriate Committee with full consideration of the service rationale behind the loan and the likelihood of partial or full default and the impact that this will have on service budgets.	