

Report

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 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 ecological 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:-

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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 including 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
<i>Funded by:</i>				
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
<i>Funded by:</i>				
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.

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
2024/20 25	4.500%	4.250%	4.350%	4.850%	4.650%
2025/26	3.063%	3.775%	3.950%	4.275%	4.075%
2026/20 27	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.

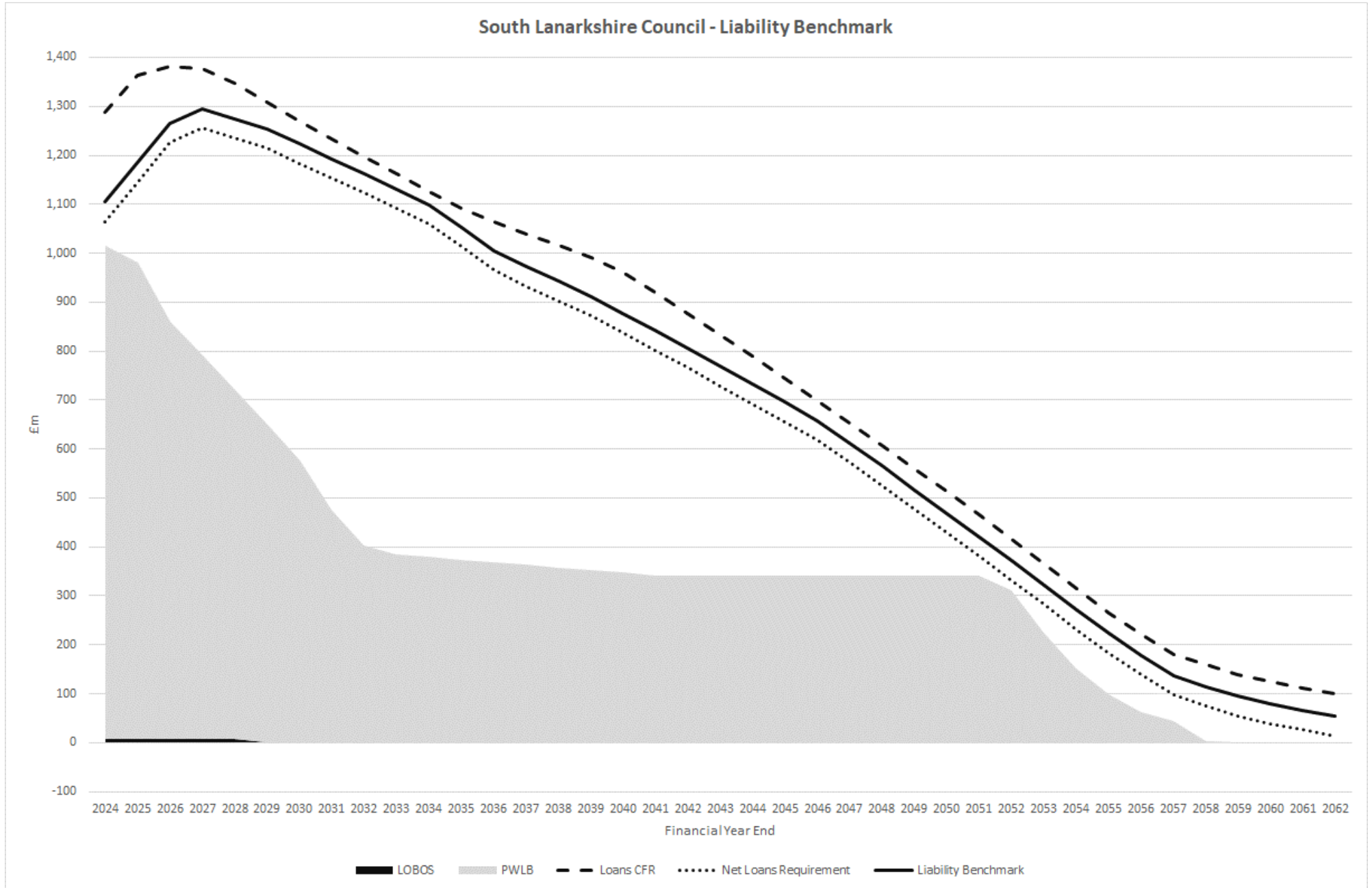
- 7.4. For loans fund advances repaid using the annuity basis, the annual repayment will be calculated using an appropriate interest rate based on an average cost of funding capital advances to services.
- 7.5. The Council's strategy for managing debt includes making additional voluntary repayments. 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



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

Certificates of Deposit with Banks and Building Societies	<p>These are short to medium term dated marketable securities issued by financial institutions.</p> <p>These tend to be low risk investments but credit risk will be higher than deposits placed with the DMO or UK local authorities.</p> <p>Liquidity risk is lower than placing a deposit with a Bank or Building Society as these can be sold on the market.</p> <p>There is a risk of capital loss arising from selling ahead of maturity.</p>	<p>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.</p> <p>Additional indicators of creditworthiness will also be considered prior to using this type of instrument.</p> <p>Market risk would be mitigated by holding the instrument to maturity.</p>	<p>The maximum investment with any bank or building society will be £20m.</p> <p>A maximum period of investment of 364 days.</p>
UK Government Gilts and Treasury Bills	<p>These are marketable securities issued by the UK Government and as such credit risk is very low.</p> <p>Liquidity risk is very low as there is a huge market for Gilts and Treasury Bills</p> <p>There is a risk of capital loss arising from selling ahead of maturity.</p>	<p>There are no mitigating controls required for credit risk as the investment is with the UK Government.</p> <p>Market risk would be mitigated by holding the instrument to maturity.</p>	<p>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.</p> <p>The maximum period of investment will be five years.</p>
AAA Rated Bonds Issued by Multilateral Development Banks	<p>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.</p> <p>Liquidity risk is very low as there is a large market for Supranational Bonds.</p> <p>There is a risk of capital loss arising from selling ahead of maturity.</p>	<p>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.</p> <p>Market risk would be mitigated by holding the instrument to maturity.</p>	<p>The maximum amount that will be invested in AAA Rated Bonds issued by Multilateral Development Banks is £10m.</p> <p>The maximum period of investment will be five years.</p>

<p>AAA Rated Money Market Funds</p>	<p>Money market funds are pooled funds that invest in short-term money market instruments and other debt instruments.</p> <p>The underlying investments are diversified and Credit risk, liquidity risk and market risk are all very low.</p> <p>Investments in these MMFs are highly liquid (same day liquidity).</p>	<p>Money Market Funds will only be used where they have obtained a AAA rating from the credit rating agencies.</p> <p>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.</p>	<p>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.</p> <p>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.</p>
<p>Loans to Third Parties</p>	<p>These are service investments which may exhibit credit risk and are likely to be highly illiquid.</p>	<p>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.</p>	