Council Offices, Almada Street
Hamilton, ML3 0AA

Tuesday, 17 March 2020

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, 25 March 2020**
Time: **11:30**
Venue: **Council Chamber, Council Offices, Almada Street, Hamilton, ML3 0AA**

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

Yours sincerely

Cleland Sneddon
Chief Executive

Members
Ian McAllan (Provost), Collette Stevenson (Depute Provost), Alex Allison, John Anderson, John Bradley, Walter Brogan, Robert Brown, Archie Buchanan, Jackie Burns, Janine Calikes, Stephanie Callaghan, Graeme Campbell, Andy Carmichael, Maureen Chalmers, Gerry Convery, Margaret Cooper, Poppy Corbett, Margaret Cowie, Peter Craig, Maureen Devlin, Mary Donnelly, Isobel Dorman, Fiona Dryburgh, Joe Fagan, Allan Falconer, Grant Ferguson, Alistair Fulton, Geri Gray, George Greenshields, Lynsey Hamilton, Ian Harrow, Eric Holford, Graeme Horne, Mark Horsham, Martin Grant Hose, Ann Le Blond, Martin Lennon, Richard Lockhart, Eileen Logan, Katy Loudon, Joe Lowe, Hugh Macdonald, Julia Marrs, Monique McAdams, Catherine McClymont, Kenny McCreary, Colin McGavigan, Mark McGeever, Jim McGuigan, Davie McLachlan, Gladys Miller, Lynne Nailon, Richard Nelson, Carol Nugent, Mo Razzaq, John Ross, Graham Scott, David Shearer, Bert Thomson, Margaret B Walker, Jim Wardhaugh, Jared Wark, David Watson, Josh Wilson

BUSINESS

1 Sederunt and Declaration of Interests

Item(s) for Decision

2	**Update to Local Government Settlement and Capital Programme 2020/2021** Report dated 28 February 2020 by the Executive Director (Finance and Corporate Resources). (Copy attached)	3 - 22
3	**Prudential Indicators Treasury Management Strategy and Annual Investment Strategy 2020/2021** Report dated 16 March 2020 by the Executive Director (Finance and Corporate Resources). (Copy attached)	23 - 48
4	**Recommendations Referred by Executive Committee - Delegated Powers to the Chief Executive** Report dated 25 March 2020 by the Executive Director (Finance and Corporate Resources). (Copy to be tabled)	

Urgent Business

---

5 Urgent Business

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

For further information, please contact:-

Clerk Name: Susan Somerville

Clerk Telephone: 01698 454197

Clerk Email: susan.somerville@southlanarkshire.gov.uk

Agenda Item

Report

2

Report to:	**South Lanarkshire Council**
Date of Meeting:	**25 March 2020**
Report by:	**Executive Director (Finance and Corporate Resources)**

Subject:	**Update to Local Government Settlement and Capital Programme 2020/2021**

1. Purpose of Report

1.1. The purpose of the report is to:-

- Provide the Council with an update on the Local Government Settlement for 2020/2021, and
- A General Services Capital Programme for financial year 2020/2021.

2. Recommendation(s)

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

(1) that the updated Local Government Settlement as detailed in section 4 be noted;
(2) that the balance of funding from the updated settlement be used to contribute towards the Capital Programme (section 4.4), be approved;
(3) that the Council does not take the option to reduce the IJB allocation by 2% (£2.5 million) as detailed in section 4.9, be approved;
(4) that should the Stage 1 additional revenue funding of £5.659m recur in financial year 2021/22, that this be treated as core revenue funding (section 4.5), be approved;
(5) that the proposed programme of General Services capital projects totalling £91.192 million for the year 2020/2021, summarised in Appendix 5 with details of the new projects in Appendix 1, be approved; and
(6) that the accompanying funding (Appendix 6), be noted.

3. Background

3.1. Local Government Settlement 2020/2021: The Council received its Local Government Grant Settlement on 6 February 2020. This allowed the Council to set its Revenue Budget at a full meeting of the Council on 26 February 2020. At this point, it was noted that neither the Scottish Government nor the UK Government had set their budgets.

3.2. This report will provide an update to the Settlement following the announcement of further revenue funding through the Scottish Government Budget negotiations.

3.3. 2020/2021 Capital Programme: The Council has an approved General Services Capital Programme for 2019/2020. This was approved by the Executive Committee on 21 November 2018 and subsequently updated on 29 May 2019.

3.4. In addition, 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), which identified the major capital investment requirements for the Council for the ten year period from 2018/2019 to 2027/2028 (21 November 2018).

3.5. It was noted that the Capital Strategy would be used to inform the Council's decision making process when considering future capital programmes.

3.6. As the current General Services Capital Programme runs to the end of 2019/2020 only, approval is required for a Capital Programme for 2020/2021.

4. Local Government Grant Settlement – Update

4.1. The Scottish Government announced an additional £95 million nationally in relation to its Stage 1 Budget discussions. The Council's allocation of this is £5.659 million. This is Revenue Funding.

4.2. The Budget Amendment agreed on 26 February utilised £0.270m from Reserves to balance the 2020/21 budget on a one-off basis. The amendment stated that "should the final offer of grant approved by the Scottish Parliament exceed the currently notified level, then the £0.270m drawn from reserves will be replaced by grant funding". This amendment was approved by Members. It is therefore proposed that these new monies be used to make this good on a permanent basis. This reduces the additional funding to £5.389 million.

4.3. The Council have not received clarification that this funding will be recurring into 2020/21. It also should be noted that, as part of the Settlement, the level of Capital Grant (£21.373 million) received is less than the amount assumed in the Capital Strategy. The General Capital Grant award of £21.373 million includes an additional allocation of £0.149 million for Strategic Waste Fund Grant. Through the Settlement and Distribution Group, the Scottish Government have given consideration to the allocation methods for this Grant and Leaders have now approved the 2020/2021 allocation on the same basis as the 2019/2020 allocations, albeit at a lower quantum. The level of General Capital Grant received over the last 3 years has been as follows: 2017/18 - £30.331 million; 2018/19 - £27.607 million and 2019/20 £33.029 million.

4.4. Councils can use their Revenue Budget as a funding source for their Capital Programmes. It is therefore proposed that the additional balance of Revenue Grant be used to support the Council's Capital Programme on a one off basis in 2020/2021. Table 1 below shows the additional revenue funding that could be used to meet capital expenditure into 2020/21. This is detailed further in Section 8.2.

Table 1: Allocation of £95 million Scottish Government Stage 1 Budget Changes

	£m
Council share of £95m from Stage 1 Budget Changes	5.659
Less	
Balance of Savings Removed in Budget (to be funded from Reserves)	(0.270)
= Balance Remaining from Stage 1 Budget Changes (contribution to Capital programme)	**5.389**

4.5. Should the Stage 1 additional revenue funding of £5.659m recur in financial year 2021/22, it is recommended that this balance of £5.389 million be included as core revenue funding within the 2021/22 Budget Strategy.

4.6. In relation to Capital Grants, the Scottish Government's Stage 1 Budget also announced further ring-fenced monies of £0.880 million for Cycling, Walking and Safer Streets. When added to the original allocation of £0.524 million this takes the total funding to £1.404 million (detailed in Section 6.4).

4.7. Integrated Health and Social Care: As part of the Council's Budget paper (26 February 2020), members were advised that the Council's share of the £100 million national figure is estimated at £6.007 million, less the £0.253 million to be allocated for School Counsellors and £0.110 million for the Carers Act for Children and Families, giving a total Integration Joint Board (IJB) share of £5.644 million.

4.8. The Council's allocation to the Health and Social Care IJB into 2020/2021 increased by this amount (£5.644 million) in line with Scottish Government's expectation (being their figure of £5.750 million less the £0.110 million for the Carers Act for Children and Families). This allocation to the IJB was agreed by members as part of the Budget approved by Council on 26 February 2020.

4.9. In a letter received on 28 February it was confirmed that Councils have the flexibility to offset their adult social care allocations to Integration Authorities by up to 2%. This means that the Council could choose to reduce the IJB allocation by £2.5m. As there is no basis on which to agree a reduction in the allocation to the IJB, it is proposed that this option is not taken, and that the reduction of 2% is not implemented in the Council's allocation to the IJB for 2020/2021.

5. 2020/21 Capital Programme

5.1. This paper lists the new capital projects proposed for consideration by Members for 2020/2021 (Section 6), as well as an update on the Glasgow City Region City Deal Programme (Section 7). The funding available is discussed in Section 8.

5.2. The proposed programme has been constructed on the basis of the Council Plan and the Council's Asset Management Plan.

5.3. In the usual way, any movement from the 2019/2020 Capital Programme as approved by the Council's Executive Committee during the year, are added to the proposed programme for 2020/2021. Taking this movement into account, a summary of the full programme for 2020/2021 is included in Section 9.

5.4. This report will also provide a summary of the key highlights from the Capital Investment Strategy including:

- key issues and risks that will impact on the delivery of the Capital Investment Strategy and other long term liabilities (Sections 9),
- the alignment of the Capital Strategy and Treasury Management Strategy, including the governance arrangements in place (Section 10),
- the governance framework required to ensure the Capital Investment Strategy is delivered (Section 11), and
- the skills and knowledge of employees responsible for delivering capital investment and treasury management (Section 12),
- Capital Programme Summary (Section 13).

6. Proposed New Programme for 2020/2021

6.1. As detailed in section 3, the Capital Strategy identified major capital projects requiring investment in financial year 2020/2021. The proposed programme for 2020/2021 is based on the Capital Strategy, and gives consideration to our spend requirements for the year.

6.2. In addition, during 2019, some new priorities have developed since the approval of the Capital Strategy. These are detailed below:

- **Community Facilities Fund (£0.100m)**: To assist communities to undertake transformational change through Community Asset Transfers, a fund is proposed for investment in community facilities. This fund will assist communities develop sustainable models through improvements to assets prior to Community Asset Transfer.

- **Memorial Headstone Remedial Works (£0.300m):** This will provide an allocation of £0.200m to ensure compliance with the Scottish Government's 5 year inspection programme guidance and subsequent remedial works and a further £0.100m to focus on large memorials.

- **Roads Depot Repairs – Salt Barn Works (£0.645m):** Essential works have been identified to rectify leaking roofs at four Salt Barns: Carnwath (£0.215m), Lesmahagow (£0.200m), Hawbank (£0.215m) and Elvanfoot (£0.015m).

- **Hamilton Mausoleum (£0.475m):** To carry out the replacement of the lead and guttering on both the flat roofs and dome at Hamilton Mausoleum.

- **Clyde Gateway (£0.800m):** A commitment of £0.800m has been identified as continued support in relation to the Clyde Gateway Regeneration Programme.

- **Town Centre Regeneration Fund (£0.500m):** The Scottish Government awarded South Lanarkshire £2.5m in 2019/20 as part of the £50m Town Centre Improvement Fund. Projects are currently being progressed, with full spend to be incurred by 30 September 2021. Funding of £0.500m from the Capital Programme will allow new projects to be developed.

- **East Kilbride Civic Centre Masterplan (£0.060m):** A report was presented to Executive Committee in June 2019 in relation to this project. The funding will allow a masterplanning exercise to commence for the Civic Centre site, with assessments on the suitability, feasibility and acceptability of options that could be developed. Once this work is complete it would then be reported to Committee for members' consideration.

- **Newton Farm Primary School Extension (£0.170m):** Education Resources are working to re-evaluate the educational requirements needed to satisfy the growth in pupil numbers within the Newton area, including an extension to Newton Farm Primary School. It is estimated that the total cost of an extension could be in the region of £4m. This allocation of £0.170m will allow design work to progress during 2020/2021 but further investment will be required to complete the build. Funding from the Scottish Government's Learning Estate Investment Programme will be sought to part fund this project (Section 8.5).

- **Climate Change / Digital Transformation (£1m):** Consideration has been given to the Council's future requirements in relation to climate change and sustainability, including the sustainability of the Council's fleet. Projects which will help to deliver transformational reform are also being considered. Work to identify options is ongoing and this fund will help to progress these priorities during 2020/21.

- **Essential Improvements / Service Upgrades (£0.640m):** Investment is required to ensure continued operation of our principal offices as well as changes to meet reorganisation/service delivery requirements set by the Council. Works include external fabric and service upgrades.

- **Lock-ups Areas – Housing Estates (£0.200m):** This will allow initial works to review areas where lock-ups are not well utilised and require investment. This project will look to replace unused lock-ups with public realm works including car parking and electric charging units and will consider replacement lock-ups where appropriate. The project will be augmented with HRA funding and external funding will also be sought.

- **Community Alarms Replacement (£0.400m):** By 2025 the public switched telephone network (PSTN) will be switched off as telecommunication companies move to newer digital technology. Capital investment is required to consider options around how the Council progress the implementation of a digitally compliant Alarm Receiving Centre service, and procure and install the required technology and peripherals within individual service user and group housing accommodation premises. Options will be considered for this service and reported back to Committee in due course. This funding will allow the project to commence but further investment will be required to complete the transition, following assessment of the options.

6.3. A revised programme totalling £56.938 million has been developed for 2020/2021 for consideration by Members. The rationale for each new project is detailed in Appendix 1.

6.4. Specific Capital Grant: In addition to the projects detailed above, the Local Government Finance Settlement announced in February 2020, allocated **£6.801m of Specific Grant** for specific projects. This includes monies for Early Learning 1,140 Hours (£4.700m) which were previously notified and included in the programme of £55.448 million above. The additional amount (£2.101 million) is for Vacant and Derelict Land (£0.697m) and Cycling, Walking and Safer Streets (£1.404m). These bring the total programme to £59.039 million (£56.938 million above plus the additional specific grants of £2.101 million).

6.5. Elements of this funding, specifically Cycling, Walking and Safer Streets monies, could be used to assist in meeting the Council's climate change objectives, and as such, could be brought within the remit of the Climate Change Committee.

6.6. There are a number of projects included in this programme which will have a financial impact in the years beyond 2020/2021, currently estimated at £16m. These include Leisure Centres (£9.5m to deliver 1 facility), Newton Farm Primary School Extension (£1.830m – assuming 50% external funding from the Scottish Government) and Community Alarms Replacement (up to £4.9m). These costs will need to be considered in future capital programmes.

7. Glasgow City Region City Deal

7.1. As well as the General Services Capital Programme, the Council is also part of the Glasgow City Region City Deal Programme of works.

7.2. In considering the next Capital Programme, the City Deal Roads and Community Growth Area (CGA) projects have been taken into account.

7.3. Currently, for 2020/2021, the proposals being considered are that City Deal grant (and developer contributions) will contribute towards specific projects for Education Growth requirements and Roads works associated with the Community Growth Areas. This is in addition to the existing City Deal Roads projects for Cathkin Relief Road, Greenhills Road and Stewartfield Way. The budget for 2020/2021 includes the anticipated spend levels in relation to Stewartfield Way. A separate paper on the project has been submitted to the Executive Committee earlier today.

7.4. Final Business Cases for the individual CGA projects are required before final agreement on funding is given by the City Deal Cabinet. These Final Business Cases will be presented to the Executive Committee in advance of City Deal Cabinet approval.

7.5. These additional requirements linked to the Glasgow City Region City Deal Programme total £15.279 million and should be considered as part of the 2020/2021 Capital Programme. When this is added to the General Services Capital Programme of £59.039 million (section 6.4.) this gives a total Capital Programme of £74.318 million. A full list of the proposed projects is included in Appendix 2.

8. Funding Position – New Projects

8.1. A core element of any Capital Programme is the level of funding available to support the programme. The Future Capital Investment Strategy identified General Capital Grant, Capital Receipts and other external income as the main funding sources for the proposed 2020/2021 Capital Programme and these are detailed below:

8.2. <u>General Capital Grant</u>: As well as the Specific Grants (section 6.4), the Local Government Finance Settlement also allocated the Council General Capital Grant of £21.224m. From this allocation, a contribution of £2.4m to the Glasgow and Clyde Valley City Deal is assumed. This allocation has subsequently been increased by £0.149 million as a result of revisions to the Strategic Waste Fund (see section 4.3). The total **General Capital Grant has increased to £21.373 million** as a result.

8.3. <u>Other Sources of Capital Funding</u>: Specific grant funding from the Scottish Government for the introduction of 1,140 hours within Early Years and City Deal / Developers Contributions have already been identified for some projects. Other sources of capital funding will continue to be explored for specific projects including Growth and Capacities within Education.

8.4. <u>Scottish Government's Learning Estate Investment Programme</u>: Initial submissions totalling £15 million have been made to the Scottish Government's Learning Estate Investment Programme for a number of education projects. Discussions with the Scottish Government are ongoing and the projects (with the exception of Newton Farm Primary School Extension, section 6.2) have not therefore been included in the 2020/2021 Capital Programme at this time.

8.5. Should funding for financial year 2021/2022 be awarded, match funding would need to be provided. Formal Committee approval will be sought to add this to future years' capital programmes if necessary. An allocation of £0.170 million has been included to allow the design of the Newton Farm Primary School extension to commence during 2020/2021.

8.6. Revenue Contribution: Following the budget announcement by the Scottish Government on 26 February 2020, additional revenue funding has been allocated to the Council. As discussed at section 4.4, it is proposed that £5.389 million of this is used as a contribution towards the Capital Programme.

8.7. Borrowing: The requirement to borrow to finalise the Early Year's 1,140 Hours programme of works (£4.053m) and to fund the timing of spend in relation to the Glasgow City Region City Deal programme (£14.879m) has already been reported to Committee (Executive Committee meetings on 13 February 2019 and 11 May 2016 respectively).

8.8. **Funding Summary**: Table 2 summarises the funding identified for 2020/2021 totalling £66.067 million. This is also detailed in Appendix 3.

Table 2: Funding Summary

	Total Funding Available (£m)
General Capital Grant (section 8.2)	21.373
Scottish Government – Early Years 1,140 Hours	12.497
Scottish Government – Specific Grants (section 6.4)	2.101
City Deal / Developers Contributions	4.850
External Income	0.475
Revenue Contribution – 1,140 Hours	0.450
Revenue Contribution (section 4.4)	5.389
Borrowing – Early Years 1,140 Hours (section 8.8)	4.053
Borrowing – City Deal * (section 8.8)	14.879
Total Funding Identified	**66.067**

**This borrowing for City Deal is temporary to cover the period until City Deal grant is received.*

8.9. Based on the proposed capital investment requirements for 2020/2021 of £74.318 million (section 7.5), and funding of £66.067 million (Table 2), a funding shortfall of £8.251 million exists. The Capital Strategy notes that should the Council agree that the level of expenditure detailed is required, then the Council could borrow to bridge the gap. The financial implications are detailed in section 9.

9. Total Capital Programme 2020/2021 (including slippage from 2019/2020)

9.1. In addition to the new projects identified, movements from 2019/2020 (as approved by Executive Committee throughout the year) require to be added to this programme. These movements total £16.874 million and are listed in Appendix 4 attached. The movements exclude Glasgow City Region City Deal, with the full requirement for 2020/2021 for this specific programme already detailed in Section 7.

9.2. In relation to the Social Work Care Facilities allocation, the movement from 2019/2020 includes the likely level of spend to complete the new facility at Blantyre and progress the design of the new facility in Clydesdale during 2020/2021 (totalling £3.251 million). The funding for Roads Bridges, the Existing Synthetic and Grass Pitches project and the extension at St Mary's Primary School, Hamilton have also been adjusted to reflect anticipated spend levels in 2020/21. The balance of funding will be added to the 2021/2022 Capital Programme as follows: Roads – Bridges (£3 million), Existing Synthetic and Grass Pitches (£0.186 million), St Mary's (£0.656 million) and Care Facilities' (£11.5 million).

9.3. Taking account of the £16.874 million of movements means that the base programme for 2020/2021 is £91.192 million (being the £74.318 million programme for 2020/2021 detailed in section 7.5 plus the movements of £16.874 million from 2019/2020). A full programme list is included in Appendix 5.

9.4. Funding totalling £22.896 million is available from 2019/2020 for these projects. This funding includes borrowing (£17.331m), specific capital grants (£3.789m) and developers' contributions (£1.776m). Using this funding in 2020/2021 will mean that funding of £6.022 million will be required in 2021/2022 to complete the projects falling into that year.

9.5. This takes the total funding to £88.963 million (being £66.067 million from Table 2 and £22.896 million from section 9.4). Compared to the project list totalling £91.192 million detailed in Appendix 5, leaves a funding shortfall of £2.229 million in 2020/2021.

9.6. Borrowing for the overall shortfall of £2.229 million would result in an increase to Loan Charges averaging £0.173 million per annum with costs of £0.124 million starting in 2020/2021. This can be accommodated within the Council's Revenue Budget Strategy (Loan Charges budget) until 2022/2023, after which additional funding would be required.

9.7. Additional running costs, excluding loan charges, will be a commitment for future revenue budgets beyond 2021.

9.8. It is noted that the Revised Programme for 2020/2021 does not take account of the 2019/2020 year-end position, where there may be further projects/funding to be carried in to the new financial year. This will be brought to members in a summary paper at the start of the new financial year, consistent with the normal year-end treatment.

Key issues and risks that will impact on the delivery of the Capital Investment Strategy and other long term liabilities

9.9. 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.

9.10. There are no proposals in this report which would impact on the Council's long term liabilities.

10. The Alignment of the Capital Strategy and Treasury Management Strategy

10.1. 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.

10.2. 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.

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

11. Governance Framework

11.1. 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 in the Council's Capital Strategy (Executive Committee, November 2018).

12. Knowledge and Skills

12.1. 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.

13. Capital Programme Summary

13.1. The Future Capital Investment Strategy 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.

13.2. As an update to the Capital Strategy, this report seeks approval of a detailed programme for 2020/2021.

14. Financial Implications

14.1. A Capital Programme for financial year 2020/2021 totalling £91.192 million has been proposed in this report. Details as to how this Programme has been arrived at are shown in sections 5 to 9, with the full Programme listed in Appendix 5.

15. Climate Change, Sustainability and Environmental Implications

15.1. An exercise has been undertaken to consider the environmental impact of all of the capital projects proposed for approval including how the project links to the Council's sustainable development and climate change strategy, as well as any additional sustainable benefits resulting from the project.

15.2. The proposed projects have been subject to an initial assessment with the majority expected to have some impact on climate change, both positive and negative. On the whole, the package of projects is not expected to have a material impact on the Council's approach to tackling climate change. Details of this exercise are available on request.

16. Other Implications

16.1. The main financial risk associated with the Council's Capital Programme is that there is an overspend. The risk has been assessed as low given the detailed project management plans prepared and monitored for each project. The risk of overspend is managed through four weekly Capital Steering Group Meetings.

17. Equality Impact Assessment and Consultation Arrangements

17.1. There is no requirement to carry out an impact assessment in terms of the proposals contained within this report.

17.2. There is also no requirement to undertake any consultation in relation to the content of this report.

Paul Manning
Executive Director (Finance and Corporate Resources)

28 February 2020

Link(s) to Council Values/Ambitions/Objectives
- Accountable, Effective, Efficient and Transparent

Previous References
- Executive Committee, 21 November 2018
- Executive Committee, 29 May 2019

List of Background Papers
- None

Contact for Further Information
If you would like to inspect the background papers or want further information, please contact:-
Lorraine O’Hagan, Finance Manager (Strategy)
Ext: 2601 (Tel: 01698 452601)
E-mail: lorraine.o’hagan@southlanarkshire.gov.uk

Appendix 1

2020/2021 Proposed Capital Projects

1. **Leisure Centres (£0.500m):** The Capital Strategy identified investment of £30 million (excluding City Deal) for Larkhall Leisure Centre, Blantyre Leisure Centre and John Wright Sports Centre, East Kilbride. For financial year 2020/2021 an allocation of £0.500 million has been included to design Larkhall Leisure Centre with a future commitment expected of £9.5 million to complete the build of the new leisure centre. The £0.500m allocation in 2020/2021 will be funded from the £3.000 million of Glasgow City Region City Deal grant allocation, as per the approved Outline Business Case. The remainder of the funding to undertake the design and build of both Blantyre Sports Centre and John Wright Sports Centre, East Kilbride will be considered in future years.

2. **Community Facilities Fund (£0.100m):** To assist communities to undertake transformational change through Community Asset Transfer, a fund is proposed for investment in community facilities. This fund will assist communities develop sustainable models through improvements to assets prior to Community Asset Transfer.

3. **Roads Carriageways (£11.5m):** The Capital Strategy identified a capital requirement for investment in Roads Carriageways. This investment would ensure the current roads standard would be maintained, following the recommendations from the Association of Public Services Excellence (APSE), through 'steady state' investment of £12.5 million per annum. A significant investment of £11.5 million has been included, which will be augmented by an amount of £1.5 million of Revenue Budget funding, taking the total roads carriageway investment per annum to £13 million. This level is £0.500 million above the steady state requirement advised by SCOTS and should facilitate an improvement in the roads' condition.

4. **Roads Related Infrastructure (£2.4m):** £2.4 million per annum was included in the Capital Strategy to manage investment on Other Roads Infrastructure works including footways and footpaths, traffic management and vehicle restraint systems.

5. **Community Infrastructure (£0.062m):** This allocation will allow investment in path /car park infrastructure to be prioritised.

6. **Food Growing / Allotments (£0.080m):** Part 9 of the Community Empowerment Act places a requirement on each Local Authority to ensure that waiting lists for allotments do not exceed 50% of the available plots. The legislation also sets out a maximum travel distance for allotment plots, which must be complied with. This allocation will allow the delivery of a raised bed site in the Cambuslang / Rutherglen area to be progressed during 2020/2021.

7. **Country Parks (£0.200m):** Within Calderglen Country Park, significant investment requirements have been identified. Funding of £0.200m has been allocated to allow the replacement of gabion baskets and bridge supports at Horseshoe Bridge (£0.200m). This is in addition to the work already undertaken to stabilise Turtle Rock.

8. **Memorial Headstone Remedial Works (£0.300m):** Scottish Government guidance sets out the criteria in terms of inspection regimes (on a 5 year basis) and remedial works for headstones. This allocation will provide an annual allocation of £0.200m

for remedial works to ensure compliance with 5 year inspection programme and a further £0.100m to focus on large memorials.

9. **Roads Depot Repairs (£0.645m):** An allocation of £0.645 million has been provided to undertake essential works to rectify leaking roofs at four Salt Barns throughout South Lanarkshire namely Carnwath (£0.215m), Lesmahagow (£0.200m), Hawbank (£0.215m) and Elvanfoot (£0.015m).

10. **Hamilton Mausoleum (£0.475m):** This allocation will allow the replacement of the lead and guttering on both the flat roofs and dome at Hamilton Mausoleum, which are currently showing signs of water ingress. Community and Enterprise Resources will endeavour to attract grant funding for this project, however at this point no grant funding has been confirmed.

11. **Clyde Gateway (£0.800m):** Continued support in relation to Clyde Gateway Regeneration Programme. The contribution will be used towards the ongoing remediation works at Shawfield and new office accommodation at Rutherglen Links.

12. **Town Centre Fund (£0.500m):** The Scottish Government awarded South Lanarkshire £2.5m in 2019/20 as part of the £50m Town Centre Improvement Fund, with applications being over-subscribed. Funding of £0.500m from the 2020/21 Capital Programme will allow a continuation of this work, including new projects to be developed for consideration in future capital programmes.

13. **East Kilbride Civic Centre Masterplan (£0.060m):** The funding will allow a masterplanning exercise to commence for the Civic Centre site. A report was presented to Executive Committee in June 2019 in relation to this project.

    This master planning exercise would explore the following matters:

    - An assessment of the uses in and around the Civic Centre, the utilisation of the space and whether these and other public sector uses, could be located in the town centre or elsewhere;
    - Building fabric and economic life of the Civic Centre;
    - Financial viability/ model for relocation of uses;
    - Redevelopment potential site, economic benefits and financial return;
    - Timescales and phasing.

    At this stage the funding will allow the assessment of the suitability, feasibility and acceptability of options that would be developed through the preparation of a masterplan. Once this work is complete it would then be reported to Committee for members' consideration.

14. **Schools / Early Years Growth and Capacities (£4.520m):** The Primary Schools' Modernisation Programme is now complete. Due to actual and predicted pupil growth related to general population growth and significant new housing development across the authority, a number of Primary and Secondary Schools are experiencing capacity pressures, or are predicted to in the near future.

    The Future Capital Investment Strategy includes detail of the accommodation pressures identified across the years of the Strategy, however, for 2020/2021 specifically, these total £4.520 million and are listed in Table 1.

    Table 1 – Schools' / Early Years Growth and Capacities Projects

Project Name	2020/2021 Requirement £m
Castlefield Primary School Extension	0.200
St Mark's Primary School Extension	1.700
Holy Cross High School	0.800
Future smaller scale adaptations to Primary Schools / Nurseries	0.320
ASN Expansion	0.300
Hamilton Community Growth Area – Nursery Expansion	0.300
Larkhall Community Growth Area – Nursery Expansion	0.500
Uddingston Nursery Expansion	0.400
	4.520

The allocation of £4.520 million is for the 2020/2021 element of these projects only. The remainder is included within the longer term Capital Strategy. The above projects are in addition to those included within the Glasgow City Region City Deal Programme.

15. **Early Years – 1,140 Hours (£18.350m):** In order to continue planning for implementation in August 2020, a number of reports have been presented to the Executive Committee detailing the capital programme of works required. Approval was given to progress with a £32.3 million programme of works. In addition, contributions from developers and revenue contributions of £1.8 million are included in the programme taking the total spend budget to £34.100 million.

    The approved Capital Programmes for 2017/18 to 2019/2020 included allocations totalling £15.7 million for Early Years 1,140 Hours nurseries, therefore, the 2020/2021 programme includes the remaining budget of £18.4 million. This includes spend on temporary accommodation to meet implementation timescales.

16. **Schools Information Communication Technology (£1.650m):** A contractual commitment of £1.650 million per annum exists in relation to the delivery of the ICT contract to schools.

17. **Newton Farm Primary School Extension (£0.170m):** Education Resources are working to re-evaluate the educational requirements needed to satisfy the growth in pupil numbers within the Newton area, including an extension to Newton Farm Primary School. The original building layout was designed to accommodate potential future expansion and the proposal is therefore to construct an extension at the school with an estimated cost of £4 million.

    An initial bid has been submitted to the Scottish Government's Learning Estate Investment Programme seeking funding of £2 million (50%) towards the overall cost of the project. Discussions with the Scottish Government are at an early stage. An initial allocation of £0.170m has been included to allow design work to commence in 2020/2021.

18. **Information Technology Infrastructure (£4.336m):** This allocation includes funding for infrastructure refresh (£0.742m), Oracle Replacement (£0.370m), Caird Replacement (£2.469m) and Digital Transformation (£0.755m).

19. **Climate Change / Digital Transformation (£1m):** Consideration has been given to the Council's future requirements in relation to climate change and

sustainability, including the sustainability of the Council's fleet. Projects which will help to deliver transformational reform are also being considered. Work to identify options is ongoing and this fund will help to progress these priorities during 2020/21.

20. **Private Housing Scheme of Assistance (£1m):** Housing provide some mandatory grants and to encourage owner occupiers to participate in the Housing Investment programme and the Care and Repair Service and £1million has been allocated to enable this to continue.

21. **Planned Asset Management (£4.8m):** £4.8 million per annum was included in the Capital Strategy to continue the Planned Asset Management model which aims to maintain all of the Council's new build General Services facilities (constructed post 2000) in a good condition and to a compliant standard.

22. **Prioritised Urgent Investment (£2m):** The continuation of the previous model to meet urgent essential works needed on all Council properties. The Strategy noted that the annual value of the fund has been static for six years with the assets in a declining position, therefore future requirements would need to be considered. The allocation of £2 million reflects an allowance for Leisure and Community facilities to reflect the costs anticipated in adding these properties to the programme, as well as an allowance towards remedial measures associated with fire compartmentation.

23. **Lifecycle Replacement – Schools (£0.750m):** The first school completed under the Primary School Modernisation Programme opened during financial year 2004/05. An allocation of £0.750m has been provided 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.

24. **Essential Improvements / Service Upgrades (£0.640m):** Principal Offices provide the main hub for circa 3000 staff in key locations in line with the Council Office Accommodation Strategy, several of which are now in excess of 50 years old. Funding of £0.700 million has been provided to ensure continued operation as well as changes to meet reorganization/service delivery requirements set by the Council.

25. **Lock-ups Areas – Housing Estates (£0.200m):** This will allow initial works to review areas where lock-ups are not well utilised and require investment. This project will look to replace unused lock-ups with public realm works including car parking and electric charging units and will consider replacement lock-ups where appropriate. The project will be augmented with HRA funding and external funding external funding will also be sought.

26. **Community Alarms Replacement (£0.400m):** By 2025 the public switched telephone network (PSTN) will be switched off as telecommunication companies move to newer digital technology, which can support both broadband and telephone services.

    Capital investment is required to allow the consideration of options around how the Council progress the implementation of a digitally compliant Alarm Receiving Centre service, and to procure and install the required technology and peripherals within individual service user and group housing accommodation premises. An initial allocation of £0.400m has been provided to consider these options and the results will be reported back to Committee in due course. Further investment will be required to complete the transition, following assessment of the options.

Appendix 2

Proposed New Capital Projects 2020/2021

	Ref (App 1)	2020/2021 £m
Community and Enterprise Resources		
Leisure Centres (funded by a contribution from Glasgow City Region City Deal)	1	0.500
Community Facilities Fund	2	0.100
Roads – Carriageway Investment	3	11.500
Roads Related Infrastructure	4	2.400
Infrastructure	5	0.062
Food Growing / Allotments	6	0.080
Country Parks	7	0.200
Memorial Headstone Remedial Works	8	0.300
Roads Depot Repairs – Salt Barn Works	9	0.645
Hamilton Mausoleum	10	0.475
Clyde Gateway	11	0.800
Town Centre Regeneration Fund	12	0.500
East Kilbride Civic Centre Masterplan	13	0.060
Vacant and Derelict Land (section 6.4)		0.697
Cycling, Walking and Safer Streets (section 6.4)		1.404
Glasgow City Region City Deal (section 7)		14.779
Total Community and Enterprise Resources		**34.502**
Education Resources		
Schools / Early Years Growth and Capacities	14	4.520
Early Years – 1,140 Hours	15	18.350
Schools ICT Solutions for Learning	16	1.650
Newton Farm Primary School Extension	17	0.170
Total Education Resources		**24.690**
Finance and Corporate Resources		
Information Technology	18	4.336
Climate Change / Digital Transformation	19	1.000
Total Finance and Corporate Resources		**5.336**
Housing and Technical Resources		
Private Housing Scheme of Assistance	20	1.000
Planned Asset Management Programme	21	4.800
Prioritised Urgent Investment in Property	22	2.000
Lifecycle Replacement – Schools	23	0.750
Essential Improvements / Service Upgrades	24	0.640
Lock-up areas – Housing Estates	25	0.200
Total Housing and Technical Resources		**9.390**
Social Work Resources		
Community Alarms Replacement (analogue to digital)	26	0.400
Total Social Work Resources		**0.400**
Total New Capital Projects Proposed for 2020/2021		**74.318**

Appendix 3

Proposed New Capital Projects – Funding 2020/2021

	Revised 2020/2021 £m
New Capital Programme	**74.318**
Funding Available	
General Capital Grant	21.373
Scottish Government – Early Years 1,140 Hours	12.497
Scottish Government – Specific Grants	2.101
City Deal / Developers Contributions	4.850
External Income	0.475
Revenue Contribution – Early Years 1,140 Hours	0.450
Borrowing – Early Years 1,140 Hours	4.053
Borrowing – City Deal	14.879
Revenue Contribution	**5.389**
Total Funding Available	**66.067**
Surplus / (Deficit) in Funding – To be Funded by Borrowing	**(8.251)**

Appendix 4

Changes Approved by Executive Committee during 2019/2020

Project Name	**Amount £m**
Extension / Improvement of Cemeteries	1.772
Existing Synthetic and Grass Pitches (reflecting 2020/2021 spend requirements)	0.300
Abington Campus for Enterprise	0.510
Zero Waste Fund	0.195
Town Centre Regeneration Fund	2.026
Rural Development Centre	0.800
Vacant and Derelict Land	0.453
Roads – Bridges (reflecting 2020/2021 spend requirements)	2.500
Schools ICT Solutions for Learning	2.030
Growth and Capacities – St Charles Extension (reflecting 2020/2021 spend requirements)	2.443
Growth and Capacities – Crawforddyke Primary School	0.444
Growth and Capacities – Capacity Issues at Various schools	0.450
Computer Room Upgrades (approved acceleration into 2019/20)	(0.300)
Social Work Care Facilities (reflecting 2020/2021 spend requirements)	3.251
Total	**16.874**

Appendix 5

Proposed General Services Capital Programme 2020/2021

	Ref (App 1)	2020/2021 £m
Community and Enterprise Resources		
Leisure Centres (funded by a contribution from Glasgow City Region City Deal)	1	0.500
Community Facilities Fund	2	0.100
Roads – Carriageway Investment	3	11.500
Roads Related Infrastructure	4	2.400
Infrastructure	5	0.062
Food Growing / Allotments	6	0.080
Country Parks	7	0.200
Memorial Headstone Remedial Works	8	0.300
Roads Depot Repairs – Salt Barn Works	9	0.645
Hamilton Mausoleum	10	0.475
Clyde Gateway	11	0.800
Town Centre Regeneration Fund (includes £2.026m approved slippage from 2019/2020)	12	2.526
East Kilbride Civic Centre Masterplan	13	0.060
Extension / Improvement of Cemeteries (approved slippage from 2019/2020)		1.772
Existing Synthetic and Grass Pitches (approved slippage from 2019/2020)		0.300
Abington Campus for Enterprise (approved slippage from 2019/2020)		0.510
Zero Waste Fund (approved slippage from 2019/2020)		0.195
Rural Development Centre (approved slippage from 2019/2020)		0.800
Vacant and Derelict Land (approved slippage from 2019/2020)		0.453
Roads – Bridges (approved slippage from 2019/2020)		2.500
Glasgow City Region City Deal		14.779
Vacant and Derelict Land		0.697
Cycling, Walking and Safer Streets		1.404
Total Community and Enterprise Resources		**43.058**
Education Resources		
Schools / Early Years Growth and Capacities (includes £0.450m approved slippage from 2019/2020)	14	4.970
Early Years – 1,140 Hours	15	18.350
Schools ICT Solutions for Learning (includes £2.030m approved slippage from 2019/2020)	16	3.680
Growth and Capacities – St Charles' Extensions (approved slippage from 2019/2020)		2.443
Growth and Capacities – Crawforddyke Primary School (approved slippage from 2019/2020)		0.444
Newton Farm Primary School Extension	17	0.170
Total Education Resources		**30.057**
Finance and Corporate Resources		
Information Technology (net of £0.300m approved acceleration into 2019/2020)	18	4.036
Climate Change / Digital Transformation	19	1.000
Total Finance and Corporate Resources		**5.036**

	Ref (App 1)	2020/2021 £m
Housing and Technical Resources		
Private Housing Scheme of Assistance	20	1.000
Planned Asset Management Programme	21	4.800
Prioritised Urgent Investment in Property	22	2.000
Lifecycle Replacement – Schools	23	0.750
Essential Improvements / Service Upgrades	24	0.640
Lock-up areas – Housing Estates	25	0.200
Total Housing and Technical Resources		**9.390**
Social Work Resources		
Community Alarms Replacement – Analogue to Digital	26	0.400
Social Work Care Facilities (approved slippage from 2019/2020)		3.251
Total Social Work Resources		**3.651**
Total General Services Capital Programme 2020/2021		**91.192**

Revised General Services Capital Programme – Funding 2020/2021

	Revised 2020/2021 £m
Full Capital Programme	**91.192**
Funding Available	
General Capital Grant	21.373
Scottish Government – Early Years 1,140 Hours (approved slippage from 2019/2020 plus new allocation in 2020/2021)	12.497
Scottish Government – Regeneration Capital Grant (approved slippage from 2019/2020)	1.310
Scottish Government – Town Centre Regeneration Fund (approved slippage from 2019/2020)	2.026
Scottish Government – Vacant and Derelict Land (approved slippage from 2019/2020 plus new allocation in 2020/2021)	1.150
Scottish Government – Cycling, Walking and Safer Streets (new allocation in 2020/2021)	1.404
City Deal / Developers Contributions (includes approved slippage from 2019/2020)	6.626
Revenue Contribution – Early Years 1,140 Hours	0.450
External Income	0.475
Borrowing – Early Years 1,140 Hours	4.053
Borrowing – City Deal	14.879
Borrowing – General Services (approved slippage from 2019/2020)	17.331
Revenue Contribution	**5.389**
Total Funding Available	**88.963**
Surplus / (Deficit) in Funding – Borrowing	**(2.229)**

Agenda Item

Report

3

Report to:	**South Lanarkshire Council**
Date of Meeting:	**25 March 2020**
Report by:	**Executive Director (Finance and Corporate Resources)**

Subject:	**Prudential Indicators, Treasury Management Strategy and Annual Investment Strategy 2020/2021**

1. Purpose of Report

1.1 The purpose of the report is to:-

- provide members with the Prudential Code indicators for 2020/21 to 2022/23,
- provide members with the Treasury Management Strategy for 2020/21, and
- provide members with the Annual Investment Strategy for 2020/21.

2. Recommendation(s)

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

(1) that the Prudential Code indicators for the period 2020/21 to 2022/23, the Treasury Management Strategy for 2020/21 and the Annual Investment Strategy for 2020/21 be approved.

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 Framework for local authority capital investment 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 2020/2021 to 2022/2023 are shown at Appendix 1 along with explanations for each indicator. An updated position for 2019/2020 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 2019/2020 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.

Capital Expenditure and Asset Management

4.6 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.

4.7 The level of capital expenditure that we choose to fund through borrowing has a direct impact on the treasury activities of the Council. Borrowing is required to fund the proposed capital programme including investment in Roads Carriageways and Infrastructure, for the shortfall in Early Years 1,140 Hours and for the Housing Investment Programme. Borrowing will also be used in the short term to manage the cashflow funding gap for City Deal. The Prudential Indicators show the level of borrowing required.

4.8 An update to the General Fund programme for 2020/21 is being presented to this meeting of the Council. This allows for investment across priorities consistent with the objectives of the Council Plan.

4.9 The capital expenditure for 2020/21 included in our indicators is based on the aforementioned report and takes account of anticipated expenditure for that year adjusted to include other potential commitments. It also includes the General Capital Grant funding allocated by the Scottish Government. The programme also includes projects which will be funded by Specific Capital Grants from the Scottish Government.

4.10 In relation to the indicators for 2021/2022 and 2022/2023, the Capital Strategy agreed by the Executive Committee (21 November 2018) made a prudent assumption of Government Grant based on the most recent information available at that point in time. As grant allocations are not yet available for these years, for the purpose of these indicators, a General Capital Grant of £28m has been assumed for each year.

4.11 The HRA capital programme for 2020/21 was presented to the Housing and Technical Resources Committee on 5 February 2020. For financial years 2021/22 and 2022/23, estimated capital programmes based on the HRA business plan have been included.

4.12 Housing capital expenditure will result in an increase in the availability of social housing stock through the new build programme and improvements in the quality of the existing social housing stock. Future capital programmes will also include investment in housing stock to reflect the new Energy Efficiency Standard for Social Housing (EESSH) which must be achieved by 31 December 2020. At present, 92% of the Council’s houses are compliant with the EESSH standard.

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

4.14 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 2019 and approved by the relevant resource Committees.

- 2019 Property and Housing Asset Management Plans presented to Housing and Technical Resources Committee on 4 September 2019
- Fleet Asset Management Plan 2019 presented to Community and Enterprise Resources Committee on 3 September 2019
- 2019/2020 Information and Communication Technology (ICT) Asset Management Plan presented to Finance and Corporate Resources Committee on 7 August 2019
- Roads Asset Management Plan – 2019 Update presented to Community and Enterprise Resources Committee on 3 September 2019

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 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 2020/21 is detailed at Appendix 2.

5.3 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.

5.4 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.

5.5 The indicators set limits on the maturity structure of borrowing and limits on investments over 364 days.

5.6 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

5.7 Total external net debt is expected to reach £1,105.169m by the end of 2019/20. This is gross debt of £1,236.873m less estimated investments of £131.704m. The estimated level of investments reflects the level of reserves held plus an element of working capital.

5.8 External debt includes the liability of £201.443m 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 2020/21

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 2020/21 has been included at Appendix 3.

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 a strategy for investments that explains investment objectives and policies including any special circumstances applying to them that have led to a particular approach.

6.8 The attached strategy identifies the different types of treasury risk that investments are exposed to and the controls in place for limiting those risks. These include restrictions on who the Council will invest with and on the period of investment.

6.9 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”.

6.10 The strategy also limits the amounts that may be held in such investments at any time in the year.

6.11 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 2019/20.

6.12 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.

6.13 **Borrowing in Advance:-** Borrowing in advance of need increases the level of funds which require to be invested or deposited.

6.14 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.

6.15 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.

6.16 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.

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

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 in order 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
Executive Director of Finance and Corporate Resources

16 March 2020

Link(s) to Council Values and Objectives

- 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
Ext: 5367 (Tel: 01698 455367)
E-mail: jackie.taylor@southlanarkshire.gov.uk

Prudential Indicators 2020/21 – 2022/23

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 2019/20 to 2022/23 and attributes limits for external borrowing.

Indicator 4 demonstrates the financial impact of the expected borrowing for the years 2019/20 to 2022/23 and that this borrowing is affordable.

After year end, the actual position for the Indicators will be reported to this 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 2019/20 through to 2022/23. The indicator takes account of the anticipated spend for 2019/20 and 2020/21. For 2021/22 and 2022/23, the Capital Strategy has been used as the basis, adjusted to reflect anticipated spend.

	2019/20 Estimate £ m	2020/21 Estimate £ m	2021/22 Estimate £ m	2022/23 Estimate £ m
General Fund Capital Expenditure	**76.804**	**91.192**	**99.495**	**71.223**
Funded by:				
Borrowing	21.102	38.492	47.167	33.331
Capital Receipts and Grants	52.788	47.311	52.328	37.892
Contributions from Reserves	2.914	5.389	0.000	0.000
Total Funding	**76.804**	**91.192**	**99.495**	**71.223**
HRA Capital Expenditure	**61.835**	**97.303**	**43.313**	**26.093**
Funded by:				
Borrowing	28.715	53.089	15.155	0.750
Capital Receipts and Grants	12.531	24.766	4.988	1.020
Revenue Contributions	20.589	19.448	23.170	24.323
Total Funding	**61.835**	**97.303**	**43.313**	**26.093**

1.2 The table overleaf summarises the above capital expenditure plans and how the borrowing required for the capital programmes are adjusted for loans fund principal repayments, maturing debt and borrowing not taken in prior financial years to derive the borrowing requirement for the Council in each financial year.

	2019/20 Estimate £ m	2020/21 Estimate £ m	2021/22 Estimate £ m	2022/23 Estimate £ m
Borrowing for General Fund Capital Expenditure	21.102	38.492	47.167	33.331
Borrowing for HRA Capital Expenditure	28.715	53.089	15.155	0.750
Total Borrowing for Capital Expenditure	**49.817**	**91.581**	**62.322**	**34.081**
Less Loans Fund Principal Repayments	(19.899)	(20.649)	(22.550)	(24.370)
Plus Maturing Debt	30.590	29.893	40.954	43.884
Borrowing carried over/(taken) in prior financial years	(9.638)	50.870	0.000	0.000
Total Borrowing Requirement	**50.870**	**151.695**	**80.726**	**53.595**
Actual/Expected Borrowing	**0.000**	**151.695**	**80.726**	**53.595**
Borrowing carried over to next financial year	50.870	0.000	0.000	0.000

1.3 Borrowing of £9.638m taken in prior years will be used to meet the capital costs that will be incurred in 2019/20, and reduces the borrowing requirement in this year.

1.4 The Council has not borrowed in 2019/20, 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 2020/21.

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 to ensure 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 2019/20 plus the estimates of any additional CFR for 2020/21 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.

	2019/20 Estimate £ m	2020/21 Estimate £ m	2021/22 Estimate £ m	2022/23 Estimate £ m
General Fund Capital Financing Requirement	1,029.511	1,046.004	1,070.348	1,079.773
HRA Capital Financing Requirement	258.232	304.967	312.942	306.071
Total Capital Financing Requirement	1,287.743	1,350.971	1,383.290	1,385.844
Gross Debt	1,236.873	1,350.971	1,383.290	1,385.844
Difference	50.870	0.000	0.000	0.000

2.5 It can be seen that the estimated gross debt levels for the period 2019/20 to 2022/23 do not exceed the forecast CFR at the end of 2022/23, 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 2019/20 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.

	2019/20 Estimate £ m	2020/21 Estimate £ m	2021/22 Estimate £ m	2022/23 Estimate £ m
Operational Limit for debt	1,240.000	1,270.000	1,300.000	1,290.000
Operational Limit for other liabilities	210.000	210.000	200.000	190.000
Operational Limit	1,450.000	1,480.000	1,500.000	1,480,000
Authorised Limit for debt	1,260.000	1,290.000	1,320.000	1,310.000
Authorised Limit for other liabilities	210.000	210.000	200.000	190.000
Authorised Limit	1,470.000	1,500.000	1,520.000	1,500,000

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.

	2019/20 Estimate £ m	2020/21 Estimate £ m	2021/22 Estimate £ m	2022/23 Estimate £ m
General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)	7.94%	8.07%	8.36%	8.68%
HRA General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)	16.82%	18.34%	18.61%	18.27%

4.2. While the Council has prepared a Financial Strategy for 2020/21 to 2022/23, we have not been advised of our General Revenue Grant funding beyond 2020/21. The indicators have been calculated using the assumptions regarding reductions in grant levels built into the Financial Strategy for 2020/21.

Treasury Management Strategy 2020/21

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 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 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 2020 to 30 September 2020 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 2019/20 – 2021/22

2.1 The expected levels of external borrowing and investment for 2020/21 to 2022/22 are shown in the table below. An updated position for 2019/20 is also shown.

	2019/20 Estimate £ m	2020/21 Estimate £ m	2021/22 Estimate £ m	2022/23 Estimate £ m
External Debt				
Borrowing	£1,035.430	£1,157.232	£1,197.004	£1,206.715
Other long term liabilities	£201.443	£193.739	£186.286	£179.129
Debt at 31 March (including PPP/Finance Lease Liability)	£1,236.873	£1,350.971	£1,383.290	£1,385.844
Investments				
Total Investments at 31 March	£131.704	£182.574	£182.574	£182.574

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 1, 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
2020/21	0.750%	2.400%	2.600%	3.150%	3.050%
2021/22	1.000%	2.750%	2.950%	3.550%	3.450%
2022/23	1.250%	3.000%	3.200%	3.850%	3.750%

4.2 Public Works Loans Board (PWLB) rates and gilt yields have continued to be influenced by economic data. It is likely that this will continue for the foreseeable future. The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently.

4.3 The differential between investment earnings and debt costs remains high and is expected to continue in 2020/21. 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's strategy is to maintain maximum control over its borrowing activities as well as flexibility on its loans portfolio. Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term. A prudent and pragmatic approach to borrowing will be maintained to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Council's Prudential Indicators.

5.2 In conjunction with advice from its treasury advisor, 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.

5.3 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.

5.4 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.

5.5 Any decision to borrow at low, variable rates of interest would only be taken after considering the level of longer term interest rates and the extent of variable rate earnings on the Council's investment balances. Longer term rates are regularly assessed relative to the cost of carry benefits of shorter term and variable rate alternatives.

5.6 The Council will continue to maintain a flexible policy on debt rescheduling. Market volatility may provide opportunities for rescheduling debt from time to time. The rationale for rescheduling would be one or more of the following:

- Savings in interest costs with minimal risk
- Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio
- Amending the profile of maturing debt to reduce any inherent refinancing risks.

5.7 To manage potential rescheduling activity the Council's debt portfolio will be monitored against equivalent interest rates and available refinancing options on a regular basis. As opportunities arise, they will be identified by Link Asset Services and discussed with the Council's officers.

5.8 All rescheduling will comply with the accounting requirements of the Local Authority SORP and Statutory requirements of the Scottish Government's Guidance on Local Authority Accounting Proper Accounting Practices dated 30 March 2007.

5.9 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 management of our existing loan portfolio.

5.10 The expected borrowing is detailed in the Prudential Indicators Appendix 1, paragraphs 1.1 to 1.3 and is summarised below.

	2019/20 Estimate £ m	**2020/21 Estimate £ m**	**2021/22 Estimate £ m**	**2022/23 Estimate £ m**
Total Borrowing Requirement	**0.000**	**151.695**	**80.726**	**53.595**

5. 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.

6.2 CIPFA consulted on proposals to make changes to the treasury management indicators. More guidance on the detail of these changes was made available when the update of the CIPFA Publication Treasury Management in the Public Services Guidance Notes for Local Authorities was published in August 2018.

6.3 The requirement to set upper limits on fixed and variable rate exposures was removed and the limit on the maturity structure of borrowing was revised to include all borrowing rather than just fixed rate borrowing.

6.4 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 – Maturity Structure of Borrowing

6.5 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 below.

Maturity Structure of Borrowing		
	Upper Limit	**Lower Limit**
Under 12 months	25%	0%
12 months and 24 months	30%	0%
24 months and 5 years	50%	0%
5 years and 10 years	50%	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 – Maturity Structure of Borrowing

6.6 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.

6.7 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

6.8 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.

6.9 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.

6.10 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

6.11 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.

6.12 Details of how South Lanarkshire Council manages credit risk are included in the Annual Investment Strategy 2020/21 which is included in Appendix 3 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.

7.2 Guidance issued by the Scottish Government set out the method by which loans fund advances made before 1 April 2016 should be repaid. This method was known as the Statutory Method and was prescriptive in its requirements.

7.3 On 26 June 2019, the Executive Committee considered a report dated 3 June 2019 by the Executive Director of Finance and Corporate Resources on The Revenue Budget Monitoring Final Outturn and Annual Report and Accounts 2018/2019.

7.4 That report stated that the Finance Minister had agreed to review the 2016 Regulations during 2019/2020 to allow councils to vary loans fund principal repayments for debt taken before 1 April 2016. Following a late change advised by Audit Scotland, the ability to vary these loans fund repayments could be applied without the need for the legislation to be reviewed.

7.5 In order that the Council could re-profile the repayment of its loans fund advances relating to schools, and by doing so take an additional underspend of £2.841 million in 2018/19, a change to the Council's Treasury Management Strategy was approved by South Lanarkshire Council on 26 June 2019.

7.6 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.

7.6 A variety of options are provided 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 using either the equal instalment or annuity method.

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

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

7.9 Decisions taken each year on new advances 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
2019/20	818.938	21.102	-14.111	825.929
2020/21	825.929	38.492	-14.295	850.126
2021/22 – 2024/25	850.126	121.649	-67.701	904.074
2025/26 – 2029/30	904.074	9.105	-148.619	764.560
2030/31 – 2034/35	764.560	0.000	-166.404	598.156
2035/36 – 2039/40	598.156	0.000	-122.939	475.217
2040/41 – 2044/45	475.217	0.000	-131.142	344.075
2045/46 – 2049/50	344.075	0.000	-130.855	213.220
2050/51 – 2054/55	213.220	0.000	-133.955	79.265
2055/56 – 2059/60	79.265	0.000	-72.594	6.671
2060/61 – 2064/65	6.671	0.000	-6.671	0.000

Housing Revenue Account	Opening Balance	New Advances	Repayments	Closing Balance
2019/20	235.291	28.715	-5.788	258.218
2020/21	258.218	53.089	-6.354	304.953
2021/22 – 2024/25	304.953	18.497	-30.833	292.617
2025/26 – 2029/30	292.617	0.000	-48.242	244.375
2030/31 – 2034/35	244.375	0.000	-54.223	190.152
2035/36 – 2039/40	190.152	0.000	-45.766	144.386
2040/41 – 2044/45	144.386	0.000	-35.572	108.814
2045/46 – 2049/50	108.814	0.000	-41.104	67.710
2050/51 – 2054/55	67.710	0.000	-39.232	28.478
2055/56 – 2059/60	28.478	0.000	-24.806	3.672
2060/61 – 2064/65	3.672	0.000	-3.672	0.000

7.10 It is now accepted that The Local Authority (Capital Financing and Accounting) Scotland Regulations 2016 provides local authorities with greater flexibility to determine the repayments of loans fund advances and that subsequent variation is allowable if the authority considers it prudent to do so.

7.11 A review of the Council's loans fund repayments is currently being carried out to identify options to repay the debt over a longer period of time. This could result in a one-off benefit that could be used to support the Council's budgets going forwards.

7.12 The Council's strategy for managing debt includes the early repayment of some loans within the Loans Fund. These repayments result in reduced principal and interest payments in future years and are necessary to keep loan charges affordable.

Appendix 3

Annual Investment Strategy 2020/2021

1. Background

1.1. Local authority investment activity is regulated by statute. In Scotland the legislation that local authorities rely on to make investments has 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 with regard to 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. The CIPFA Treasury Management Code and the CIPFA Prudential Code were updated in December 2017. There are no significant areas of change in the revised codes that would impact on our investment strategy.

2.4. 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.

2.5. 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.

2.6. While the prime considerations when investing surplus funds are security liquidity and yield, it is recognised that consideration must be given to other factors such as climate change, sustainability and the environment.

2.7. Since 2016, the only bank that the Council has used for the temporary investment of surplus funds is the Bank of Scotland, with Royal Bank of Scotland being the contracted provider for operational banking.

2.8. These banks have their own policies climate change, sustainability and environmental issues and further details can be found here:

Lloyds Banking Group - Approach to Environmental, Social and Governance (ESG) Topics

Royal Bank of Scotland - Sustainable Banking

2.9. The Council will continue to work with their Treasury Management Advisors who are looking at ways to incorporate additional factors covering these areas into their creditworthiness assessment service. Any developments in this area will be reported to the Climate Change and Sustainability Committee.

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 2019/20 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, joint boards and passenger transport executives will be permitted subject to a maximum period of three years and a maximum deposit size of £15m for up to 364 days and £10m beyond this.

Deposits and Certificates of Deposit with Banks and Building Societies

5.5. 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-	£10m
Moody's	A3	£10m
Standard and Poors	A-	£10m

5.6. Prior to depositing funds with any bank or building society, additional indicators of creditworthiness (such as short term and secondary credit ratings, credit default swaps, Gross Domestic Product (GDP); net debt as a percentage of GDP, potential sovereign and parental support, share price) will also be considered.

5.7. Banks on negative rating watch with any credit rating agency will be heavily scrutinised before any deposit is made with that institution.

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 £10m deposits.

5.9. In the event that two or more organisations in the same group meet the criteria detailed in 5.5. then a group limit of £10m 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 5.5.

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 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.

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 2020/21 – 2022/23

7.1. Over the period 2020/21 – 2022/23, it is estimated that an average level of investments of approximately £183m will be required to be managed, reflecting the level of reserves held plus an element of working capital. It is recognised that this is only an estimate and that this figure will vary according to cash flow movements and the timing and size of any borrowing taken.

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.

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 £15m 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 £10m. 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 £10m. 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.	