Council Offices, Almada Street
Hamilton, ML3 0AA

Tuesday, 15 February 2022

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, 23 February 2022**
Time: **10:00**
Venue: **By Microsoft Teams,**

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

Yours sincerely

Cleland Sneddon
Chief Executive

Members

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, Ian McAllan, 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, Collette Stevenson, Bert Thomson, Margaret B Walker, Jim Wardhaugh, Jared Wark, David Watson, Josh Wilson

BUSINESS

1 **Declaration of Interests**

Item(s) for Decision

2	**Overall Position of Revenue Budget and Level of Local Taxation for 2022/2023** Report dated 8 February 2022 by the Executive Director (Finance and Corporate Resources). (Copy attached)	3 - 24
3	**Recommendations Referred by Executive Committee – Housing Revenue and Capital Account Budget 2022/2023** Report dated 3 February 2022 by the Chief Executive. (Copy attached)	25 - 28
4	**2022/2023 Capital Programme Update** Report dated 8 February 2022 by the Executive Director (Finance and Corporate Resources). (Copy attached)	29 - 42
5	**Prudential Indicators, Treasury Management Strategy and Annual Investment Strategy 2022/2023** Report dated 8 February 2022 by the Executive Director (Finance and Corporate Resources). (Copy attached)	43 - 68

Urgent Business

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

For further information, please contact:-

Clerk Name:	Susan Somerville
Clerk Telephone:	01698 454197
Clerk Email:	susan.somerville@southlanarkshire.gov.uk

Agenda Item

2

Report

Report to:	**South Lanarkshire Council**
Date of Meeting:	**23 February 2022**
Report by:	**Executive Director (Finance and Corporate Resources)**

Subject:	**Overall Position of Revenue Budget and Level of Local Taxation for 2022/2023**

1. Purpose of Report

1.1. The purpose of the report is to:

- ♦ update the Council on the 2022/2023 budget position following the Finance Settlement for 2022/2023, present the Council Tax level for 2022/2023 for approval, and present the Revenue Budget for 2022/2023, including the base budget allocations to Resources, for approval.

2. Recommendation(s)

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

(1) that the solutions totalling £9.420 million that contribute towards the budget shortfall identified in the Council's Budget Strategy (Table 1) be noted;
(2) that following receipt of the Local Government Settlement, the allocation of funds to meet additional costs, as detailed in section 5.4, be noted;
(3) that the allocation of £1.828 million (£0.928 million to PPP Inflation and £0.900 million to South Lanarkshire Leisure and Culture Trust) (section 5.5), be approved;
(4) that the proposed Council Tax increase of 3.5% (section 6.1), which would set the Council Tax for Band D properties at £1,245, be approved;
(5) that the capacity for investments of £7.042 million, as a result of the Stage 2 Budget for 2022/2023 (section 6.2), be considered; and
(6) that the Revenue Budget for 2022/2023, including the base budget allocations to Resources, as shown in Appendix 5, be approved.

3. Background

3.1. At its meeting on 23 June 2021, the Council's Executive Committee approved the Revenue Budget Strategy for 2022/2023. The Strategy assumptions resulted in an initial budget gap of £54.403 million. The Strategy then identified funding solutions (£12.704 million) and the benefit of £27.400 million from Reserves, including from the Loans Fund Review.

3.2. The paper included an assumption of a 3.5% increase in Council Tax, leaving a budget gap of £9.420 million (as at June 2021).

3.3. Since the 2022/2023 Revenue Budget Strategy was approved in June 2021, an exercise has been undertaken to identify any further funding solutions in order to balance the budget position.

3.4. On the 20 December 2021, the Scottish Government issued Finance Circular 9/2021 which detailed individual grant settlement figures to all councils for 2022/2023.

3.5. On 27 January 2022, the Cabinet Secretary for Finance announced that an amendment will be brought forward during Stage 2 of the Budget Bill to allocate an additional £120 million to Local Government.

3.6. This report will cover the main elements of the Budget Process to date:

- Section 4: Pre-Settlement Position.
- Section 5: 2022/2023 Settlement Impact.
- Section 6: Additional Stage 2 monies.

3.7. Thereafter, the report provides details on the total Revenue Budget and Council Tax (section 7) and section 8 provides details of the Budget Bill and Local Government Finance Order. Section 9 provides information on the budget beyond 2022/2023.

4. Pre-Settlement Position: Update to 2022/23 Revenue Budget Strategy

4.1. At the Members' Seminar in January 2022, Members were reminded that the 2022/2023 Budget Strategy approved in June 2021 included the requirement to manage the budget shortfall of £9.420 million. This assumed a level of income equivalent to a 3.5% increase in Council Tax. In order to meet the £9.420 million, a number of solutions were shared with Members at the Seminar. These total £9.420 million and are summarised in Table 1 and detailed in Appendix 1.

Table 1: Budget Shortfall and Solutions

	£m
Budget Shortfall *(including Council Tax Increase) (section 3.2)*	**9.420**
Less Solutions (some of which will be realised beyond 2022/2023):	
- Full year Effect of 2021/2022 and phase 2 of Teachers in ELC (*App 1, para 2)*	(1.913)
- Education Staffing Exercise *(App 1, para 3)*	(1.500)
- Property Strategy *(App 1, para 4)*	(0.150)
- South Lanarkshire Leisure and Culture *(App1, para 6)*	(0.550)
- Projected Efficiencies from Oracle Fusion *(App 1, para 8)*	(1.176)
- Management and Operational Efficiencies *(App1, para 9)*	(4.131)
Total Solutions	**(9.420)**
Budget Shortfall	**-**

4.2. While the proposals total the required £9.420 million, timing means that some of these are realisable across 3 years with £6.185 million being realised in 2022/2023 and £3.235 million across 2023/2024 and 2024/2025. A temporary solution is required in 2022/2023 to manage the £3.235 million which will not be available until later years.

4.3. It is proposed that because some of these solutions do not come on-line until 2023/2024 and 2024/2025, it can be managed in-year by using underspends that are anticipated against the budget for loan charges. This is detailed in Appendix 1, paras 10 and 11.

4.4. **Summary Pre-Settlement:** Solutions totalling £9.420 million have been identified to contribute towards the budget shortfall of £9.420 million in the Budget Strategy, as noted in Table 1.

5. <u>2022/2023 Settlement – 2022/2023 Revenue Grant Allocation</u>

5.1. As advised at the Members' Seminar in January 2022, the Finance Circular was received on 20 December 2021 and notified councils of the 2022/2023 Revenue Settlement. It focused on additional monies for teachers and support staff, supporting the expansion of Early Years provision and continuing the financial investment and support for Social Care.

5.2. For ease of reference, Appendix 2 provides the details of the movement in grant year on year on a like for like basis. As advised to Members in the Seminar, the like for like position is a grant reduction of £1.700 million.

5.3. The Council's Budget Strategy (June 2021), assumed a reduction in Grant of £8.028 million, therefore comparing this to the like for like reduction of £1.700 million following receipt of the Settlement means an improved position in relation to the Budget Strategy of £6.328 million.

5.4. However, there are other costs that the Council will have to bear that have not been funded in the Local Government Settlement. These are National Insurance Contributions (£3.500 million) and Council Tax Reduction Scheme (£1.000 million). These total £4.500 million and full details are provided in Appendix 3. This reduces the benefit from the Finance Settlement of £6.328 million to a benefit to £1.828 million.

5.5. In order to utilise this remaining benefit of £1.828 million, it is proposed that this is allocated to PPP Inflation (£0.928 million) and South Lanarkshire Leisure and Culture Trust (£0.900 million). Full details are provided in Appendix 4.

5.6. **Summary after Local Government Settlement:** There is an improved position of £6.328 million on the Budget Strategy (section 5.3). The Council will face additional pressures next year for increased National Insurance Contributions (£3.500 million) and Council Tax Reduction Scheme (£1.000 million) (section 5.4). This leaves a balance of £1.828 million, and it is proposed that this is allocated to PPP Inflation (£0.928 million) and to South Lanarkshire Leisure and Culture Trust (£0.900 million) (Section 2, Recommendation (3)). If approved, this leaves a balanced budget for 2022/2023, following receipt of the Local Government Settlement.

6. Additional Stage 2 Budget Bill Monies – Capacity for Investment

6.1. As noted in section 4.1, the Council's Budget Strategy pre-settlement includes an assumption of a 3.5% increase in Council Tax. It is proposed that the Council approves this 3.5% increase on Council Tax at 2021/2022 levels. This would set the Council Tax Band D at £1,245.

6.2. As noted in section 3.5, subsequent to the Finance Settlement, the Cabinet Secretary for Finance announced a Stage 2 Budget Bill allocation of a further £120 million of one-off funding for Local Government for 2022/2023 (27 January 2022). The Council's estimated share of this is £7.042 million. If the Council Tax increase proposed in section 6.1 (Section 2, Recommendation (4)) is approved, then this will allow the capacity for investment of £7.042 million. In order to maintain a balanced budget position within this report, the additional Grant allocation has been included in the budget as an investments line of £7.042 million.

6.3. Should Members agree to invest the £7.042 million referred to in 6.2, they will require to agree how the investment will be made. The Council will agree the details of the final investments, and the details of these will be included in the first financial reports to the relevant Resource and Executive Committees in the new financial year. However, it should be noted that the share of £120 million is non-recurring.

7. Total Revenue Budget Summary 2022/2023 and Council Tax

7.1. Taking into account the Government Grant allocated to the Council through the Settlement, the Council Tax increase of 3.5% (section 6.1) and the capacity for Investments of £7.042 million from the Council's estimated share of the additional £120 million of funding announced in January 2022 (section 6.2), means that the total proposed Budget for 2022/2023 is now £835.140 million.

7.2. The detailed allocation of the budget to each Resource is shown at Appendix 5. The main figures from Appendix 5 are summarised in Table 2.

Table 2: Summary of Council Budget 2022/2023

Current Year Base Budget £m		2022/2023 Proposed Budget £m
1,055.726	Total Services' Gross Expenditure *(Appendix 5, page ii)*	1,090.579
(321.191)	Deduct: Total Services Gross Income *(Appendix 5, page ii)*	(322.934)
734.535	**Net Service Spending**	767.645
50.492	Add: Loan Charges	49.282
2.000	Add: CFCR	0.000
8.500	Add: Corporate Items	11.171
-	Add: Investments	7.042
795.527	**Net Expenditure**	835.140

7.3. Table 3 shows how this 2022/2023 budget is funded, resulting in the net Sum Funded by Council Tax, £145.574 million.

Table 3: Net Sum Funded by Council Tax

Indicative Budget for 2022/2023 *(Appendix 5)*	£835.140m
Deduct: Government Grant *(including council share of £120m)*	£658.991m
Deduct: Use of Reserves / Underspends in the Budget Strategy *(June 2021)*	£30.575m
Resultant Net Sum to be Funded Locally from Council Tax	**£145.574m**

7.4. The net Council Tax figure comprises the 2021/2022 budget of £139.727 million, increased to reflect the additional property numbers and arrears included in the Strategy (£2.100 million) and the Council Tax increase of 3.5% (£4.882 million), offset by reductions to reflect the cost of the new Council Tax Reduction Scheme included in the Strategy (£1.000 million) and the Settlement increase in the Council Tax Reduction Scheme (£0.135 million).

7.5. The Net Sum Funded by Council Tax (£145.574 million) is detailed in Table 4, showing the Council Tax Budget for the year 2022/2023. Table 4 also shows the estimated amount of income for each £1 of Gross Council Tax.

Table 4: 2022/2023 Council Tax Budget

Gross Council Tax 2022/2023	£169.046m
Deduct: Council Tax Reduction Scheme	(£23.472m)
Resultant Net Sum to be Funded Locally from Council Tax	£145.574m

Estimated Product of £1 Gross Council Tax at 97.125% collection £135,780

7.6. Should the Council approve the budget for 2022/2023 then the Band D Council Tax for 2022/2023 will be applied at the figure decided and necessary billing and collection mechanisms will be set in motion. The ten monthly Council Tax instalments will commence in April. Appropriate scrutiny will continue to ensure the process of reviewing budgetary performance is continued.

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

Table 5: Property Ranges and Proportion of Band D Payable

Property Ranges in South Lanarkshire for Council Tax			
Property Value Range	**Band**	**Proportion of Band D Tax Payable**	**Proportion of South Lanarkshire Property in each band January 2022**
£27,000 and under	A	67%	23.17%
£27,001 to £35,000	B	78%	19.65%
£35,001 to £45,000	C	89%	17.10% (Total A to C: 59.92%)
£45,001 to £58,000	D	100%	13.87%
£58,001 to £80,000	E	131%	13.02%
£80,001 to £106,000	F	162%	8.47%
£106,001 to £212,000	G	196%	4.35%
Over £212,000	H	245%	0.37%

7.8. The Council's declared tax will be at the Band D level but only around 21,600 properties (13.8%) are in band D. Over the past few years, there has been an upward movement in the valuation of properties. However, approximately 59.9% of properties still remain in Bands A, B and C, so the effect of any increase in Council Tax is reduced by 33%, 22% and 11% respectively for most properties.

7.9. The number of houses in the tax base for South Lanarkshire now exceeds 156,000 as advised by the Assessor for the Lanarkshire Valuation Joint Board. From this figure, an allowance is deducted for single person discounts, students, disabled, vacant premises etc. to produce an estimated yield for £1 on a Band D basis at 100% collection of £139,799.

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

7.11. A yield of £135,780 for £1 tax at Council Tax Band D has been used in the 2022/2023 budget (an increase on 2021/2022 due to an increase in the number of properties). At an assumed 97.125%, this represents a continuation of the collection rate performance achieved in recent years.

7.12. A 3.5% increase in Council Tax, as detailed in Section 6.1 sets the Council Tax Band D at £1,245.

8. Local Government Finance Order

8.1. Although the Council received its grant settlement on 20 December 2021, the level of grant may change as the Finance Budget Bill progresses through Parliament to the Finance Order: Stages 1 to 3 of the Finance Budget Bill will be presented to Parliament for debate and approval between the 27 January 2022 and the 10 February 2022, culminating in the Local Government Finance Order being approved on 24 February 2022.

8.2. In the Cabinet Secretary's Stage 3 Budget statement (10 February 2022), it was announced that the Government would provide £150 to every household in receipt of Council Tax Reduction in all Council Tax bands and provide local authorities with funding to pass on £150 to other occupied households in Bands A to D in Scotland.

8.3. Councils will have a choice on how the money is distributed to households – they can either deliver a direct payment or a credit to Council Tax accounts.

8.4. The Council has a statutory requirement to set its Council Tax by 11 March 2022. While the Council has not yet received final confirmation of its Budget as a result of the Finance Order, it can set its Budget for the coming year using the settlement information received to date, and it can set its Council Tax.

8.5. Whilst it is not expected, there is the possibility that there could be a change to the level of grant allocation as the Budget Bill process continues. If any further funds are received as part of the Budget Bill process, this will be brought to Council for consideration.

9. Position Beyond 2022/2023

9.1. This paper focuses on financial year 2022/2023, however the 2022/2023 Budget has an impact on future years' financial position.

9.2. **Reinstatement:** The 2022/2023 budget includes a number of solutions which are temporary in nature and will require to be re-instated in future years. The impact over the next 2 years is shown in detail in Appendix 6. Some of these reinstatements are because a temporary solution is required in 2022/2023 to manage the shortfall of £3.235 million (section 4.2). This will be offset by the realisation of solutions in future years.

9.3. Appendix 6 also includes a requirement to reinstate budget of £27.400 million in 2023/2024 following the use of reserves from the Loans Fund Review. There would be a balance of reserves still unused (including the impact of the Loans Fund review) that would help smooth the impact on the budget shortfall in that year.

9.4. **Medium Term Strategy:** Appendix 7 shows the Budget Strategy across the Medium Term (to 2026/2027) reflecting the assumptions made in preparing the 2022/2023 Budget Strategy. This includes the use of Reserves, and also includes the reinstatement of temporary solutions from previous years' budgets. This will continue to be updated to take account of any new information affecting the Council's finances.

9.5. As noted in the June 2020 Executive Committee paper on the Loans Fund Review, later implementation of the Review would likely mean an additional benefit. Now that the calculations are complete, this has been confirmed and due to implementing the Loans Fund Review one year later, the total benefit realised is now £75 million. This is a further benefit of £7 million compared to the original £68 million included in the Budget Strategy and can be taken into account in future year Strategies.

9.6. While the release of Reserves resulting from the Review will be different to the original profile anticipated, any shortfall in-year can be managed by utilising other earmarked reserves on a temporary basis if required. These earmarked reserves will then be replenished when the Loans Fund Review Reserves are realised. There is therefore no change to the Council's Budget Strategy.

9.7. The position beyond 2022/2023 remains uncertain as there has been no further information on grant settlements beyond the one-year settlement for 2022/2023.

10. Employee Implications

10.1. Any employee implications arising from the management and operational efficiencies will be managed within Resources, with any staffing implications dealt with through a combination of anticipated turnover and redeployment through SWITCH 2.

11. Financial Implications

11.1. As detailed within this report.

12. Climate Change, Sustainability and Environmental Implications

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

12.2. An exercise has been undertaken to consider the environmental impact of the budget solutions. Details of this exercise are available on request.

13. Other Implications

13.1. The assumptions on which the budget is based are defined within the Financial Strategy for the Council as reported to the Executive Committee on 23 June 2021 and updated for corporate solutions, the Local Government Finance Settlement received on 20 December 2021 and Stage 2 of the Budget Bill Process. The Financial Strategy is a way of managing a number of key risks which directly impact on the funding available to deliver the Council's Objectives.

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

13.3. Any failure to set a balanced budget would almost certainly provoke intervention by Scottish Ministers and the Accounts Commission who have legislative powers to carry out investigations and make recommendations which could result in Scottish Ministers issuing binding directions to the Council. Under the Local Government (Scotland) Act 1973, special reporting processes exist (Section 102) which, if the

Controller of Audit is not satisfied with the Council's steps to remedy such an issue then he/she can make special report to the Accounts Commission on the matter.

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

13.5. If a new budget is not set, then the Council could not enter into any new unfunded commitments including contracts and spend would be restricted to meeting existing liabilities. As the Council's current position is that there is a budget shortfall that requires to be met through identified solutions, without Council agreement on a 2022/2023 budget, a gap in our budget would remain.

13.6. **Expenditure Subject to External Influences**: Whilst the budget for 2022/2023 can be set with certainty, there are areas of expenditure, that are subject to external influences which we will continue to monitor as the year progresses, including pay award. Full details of these are included in Appendix 8.

13.7. **Ongoing Impact of Covid-19 Pandemic:** The Budget Strategy prepared in June 2021 noted a level of uncertainty around the costs that the Council will face as a result of the ongoing pandemic. Money was carried forward into 2021/2022 and new money was received in-year. This non-specific funding totals £32.352 million and the probable outturn exercise identified an anticipated underspend of £15.600 million which will be transferred to reserves along with the £4.794 million underspend on the Council's General Fund position to assist with COVID cost of recovery into 2022/2023. This will continue to be monitored.

14. Equality Impact Assessment and Consultation Arrangements

14.1. Equality Impact Assessments have been undertaken for the Budget. These are available for members to assist in the decision-making process. In addition, an assessment has been carried out in line with the Fairer Scotland duty. For details of work undertaken, please contact the Employee Development and Diversity Manager, Finance and Corporate Resources.

14.2. The Budget has also been assessed with regard to any potential negative impact on the environment (refer section 15).

14.3. Meetings have taken place with the Trade Unions. With regard to consultation with the public, members of the public and partners were invited to comment on any aspect of the Council's Budget.

14.4. The outcome of the Public Consultation has been advised to all Elected Members.

15. Environmental Impact

15.1. An exercise has been undertaken to consider the environmental impact of this Budget. The majority of the areas identified to balance the budget are assessed as having a neutral impact on climate change.

15.2. The remainder are expected to have some impact, both positive and negative but on the whole, the Budget 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.

Paul Manning
Executive Director (Finance and Corporate Resources)

8 February 2022

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

Previous References
- Local Government Finance Circular 9/2021
- Executive Committee, 23 June 2021 - 2022/2023 Strategy and Savings Requirement

List of Background Papers
- None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-
Paul Manning, Executive Director, Finance and Corporate Resources
Ext: 4530 (Tel: 01698 454530)
E-mail paul.manning@southlanarkshire.gov.uk

Appendix 1

Update to 2022/23 Revenue Budget Strategy

1. The 2022/2023 Budget Strategy approved in June 2021 included the requirement to manage the budget shortfall of £9.420 million. This assumes a level of income equivalent to a 3.5% increase in Council Tax. In order to meet this, a number of solutions have been identified. These are taken in turn.

2. **Full Year Effect (FYE) of 2021/2022** As detailed in the savings pack for 2021/2022, some of the 2021/2022 approved savings were part year only. This means that the full year effect of these can be realised in 2022/2023. This amounts to £1.514m (FYE). In addition, the second phase of 2021/22 Teachers in Early Learning and Childcare is realisable in 2022/2023. That means a further £0.399 million is available for 2022/2023 and also the FYE of £0.224 million into 2023/2024. The total FYE impact is £1.913 million in 2022/2023. This will be used to assist in funding the 2022/2023 Budget Strategy.

Solution: £1.913 million

3. **Education Staffing Establishment:** As part of the original Budget Strategy for 2022/2023 (Executive Committee, June 2021), a potential figure of £3.000 million was identified to deal with a projected increase in pupil numbers and facilitate the employment of additional teachers. A further review has identified that potential million will be released from 2022/2023 with the remainder realisable in 2023/2024. The full amount of the reduction will be considered as part of the 2022/2023 Budget Strategy, and a temporary solution will be put in place to manage the element not realisable until 2023/2024 (refer to section 4.3 of the report for details).

Solution: £1.500 million
(of which £0.163 million will be realised in 2023/2024).

4. **Property Strategy:** As part of the Council's management of Office Accommodation, budget of £0.150 million can be released through the rationalisation of property. This will allow a reduction of £0.150 million in the 2022/2023 Budget Strategy.

Solution: £0.150 million

5. **South Lanarkshire Leisure and Culture Trust (SLLCT):** The June 2021 Council Budget Strategy paper provided £0.360m for SLLCT pay award. However, on reviewing the Council's Budget Strategy, it is proposed that SLLCT are asked to manage their own pay award, rather than the Council providing funding for this and then asking SLLCT to contribute towards the Council's budget shortfall. By no longer providing this allocation, we will see an improvement in our position. Also, it is proposed that SLLCT are asked to manage an equivalent share of the Council's Grant cut that will be passed on to them (Estimate £0.190m).

6. This approach amounts to an improved budget position for the Council of £0.550 million. This will mean a reduction in the Management Fee paid to SLLCT by the Council, and SLLCT would have to identify proposals to bridge that resultant funding gap. From the Council's perspective, this will allow a solution of £0.550 million to be taken into account as part of the 2022/2023 Budget Strategy.

Solution: £0.550 million

7. **Projected Efficiencies from Oracle Fusion:** The Council's Finance and Corporate Resources Committee in September 2021 approved the upgrade of the Council's Human Resources (HR)/Finance systems to Oracle Fusion. This will introduce a new, modern system for HR and Finance and will support the future needs of the whole Council in delivering transformational and cultural change across Resources. The project will also deliver efficiencies commencing in 2024/2025.

8. The annual net efficiencies commencing in 2024/2025 total £1.176 million. The full amount of the reduction will be considered as part of the 2022/2023 Budget Strategy, and a temporary solution will be put in place to manage this until it is realisable in 2024/2025 (refer to section 4.3 of the report for details).

Solution: £1.176 million
(of which £1.176 million will be realisable in 2024/2025)

9. **Management and Operational Efficiencies:** Resources have identified budget reductions arising from management and operational efficiencies. Overall these management and operational efficiencies benefit the Budget Strategy by £4.131 million, with £2.235 million available in 2022/2023 and £1.896 million in 2023/2024. The full amount of the reduction will be considered as part of the 2022/2023 Budget Strategy, and a temporary solution will be put in place to manage the element not realisable until 2023/2024 (refer to section 4.3 of the report for details).

Solution: £4.131 million
(of which £1.896 million will be realisable in 2023/2024).

10. The proposals in paras 1 to 9 total the required £9.420 million, however, as noted in each of the individual proposals, timing means that some of these are not fully realisable in 2022/2023.

	Realisable in 2022/2023 £m	**Realisable in 2023/2024 and 2024/2025 £m**	**Total £m**
Budget Shortfall *(including Council Tax Increase) (section 3.2)*			**9.420**
Less Solutions:			
- Full year Effect of 2021/2022 and phase 2 of Teachers in ELC (*App 1, para 2)*	(1.913)	-	(1.913)
- Education Staffing Exercise *(App 1, para 3)*	(1.337)	(0.163)	(1.500)
- Property Strategy *(App 1, para 4)*	(0.150)	-	(0.150)
- South Lanarkshire Leisure and Culture *(App1, para 6)*	(0.550)	-	(0.550)
- Projected Efficiencies from Oracle Fusion *(App 1, para 8)*	-	(1.176)	(1.176)
- Management and Operational Efficiencies *(App1, para 9)*	(2.235)	(1.896)	(4.131)
Total Solutions	**(6.185)**	**(3.235)**	**(9.420)**
Budget Shortfall			**-**

11. The table shows that of the £9.420 million of solutions, £6.185 million are realisable in 2022/2023 and £3.235 million in 2023/2024 and 2024/2025.

2022/2023 Finance Settlement Update

The Council received the Finance Settlement on 20 December 2021 (FC9/2021) which included details of the 2022/2023 grant award. The sections below detail the adjustments required to arrive at the grant figure on a like for like basis to allow comparison to the assumptions included in the June 2021 Strategy.

1. **Movement in Grant**: The grant allocation for the year 2022/2023 is £651.949 million (Finance Circular 9/2021). Adjustments need to be made to obtain a comparison to the 2021/2022 grant figure of £625.811 million, which is the starting point for the Council's 2022/2023 Budget Strategy. These are detailed in the table below and comprise funding included in the 2021/2022 Base position but not yet distributed for 2022/2023 (£2.515 million for Discretionary Housing Payment). Removing this from the 2021/2022 Budget results in a revised 2021/2022 grant figure of £623.296 million. Comparing the two years' allocations indicated a year on year cash increase in grant of £28.653 million (4.6%), however this is not on a like for like basis.

2. Adjustments also need to be made to the grant movement to reflect that some of this increase in grant into 2022/2023 is already committed for new things. This allows us to show a like for like movement in grant into 2022/2023. These movements are also detailed in the table below and include new funding received in 2022/2023 which has new responsibilities (£10.249 million) and new funding for IJBs (£20.661 million). These new monies mean new spend of £30.910 million in 2022/2023.

3. The movement also needs to be adjusted for the removal of funding from the 2022/2023 Budget where the policy intent is no longer continuing. These are shown in the table below and total £0.779 million.

4. **Specific GAE/Funding Allocations in 2021/2022:** In addition to the level of grant itself, the settlement identifies other areas which impact on the Council's budget. It identifies a number of areas of spend where the allocation changes across years. This can be because of changes to the method of allocation, or changes to the criteria which underpin the allocation. These are not ring-fenced monies and are merely indicators of spend. Because of these movements in GAE monies, the Council's position will reduce by £0.222 million. Details of these are included in the table below.

5. **Like for Like Movement:** While there is a cash increase of £28.653 million in grant (para 1), the adjustments summarised in paras 2 to 4 mean that there are net commitments of £30.353 million already against this grant. Taking these commitments into account results in a year on year / like for like reduction in grant of £1.700 million (0.27%) (being the £28.653 million increase in grant less the £30.353 million of commitments from paras 2 to 4).

6. The table overleaf provides details of the movements identified in paras 1 to 5 above.

Finance Settlement – Like for Like Basis Reconciliation

Base Revenue Budget for 2021/2022 (FC 5/2021)	**£625.811m**

Adjustments to 2021/2022 Base Grant Allocation to reflect a year on year, like for like comparison between 2021/2022 and 2022/2023

(1) Funding Not Yet Distributed in 2022/2023 Remove this money from the 2021/2022 Grant as it is not yet distributed in 2022/2023. This will be added to the Council's Budget when the funding is distributed in 2022/2023, and it is anticipated that spend will offset the grant. This allocation relates to the Discretionary Housing Payment.	**(£2.515m)**

= Comparable 2021/2022 Revenue Budget	**£623.296m**
Compared to the 2022/2023 Revenue Grant (FC 9/2021)	£651.949m
= Increase in Revenue Grant into 2022/2023	**£28.653m**

Adjustments to the Grant Movement to reflect a year on year, like for like comparison between 2021/2022 and 2022/2023

(2) New Funding in 2022/2023 with New Responsibilities These monies are new for 2022/2023 and it is anticipated that spend will offset the grant: • Additional Teachers and Support - £9.379m *(share of National £145.5m)* • National Trauma Training - £0.050m *(share of National £1.6m)* • Mental Healthy Recovery and Renewal - £0.214m *(share of National £3.7m)* • Child Disability Payment - £0.248m *(share of National £3.2m)* • Seatbelts on School Transport - £0.035m *(share of National £0.2m)* • Minimum School Clothing Grant - £0.323m *(share of National £5.8m)*	**(£10.249m)**
(3) New Funding for Integrated Joint Boards These monies are new for 2022/2023: • Care at Home / Winter Planning - £7.281m *(share of National 124m)* • Interim Care - £1.174m *(share of National 20m)* • Carers' Act and Living Wage - £11.520m *(share of National £194.9m being Carers' Act £20.4m and Living Wage 174.5m)* • Free Personal and Housing Care - £0.686m *(share of National £15m)*	**(£20.661m)**
(4) Funding Removed from 2022/2023 These Budget allocations have been removed in 2022/2023: • Environmental Health Officers - £0.068m *(share of National £1.7m reduction)* • 1+2 Languages - £0.076m *(share of National £1.2m reduction)* • ELC - £0.635m (share of National £15m reduction)	**£0.779m**

(5) Specific GAE / Funding Allocations in 2022/2023 These are specific allocations of spend where the allocation has changed year on year. **Specific Grants** • PEF (£0.005m) **Baseline Re-Determinations** • Council Tax Reduction Scheme £0.135m • Temporary Accommodation (£0.024m) • Sanitary Products (£0.006m) • Barclay Implementation (£0.003m) • Rapid Re-housing Transition Plan £0.006m • School Counsellors (£0.004m) **Former Ring-Fenced grants** • Private Sector Housing Grant £0.123m	**(£0.222m)**

= Like for Like Movement (Reduction) in Grant	**(£1.700m)**

Pressures not Funded in Local Government Finance Settlement

1. **National Insurance Contributions:** Nationally a 1.25% additional level of National Insurance has been introduced. This levy was intended to allow further funding nationally for Health and Social care. The increase means more costs for the Council and no funding has been included in the Local Government Settlement. It is estimated that this could cost the Council an additional £3.500 million per annum.

Additional Cost: £3.500 million

2. **Council Tax Reduction Scheme (CTRS) – Changes to Eligibility Criteria:** The Scottish Government have advised that the estimated impact of changes to the eligibility criteria could be an increase of up to 5% of a local authority's existing costs on CTRS, but that it could be funded by underspends that they have been experiencing. In recent years, the Council has experienced reasonable levels of underspend however, for 2021/2022 the forecast is a minor underspend only, which appears to be the position post pandemic. The changes to eligibility criteria therefore represent an additional burden into 2022/2023.

Additional Cost: £1.000 million

Appendix 4

Areas of Additional Costs

1. **South Lanarkshire Leisure and Culture Trust (SLLCT):** SLLCT will need to identify upwards of £0.900 million of efficiencies as part of its budget (this includes a utilities pressure, the need to cover their pay award, the increase in National Insurance Contributions and by taking a share of the Council's like for like Grant cut as well as other costs pressures they will require to meet (refer Appendix 1, para 5). It is proposed that £0.900 million be allocated to SLLCT to help them phase-in required changes across 2022/2023 and 2023/2024, as they continue to address the impact of the pandemic.

Allocation to Budget Strategy: £0.900 million

2. **PPP Inflation:** One specific area of inflation pressure faced by the Council is likely to be on the Secondary School Contract (PPP). The contract price is directly linked to inflation with an annual increase applied each April (based on the January RPI). The Council's current Budget Strategy allows for an increase in costs of 3%. However, as inflation is now anticipated to be higher, it is proposed that £0.928 million be allocated to manage the additional anticipated increase in inflation.

Allocation to Budget Strategy: £0.928 million

South Lanarkshire Council

2022/2023 Revenue Budget Summary

	2021/22 Base Budget £m	2022/23 Rollover £m	2022/23 Proposed Base Budget £m
Community and Enterprise Resources	114.691	(1.781)	112.910
Education Resources	392.873	14.566	407.439
Finance and Corporate Resources	31.769	(1.994)	29.775
Housing and Technical Resources	12.913	0.047	12.960
Social Work Resources	180.133	22.275	202.408
Joint Boards	2.156	(0.003)	2.153
Total of all Resources plus Joint Boards	**734.535**	**33.110**	**767.645**
Other Budget Items:			
Loan Charges	**50.492**	(1.210)	**49.282**
CFCR	**2.000**	(2.000)	**0.000**
Corporate Items	**8.500**	2.671	**11.171**
Investments	**0.000**	7.042	**7.042**
Total Base Budget 2021/2022	**795.527**		
Total Proposed Budget 2022/2023		**39.613**	**835.140**

The 2021/2022 base figures include budget adjustments approved during 2021/2022.

South Lanarkshire Council 2022/2023

Revenue Budget Summary

	2021/2022 Base Budget £m	2022/2023 Proposed Base Budget £m
Budgetary Category		
Employee Costs	530.408	555.630
Property Costs	49.859	50.414
Supplies and Services	60.470	60.070
Transport and Plant Costs	41.260	41.809
Administration Costs	13.509	13.534
Payments to Other Bodies	73.547	69.490
Payment to Contractors	211.062	226.213
Transfer Payments (Housing & Council Tax Benefit)	73.447	71.255
Financing Charges (Leasing Costs)	2.164	2.164
Total Expenditure	**1,055.726**	**1,090.579**
Total Income	**(321.191)**	**(322.934)**
Net Expenditure	**734.535**	**767.645**
Other Budget Items:		
Loan Charges	50.492	49.282
CFCR	2.000	0.000
Corporate Items	8.500	11.171
Investments	0.000	7.042
Total Base Budget 2021/2022	**795.527**	
Total Proposed Budget 2022/2023		**835.140**

Appendix 6

Temporary Solutions

	Year of Adjustment	
	2023/ 2024 £m	**2024/ 2025 £m**
2022/2023 Corporate Solutions		
Loans Fund Review Reserves *(June 2021 Executive Committee paper, section 7.2)*	27.400	23.500
2021/2022 Loan Charges Underspend *(June 2021 Executive Committee paper, section 7.4)*	1.650	-
2022/2023 Reinstatement of Temporary Funding Solutions *(Section 4.3)* *Managed by:* • Pupil Growth / Teacher Numbers *(App1, para 2)* • Management and Operational Efficiencies – 2023/2024 Impact *(App 1, para 9)* • Oracle Fusion *(App 1, para 7)*	3.235 (0.163) (1.896)	- (1.176)
Temporary Budget Solutions from Previous Year Budgets		
Temporary Reduction in Lanarkshire Valuation Joint Board Requisition *(section 4.7 – Executive Committee Report, 13 January 2020)*	0.085	-
Additional Council Tax from extra properties (2020/2021 and in 2021/2022 respectively) – expected future reduction in Government Grant	1.960	1.360
2020/2021 Reduction in Loan Charges *(Appendix 2, section 13 – Executive Committee Report, 26 June 2019)*	2.000	-
Total Temporary Solutions	**34.271**	**23.684**

Appendix 7

Budget Shortfall Across Years from 2023/2024

	2023/2024 £m	2024/2025 £m	2025/2026 £m	2026/2027 £m
Grant Reduction (1%)	5.000	5.000	5.000	5.000
Grant Reduction – Population	1.068	1.068	1.068	1.068
Council Tax – Impact on Grant	1.960	1.360	0.910	0.910
Council Tax – increase in Property Numbers	(1.100)	(1.100)	(1.100)	(1.100)
Pay Award / Prices / Priorities	11.566	9.720	9.870	9.810
Temporary Solutions	0.085	0.230	1.800	0.000
Council Tax	(4.882)	(4.882)	(4.882)	(4.882)
Job Evaluation	2.000	0.000	0.000	0.000
Interest on Loan Charges (due to Loans Fund Review)	0.500	0.500	0.200	0.000
Use of Reserves	(23.500)	(14.000)	0.000	0.000
Reinstatement of Prior Year Use of Reserves	27.400	23.500	14.000	0.000
Reinstatement of Prior Year Use of Loan Charges Underspend	3.650	0.000	0.000	0.000
Pupil Growth / Teacher Numbers	1.000	1.000	1.000	1.000
Total as at June 2021	**24.747**	**22.396**	**27.866**	**11.806**
FYE of phase 2 of Teachers in ELC *(App 1, para 2)*	(0.224)	0.000	0.000	0.000
Pupil Growth / Teacher Numbers *(2023/24 inc FYE of 2022/23 budget reduction App1, para 2)*	(0.163)	0.000	0.000	0.000
Oracle Fusion *(App 1, para 7)*	0.000	(1.176)	0.000	0.000
Management and Operational Efficiencies – 2023/2024 Impact *(App 1, para 9)*	(1.896)	0.000	0.000	0.000
Reinstatement of Prior Year Underspends from 2021/2022 and 2022/2023 *(section 4.3)*	3.235	0.000	0.000	0.000
Total as at January 2022	**25.699**	**21.220**	**27.866**	**11.806**

Expenditure Influenced by External Factors

The areas of expenditure below are influenced by external factors and the position will continue to be monitored.

- **Pay Award** – No pay deal has been agreed for 2022/2023 however the Budget Strategy assumes an increase in costs into 2022/2023, and as noted in the 2021/2022 Probable Outturn report, there is a budget underspend on the 2021/2022 Pay Award (circa £2 million). This is also available into 2022/2023 and could assist in funding any pay award above the assumed level.

  Please note that the SNCT Pay Claim for 2021/2022 is not yet settled.

- **Utilities** – Price increases are being experienced in 2021/2022 and are expected to increase further into 2022/2023. The Budget Strategy for 2022/2023 includes an allocation for utilities and there is also funding provided in 2021/2022 that will be carried forwards and contribute towards increased costs into next year budget within the Corporate Items budget line in 2021/2022 that will be transferred to reserves at the end of this year. These amounts will be available to help manage price increases next year.

SOUTH LANARKSHIRE COUNCIL

Report

Agenda Item

3

Report to:	**South Lanarkshire Council (Special)**
Date of Meeting:	**23 February 2022**
Report by:	**Chief Executive**

Subject:	**Recommendations Referred by Executive Committee – Housing Revenue and Capital Account Budget 2022/2023**

1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ allow consideration of the recommendations of the Executive Committee of 2 February 2022 in relation to the Housing Revenue and Capital Account Budget 2022/2023

2. Recommendation(s)

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

(1) that the recommendations from the Executive Committee of 2 February 2022 in relation to the following issue be approved:-

Housing Revenue and Capital Account Budget 2022/2023

- ♦ that the rent increase of 2.2% for Council houses, travelling persons' sites, lockups and garage sites and the revenue estimate proposals for the Housing Revenue Account Budget 2022/2023 be approved
- ♦ that, based on the proposed rent increase of 2.2%, the 2022/2023 Housing Capital Programme totalling £52.230 million be approved

3. Background

3.1. **Recommendations Referred by Executive Committee of 2 February 2022 – Housing Revenue and Capital Account Budget 2022/2023 - Extract of Minute**

A report dated 19 January 2022 by the Chief Executive was submitted on recommendations referred to this Committee by the Housing and Technical Resources Committee at its meetings of 8 December 2021 and 19 January 2022 (Special) respectively.

The recommendations of the Housing and Technical Resources Committee were as follows:-

(1) that the revised South Lanarkshire Council Anti-Social Behaviour Policy be approved and implemented with effect from 1 March 2022

(2) that the proposed rent increase of 2.2% to all Council houses, travelling persons' sites, lockups and garage sites and the revenue estimate proposals for the Housing Revenue Account be endorsed; and

(3) that, based on the rent increase of 2.2%, the 2022/2023 Housing Capital Programme of £52.230 million be endorsed.

The Committee decided: that the recommendation referred by the Housing and Technical Resources Committee in relation to the revised South Lanarkshire Council Anti-Social Behaviour Policy be approved and implemented with effect from 1 March 2022.

The Committee recommended to the Council:

(1) that the rent increase of 2.2% for Council houses, travelling persons' sites, lockups and garage sites and the revenue estimate proposals for the Housing Revenue Account Budget 2021/2022 be approved; and

(2) that, based on the proposed rent increase of 2.2%, the 2022/2023 Housing Capital Programme of £52.230 million be approved.

[Reference: Minutes of Housing and Technical Resources Committee of 8 December 2021 (Paragraph 10) and 19 January 2022 (Special) (Paragraph 2)]

3.2. A link to the report submitted to the Executive Committee of 2 February 2022 is provided below for information.

Recommendations Referred by Housing and Technical Resources Committee

4 Employee Implications

4.1 Any employee implications were raised in the original report to the special meeting of the Housing and Technical Resources Committee.

5. Financial Implications

5.1 All financial implications have been highlighted as part of the original report to the special meeting of the Housing and Technical Resources Committee.

6. Climate Change, Sustainability and Environmental Implications

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

7. Other Implications

7.1 Any implications have been highlighted as part of the original report to the special meeting of the Housing and Technical Resources Committee.

8. Equality Impact Assessment and Consultation Arrangements

8.1 No equality impact assessment is required in terms of the recommendations contained within this report.

8.2. Consultation with both tenants and members to agree the annual rent rises required to fund the Housing Business Plan had previously taken place in terms of the recommendations considered by the Housing and Technical Resources Committee

Cleland Sneddon
Chief Executive

3 February 2022

Link(s) to Council Values/Ambitions/Objectives

- Fair, open and sustainable
- Accountable, effective, efficient and transparent

Previous References

Executive Committee of 2 February 2022
Housing and Technical Resources Committee of 19 January 2022

List of Background Papers

None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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Report

4

Report to:	**South Lanarkshire Council (Special)**
Date of Meeting:	**23 February 2022**
Report by:	**Executive Director (Finance and Corporate Resources)**

Subject:	**2022/2023 Capital Programme Update**

1. Purpose of Report

1.1. The purpose of the report is to:

- Provide the Council with a proposed General Services Capital Programme for financial year 2022/2023, reflecting the spend requirements identified by Resources and the availability of funding.

2. Recommendation(s)

(1) That the 2022/2023 Capital Programme totalling £82.284 million (Section 4.10) and detailed in Appendix 3 be approved.

3. Background

3.1. When the current General Services Capital Programme comes to an end (at the end of 2021/2022), there is no approved programme for financial year 2022/2023 and beyond.

3.2. A proposed capital programme for 2022/23 has been drafted for consideration by members. Section 4 develops a proposed programme for 2022/2023 considering ongoing programmes of work and priorities, our commitments from the approved Glasgow City Region City Deal Programme as well as incorporating the programme moves and additions from financial year 2021/2022. The funding available in-year is discussed at Section 5. This report will also provide an update on the principles underpinning the Capital Investment strategy (section 6) in line with the main requirements of the Prudential Code.

4. Proposed 2022/2023 Capital Programme

4.1. In addition to any new requirements for 2022/2023, there are approved ongoing commitments from previous financial years which need to be reflected in the 2022/2023 programme. This includes our commitments from the approved Glasgow City Region City Deal Programme, Education Growth and Capacities (in line with the approach taken in compiling previous year's capital programmes). Each is taken in turn in sections 4.2 to 4.9 below.

4.2. **Ongoing Programmes of Work (£20.250m)**: In line with the Capital Programme, there are a number of projects which need to be included in the capital programme to support ongoing programmes of work. These total £20.250 million for 2022/2023 and are in addition to monies slipped from previous years for these projects. The projects and their values are noted in Appendix 1.

4.3. **New Priorities Identified for 2022/2023 (£5.230m):** In addition to the projects already identified either in existing Capital Programmes or through the Capital Strategy, there are new projects which are considered a priority for 2022/2023.

These projects total £5.230 million with the projects and their individual rationale detailed in Appendix 2. Agreeing to these projects will also commit the Council to further capital expenditure of £0.686 million beyond 2022/2023 being Library IT Infrastructure Upgrade Costs (£0.036m) and Roads Depots – New Modular Accommodation (£0.650m).

4.4. **Specific Capital Projects (£3.203m)**: In addition to the projects detailed above, the Local Government Finance Settlement announced in December 2021, allocated £3.203 million of grant funding for specific projects. This includes specific grants for Vacant and Derelict Land (£0.737m) and Cycling, Walking and Safer Streets (£1.404m). In addition, funding of £1.062 million has been made available through the Local Bridge Maintenance Fund.

4.5. **Glasgow City Region City Deal (£3.357m):** There are a number of projects which are being progressed as part of the Glasgow City Region City Deal Programme and these need to be added to the 2022/2023 Capital Programme. Based on current predictions, additional spend totalling £3.357 million will be incurred in 2022/2023. This excludes slippage from the 2021/2022 Programme (Section 4.8). This will be funded by temporary borrowing, in line with the approved funding package for the City Deal programme.

4.6. **Education Growth and Capacities (£1.218m):** Accommodation pressures in the Early Years and School sectors exist, due to a growth in predicted pupil numbers related to general population growth and significant new housing development across the Council area. The majority of these projects were expected to be funded from developer's contributions / City Deal, with the balance required to be funded by the Council.

4.7. A review of the priority projects required for 2022/2023 has been undertaken by Education Resources, reflecting more clearly defined project costs and timescales. Some of these projects are already included in the proposed City Deal programme (Section 4.5) and slippage from previous years (Section 4.8). It is proposed that the balance of projects totalling £1.218 million (those funded from developer contributions) will now be added to the 2022/2023 Capital Programme. A full list of these projects is included in Appendix 2.

4.8. **2021/2022 Net Movements (£45.829m)**: In addition to the projects identified above, there were project movements from 2021/2022 which were approved by Executive Committee throughout the year. These movements total £60.732 million and reflect the 2021/2022 budget not required in year. £45.829 million of the £60.732 million total budget is required in financial year 2022/2023 and this has been included within the full analysis of the proposed 2022/23 capital programme included in Appendix 3. Provision will be made for the balance of projects (£14.903 million) as part of future year capital programmes.

4.9. **New Projects Approved During 2021/2022 (£3.197m)**: Specific projects were approved by Council Committees during 2021/2022 and for 2022/2023 new budget allocations totalling £3.197 million will be required for: Newton Farm Primary School Extension (£1.569m - Executive Committee, 26 May 2021), and SWiS Plus Replacement (£1.628m - Social Work Resources Committee, 2 June 2021).

4.10. **2022/2023 Capital Programme Summary**: Taking into account the proposals covered in sections 4.2 to 4.9 a budget of £82.284 million is required in 2022/2023. This is summarised in table 1 below, with a full list of the projects which make up this £82.284 million total detailed in Appendix 3.

Table 1: Compilation of the 2022/2023 Capital Programme

	2022/2023 Capital Programme £m
Ongoing Programmes of Work *(section 4.2 and Appendix 1)*	20.250
New Priority Projects *(section 4.3 and Appendix 2)*	5.230
Specific Capital Projects (*section 4.4)*	3.203
Glasgow City Region City Deal *(section 4.5)*	3.357
Education Growth and Capacities *(sections 4.6 – 4.7)*	1.218
2021/2022 Net Movements *(sections 4.8)* (£60.732m slippage from 2021/2022 less £14.903m slippage into 2023/2024)	45.829
New Projects Approved in 2021/2022 *(section 4.9)*	3.197
Total 2022/2023 Capital Programme	**82.284**

5. 2022/2023 Capital Programme - Funding Available

5.1. A core element of any Capital Programme is the level of funding available to support the programme. For financial year 2022/2023 total funding of £82.284 million is available to fund the Capital Programme. This includes General Capital Grant (£22.424m), Capital Receipts (£1m), Borrowing (£5.764m), Developer Contributions (£2.008m), Specific Capital Grants (£2.141m) and Funding Carried Forward from previous financial years (£48.947m). A detailed breakdown of these funding sources is included in Appendix 4.

6. Key Highlights from the Capital Investment Strategy

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

6.2. The key issues and risks that will impact on the delivery of the Capital Strategy, how the Capital Strategy and Treasury Management Strategy are aligned, and the governance framework required to ensure the Capital Strategy can be delivered have been updated for financial year 2022/2023 and are detailed in Appendix 5.

7. Employee Implications

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

8. Financial Implications

8.1. A Capital Programme for financial year 2022/2023 totalling £82.284 million has been proposed in this report. Details as to how this Programme has been arrived at are shown in Section 4. Details of the new projects proposed have been included in Appendix 2 with the full Programme listed in Appendix 3.

8.2. Section 5 details the funding available in-year of £82.284 million with a breakdown included in Appendix 4.

8.3. Moving forward consideration will have to be given to the level of programme which can be delivered, given the funding available. As noted at Section 4.3, agreeing to the new priority projects for 2022/2023 will commit the Council to expenditure in future years totalling £0.686 million. In addition, projects totalling £14.903 million (Section 4.8) have slipped, along with borrowing of £0.329 million and external funding of £1.456 million. Consideration will need to be given to providing funding for the balance (£13.118m) in future years in the first instance, to enable these projects to complete.

8.4. It is anticipated that the council will still be operating in very changeable and fluid market conditions due to the ongoing impact of the pandemic, the withdrawal from the EU and consequential increases in inflation and labour market shortages. Officers will continue to monitor these conditions however, Council should be aware of the potential disruption to the 2022/23 Capital Programme in similar terms to that experienced over the preceding two financial years.

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. The main risk associated with the Council's Capital Programme 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 Investment management meetings.

10.2. The Coronavirus (COVID-19) Pandemic has led to materials shortages, longer lead times and steep price increases and this will continue to impact the supply chain for the foreseeable future. The impact of this will be monitored through the four weekly investment management meetings. Further updates will be reported in the coming months with any significant increases in contract values being brought to members' attention.

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 existing policy, function, or strategy and therefore no impact assessment is required.

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

Paul Manning
Executive Director (Finance and Corporate Resources)

8 February 2022

Link(s) to Council Vision/Priorities/Values

- Accountable, Effective, Efficient and Transparent

Previous References

- Executive Committee, 21 November 2018 - Future Capital Investment Strategy
- Executive Committee, 26 May 2021 – Expansion of Newton Farm Primary School
- Social Work Resources Committee, 2 June 2021 - SWiSPlus Replacement

List of Background Papers

None

Contact for Further Information
If you would like to inspect the background papers or want further information, please contact:
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Appendix 1

Ongoing Programmes of Work Considered for 2022/2023 Programme

Project Name and Description	**2022/23 (£m)**
Schools Information Communication Technology (ICT) Development A contribution towards the costs of delivering the ICT contract to schools. As there is an ongoing commitment to this contract moving forward, funding of £1.8m per annum is required.	1.800
Roads Carriageways and Associated Infrastructure Investment of £10m in Roads Carriageways and associated infrastructure. This would continue the investment of £10m provided in 2021/22.	10.000
IT Infrastructure Investment is required in order to maintain 'business as usual'. It is estimated that an average £0.450 million per annum will be required to cover refresh exercises (servers, networks and storage) as well as data security, resilience and disaster recovery.	0.450
Private Housing Scheme of Assistance Housing provide mandatory grants for disabled adaptations in private homes and to encourage private owners in shared blocks to participate in the Housing Investment Programme works. An allocation of £0.750m, when augmented with the £0.250 million carried over from 2021/2022, would continue the £1m investment provided in previous financial years.	0.750
Planned Asset Management Funding of £4.8m per annum is required to ensure continued delivery of the Planned Asset Management model. This model aims to maintain all of the Council's new build General Services facilities (constructed since 2000), in a good condition and to a compliant standard.	4.800
Prioritised Urgent Investment in Property Assets The continuation of the previous model to meet urgent essential works needed on all Council properties. An allocation of £1.7m, when augmented with the £0.930 million carried over from 2021/2022, would allow spend of £2.630m to be achieved in 2022/2023.	1.700
Lifecycle Replacement – Schools The first school completed under the Primary School Modernisation Programme opened during financial year 2004/05. An allocation was provided in 2020/21 to commence a programme of replacement for major elements of infrastructure during the next capital programme. This requirement is likely to increase as the schools become progressively older. A new allocation of £0.750m, along with funding carried forward from 2021/2022 of £0.088m, could be spent in 2022/2023.	0.750
Total Ongoing Programmes of Work	**20.250**

Appendix 2

<u>2022/2023 Proposed New Capital Projects</u>

Project Name and Description	2022/23 (£m)
Library IT Infrastructure Upgrade Costs Refresh of end-of-life network hardware infrastructure in libraries to both maintain service and data security. Network routers will be refreshed in 18 libraries including: Bothwell, Burnbank, East Kilbride, Cambuslang, Cathkin, Rutherglen, Larkhall, Uddingston, Blantyre, Stonehouse, Hamilton Townhouse, Fairhill, Lesmahagow, Greenhills, Halfway, St Leonards, Lanark and Hillhouse. If devices are not refreshed, then there is a high risk of network outages resulting in no internet access for library staff and users. The total cost of this project is £0.266 million, with the remaining £0.036 million of investment required in 2023/2024 to conclude these works.	0.230
Digital Transformation Fund This will fund projects resulting from digital transformation reviews including business process redesign, implementation of new technologies to support digital strategy, systems modernisation and projects to automate, streamline and standardise business operations to improve services and generate efficiencies.	0.200
Roads Depots - New Modular Accommodation Replacement of modular accommodation units at Lesmahagow and Carnwath Roads Depots, which are now in a condition where refurbishment or replacement is becoming necessary. This £0.650 million allocation will allow works to be prioritised in 2022/2023, with further investment of £0.650 million being required in 2023/2024.	0.650
Community Alarms Replacement By 2025 the public switched telephone network (PSTN) will be switched off as telecommunication companies move to newer digital technology. Capital investment of £0.400 million was provided in 2020/2021 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. £0.260 million of this initial allocation has carried forward into 2022/2023. This is essential works to ensure alarms will continue to operation, and to conclude the requirement to move to digital alarms, a further £2.350 million is required in 2022/2023 to purchase and install devices and peripherals.	2.350
External Funding Bids - Match Funding The United Kingdom Government has pledged funding to regenerate town centres and high streets, support individuals into employment, improve local transport links and invest in local culture new investment programmes, particularly as we recover from the COVID-19 pandemic. Funding pots available include: • The Community Renewal Fund	1.800

• The Levelling Up Fund • The Community Ownership Fund This external funding will be distributed to projects following successful bid submissions. Given the significant amount of funding available, it is considered prudent to set aside match funding of £1.8 million which would augment any strengthen future bid applications to these funds.	
TOTAL NEW PRIORITY PROJECTS	**£5.230m**
<u>Education Growth and Capacities</u> Additional accommodation pressures in the Early Years and School sectors exist, due to a growth in predicted pupil numbers related to general population growth and significant new housing development across the Council area. Following a review by Education Resources, new priority projects required for 2022/2023 total £1.218m (those funded from developer contributions) and include: • Larkhall Academy (£0.300m), • Our Lady of Lourdes (£0.300m), • Crawforddyke Primary School - Convert Nursery to Classrooms (£0.150m), • Uddingston Grammar Adaptations (£0.248m), • St Andrews and St Brides (£0.200m) and • Strathaven ICT (£0.020m).	1.218
TOTAL EDUCATION GROWTH AND CAPACITIES	**£1.218m**

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Appendix 3

2022/2023 Summary of Capital Programme Expenditure
(including slippage from previous years)

	2022/2023 Proposed Programme (£m)
Community and Enterprise Resources	
Lanark Library, Lindsay Institute	0.300
Larkhall Leisure Centre (includes £3m City Deal) / Leisure Facility Development	9.000
Library IT Infrastructure Upgrade Costs	0.230
Extension / Improvement of Cemeteries	0.197
Synthetic and Grass Pitches	0.245
Memorial Headstones	0.200
Ash Die Back Programme	0.100
Langlands Boardwalk	0.006
Switched on Fleet	0.213
Country Parks - Horseshoe Bridge, Calderglen	0.150
White Bridge Replacement, Chatelherault Country Park	0.221
Renewal of Play Parks	0.268
Hamilton Palace Grounds Play Area	0.184
Abington Campus for Enterprise	0.271
Rural Development Centre, Lanark	0.800
Town Centre Funding	0.500
Vacant and Derelict Land (includes new allocation for 2022/2023 of £0.737m)	1.194
Glasgow City Region City Deal – Community Growth Areas	11.384
Roads Carriageways and Associated Infrastructure	11.000
Clyde Bridge	2.837
Roads Structures	2.653
Roads Salt Barns	0.274
Cycling, Walking and Safer Routes	1.916
Hamilton International Technology Park	-
Prettsmill Bridge	0.015
Roads Depot Repairs - Modular Accommodation (Lesmahagow / Carnwath)	0.650
Glasgow City Region City Deal – Roads	2.093
Total Community and Enterprise Resources	**46.901**
Education Resources	
St Mary's Primary School, Hamilton - Extension	0.020
St Charles Primary School Extension	0.143
St Mark's Primary School, Hamilton - Extension	1.068
Newton Farm Primary School – Extension	1.869
Schools Information Communication Technology (ICT) Development	3.180
Early Years 1,140 Hours – Clyde Terrace	3.145
Uddingston Nursery Expansion	0.250
Castlefield Primary School Extension	0.250
Cathkin and Trinity Learning Community	0.100
Skylark Nursery at Robert Smillie	1.852
Hamilton CGA Nursery Expansion	0.250

	2022/2023 Proposed Programme (£m)
Education Resources (cont)	
St Andrews and St Brides	0.200
Crawforddyke Primary School – Convert Nursery to Classrooms	0.150
Uddingston Grammar – Adaptations	0.248
Larkhall Academy – Adaptations	0.300
Our Lady of Lourdes	0.300
Minor Adaptations	0.043
Total Education Resources	**13.368**
Finance and Corporate Resources	
IT Infrastructure – Business As Usual	0.450
Digital Transformation Review Fund	0.200
Oracle Fusion	1.794
Total Finance and Corporate Resources	**2.444**
Housing and Technical Resources	
Private Housing Scheme of Assistance	1.000
Planned Asset Management	4.800
Prioritised Urgent Investment in Property Assets	3.310
Principal Offices – Fabric and Service Investment	0.650
Lifecycle Replacement – Schools	0.838
Lock Ups	0.150
Total Housing and Technical Resources	**10.748**
Social Work Resources	
Blantyre Care Facility	2.571
Community Alarms – Analogue to Digital	2.610
SWIS Plus Replacement	1.842
Total Social Work Resources	**7.023**
Other	
Match Funding for External Funding Bids	1.800
Total Other	**1.800**
Total Proposed 2022/2023 Capital Programme	**82.284**

Appendix 4

2022/2023 Capital Programme – Funding Available

Funding Source	**Ref**	**Total Funding Available (£m)**
General Capital Grant	1	21.362
General Capital Grant – Local Bridge Maintenance Fund	1	1.062
Capital Receipts	2	1.000
Borrowing – City Deal	3	3.357
Borrowing – New Projects	3	2.407
Developers Contributions	4	2.008
Specific Capital Grants	5	2.141
Funding Carried Forward	6	
Existing Borrowing – Previous Years		43.734
Specific Capital Grants		2.919
Developers Contributions		2.108
Reserves		0.050
Other External Contribution		0.136
Total Funding Available		**82.284**
Proposed 2022/2023 Capital Programme (Appendix 3)		**82.284**
Funding Surplus / (Shortfall)		**-**

1. **General Capital Grant (£22.424m)**
   The Finance Circular (December 2021) announced a 2022/2023 General Capital Grant for South Lanarkshire of £22.424 million. As discussed at section 4.4, £1.062 million of this allocation relates to the Local Bridge Maintenance Fund. Removing the Local Bridge Maintenance Fund from the £22.424 million allocation results in General Capital Grant funding of £21.362 million.

2. **Capital Receipts (£1.000m)**
   An annual target of £1 million was incorporated into the Capital Strategy. The target of £1 million for 2022/2023 is considered realistic and achievable and this will continue to be monitored.

3. **Borrowing (£5.764m)**
   The requirement to borrow to fund the timing of spend in relation to the Glasgow City Region City Deal programme has already been reported to Executive Committee (11 May 2016). For 2022/2023 this will total £3.357 million (Section 4.5).

   The Executive Committee have also approved additional borrowing to undertake the Newton Farm Primary School Extension (Executive Committee, 26 May 2021) and SWiS Plus Replacement (Social Work Resources Committee, 2 June 2021). For 2022/2023 borrowing of £2.407 million is required being: Newton Farm (£0.779m) and SWis Plus (£1.628m).

4. **Developer Contributions (£2.008m)**
   Contributions from developers will be used to undertake specific growth and capacity projects required within the school estate. For 2022/2023, £1.218 million has been included, as detailed at section 4.7, along with a contribution to the new extension project at Newton Farm Primary School (£0.790m). This is in addition to the funding carried forward from financial year 2021/2022 (see section 6).

5. **Specific Capital Grants (£2.141m)**
   As detailed at Section 4.4, specific grant funding has been provided in 2022/2023 for Vacant and Derelict Land (£0.737m) and Cycling, Walking and Safer Streets (£1.404m). There will be other sources of specific capital grant funding for 2022/2023 (e.g. Free School Meals). These have not been included in either spend or income as the values are currently unknown. However, it is anticipated that expenditure levels will be matched to the funding available, with the exception of Free School Meals where there is a risk that the funding available will be insufficient to meet the capital requirements.

6. **Funding Carried Forward (£48.947m)**
   Funding totalling £48.947 million is available from financial year 2021/2022 for projects which have carried forward. This funding includes Borrowing (£43.734m), Specific Capital Grants (£2.919m), Developers Contributions (£2.108m), Reserves (£0.050m) and other partner contributions (£0.136m).

Principles underpinning the Capital Investment Strategy

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

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

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

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

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

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

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

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

4. Knowledge and Skills

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

5. Capital Programme Summary

The Future Capital Investment Strategy (November 2018) provided an estimate of potential capital investment and funding package. This was based on the information available at that time and will be subject to further refinement when the ongoing works to develop each of the projects / programmes is complete. As an update to the Capital Strategy, this report provides a proposed programme for 2022/2023.

Agenda Item

Report

5

Report to:	**South Lanarkshire Council (Special)**
Date of Meeting:	**23 February 2022**
Report by:	**Executive Director of Finance and Corporate Resources**

Subject:	**Prudential Indicators, Treasury Management Strategy and Annual Investment Strategy 2022/2023**

1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ Provide members with the Prudential Code indicators for 2022/2023 to 2024/2025,
- ♦ Provide members with the Treasury Management Strategy for 2022/2023, and
- ♦ Provide members with the Annual Investment Strategy for 2022/2023.

2. Recommendation(s)

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

(1) that the Prudential Code indicators for 2022/2023 to 2024/2025 are approved (section 4).
(2) that the 2022/2023 Treasury Management Strategy is approved (section 5)
(3) that the Annual Investment Strategy is approved (section 6)

3. Background

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

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

4. Prudential Code Indicators

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

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

4.3. A revision of the Prudential Code was issued by CIPFA in December 2021. The key objectives of the Code remain unchanged and are to ensure, within a clear framework, that Local Authorities capital investment plans are affordable, prudent and sustainable.

4.4. The Prudential Code now requires changes to the way that investments are categorised. Also, provisions within the code regarding borrowing in advance of need have been strengthened to make it clear that borrowing to fund commercial investments purely to benefit from the return on these investments is not permissible. The key developments in the updated code are included in Appendix 1.

4.5. The Prudential Indicators for 2022/2023 to 2024/2025 are shown in Appendix 1 along with explanations for each indicator. An updated position for 2021/2022 is also included.

4.6. 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 2021/2022 indicators.

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

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

4.9. An update to the General Fund capital programme for 2022/2023 was presented to this meeting earlier in the agenda. This allows for investment across priorities consistent with the objectives of the Council Plan.

4.10. The capital expenditure for 2022/2023 included in our indicators is based on the aforementioned report, while for 2023/24 and 2024/25, the Capital Strategy, adjusted to reflect anticipated spend, has been used as the basis. It includes the General Capital Grant funding allocated by the Scottish Government and projects which will be funded by Specific Capital Grants from the Scottish Government.

4.11. The HRA capital programme for 2022/23 was also presented to this meeting earlier in the agenda, following its endorsement by the Executive Committee on 2 February 2022. For financial years 2023/24 and 2024/25, estimated capital programmes based on the HRA business plan have been included.

4.12. Housing capital expenditure reflects investment priorities of maintaining and improving the housing stock to the Scottish Housing Quality Standard (SHQS) and the updated Energy Efficiency Standard for Social Housing (EESSH2). The programme also includes projects to increase the supply of council housing as well as environmental works and legislative compliance programmes to ensure that all safety requirement standards are met.

4.13. 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 2021 and approved by the relevant resource Committees.

- ♦ Fleet Asset Management Plan 2021 presented to Community and Enterprise Resources Committee 29 June 2021
- ♦ 2021/2022 Information and Communication Technology (ICT) Asset Management Plan presented to Finance and Corporate Resources Committee 2 June 2021
- ♦ Roads Asset Management Plan – 2021 Update presented to Community and Enterprise Resources Committee 7 December 2021
- ♦ 2021 Property and Housing Asset Management Plan presented to Housing and Technical Resources Committee 8 December 2021.

4.15. **IFRS16 – Leases :** Included in the indicators is the impact of leased assets. In 2022/23 we are required to adopt a new International Financial Reporting Standard (IFRS) 16 Leases which means that assets previously accounted for as operating leases will be brought onto the balance sheet along with a liability to make future lease payments.

4.16. These liabilities will be classed as external debt, however there is no requirement to borrow these amounts and there is therefore no impact on borrowing costs. Should any Prudential Indicators need to be revised as a result of this, the changes will be reported to committee during 2022/2023.

5. Treasury Management Strategy

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

5.2. An update to The Treasury Management in the Public Services Code of Practice was issued by CIPFA in December 2021. The key changes are an increased need for documenting and retaining knowledge and skills, as well as developing areas such as environmental, social and governance considerations and investment management practices for non-treasury investments. CIPFA have stated that the code should be fully implemented in 2023/2024.

5.3. The Treasury Management Strategy for 2022/23 is detailed at Appendix 2. 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

5.4. 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.

5.5. 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.

5.6. Key details included in the Indicators include total external net debt which is expected to reach £1,122.109m by the end of 2021/2022. This is gross debt of £1,150.876m less estimated investments of £28.767m. The estimated level of investments reflects the level of reserves held plus an element of working capital and the borrowing that was not taken in 2021/2022, recognising that this reduces the cash that the council has available for investment.

5.7. External debt includes the liability of £186.290m 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 2022/2023

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 2022/2023 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 in the strategy the types of investment that it will permit in the financial year. These will be known as “permitted investments”. The strategy also limits the amounts that may be held in such investments at any time in the year.

6.8. After consideration of the Council’s requirements to manage funds and our approach to risk, no changes have been made to the permitted investments previously agreed for 2021/2022.

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

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

6.11. 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.

6.12. 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.

6.13. 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.

6.14. 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 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

8 February 2022

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:-
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Prudential Indicators 2022/2023 – 2024/2025

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 2021/22 to 2024/25 and attributes limits for external borrowing.

Indicator 4 demonstrates the financial impact of the expected borrowing for the years 2021/22 to 2024/25 and that this borrowing is affordable.

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

Capital Expenditure and External Debt Indicators

1. Prudential Indicator 1 – Capital Expenditure

1.1. This indicator states the capital expenditure plans for the years 2021/22 through to 2024/25. The indicator takes account of the anticipated spend for 2021/22 and 2022/23. For 2023/24 and 2024/25, the Capital Strategy has been used as the basis, adjusted to reflect anticipated spend and funding.

	2021/22 Estimate £ m	2022/23 Estimate £ m	2023/24 Estimate £ m	2024/25 Estimate £ m
General Fund Capital Expenditure	**72.433**	**82.284**	**61.857**	**67.594**
Funded by:				
Borrowing	25.408	49.498	34.311	41.890
Capital Receipts and Grants	43.688	32.736	27.546	25.704
Contributions from Reserves	1.642	0.050	0.000	0.000
Revenue Contributions	1.695	0.000	0.000	0.000
Total Funding	**72.433**	**82.284**	**61.857**	**67.594**
HRA Capital Expenditure	**79.640**	**52.230**	**29.240**	**38.281**
Funded by:				
Borrowing	50.532	22.018	1.630	1.630
Capital Receipts and Grants	9.471	4.162	1.020	1.020
Revenue Contributions	19.637	26.050	26.590	35.631
Total Funding	**79.640**	**52.230**	**29.240**	**38.281**

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.

	2021/22 Estimate £ m	2022/23 Estimate £ m	2023/24 Estimate £ m	2024/25 Estimate £ m
Borrowing for General Fund Capital Expenditure	25.408	49.498	34.311	41.890
Borrowing for HRA Capital Expenditure	50.532	22.018	1.630	1.630
Total Borrowing for Capital Expenditure	**75.940**	**71.516**	**35.941**	**43.520**
Less Loans Fund Principal Repayments	(9.196)	(10.154)	(11.226)	(12.016)
Plus Maturing Debt	40.954	43.884	21.770	33.770
Borrowing carried over/(taken) in prior financial years	65.701	173.399	0.000	0.000
Total Borrowing Requirement	**173.399**	**278.645**	**46.485**	**65.274**
Actual/Expected Borrowing	**0.000**	**278.645**	**46.485**	**65.274**
Borrowing carried over to next financial year	173.399	0.000	0.000	0.000

1.3. The Council has not taken any long term borrowing in 2021/22, instead it has used its cash balances to fund capital spend. Long term borrowing to replace these balances will be required going forward and this borrowing requirement is carried forward to 2022/23.

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

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

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

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

2.3. In order that over the medium-term debt will only be for a capital purpose, the Council needs to ensure that debt does not, except in the short term, exceed the total of the Capital Financing requirement (CFR) in 2021/22 plus the estimates of any additional CFR for 2022/23 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.

	2021/22 Estimate £ m	2022/23 Estimate £ m	2023/24 Estimate £ m	2024/25 Estimate £ m
General Fund Capital Financing Requirement	1,030.817	1,070.264	1,093.988	1,124.530
HRA Capital Financing Requirement	293.458	308.216	302.110	295.682
Total Capital Financing Requirement	1,324.275	1,378.480	1,396.098	1,420.212
Gross Debt	1,150.876	1,378.480	1,396.098	1,420.212
Difference	173.399	0.000	0.000	0.000

2.5. It can be seen that the estimated gross debt levels for the period 2021/22 to 2024/25 do not exceed the forecast CFR at the end of 2024/25, 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 2021/22 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.

	2021/22 Estimate £ m	2022/23 Estimate £ m	2023/24 Estimate £ m	2024/25 Estimate £ m
Operational Limit for debt	1,340.000	1,340.000	1,400.000	1,450.000
Operational Limit for other liabilities	200.000	190.000	180.000	180.000
Operational Limit	1,540.000	1,530.000	1,580,000	1,630,000
Authorised Limit for debt	1,360.000	1,360.000	1,420.000	1,470.000
Authorised Limit for other liabilities	200.000	190.000	180.000	180.000
Authorised Limit	1,560.000	1,550.000	1,600,000	1,650,000

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.

	2021/22 Estimate £ m	2022/23 Estimate £ m	2023/24 Estimate £ m	2024/25 Estimate £ m
General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)	5.60%	5.95%	6.21%	6.49%
HRA General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)	16.21%	17.83%	17.89%	17.34%

4.2. While the Council has prepared a Financial Strategy for 2022/23 to 2024/25, at the time of writing this report, we have not been advised of our General Revenue Grant funding beyond 2022/23. The indicators have been calculated using the assumptions regarding reductions in grant levels built into the Financial Strategy for 2023/24 and beyond.

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

The Prudential Code For Capital Finance In Local Authorities (2021 Edition)

Key developments in the updated version of the Prudential Code include strengthened and clear provisions within the code for prudent investing and definitions and disclosures for service, treasury and commercial investments. The new code contains a new objective for proportionate service and commercial investments.

The provisions in the code, which present the approach to borrowing in advance of need in order to profit from additional sums borrowed, have been strengthened to make it clear that borrowing to invest primarily for financial return is not permissible.

The new code has a "soft launch" of its provisions for the 2022/23 financial year. Authorities are expected to adhere to the provisions in 2022/23 and not undertake any new investments which would not be consistent with the changes. The code will be fully implemented in the 2023/24 financial year.

As we do not invest primarily for financial return the new code will have little impact for South Lanarkshire Council.

Appendix 2

Treasury Management Strategy 2022/23

1. Foreword

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

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

A key requirement of this strategy is to explain both the risks and the management of these risks associated with the treasury function. A further report will be produced after the year end to report on actual activity during the year. It is a requirement of the Treasury Management Code of Practice that a mid year monitoring report is produced. This will cover the period 1 April 2022 to 30 September 2022 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 2022/23 – 2024/25

2.1 The expected levels of external borrowing and investment for 2022/23 to 2024/25 are shown in the table below. An updated position for 2021/22 is also shown.

	2021/22 Estimate £ m	2022/23 Estimate £ m	2023/24 Estimate £ m	2024/25 Estimate £ m
External Debt				
Borrowing	£964.586	£1,199.347	£1,224.062	£1,255.566
Other long term liabilities	£186.290	£179.133	£172.036	£164.646
Debt at 31 March (including PPP/Finance Lease Liability)	£1,150.876	£1,378.480	£1,396.098	£1,420.212
Investments				
Total Investments at 31 March	£28.767	£154.551	£143.370	£139.152

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
2022/23	0.563%	1.600%	1.850%	2.100%	1.900%
2023/24	0.813%	1.825%	2.025%	2.250%	2.050%
2024/25	1.063%	1.950%	2.175%	2.450%	2.250%

4.2. Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table above shows, Link Asset Services are forecasting a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, with periods of volatility continuing during this forecast period.

4.3. The differential between investment earnings and debt costs remains high and is expected to continue in 2022/23. This "cost of carrying" needs to be considered if borrowing is taken before our cash flow requires funds as returns on deposits will be lower than the rate paid on borrowing.

5. Borrowing Strategy

5.1. The Council is currently maintaining an under-borrowed position in comparison to its Capital Financing Requirement, using its cash balances rather than borrowing to fund capital expenditure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

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

5.3. 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.

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

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

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

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

5.8. The expected borrowing is detailed in the Prudential Indicators Appendix 1, paragraphs 1.1. to 1.2. and is summarised below.

	2021/22 Estimate £ m	2022/23 Estimate £ m	2023/24 Estimate £ m	2024/25 Estimate £ m
Expected Borrowing	**0.000**	**278.645**	**46.485**	**65.274**

6. Treasury Management Limits on Activity

6.1. The Treasury Management in the Public Services - Guidance Notes for Local Authorities details treasury management indicators that are to be reported within the Treasury Strategy.

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

Treasury Management Indicator 1 – Maturity Structure of Borrowing

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

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

Treasury Management Indicator 2 – Investments Greater Than 364 Days-

6.4. 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.

6.5. 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

6.6. 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.

6.7. 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.

6.8. 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

6.9. 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.

6.10. Details of how South Lanarkshire Council manages credit risk are included in the Annual Investment Strategy 2022/23 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.

Policy for the Statutory Repayment of Loans Fund Advances

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

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

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

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

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

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

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

Repayment of Loans Fund Advances

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

General Fund	Opening Balance	New Advances	Repayments	Closing Balance
2021/22	819.382	25.408	-2.402	842.388
2022/23	842.388	49.498	-2.894	888.992
2023/24 – 2026/27	888.992	84.338	-43.588	929.742
2027/28 – 2031/32	929.742	0.000	-151.207	778.535
2032/33 – 2036/37	778.535	0.000	-147.813	630.722
2037/38 – 2041/42	630.722	0.000	-128.036	502.686
2042/43 – 2046/47	502.686	0.000	-131.558	371.128
2047/48 – 2051/52	371.128	0.000	-128.961	242.167
2052/53 – 2056/57	242.167	0.000	-121.174	120.993
2057/58 – 2061/62	120.993	0.000	-41.553	79.440
2062/63 – 2066/67	79.440	0.000	-53.303	26.137
2067/68 – 2071/72	26.137	0.000	-23.035	3.102
2072/73 – 2076/77	3.102	0.000	-3.102	0.000

Housing Revenue Account	Opening Balance	New Advances	Repayments	Closing Balance
2021/22	249.707	50.532	-6.794	293.445
2022/23	293.445	22.018	-7.260	308.203
2023/24 – 2026/27	308.203	5.960	-33.616	280.547
2027/28 – 2031/32	280.547	0.000	-50.851	229.696
2032/33 – 2036/37	229.696	0.000	-59.177	170.519
2037/38 – 2041/42	170.519	0.000	-33.324	137.195
2042/43 – 2046/47	137.195	0.000	-37.866	99.329
2047/48 – 2051/52	99.329	0.000	-42.223	57.106
2052/53 – 2056/57	57.106	0.000	-32.781	24.325
2057/58 – 2061/62	24.325	0.000	-22.413	1.912
2062/63 – 2066/67	1.912	0.000	-1.912	0.000

Appendix 3

Annual Investment Strategy 2022/2023

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 regarding their investment and treasury management activities.

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

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

2. Investment Policy and Strategy

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

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

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

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

2.3. The CIPFA Treasury Management Code and the CIPFA Prudential Code were updated in December 2021 with a “soft launch” for 2022/2023 and full implementation for 2023/2024. There are no significant areas of change in the revised codes that would impact on our investment strategy for 2022/2023.

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 banks that the Council have used for the temporary investment of surplus funds are Bank of Scotland and The Royal Bank of Scotland.

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

Lloyds Banking Group - Environmental, Social and Governance (ESG) Information

NatWest Group - 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 2022/23 are detailed in Annex 1 to this strategy and listed below:

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

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

5. Risk Management

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

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

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

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

Deposits with the Debt Management Account Deposit Facility

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

Deposits with UK Local Authorities

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

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

Deposits and Certificates of Deposit with Banks and Building Societies

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

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

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

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

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

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

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

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

5.13. Operational banking will continue with our contracted provider. Any deposits with banks or building societies will continue to meet the criteria set in 5.5.

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 2022/23 – 2024/25

7.1. Over the period 2022/23 – 2024/25, it is estimated that an average level of investments of approximately £146m 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.

ANNEX 1

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

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

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