Council Offices, Almada Street
Hamilton, ML3 0AA

Tuesday, 14 February 2023

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, 22 February 2023**
Time: **10:00**
Venue: **Hybrid - Council Chamber, Council Offices, Almada Street, Hamilton, ML3 0AA**

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

Yours sincerely

Cleland Sneddon
Chief Executive

Members

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

BUSINESS

1 **Declaration of Interests**

Item(s) for Decision

Item(s) for Noting

Urgent Business

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

For further information, please contact:-

Clerk Name:	Susan Somerville
Clerk Telephone:	07557323097
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Agenda Item

Report

2

Report to:	**South Lanarkshire Council**
Date of Meeting:	**22 February 2023**
Report by:	**Executive Director (Finance and Corporate Resources)**

Subject:	**Overall Position of Revenue Budget and Level of Local Taxation for 2023/2024**

1. Purpose of Report

1.1. The purpose of the report is to:

- update the Council on the 2023/2024 budget position, present the Council Tax level for 2023/2024 for approval, and present the Revenue Budget for 2023/2024, 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 reinstatement of funding for 2021/22 teachers' Pay Award of £1.8 million be noted, and that this be used to benefit the Budget Gap (section 4.4), be approved;
(2) that £5.7 million of the retrospective benefit released by Service Concessions be used to support the impact of the 2022/2023 Pay Award in 2023/2024 (section 4.6), be approved;
(3) that approving the use of £1.8 million additional funding, and £5.7 million of retrospective benefit (recommendations 1 and 2) would result in a revised Budget Gap of £8.818 million (section 4.7), be noted;
(4) that the use of money from reserves as detailed in sections 4.8 to 4.12 be noted;
(5) that the level of Council Tax and the amount of savings to be used to balance the 2023/2024 Budget, be considered;
(6) that following the use of the service concessions retrospective benefit to fund the 2022/2023 Pay Award and the proposed use for Budget Strategies, there remains £10 million of unallocated monies (section 7.2), be noted;
(7) that the current, unprecedented inflationary pressures facing the Council are noted, and that the budget gaps projected for Council in future years (section 10) are noted; and
(8) that the Revenue Budget for 2023/2024, including the base budget allocations to Resources, as shown in Appendix 3, be approved, subject to members' decision on recommendation 5.

3. Background

3.1. At its meeting on 15 June 2022, the Council approved the Revenue Budget Strategy for 2023/2024. The Strategy assumptions resulted in an initial budget gap of £32.477 million including the impact of several corporate solutions such as savings on Loan Charges and the outcome from reviews. The Strategy also included the impact of core budget additions as well as exceptional items of expenditure on utilities and inflation on significant Council contracts.

3.2. Subsequent to this, a number of update papers have been presented to members, most recently a paper to Council on 18 January 2023, which revised the Budget Gap to £16.318 million. This position reflects the impact of the 2023/2024 Local Government Settlement received in December 2022, and also takes account of additional budget pressures and further corporate solutions presented to members at committees during the year.

3.3. During January 2023, there have been changes to the Local Government Settlement as a result of the checking process. This has had an impact on the overall Council position and will be covered in this paper.

3.4. This report will cover the main elements of the Budget Process to date including an update to the 2023/2024 Revenue Budget Strategy (section 4) and a proposal to address the Budget Gap for 2023/2024 (section 5). Achievement of a balanced budget is covered at section 6.

3.5. Thereafter, the report will provide details of the position in relation to Service Concessions (section 7), the total Revenue Budget and Council Tax (section 8) and section 9 provides details of the Budget Bill and Local Government Finance Order. Section 10 provides information on the budget beyond 2023/2024.

4. <u>Update to 2023/24 Revenue Budget Strategy</u>

4.1. At the Council meeting in January 2023, Members were presented with an update to the Budget Strategy which resulted in a Budget Gap of £16.318 million. This position assumed no increase in Council Tax and was based on the Local Government Settlement received in December 2022. Subsequent information from the Scottish Government means we expect an update to our settlement in relation to the reinstatement of 2021/22 Teachers' Pay Funding. In addition, there are updates to other areas of the Budget Strategy for Members' attention. Each is taken in turn.

4.2. **Funding for Teachers Pay Award 2021/2022**: The last budget paper to Council (18 January 2023) referenced the fact that £32.8 million of funding for the Teachers' pay award dating from 2021/2022 had been removed from the Local Government Settlement for 2023/2024. The impact of this removal on the Council would be a loss of funding of £1.8 million. Consequently, the proposed saving on additional teacher numbers (EDR05 included in the paper to Council on 18 January 2023) would need to have an implementation timescale over a two-year period (2023/2024 and 2024/2025), with one-off monies (£1.8 million) to be drawn from reserves to balance the position on this saving in 2023/2024.

4.3. The changed position in the week ended 27 January 2023 was that the Scottish Government had notified COSLA that the £32.8 million (funding for 21/22 Teachers' pay removed from the settlement figures) was now to be reinstated by the Government into the 2023/2024 settlement. This has two consequences: the money which would have been drawn from reserves (£1.8 million) to balance the position on the saving in 2023/2024 would no longer be required and the additional teacher numbers saving (EDR05) could now potentially be delivered in a single year (2023/2024), rather than over two years.

4.4. As a result of the Council receiving its share of the £32.8 million and therefore no longer having to take the £1.8 million from Reserves, the money within reserves (see section 4.11) could be used instead to reduce the Budget Gap, albeit on a one-off basis. To make the saving permanent (in years 2024/2025 and beyond) a permanent saving to that value would need to be identified.

Reduction in Budget Gap: £1.8 million

4.5. **Increased 2022/2023 Pay Award – Service Concessions:** At a meeting on 18 January 2023, the Council approved the implementation of the guidance on accounting for Service Concessions. This resulted in an ongoing annual financial benefit which has been built into the Budget Gap position indicated in section 3.2, as well as a retrospective benefit to the Council.

4.6. As part of the 2022/2023 Probable Outturn report presented to Executive Committee on 1 February 2023, members agreed to use £5.7 million of the retrospective gain from service concessions to pay for the increased 2022/2023 pay award in that year. Previous budget papers have referenced using service concession money to meet the costs of 2022/23 pay award in 2023/24, and it is recommended that members approve the use of £5.7 million of the retrospective benefit to pay for this. Again, a permanent solution will need to be found for 2024/2025 and beyond.

Reduction in Budget Gap: £5.7 million

4.7. Table 1 shows the impact of the Additional Funding for Teachers Pay and the use of Service Concessions monies on the Budget Gap. The result is a revised Budget Gap of £8.818 million.

Table 1: Budget Shortfall and Solutions

	£m
Budget Shortfall *(Council, January 2023) (section 4.1)*	**16.318**
Less Solutions	
- Funding for Teachers' Pay Award 2021/2022 *(section 4.2)*	(1.800)
- Increased 2022/2023 Pay Award – Impact in 2023/2024 *(sections 4.5-4.6)*	(5.700)
Total Solutions	**(7.500)**
Revised Budget Shortfall	**8.818**

4.8. **Use of Reserves (2022/23 Underspend):** The paper to Council on 18 January 2023 stated that we were concluding work on this year's Probable Outturn exercise. The report noted that this presented an option to help with the 2023/24 position including the ability to bridge the gap until 2024/25 savings are realised.

4.9. The probable outturn exercise has now been reported to Executive Committee on 1 February and an underspend of £4.696 million was reported and it was agreed that this would be transferred to reserves to assist in the 2023/2024 Budget Strategy.

4.10. It is proposed that this funding is used to cover the 2024/2025 Managerial and Operational Savings from Reviews (which was included in the 18 January 2023 Council paper - £2.140 million - section 4.12) which reduced the 2023/2024 Budget Gap but required a temporary solution in 2023/2024.

4.11. £1.8 million of this £4.696 million would be taken from reserves to be used to reduce the budget gap as outlined at section 4.4 above.

4.12. A balance (£0.756 million), remains to meet the 2023/24 costs of any savings in Appendix 1 where the substantive savings are not deliverable until 2024/25, should they be accepted (these are marked with an asterisk – CER08 and CER11*).* Should this money not be required for that purpose, it would be retained in reserves to assist with budget the budget gap in 2024/25.

4.13. **Update to the Local Government Settlement 2023/2024:** Members will recall that the impact of the Local Government Settlement received in December 2022 was included in the Budget gap position reported to Council in January 2023. At that point, it was noted that the Circular was still under review and further updates may be received which changes the Council's Government grant allocation.

4.14. The 2023/2024 Finance Order has not yet been approved (refer section 9) so further changes could arise. These changes will include a reduction in distributed funding as a result of Scottish Government introducing a requirement to maintain teacher numbers into 2023/24. This funding will still be passed to councils if commitments are kept, but it will be later in the year. Therefore, this will not change the council's funding gap. Members will be notified on the final settlement value as appropriate.

5. Options to Address the Budget Gap

5.1. **In order to eliminate the Budget Gap, two options available for members' consideration are:**

- **to increase the level of Council Tax (see sections 5.2 to 5.7), and**
- **to approve savings proposals from the package in Appendix 1 (see sections 5.8 to 5.17)**

Each of these is taken in turn.

5.2. **Council Tax:** As previously detailed in the Budget Strategy report to Council on 18 January 2023, members will be aware that a lever available to the Council in managing its overall budget position and any Budget Gap is the ability to increase Council Tax. In arriving at the restated Budget Gap detailed in Table 1, no account has been taken of any increase in Council Tax.

5.3. Each 1% increase in Band D would generate successive amounts of £1.452 million.

5.4. As members will recall over recent budget papers, the Council is experiencing extraordinary financial pressures due to inflation levels on areas including Pay, Utilities and Contracts. The 2022/2023 Pay Award averaged around 7% for staff and contracts linked to RPI could see increases of between 12% and 15%. Alongside that, price increases across financial years 2022/2023 and 2023/2024 for utilities are expected to be in excess of 200% for Gas and 88% for Electricity.

5.5. Table 2 shows the impact of a range of Council Tax increases that could reduce the budget gap.

Table 2 – Council Tax Increases

Percentage Increase	Band D £	Annual Increase £	Monthly Increase (over 10 payments) £	Reduction to Budget Gap £m
0%	1,233.00	-	-	-
1%	1,245.33	12.33	1.23	1.5
2%	1,257.66	24.66	2.47	2.9
3%	1,269.99	36.99	3.70	4.4
3.50%	1,276.16	43.16	4.32	5.1
4%	1,282.32	49.32	4.93	5.8
5%	1,294.65	61.65	6.17	7.3
6%	1,306.98	73.98	7.40	8.7

5.6. As noted in Table 1, the revised Budget Gap for 2023/2024 is currently £8.818 million. This paper presents a balanced Budget for the coming year. At this stage, no increase in Council Tax is reflected within the figures in this report.

5.7. Members are asked to note that the Council's Band D rate at 2022/2023 levels (£1,233) is the lowest for a mainland Scottish council, and that increasing this rate, would allow members to reduce the level of savings required to balance the 2023/2024 budget (see sections 5.8 to 5.17 below).

5.8. **<u>Savings Proposals:</u>** Budget savings totalling £13.094 million (£12.454 million for 2023/2024 and £0.640 for 2024/2025) are proposed for members' consideration. These are detailed in Appendix 1 and include savings from Reviews and Flexibilities.

5.9. **Reviews:** Appendix 1 includes savings from Reviews that require members' approval – these total £1.172 million for 2023/2024 and also the full year impact of these savings into 2024/2025 (£0.640 million). If the savings to be realised in 2024/2025 are accepted for 2023/2024, then a temporary solution could be put in place in order to allow the value of the savings to be taken in the 2023/2024 budget process. This temporary solution could be the underspend in the 2022/2023 Probable Outturn, report to Executive Committee on 1 February 2023.

5.10. **Flexibilities:** Appendix 1 also includes proposals in relation to Flexibilities. CoSLA and Local Authorities approached the Scottish Government with a list of potential areas of flexibility that could be called upon which may release funding that can help with councils' funding pressures. COSLA identified a list of areas where funding had been provided by the Scottish Government for specific government policies (such as additional teachers) and approached the Government with this list.

5.11. As advised previously, Scottish Government have, via the Depute First Minister, issued councils with a letter that says 'It is for individual councils, as democratically elected bodies, to consider the needs of their communities with a focus on the most vulnerable, their legal obligations and the totality of resource funding available to them, and to then take the decisions necessary, openly and transparently, to operate as effectively as possible within this context. In doing so, I would request that councils remain mindful of our shared priorities in the National Performance Framework. Where funding is provided as specific revenue grant (and therefore legally ring-fenced), councils should engage with the relevant Scottish Government directorate'.

5.12. The common interpretation is that in engaging will be advising and not seeking permission from the Scottish Government. However, recent discussions with civil servants suggest that there may be ministerial reaction where policy commitments are not met. Clarification on this is being sought.

5.13. For the savings in Appendix 1 linked to Flexibilities, this is marked in the heading. If there are savings into future years, this is noted in the narrative in Appendix 1.

5.14. **Teacher Numbers:** In the paper to Council on 18 January 2023, there were 2 savings where, if taken, would affect teacher and education support staff numbers. In the week ending 3 February 2023, correspondence sent to COSLA by the Cabinet Secretary for Education and Skills set out four ‘red lines’ that the Scottish Government expects to be delivered, and this included Teacher numbers being maintained at their current levels for the year ahead, and that the number of pupil support assistants are maintained at their current levels. The savings that could potentially affect teacher numbers and education pupil support assistants are EDR05 - Teacher Numbers (Flexibilities) (full saving) and EDR06 - Pupil Equity Fund (PEF) / Scottish Attainment Challenge (SAC) Monies (Flexibilities) (part saving, £0.775 million affects staffing).

5.15. **Pupil Equity Fund (PEF) / Scottish Attainment Challenge (SAC) Monies (Flexibilities):** Correspondence from the Scottish Government states that the grant conditions of these funding streams state that this funding must be utilised to target support towards children and young people (and their families if appropriate) impacted by poverty to improve their educational outcomes.

5.16. This conflicts with the correspondence from the Depute First Minister around flexibilities. A potential outcome may be that this saving may not be deliverable.

5.17. **Flexibility on Integrated Joint Board (IJB):** Similarly, in relation to the potential flexibility on IJB budgets (SWR01), this was one of the flexibilities the Scottish Government responded on as per section 5.11 above. Wording that could be considered contradictory to that permission to be flexible around IJB budgets was included in a letter to NHS and IJB chief officers at the time the Scottish Budget was announced. A potential outcome may be that this saving may not be deliverable.

5.18. COSLA continue to protest against these restrictions and are engaging with Scottish Government on these issues.

6. Achievement of a Balanced Budget

6.1. **To recap what is said in section 5.1, in order to address the Budget Gap, two options available for members’ consideration are as follows:**

- **to increase the level of Council Tax, and**
- **to approve savings proposals from the package in Appendix 1**

6.2. Increasing Council Tax would allow members to reduce the level of savings needed to balance the 2023/2024 budget.

7. Retrospective Benefit arising from application of Service Concession Guidance

7.1. As noted in section 4.5, at a meeting on 18 January 2023, the Council approved the implementation of the guidance on accounting for Service Concessions. This resulted in an ongoing annual financial benefit which has been built into the Budget Gap position indicated in section 3.2. It also generated a retrospective benefit of £64 million.

7.2. Members will recall that of the £64 million, £5.7 million has been approved to fund the increased 2022/2023 Pay Award in that year. In addition, this paper proposes that a further £5.7 million be used to fund the impact of the increased 2022/2023 Pay Award into 2023/2024 (section 4.6). The use of this £11.4 million is shown in Appendix 2 along with the previously proposed use of the retrospective benefit in supporting future years' Budget Strategies (Executive Committee, 02 November 2022). The use of the retrospective benefit to fund the 2022/2023 Pay Award and the Budget Strategies totals £54 million which would leave £10 million unallocated.

7.3. In noting this unallocated sum, members should give consideration to the current, unprecedented, inflationary pressures affecting the council. A prudent approach would leave an element of this amount unallocated, to address budget pressures which are likely to arise.

8. Total Revenue Budget Summary 2023/2024 and Council Tax

8.1. Taking into account the Government Grant allocated to the Council through the Settlement and assuming no year-on-year increase in Council Tax (section 5.6), means that the total proposed Budget for 2023/2024 is now £895.702 million. To balance the budget, it has been assumed that there will be an acceptance of savings to the value of £8.818 million from the package of savings at Appendix 1.

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

Summary of Council Budget 2023/2024

Current Year Base Budget £m		**2023/2024 Proposed Budget £m**
1,117.769	Total Services' Gross Expenditure *(Appendix 3, page ii)*	1,139.392
(319.386)	Deduct: Total Services Gross Income *(Appendix 3, page ii)*	(321.341)
798.383	**Net Service Spending**	818.051
49.282	Add: Loan Charges	52.909
2.500	Add: CFCR	-
20.860	Add: Corporate Items inc. Service Concession Annual Benefit	33.560
-	less: Savings	(8.818)
871.025	**Net Expenditure**	895.702

8.3. Table 3 shows how this 2023/2024 budget is funded, resulting in the net Sum Funded by Council Tax, £147.274 million.

Table 3: Net Sum Funded by Council Tax

Indicative Budget for 2023/2024 *(Appendix 3)*	£895.702m
Deduct: Government Grant	(£702.856m)
Deduct: Use of Reserves / Underspends in the Budget Strategy	(£45.572m)
Resultant Net Sum to be Funded Locally from Council Tax	**£147.274m**

8.4. The net Council Tax figure comprises the 2022/2023 budget of £144.174 million, increased to reflect the additional property numbers included in the Strategy (net £1.800 million) and a reduction in the cost of the Council Tax Reduction Scheme included in the Strategy (£1.300 million). It assumes no year-on-year increase in Council Tax Band D (section 5.6).

8.5. The Net Sum Funded by Council Tax (£147.274 million) is detailed in Table 4, showing the Council Tax Budget for the year 2023/2024. Table 4 also shows the estimated amount of income for each £1 of Gross Council Tax.

Table 4: 2023/2024 Council Tax Budget

Gross Council Tax 2023/2024	£169.505m
Deduct: Council Tax Reduction Scheme	(£22.231m)
Resultant Net Sum to be Funded Locally from Council Tax	£147.274m

Estimated Product of £1 Gross Council Tax at 97.125% collection £137,474

8.6. Should the Council approve the budget for 2023/2024, then the Band D Council Tax for 2023/2024 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.

8.7. 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%	22.92%
£27,001 to £35,000	B	78%	19.51%
£35,001 to £45,000	C	89%	17.07% (Total A to C: 59.50%)
£45,001 to £58,000	D	100%	13.98%
£58,001 to £80,000	E	131%	13.10%
£80,001 to £106,000	F	162%	8.63%
£106,001 to £212,000	G	196%	4.42%
Over £212,000	H	245%	0.37%

8.8. The Council's declared tax will be at the Band D level but only around 22,100 properties (13.98%) are in band D. Over the past few years, there has been an upward movement in the valuation of properties. However, approximately 59.50% 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.

8.9. The number of houses in the tax base for South Lanarkshire exceeds 157,700 as advised by the Assessor for the Lanarkshire Valuation Joint Board. From this figure, an allowance is deducted for single person discounts, students, disabled, vacant premises etc. to produce an estimated yield for £1 on a Band D basis at 100% collection of £141,543.

8.10. 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.

8.11. A yield of £137,474 for £1 tax at Council Tax Band D has been used in the 2023/2024 budget (an increase on 2022/2023 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.

8.12. This position assumes no year-on-year increase in Council Tax, as detailed in Section 5.6 and therefore sets/retains the Council Tax Band D at £1,233.

9. Local Government Finance Order

9.1. Although the Council received its grant settlement on 20 December 2022, 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 in the coming weeks, culminating in the approval of the Local Government Finance Order. Dates for these Stages are yet to be confirmed.

9.2. The Council has a statutory requirement to set its Council Tax by 11 March 2023. 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.

9.3. As noted in section 9.1, this budget paper is based on the Local Government Settlement received on 20 December 2022. As the Budget Bill process continues, it is expected that there will be changes to the level of grant allocation including the formal distribution of monies that are already assumed in the Budget position presented. Any further funds are received as part of the Budget Bill process will be brought to Council for consideration.

10. Position Beyond 2023/2024

10.1. This paper focuses on financial year 2023/2024, however the 2023/2024 Budget has an impact on future years' financial position.

10.2. **Reinstatement:** The 2023/2024 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 4. Some of these reinstatements are because a temporary solution is required in 2023/2024 to manage the shortfall of £16.318 million (section 3.2).

10.3. Appendix 4 also includes a requirement to reinstate budget of £23.500 million in 2024/2025 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.

11. Employee Implications

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

12. Financial Implications

12.1. As detailed within this report.

13. Climate Change, Sustainability and Environmental Implications

13.1. 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.

13.2. 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.

14. Other Implications

14.1. The assumptions on which the budget is based are defined within the Financial Strategy for the Council as initially reported to the Council in June 2022 and updated during the year for additional pressures, corporate solutions and the Local Government Finance Settlement received on 20 December 2022. 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.

14.2. **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.

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

14.4. 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.

14.5. 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 2023/2024 budget, a gap in our budget would remain.

14.6. **Expenditure Subject to External Influences**: Whilst the budget for 2023/2024 can be set with certainty, there are areas of expenditure that are subject to external influences which we will continue to monitor as the year progresses. Most significantly, this includes the impact of potential pay awards. While the Budget Strategy assumes an increase in costs into that year, no pay deal has been agreed for 2023/2024. It is also noted that the SNCT Pay Claim for 2022/2023 is not yet settled.

15. Equality Impact Assessment and Consultation Arrangements

15.1. 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.

15.2. 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.

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

Paul Manning
Executive Director (Finance and Corporate Resources)

6 February 2023

Link(s) to Council Values/Priorities/Outcomes

- Accountable, Effective, Efficient and Transparent

Previous References

- Council, 18 January 2023 – Update on the Budget Strategy for 2023/2024

List of Background Papers

- Local Government Finance Circular 11/2022

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

Reference	**Service**	**Name and Brief Description of Saving**	**Employee FTE**	**Saving value** (*2024/25 savings marked with an asterisk*) **£m**
Community and Enterprise Resources				
CER01	Planning and Economic Services	**Planning and Building Standard Fees (Flexibilities)** There are options to consider that would generate more income in planning and building standards. Legal have advised that legislation prescribes the level of many fees so we cannot simply decide to increase these. There is discretion to reduce or wave a few, but not increase. The Resource has advised that there is the ability to charge for - non-material variations (fixed fee) - estimated income for year £4,500 - discharge of conditions (fixed fee) - estimated income £61,300 - 25% surcharge on retrospective applications – estimated income £6,000 These additional charges will result in around £72,000 of additional income		0.072
CER02	Facilities, Waste and Grounds Services	**Other Children and Young People funding – free school meals (remove for P4/5) (Flexibilities)** This option revisits the policy intent to provide free school meals for P4/5 and revert back to charging for these groups. Children entitled to free school meals would still receive them. There is no statutory requirement to provide free meals for these groups of children. SLC Funding received for this policy in 2022/23 of £2.596m.		0.839

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
		To achieve a saving we would reintroduce charges for P4 and P5 A prudent assumption may be that all meals continue and are charged for. 407,360 paid meals based on pre UFSM 2020 figures would bring in **£0.839m.**		
CER03	Facilities, Waste and Grounds Services	**Christmas Trees and lighting** Budget reduction due to rationalisation of trees and festive lighting to eight main geographical areas to Hamilton, East Kilbride, Rutherglen, Carluke, Blantyre, Cambuslang Larkhall and Lanark. There is expected to be an overall saving of up to £0.086m from this option – there may be other costs that would require to be confirmed therefore at present the value of the saving has been limited to £0.037m.	-	0.037
CER04	Facilities, Waste and Grounds Services	**Food Waste Liners** Cease the provision of food waste liners for food recycling saving the cost of the liners and associated staff costs.	0.5	0.100
CER05	Facilities, Waste and Grounds Services	**Xmas Lights Switch On** This option would see a budget reduction due to rationalising the Christmas Switch On events. The Council currently supports six switch on events across South Lanarkshire, in Hamilton, East Kilbride, Rutherglen, Cambuslang, Lanark and Carluke. This proposal would instead see the creation of a Christmas events fund of £0.030m for distribution to community groups to support local decorations or events. In a number of areas, it is anticipated that local businesses, BID companies or Development Trusts will be in a position to support future events.	-	0.030

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
		There is expected to be an overall saving of up to £0.084m from this option which includes creating the Christmas events fund – there may be other costs that would require to be confirmed therefore at present, the value of the saving has been limited to £0.030m.		
CER06	Facilities, Waste and Grounds Services	**Cremations** This proposal is to move the Council's charges for Cremations towards the average charge across all other council areas. The average figure for 2022/2023 for local authority crematoria is £808.33 per cremation, ranging from South Lanarkshire at the lowest (£680.05) to Highland at £959.00. It is proposed that the Council's charge per cremation is increased to the average charge of £808.33 (an increase of £128.28 per Cremation) and this would achieve additional income of £0.200 million. This charge is higher than our closest neighbour in Glasgow City (£699.00), and therefore the projected income takes account of some customers choosing the Glasgow facilities of Daldowie and Linn instead. A 10% reduction in cremations have been assumed in these figures.	-	0.200
CER07	Facilities, Waste and Grounds Services	**Special / Bulk Uplifts** South Lanarkshire residents are currently allowed one free bulky uplift per year which allows for the collection of up to 20 items. Subsequent requests are charged at £33.05. A benchmarking exercise has shown that most councils across Scotland now charge for all uplifts, with the average cost for a 10 item uplift at £61.32. This proposal is to remove the first free bulky uplift and introduce a £37.50 charge for all requests. The number of items per uplift will also reduce to a maximum of 10 at a time.	-	0.395

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
		Based on our current bulky uplift data and an estimated uptake of 25% for paid uplifts (based on other councils' experience), income of £0.395m is projected for 2023/24. Future year income projections will be refined following the first full year of operation.		
CER08	Facilities, Waste and Grounds Services	**Garden Waste (Burgundy Bins) – 2024/25 saving** The household waste collection service provides a burgundy bin for the disposal of food and garden waste. The collection of garden waste is a non-statutory service however food waste is a statutory service. There are around 5,000 households within the Clydesdale area who are not currently included in the burgundy bin service, as permitted by a rural exemption within the food waste regulations. In addition, approximately 30% of households in South Lanarkshire live in flatted accommodation and do not have gardens. There are now 14 local authorities in Scotland who charge for the collection of garden waste. These charges range from £30 to £45 with an average of £36. This proposal is to incorporate those Households in Clydesdale currently without a service, and to introduce a charge to account for the increased cost. Based on estimated uptake levels and an annual subscription charge of £40 for an expanded garden waste collection service would mean income of **£0.440m** could be achieved in 2024/2025 (net of start-up costs) and a further £0.650m from 2025/26 onwards. It should also be noted that the Scottish Government are considering making garden waste a mandatory waste stream collection. This would mean that we would be unable to charge for the service, however additional budget would be expected to reflect any new statutory designation.	-	*0.440

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
CER09	Facilities, Waste and Grounds Services	**Other Garden Uplifts** Currently, residents can request a free uplift of garden waste that is too large to fit into the household burgundy bin and there are no limits to the number of requests that can be made. It is proposed to introduce a £37.50 charge for this service. Based on an estimated 25% uptake of the current service users, income of £0.055m is projected for 2023/24.	-	0.055
CER10	Facilities, Waste and Grounds Services	**Secondary School Meals** The average charge of a school meal across Scottish Councils has risen to £2.40 and South Lanarkshire currently charges £2.00. The highest is North Lanarkshire who currently charge £3.15. This proposal is to increase the charge of secondary school meals to the average charge (£2.40 in 2022). This equates to a 40p increase on the current charge of £2.00, a 20% increase. Assuming a 10% reduction in uptake, this proposal is expected to generate income of £0.355 million. Uptake of meals and income will continue to be monitored. South Lanarkshire would move from being the lowest school meal price in Scotland to 13th position (assuming other councils do not increase their charges). Note that children entitled to free school meals will continue to receive these.	-	0.355
CER11	Roads and Transportation	**Parking at Key Attractions (£0.200m 2024/25)** This proposal is to introduce a £2 charge for parking at key attractions across various Council services including South Lanarkshire Leisure and Culture attractions. The income would be retained by the Council.	-	* 0.200

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
		Examples include Tinto Hill, Chatelherault Country Park, Calderglen Country Park and James Hamilton Heritage Park.		
		Total	**0.5**	**2.723**

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value £m
Education Resources				
EDR01	Education	**Other Children and Young People funding – Summer Funding (Flexibilities)** Funding was provided by the Scottish Government to deliver a government policy to provide school holiday programme. As a saving option this proposal looks at revisiting the policy intent. SLC received funding in 2022/23 of £0.577m. To achieve a saving we could reduce the level of funding for summer programmes by the government funding received. This would save £0.577m. Removal of summer programmes for families including lunch provision would remove support for childcare across summer period. Also new supports around most vulnerable and ASN would be impacted. A small core budget of £0.143m would be retained in the education budget. This reduction in spend would impact on services provided by the Council, by the 3rd sector and by South Lanarkshire Leisure and Culture. Note - the that the Scottish Government have still to confirm how this funding will be passed to councils in 2023/2024.	1.0	0.577
EDR02	Education	**Other Children and Young People funding – School Counselling (Flexibilities)** Funding was provided by the Scottish Government to deliver a government policy to provide school counselling. As a saving option this proposal looks	1	0.960

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
		at revisiting the policy intent. SLC received funding in 2022/2023 of £0.960m. To achieve a saving we could cease any further commissioning of counselling that utilised this funding (£0.960m). Service implications would be the removal of counselling support for young people in schools across primary, secondary and ASN sectors, also programmes including play therapy, gypsy travellers, Kooth and Action for Children would be removed. There is a balance of funds in reserves that would allow a continuation of some commissioning for a period of time but when that is utilised, the additional provision would end. There is also permanent staffing funded via this initiative including 1FTE Quality Improvement Officer that would have to be managed. There is no committed financial obligation through any contract.		
EDR03	Education	**Other Children and Young People funding – Community Health and Wellbeing (Flexibilities)** Funding was provided by the Scottish Government to deliver a government policy to enhance community health and wellbeing. As a saving option this proposal looks at revisiting the policy intent. SLC received funding in 2022/2023 of £0.835m Currently this is SW funding with some allocated to Education supporting permanent staff for Inclusion including Psychologist, Research Assistant, Quality Improvement Officer (Virtual HT) and Action for Children programme. Staffing would be surplus and would need to be redeployed and programmes to support mental health would cease.	5.5	0.835

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
		Moving forward, the majority of all of the funding will be managed by Education – plans are being put in place currently to consider how this is spent. If this saving is agreed, this work will require to be paused.		
EDR04	Education	**Other Children and Young People funding – Access to Period Products (Flexibilities)** Funding was provided by the Scottish Government to deliver a government policy to allow access to free period products in schools and communities. SLC received funding in 2022/2023 of £0.301m There is a legislative requirement to ensure that products are available free of charge. To achieve a saving we would reduce the provision of access to period provision in schools and communities but still look to ensure the legislative obligations are met.		0.100
EDR05	Education	**Teacher Numbers (Flexibilities)** This option would look to reduce additionality in relation to the recruitment of 3500 teachers, and 500 classroom assistants nationally (£65.5m nationally for 1000 teachers / 500 classroom assistants) and reduce additionality in relation to the £80m national baselined funding for extra teachers / support through pandemic SLC Funding £9.379m in total. This option could see funding released of - £4.6m This proposal would see 73 teachers removed from the establishment reflecting 50% of the additional funding provided and 17 SSA (Primary 38FTE, 32.5FTE secondary, 2.5FTE ASN and 17 SSA across 2 school sessions (three financial years).	2023/24 – est 35 (*90 fte over 3 years of saving)*	1.800

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
		The profiling of how budget could be released reflects the school session and the expected time frame to achieve natural turnover of teaching staff. Further savings of £2.200m and £0.600m can be made in future years.		
EDR06	Education	**Pupil Equity Fund (PEF) / Scottish Attainment Challenge (SAC) Monies (Flexibilities)** This flexibility was targeted at either utilising specific funding in other ways or utilising underspends. SLC 2022/2023 Funding is £8.9m for PEF (which is a specific grant) and £1.4m for SEF (formerly SAC).There is an option to save £5.7m over 2 years. The PEF funding is currently split: - £3.946m permanent staffing - £0.450m temp staffing - £0.700m SSA/other staffing including enhancements - £3.827m non staffing spend - This is variable each year subject to staffing levels and funding. Therefore a reduction in spend of £4.977m of the funding could be achieved through stopping non staffing spend and ending temp staff contracts / SSA / enhancements. Pupil Equity Funding goes directly to schools and funding is allocated on levels of pupil deprivation. As spending across schools is not split over categories on the same ratios as above, then the saving would have to be taken from the schools	2023/24 – 15 fte (further 15 *fte in 2024/25)*	2.858

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
		spending in this way. Therefore the removal of budget would not be in the same basis across the PEF schools. Permanent staffing could only be released through natural turnover over a period of time however that would be after 2024/2025 (as natural turnover has been built into the reduction in teachers covered in the Teacher Number line). This will also affect the ability to continue to meet Newly Qualified Teacher commitment as this is a route through which this is managed. A reduction in spend of £0.740m on SEF funding could be achieved through stopping non staffing spend and ending temp staff contracts (£0.400m reduction via temp staff and £0.340m non staffing) This funding is currently grant claimed and based on an agreed spending plan for the specific purpose of closing the poverty related attainment gap, therefore discussions with the Scottish Government on releasing this saving will be required. **Further saving in 24/25 of £2.859m.**		
EDR07	Schools	**Early Learning and Childcare (Flexibilities)** Funding was provided by the Scottish Government to deliver a government policy around provision of early learning and childcare. SLC received specific grant funding in 2022/2023 of £31.6m This proposal is specifically in relation to utilising reserves for ELC currently held for early level teachers and pupil growth for 2023/2024. This is a time limited saving and will need to be removed into 2024/2025.	0	1.500

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
		It may be possible to make this a permanent savings through looking at option for flexibility including levels of parental choice and the service will consider options here.		
EDR08		**Other Children and Young People funding – reinstate core curriculum / music tuition charges (Flexibilities)** Funding was provided by the Scottish Government to deliver a government policy around removing charges to pupils for core curriculum lessons and music tuition. SLC Funding received for these policies in 2022/23 was £0.472m/£0.451m To achieve a saving we would require to re-introduce a level of charging for music tuition, and contributions towards practical lessons. A charge at 10% of the previous charges would result in income of around £0.092m. There is a potential impact on curriculum delivery if funding reduced and income is not collected.		0.092
		Total	**57.5**	**8.722**
Finance and Corporate Resources				
FCR01	Transactions	**Other Children and Young People funding – FSM holiday support (Flexibilities)** Scottish Government funding was provided to allow payments for Free school meals in holiday periods. This proposal looks at revisiting the policy intent and reducing the daily payment by 10%. SLC Funding received for this in 2022/23 was £1.499m.		0.149

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
		The current daily payment is £2.50. A reduction of 10% would mean a daily payment of £2.25 and would generate a saving of £0.149m.		
		Total		**0.149**

Housing and Technical Resources				
HTR01	Housing Services	**Second Homes / Reliefs (Flexibilities)** The flexibility proposed here was to look at removing the ringfencing of second home council tax charges. The average income in relation to second homes has been around £0.5m over the past 3 years (2019/2020 £0.462m, 2020/2021 £0.501m, 2021/2022 £0.540m) Currently funds are ringfenced for investment to support a range of specified purposes associated with affordable housing activities. We do not consider that the guidance that advises this money should be ringfenced as legally enforceable and therefore there is the option to redirect this funding to manage budget gaps. This will have the impact of reducing funds available to Housing for investment. In relation to the guidance, whilst not legally enforceable, there is a risk that council funding may be reduced if this funding is redirected. This will be taken up through Cosla and the Scottish Government.		0.500
		Total	**-**	**0.500**

Reference	Service	Name and Brief Description of Saving	Employee FTE	Saving value (*2024/25 savings marked with an asterisk*) £m
Social Work Resources				
SWR01	Adults and Older People	**Remove restrictions in passing over funding to the Health and Social Care partnership (Integrated Joint Boards - IJB) (Flexibilities)** This option would be to reduce the contribution currently made to the IJB. This option proposes £1m. This would require to be considered by the IJB as to what action it would need to take to manage this reduced funding level in their 2023/24 budget. This is included as it is one of the flexibilities sought by Cosla to which (collectively as a package of flexibilities) the Scottish Government responded on. Wording that could be considered contradictory to that permission to be flexible around IJB budgets was included in a letter to NHS and IJB chief officers and finance around the time the Scottish Budget was announced, and we are currently working with Cosla to get clarity on this. A potential outcome may be that this saving may not be deliverable.	Unknown	1.000
		Total	**-**	**1.000**

	2023/24 & 2024/25 * £m	FTE 2023/24	FTE 2024/25
Community and Enterprise	2.723	0.5	
Education	8.722	57.5	-
Finance and Corporate	0.149	-	-
Housing and Technical Resources	0.500	-	-
Social work	1.000	-	-
Total	**13.094**	**58**	**-**

*of the above £13.094m of savings, £0.640m will happen in 2024/2025 and could be covered until then by use of one off funding.

Appendix 2

Table copied from Executive Committee 2 November 2022 (updated for 22 Feb Council)

	2024/ 2025 £m	2025/ 2026 £m	2026/ 2027 £m	2027/ 2028 £m	Total 2024/25 to 2027/28 only £m	Total Use of Service Concession £m
Budget Gap (for 2024/2025 to 2027/2028, the Budget Gap is as per the September 2022 Executive Committee)	**32.0**	**27.2**	**5.2**	**11.1**	**75.5**	
Finance Exercise - includes reinstatement of 2023/2024 solutions into 2024/2025	4.8	-	-	-	4.8	
Reinstatement of use of reserves to reduce the budget gap (22 February council paper – section 4.4)	1.8				1.8	
Budget Gap (Before Use of Retrospective Service Concessions)	**38.6**	**27.2**	**5.2**	**11.1**	**82.1**	
Use of Retrospective Service Concessions (Reserves) to meet the impact of the 2022/2023 Pay Award and Support Future Year Budget Strategies	(27.5)	(15.1)	-	-	(42.6)	(54.0)*
Reinstatement of Previous Year Use of Reserves	5.7	27.5	15.1	-	48.3	
Revised Budget Gap	**16.8**	**39.6**	**20.3**	**11.1**	**87.8**	

***£54m use of service concession funding includes £11.4m for 22/23 pay award costs (in 2022/23 and 2023/24)**

South Lanarkshire Council

2023/2024 Revenue Budget Summary

	2022/23 Base Budget £m	2023/24 Rollover £m	2023/24 Proposed Base Budget £m
Community and Enterprise Resources	117.329	6.830	124.159
Education Resources	410.247	10.728	420.975
Finance and Corporate Resources	39.042	(2.523)	36.519
Housing and Technical Resources	13.174	0.456	13.630
Social Work Resources	216.439	4.177	220.616
Joint Boards	2.152	-	2.152
Total of all Resources plus Joint Boards	**798.383**	**19.668**	**818.051**
Other Budget Items:			
Loan Charges	**49.282**	3.627	**52.909**
CFCR	**2.500**	(2.500)	**-**
Corporate Items inc. Service Concession Annual benefit	**20.860**	12.700	**33.560**
Savings	**-**	(8.818)	**(8.818)**
Total Base Budget 2022/2023	**871.025**		
Total Proposed Budget 2023/2024		**24.677**	**895.702**

The 2022/2023 base budget includes adjustments approved during 2022/2023.

South Lanarkshire Council 2023/2024

Revenue Budget Summary

	2022/2023 Base Budget £m	2023/2024 Proposed Base Budget £m
Budgetary Category		
Employee Costs	566.557	576.902
Property Costs	50.137	51.032
Supplies and Services	64.418	65.704
Transport and Plant Costs	42.082	42.777
Administration Costs	14.395	14.409
Payments to Other Bodies	72.392	75.152
Payment to Contractors	234.708	246.851
Transfer Payments (Housing & Council Tax Benefit)	70.737	64.211
Financing Charges (Leasing Costs)	2.343	2.354
Total Expenditure	**1,117.769**	**1,139.392**
Total Income	**(319.386)**	**(321.341)**
Net Expenditure	**798.383**	**818.051**
Other Budget Items:		
Loan Charges	49.282	**52.909**
CFCR	2.500	**0.000**
Corporate Items inc. Service Concession Annual Benefit	20.860	**33.560**
Savings	0.000	**(8.818)**
Total Base Budget 2022/2023	**871.025**	
Total Proposed Budget 2023/2024		**895.702**

Appendix 4

Temporary Solutions

	Year of Adjustment	
	2024/ 2025 £m	**2025/ 2026 £m**
2023/2024 Corporate Solutions		
One Off Use of Loans Fund Review Reserves in 2023/2024 *(June 2021 Executive Committee paper, section 7.2)* *Managed in 2024/2025 by:* **Further One-Off Use of Reserves in 2024/2025** Reinstated into 2025/2026 *(June 2021 Executive Committee paper, section 7.2)*	23.500 (14.000)	- 14.000
2021/2022 Underspend – reinstated in 2024/2025 *(Executive Committee, 29 June 2022, section 4.12)*	6.109	-
Underspend from 2022/2023 Reinstated in 2024/2025 *(Council, 15 June 2022, section 6, Table 3)*	0.650	-
2022/2023 Loan Charges Underspend – reinstate in 2024/2025 *(Council, 15 June 2022, section 6, Table 3)*	1.386	-
2023/2024 Finance Exercise Reinstated into 2024/2025 *(Executive, 02 November 2022)*	4.800	-
Additional Council Tax from extra properties (2021/2022) – expected future reduction in Government Grant	Est. 1.360	-
Bridging Solution to Manage 2023/2024 Review Savings that will be realised in 2024/2025 *Managed by:* Use of Reserves (2023/2024 Forecast Underspend) *(Council, 18 January 2023)*	2.140 (2.140)	
Use of Reserves to Reduce the Budget Gap Initially earmarked for Teachers' 2021/2022 Pay Award but no longer required – section 4.4. Reinstate in 2024/2025.	1.800	-
Use of Service Concessions Monies to fund the 2022/2023 Pay Award in 2023/2024 – section 4.6. Reinstated in 2024/2025	5.700	-
Total Temporary Solutions	**31.305**	**14.000**

Agenda Item

Report

3

Report to:	**South Lanarkshire Council**
Date of Meeting:	**22 February 2023**
Report by:	**Chief Executive**

Subject:	**Recommendations Referred by Executive Committee – Housing Revenue and Capital Account Budget 2023/2024**

1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ allow consideration of the recommendations of the Executive Committee of 1 February 2023 in relation to the Housing Revenue and Capital Account Budget 2023/2024

2. Recommendation(s)

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

(1) that the recommendations from the Executive Committee of 1 February 2023 in relation to the following issue be approved:-

Housing Revenue and Capital Account Budget 2023/2024

- ♦ that the proposed rent increase of 3.5% for all Council houses, gypsy/traveller sites, lockups and garage sites and the revenue estimate proposals for the Housing Revenue Account Budget 2023/2024 be approved
- ♦ that, based on the rent increase of 3.5%, the 2023/2024 Housing Capital Programme totalling £63.916 million be approved

3. Background

3.1. **Recommendations Referred by Executive Committee of 1 February 2023 – Housing Revenue and Capital Account Budget 2023/2024 - Extract of Minute**

A report dated 23 January 2023 by the Chief Executive was submitted on recommendations referred to this Committee by the Housing and Technical Resources Committee at its meeting of 23 January 2023 (Special).

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

(1) that the proposed rent increase of 3.5% for all Council houses, gypsy/traveller sites, lockups and garage sites and the revenue estimate proposals for the Housing Revenue Account be endorsed; and

(2) that, based on the rent increase of 3.5%, the 2023/2024 Housing Capital Programme of £63.916 million be endorsed.

Officers responded to members' questions on various aspects of the report.

The Committee recommended to the Council:

(1) that the proposed rent increase of 3.5% for all Council houses, gypsy/traveller sites, lockups and garage sites and the revenue estimate proposals for the Housing Revenue Account Budget 2022/2023 be approved; and

(2) that, based on the rent increase of 3.5%, the 2023/2024 Housing Capital Programme, totalling £63.916 million, be approved.

[Reference: Minutes of the special meeting of Housing and Technical Resources Committee of 23 January 2023 (Paragraph 2)]

3.2. A link to the report submitted to the Executive Committee of 1 February 2023 is provided below for information.

Report to Executive Committee - 1 February 2023

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

2 February 2023

Link(s) to Council Values/Priorities/Outcomes
- Good quality, suitable and sustainable places to live
- Accountable, effective, efficient and transparent

Previous References
- Executive Committee of 1 February 2023
- Housing and Technical Resources Committee of 23 January 2023

List of Background Papers
None

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

Report

4

Report to:	**South Lanarkshire Council**
Date of Meeting:	**22 February 2023**
Report by:	**Executive Director (Finance and Corporate Resources)**

Subject:	**2023/2024 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 2023/2024, reflecting the spend requirements identified by Resources and the availability of funding.

2. Recommendation(s)

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

(1) that the 2023/2024 Capital Programme totalling £91.061 million (Section 4.17) 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 2022/2023), there is no approved programme for financial year 2023/2024 and beyond.

3.2. A proposed capital programme for 2023/24 has been drafted for consideration by members. Section 4 develops a proposed programme for 2023/2024 considering ongoing programmes of work and priorities, commitments from the approved Glasgow City Region City Deal Programme as well as incorporating the programme moves and additions from financial year 2022/2023.

3.3. The funding available in-year is discussed at Section 5 and includes details of the Council's grant allocations received as part of the 2023/2024 Local Government Finance Settlement released on 20 December 2022.

3.4. Finally, section 6 provides an update on the principles underpinning the Capital Investment strategy in line with the main requirements of the Prudential Code.

4. Proposed 2023/2024 Capital Programme

4.1. In addition to any new requirements for 2023/2024, there are approved ongoing commitments from previous financial years which need to be reflected in the 2023/2024 programme. This includes commitments from the approved Glasgow City Region City Deal Programme and Education Growth and Capacities Programme, in line with the approach taken in compiling previous years' capital programmes. Each is taken in turn in sections 4.2 to 4.16.

4.2. **Ongoing Programmes of Work (£20.500m)**: 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 £20.500 million for 2023/2024 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 2023/2024 (£0.161m):** In addition to the projects already identified either in existing Capital Programmes or through the Capital Strategy, it is proposed that a project totalling £0.161 million be considered for inclusion in the 2023/2024 Capital Programme for the SLLCT Booking and Admission System (£0.161m). This system is business critical and the support for current point of sale software is coming to an end. There would be no future capital commitments in agreeing to this proposal.

4.4. **Specific Capital Projects (£7.758m)**: In addition to the projects detailed above, the Local Government Finance Settlement received on 20 December 2022 allocated £2.096 million of grant funding for specific projects. This includes specific grants for Vacant and Derelict Land (£0.687m) and Cycling, Walking and Safer Routes (£1.409m). These projects have been included in the expenditure requirements for 2023/2024.

4.5. Furthermore, the Scottish Government have confirmed General Capital Grant funding of £0.597 million for 2023/2024 to continue the Renewal of Play Parks programme and £5.065 million for Free School Meals. These projects have been included in the expenditure requirements for 2023/2024.

4.6. **Glasgow City Region City Deal (£26.978m):** 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 2023/2024 Capital Programme. Based on current predictions, additional spend totalling £26.978 million will be incurred in 2023/2024. This excludes slippage from the 2022/2023 Programme (refer section 4.15). This will be funded by borrowing, in line with the approved funding package for the City Deal programme, developers' contributions from the Community Growth Areas, and other developers' contributions (for Jackton Primary School).

4.7. **Larkhall Leisure Centre – External Funding (£2.200m)**: Funding of £9.550 million has been approved for the replacement of Larkhall Leisure Centre: Council (£6 million), City Deal (£3 million) and Place Based Investment Funding (£0.550 million). £0.550 million of this remains in the 2022/2023 Capital Programme with the other £9 million being slipped from 2022/2023 into the Programme for 2023/2024 (see section 4.15 '2022/2023 Movements').

4.8. External funding totalling £2.2 million has been pursued from the Shared Prosperity Fund (£1 million - confirmed), Place Based Investment Fund (£0.650 million - confirmed), SportScotland (£0.250 million – still to be confirmed) and the Scottish Government's Capital Regeneration Fund (£0.300 million - confirmed). Assuming the SportScotland funding is successful, the total funding available is £11.750 million. This funding will be insufficient to cover the anticipated cost of the project. The current budget gap is estimated to be in excess of £12 million.

4.9. Due to the complex nature / scale of this build, the expenditure is anticipated to cover several financial years.

4.10. Given the timescales involved in design and tendering, only an element of the budget will be required in 2023/2024, and £9 million has been included at this point in time. Officers will continue to review the design for the proposed facility, projected costs and funding options however the budget gap is significant and unlikely to be met from external sources. Should a significant budget gap remain, the Council will require to consider the extent to which this could be drawn from capital funding sources for 2024/2025 and 2025/2026. This is likely to be in line with the expenditure profile for the project. Given the pressure on capital funding over the coming 3-year period (as intimated by the Scottish Government), if that action was taken, it would significantly restrict the ability to undertake any other new capital investment.

4.11. **Projects Approved During Previous Financial Years (£6.870m)**: Specific projects were approved by Council Committees during 2021/2022 and for 2023/2024 the remaining budget allocations for these projects totalling £6.370 million will be required for: Newton Farm Primary School Extension (£0.109 million – Executive Committee, 26 May 2021), Oracle Fusion (£5.683 million – Finance and Corporate Resources Committee, 1 September 2021) and SWiS Plus Replacement (£0.578 million – Social Work Resources Committee, 2 June 2021).

4.12. The total relating to projects approved in previous years is £6.870 million.

4.13. In addition to the previously approved projects detailed in section 4.11, growth in predicted pupil numbers relating to general population growth and significant new housing development across the Council area has resulted in projects to manage accommodation pressures in the Early Years and School sectors. The majority of these projects are expected to be funded from developers' contributions / City Deal. In addition, a report was submitted to the Executive Committee (21 September 2022) advising of the predicted capacity issues at four Secondary Schools again due to a significant growth in pupil numbers.

4.14. The requirements for these **Education Growth and Capacities** projects in 2023/2024, as they currently stand are already incorporated into the proposed programme either as a result of slippage from 2022/2023 or as part of the City Deal Programme of works. The requirements are funded either from City Deal and / or Community Growth Area Developer Contributions as well as a bid for LEIP funding for the secondary schools. These allocations may require to be updated to reflect more clearly defined project costs, timescales and additional funding available e.g. LEIP, as they are confirmed.

4.15. **2022/2023 Movements (£33.202m)**: In addition to the projects identified above, there were project movements from 2022/2023 into 2023/2024 which were approved by Executive Committee throughout the year, up to and including the meeting on 1 February 2023. These movements total £33.202 million and reflect the 2022/2023 budget not required in year.

4.16. **2023/2024 Movements (£6.608m)**: Resources have confirmed that projects totalling £6.608 million are not required in financial year 2023/2024. A breakdown of these projects is included in Appendix 2. The impact of this has been included within the full analysis of the proposed 2023/24 capital programme included in Appendix 3.

4.17. **2023/2024 Capital Programme Summary**: Taking into account the proposals covered in sections 4.2 to 4.16 a budget of £91.061 million is required in 2023/2024. This is summarised in table 1 below, with a full list of the projects which make up this £91.061 million total detailed in Appendix 3.

Table 1: Compilation of the 2023/2024 Capital Programme

	2023/2024 Capital Programme £m
Ongoing Programmes of Work *(section 4.2 and Appendix 1)*	20.500
New Priority Projects *(section 4.3)*	0.161
Specific Capital Projects (*section 4.4 and 4.5)*	7.758
Glasgow City Region City Deal *(section 4.6)*	26.978
Larkhall Leisure Centre – External Funding *(sections 4.7 – 4.10)*	2.200
Projects Approved in Previous Financial Years *(section 4.11 – 4.12)*	6.870
2022/2023 Movements *(section 4.15)*	33.202
2023/2024 Movements *(section 4.16)* *Including additional funding identified for Larkhall Leisure Centre*	(6.608)
Total 2023/2024 Capital Programme	**91.061**

5. 2023/2024 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 2023/2024 total funding of £91.061 million is available to fund the Capital Programme. This includes General Capital Grant (£33.985 million) advised as part of the Local Government Finance Settlement received in December 2022 and Specific Capital Grants (£3.338 million), Capital Receipts (£1 million), Borrowing (£50.812 million), Developer Contributions (£1.523 million), External grant funding (£0.277 million) and investment funding previously transferred to reserves (£0.126 million).

5.2. As part of the funding for the Pay Award for 2023/2024, the Scottish Government have agreed to allocate £121 million nationally to cover part of the additional costs. For South Lanarkshire Council, this is an allocation of £7.116 million and as was the case in financial year 2022/2023, this will be paid as part of our General Capital Grant allocation.

5.3. A review of the Council's Capital funding package has identified funding that could be transferred to the Council's Revenue Account and used to fund the pay award. These funds will be replaced by General Capital Grant. The funding package for the 2023/2024 Capital Programme noted at Section 5.1. reflects this funding arrangement. A detailed breakdown of the funding package 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 2023/2024 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 2023/2024 totalling £91.061 million has been proposed in this report. Details as to how this Programme has been arrived at are shown in Section 4. Details of the full Programme are listed in Appendix 3.

8.2. Section 5 details the funding available in-year of £91.061 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 project for 2023/2024 will not commit the Council to expenditure in future years. However, projects totalling £6.608 million (Section 4.16) have slipped, along with borrowing of £0.162 million, developers' contributions (£0.992 million), and specific grants, still to be confirmed, for Larkhall Leisure Centre (£2.200 million). Consideration will need to be given to providing funding for the balance (£3.254m) in future years in the first instance, to enable these projects to complete.

8.4. It is anticipated that the council will still be operating in very changeable and fluid market conditions due to the current economic climate. Officers will continue to monitor these conditions however; Council should be aware of the potential disruption to the 2023/24 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. There are detailed project management plans prepared and the risk of overspend on each project is monitored through four weekly investment management meetings.

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

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)

26 January 2023

Link(s) to Council Values/Priorities/Outcomes

- 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
- Finance and Corporate Resources Committee, 1 September 2021 – Oracle Fusion

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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E-mail: lorraine.o'hagan@southlanarkshire.gov.uk

Ongoing Programmes of Work Considered for 2023/2024 Programme *(section 4.2)*

Project Name and Description	2023/24 (£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 (£9.4m) and associated infrastructure (£0.6m). This would continue the investment of £10m provided in 2022/23. This will be augmented by a revenue contribution of £1.5m.	10.000
IT Infrastructure Investment is required in order to maintain services. 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 activity.	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 £1m would continue the investment provided in previous financial years.	1.000
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.	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.	0.750
Total Ongoing Programmes of Work	**20.500**

Appendix 2

2023/2024 Project Movements into 2024/2025 *(section 4.16)*

	2023/2024 Budget Setting Movements (£m)
Community and Enterprise Resources	
Extension / Improvement of Cemeteries	1.148
Larkhall Leisure Centre	2.200
Total Community and Enterprise Resources	**3.348**
Education Resources	
Holy Cross High School	0.792
Total Education Resources	**0.792**
Housing and Technical Resources	
Springhall Regeneration	0.304
Housing and Technical Resources	**0.304**
Social Work Resources	
Community Alarms – Analogue to Digital	0.838
SWIS Plus Replacement	1.326
Total Social Work Resources	**2.164**
2023/2024 Budget Setting Movements into 2024/2025	**6.608**

Appendix 3

2023/2024 Summary of Capital Programme Expenditure
(including slippage from previous years)

	2023/2024 Proposed Programme (£m)
Community and Enterprise Resources	
Lanark Library, Lindsay Institute	0.200
Ballgreen Hall Demolition	0.127
SLLCT – Booking System	0.161
Larkhall Leisure Centre	9.000
Ash Die Back	0.500
Extension / Improvement of Cemeteries	0.500
Country Parks – Horseshoe Bridge, Calderglen	0.174
White Bridge Replacement, Chatelherault	0.226
Kildare Park – BMX Trail	0.025
Renewal of Play Parks	0.597
Gilmourton Play Park Redevelopment	0.102
Libberton Primary Outdoor Play	0.052
Symington Play Park Redevelopment	0.123
Hamilton Palace Grounds - Sports Pitches	0.029
Priory Changing Pavilion, Blantyre	0.225
Rural Business Centre – Lanark	0.650
Clyde Gateway	0.669
Vacant & Derelict Land (includes new allocation for 2023/2024 of £0.687m)	1.279
Glasgow City Region City Deal – Community Growth Areas	24.161
Roads Carriageways and Associated Infrastructure	10.000
Clyde Bridge	5.400
Cycling, Walking and Safer Routes	1.409
Glasgow City Region City Deal – Roads	3.309
Total Community and Enterprise Resources	**58.918**
Education Resources	
Newton Farm Primary School – Extension	0.109
Schools Information Communication Technology (ICT) Development	2.444
Early Years 1,140 Hours – Clyde Terrace	3.145
Kirklandpark Primary School Adaptations	0.035
St John the Baptist Nursery Expansion	0.504
Free School Meals (including 2022/23 slippage of £1.577m)	6.642
Total Education Resources	**12.879**
Finance and Corporate Resources	
IT Infrastructure – Business As Usual	0.450
Oracle Fusion	6.780
Total Finance and Corporate Resources	**7.230**

Appendix 3
(continued)

2023/2024 Summary of Capital Programme Expenditure
(including slippage from previous years)

	2023/2024 Proposed Programme (£m)
Housing and Technical Resources	
Private Housing Scheme of Assistance	1.000
Planned Asset Management	4.800
Prioritised Urgent Investment in Property Assets	1.700
Lifecycle Replacement – Schools	0.750
Total Housing and Technical Resources	**8.250**
Social Work Resources	
Community Alarms – Analogue to Digital	1.232
SWIS Plus Replacement	0.752
Total Social Work Resources	**1.984**
Other	
Match Funding for External Funding Bids	1.800
Total Other	**1.800**
Total Proposed 2023/2024 Capital Programme	**91.061**

Appendix 4

2023/2024 Capital Programme – Funding Available

Funding Source	Ref	Total Funding Available (£m)
General Capital Grant	1	21.207
General Capital Grant – Pay Award	1	7.116
General Capital Grant – Play Parks	1	0.597
General Capital Grant – Free School Meals	1	5.065
Specific Capital Grant – Regeneration Capital Grant	2	0.650
Specific Capital Grant – Vacant & Derelict Land	2	1.279
Specific Capital Grant – Cycling, Walking and Safer Routes	2	1.409
Capital Receipts	3	1.000
Existing Borrowing – Previous Years	4	50.812
Developers Contributions	5	1.523
External Contributions	6	0.277
Reserves	7	0.126
Total Funding Available		**91.061**
Proposed 2023/2024 Capital Programme (Appendix 3)		**91.061**
Funding Surplus / (Shortfall)		**-**

1. **General Capital Grant (£33.985m)**
The Finance Circular (December 2022) announced a 2023/2024 General Capital Grant for South Lanarkshire of £21.207 million.

South Lanarkshire Council has also been awarded an allocation of £7.116 million to cover the Pay Award (Section 5.2). As was the case in financial year 2022/2023, this will be paid as part of our General Capital Grant allocation.

As discussed at section 4.5, £5.662 million of General Capital Grant funding will also be made available for specific projects, being: Renewal of Play Parks (£0.597 million) and Free School Meals (£5.065 million). This results in a total General Capital Grant allocation for 2023/2024 of £33.985 million.

2. **Specific Capital Grants (£3.338 million)**
As detailed at Section 4.4, specific grant funding has been provided in 2023/2024 for Vacant and Derelict Land (£0.687 million) and Cycling, Walking and Safer Streets (£1.409 million).

Specific Grant Funding totalling £1.242 million has also carried forward from previous financial years for Vacant and Derelict Land (£0.592 million) and the Rural Development Centre, Lanark (£0.650 million)

3. **Capital Receipts (£1.000 million)**
An annual target of £1 million was incorporated into the Capital Strategy. The target of £1 million for 2023/2024 is considered realistic and achievable and this will continue to be monitored.

4. **Borrowing (£50.812 million)**
   The borrowing required for 2023/2024 reflects the requirement to borrow to fund the timing of spend in relation to the Glasgow City Region City Deal programme has already been reported to Executive Committee (11 May 2016). For 2023/2024 the new requirement is £19.053 million.

   The Executive Committee have also approved additional borrowing to undertake the Newton Farm Primary School Extension (Executive Committee, 26 May 2021), Oracle Fusion (Finance and Corporate Resources Committee, 1 September 2021) and SWiS Plus Replacement (Social Work Resources Committee, 2 June 2021). For 2023/2024 new borrowing of £6.370 million is required being: Newton Farm (£0.109 million), Oracle Fusion (£5.683 million) and SWis Plus (£0.578 million).

   The balance of £25.389 million relates to previously approved borrowing carried forward from prior financial years.

5. **Developer Contributions (£1.523 million)**
   Contributions from developers will be used to undertake specific projects in accordance with the conditions of the relevant Section 75 agreements, mainly growth and capacity projects required within the school estate. The level of developers' contributions reflects the required transfer to revenue to manage the 2023/2024 Pay Award funding (Section 1).

6. **External Contributions (£0.277 million)**
   This reflects specific contributions from Clyde Windfarm (£0.175 million), Renewable Energy Fund (£0.061 million), EB Scotland (£0.025 million), Banks Renewable (£0.010 million) and Snabe Quarry (£0.006 million) towards the cost of the following projects: Gilmourton Play Park Redevelopment, Libberton Primary Outdoor Play and Symington Play Park Redevelopment.

7. **Reserves (£0.126 million)**
   Investment funding previously earmarked for the White Bridge Replacement project, at Chatelherault Country Park**.**

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 2023/2024.

Agenda Item

Report

5

Report to:	**South Lanarkshire Council**
Date of Meeting:	**22 February 2023**
Report by:	**Executive Director (Finance and Corporate Resources)**

Subject:	**Prudential Indicators, Treasury Management Strategy and Annual Investment Strategy 2023/2024**

1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ provide members with the Prudential Code indicators for 2023/2024 to 2025/2026;
- ♦ provide members with the Treasury Management Strategy for 2023/2024; and
- ♦ provide members with the Annual Investment Strategy for 2023/2024.

2. Recommendation(s)

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

(1) that the Prudential Code indicators for 2023/2024 to 2025/2026 are approved (section 4).
(2) that the 2023/2024 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)

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

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

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

3.3. In the Annual Investment Strategy, set out in Appendix 3 to this report, an additional section on Responsible Investing has been included. Further information is provided in Section 6 of this report.

3.4. At a special meeting of South Lanarkshire Council on 18 January 2023, a report on Service Concessions was presented. This included details of a strategy to manage the costs of borrowing by building assumptions on the level of reserves, cash balances and the phasing of the use of the service concession flexibility into the Council's loan charge model. The indicators presented in this paper reflect this approach.

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.

4.5. The Prudential Indicators for 2023/2024 to 2025/2026 are shown in Appendix 1 along with explanations for each indicator. An updated position for 2022/2023 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 2022/2023 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 include 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 2023/2024 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 2023/2024 included in our indicators is based on the aforementioned report, while for 2024/25 and 2025/2026, 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 2023/2024 is also presented to this meeting, following its endorsement by the Executive Committee on 1 February 2023. For financial years 2024/2025 and 2025/2026, 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 2022 and approved by the relevant Resource Committees.

- 2022/2023 Information and Communication Technology (ICT) Asset Management Plan presented to Finance and Corporate Resources Committee 7 September 2022
- Roads Asset Management Plan – 2022 Update presented to Community and Enterprise Resources Committee 13 December 2022

4.15. The Property and Housing Asset Management Plan is currently being revised and should be presented to the Housing and Technical Resources Committee in May 2023.

4.16. The Fleet Asset Management Plan and Fleet Strategy is currently being developed subject to reviews of services’ requirements and will be presented to the appropriate committee during 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. The Treasury Management Strategy for 2023/2024 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

5.3. The Treasury Management in the Public Services – Guidance Notes for Local Authorities details treasury management indicators that are to be reported within the Treasury Strategy. The update in 2021 included an additional indicator known as the Liability Benchmark.

5.4. The liability benchmark is a comparison of existing borrowing against committed and planned borrowing needs, while taking into account how reserves, cash balances and the need for short-term liquidity affect the future borrowing requirement. Further information on this is included in Sections 6.3. to 6.8. of Appendix 2.

5.6. 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.

5.7. Key details included in the Indicators include total external net debt which is expected to reach £1,102.685 million by the end of 2022/2023. This is gross debt of £1,215.435 million less estimated investments of £112.750 million. The estimated level of investments reflects the level of reserves held plus an element of working capital and the borrowing that was taken in 2022/2023, recognising that this increases the cash that the council has available for investment.

5.8. External debt includes the liability of £179.133 million 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 2022/23

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 2023/2024 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 2022/2023.

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

6.10. **Responsible Investing**

6.11. Section 10 of the Annual Investment Strategy details our approach to Responsible Investing, focusing on banks and building societies.

6.12. For operational banking the Council is contracted with Royal Bank of Scotland until March 2029. The Council currently only places short term deposits with three banks, Bank of Scotland, The Royal Bank of Scotland and Clydesdale Bank.

6.13. There is currently no generally accepted method to assess an organisation's approach to climate change, sustainability and the environment. Along with our Treasury Management Advisers, we are looking at emerging assessments of ethical banking and have asked them to provide information on when they plan to provide information or ratings that would allow the Council to ensure that its investments do not fuel the climate and ecological crises.

6.14. In the meantime, we are sighted on the work of Bank Green and research carried out by The Ethical Consumer Research Association Ltd which rated banks on climate change.

6.15. Out of 26 banks rated by The Ethical Consumer Research Association Ltd, two were rated "best" and five rated "middle". Of these seven, two met the minimum credit ratings used for the security of the deposit and facilities to allow the Council to place short term deposits with them will be opened.

6.16. For the three banks that the Council currently places short term deposits with, there has been some positive action taken regarding climate change, however until there is a generally accepted standard to assess banks' approach to climate change and sustainability, deposits outwith the "best" and "middle" categories will be limited to instant access. Banks are required to hold capital in reserves to cover these deposits and so cannot use them to invest in any projects.

6.17. The Council can use its voice as a customer or client of the banks to influence their actions and to encourage them to make further progress regarding climate change and sustainability. We will write to the banks to set out the Council's position, explain that we expect them to take positive action in these areas and ask them what they are doing to address these issues.

6.18. **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.

6.19. 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.

6.20. 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.

6.21. 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.

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

7. Employee Implications

7.1. None

8. Financial Implications

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

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

9. Climate Change, Sustainability and Environmental Implications

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

10. Other Implications

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

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

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

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

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

11. Equality Impact Assessment and Consultation Arrangements

11.1. This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and, therefore, no impact assessment is required.

11.2. There is no requirement to undertake any consultation in relation to the content of the report.

Paul Manning
Executive Director of Finance and Corporate Resources

6 February 2023

Link(s) to Council Values/Priorities/Outcomes

- ♦ Value: Accountable, effective, efficient and transparent

Previous References

- ♦ None

List of Background Papers

- ♦ None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-
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Appendix 1

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 2021/2022 to 2024/2025 and attributes limits for external borrowing.

Indicator 4 demonstrates the financial impact of the expected borrowing for the years 2021/2022 to 2024/2025 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 2022/2023 through to 2025/2026. The indicator takes account of the anticipated spend for 2022/2023 and 2023/2024. For 2024/2025 and 2025/2026, the Capital Strategy has been used as the basis, adjusted to reflect anticipated spend and funding.

	2022/23 Estimate £ m	2023/24 Estimate £ m	2024/25 Estimate £ m	2025/26 Estimate £ m
General Fund Capital Expenditure	**78.272**	**91.061**	**85.131**	**40.179**
Funded by:				
Borrowing	30.260	50.812	59.427	8.137
Capital Receipts and Grants	46.098	40.123	25.704	32.042
Contributions from Reserves	1.400	0.126	0.000	0.000
Revenue Contributions	0.514	0.000	0.000	0.000
Total Funding	**78.272**	**91.061**	**85.131**	**40.179**
HRA Capital Expenditure	**66.361**	**63.916**	**96.436**	**98.563**
Funded by:				
Borrowing	26.462	17.302	26.162	26.030
Capital Receipts and Grants	13.849	19.452	36.768	36.900
Revenue Contributions	26.050	27.162	33.506	35.633
Total Funding	**66.361**	**63.916**	**96.436**	**98.563**

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

	2022/23 Estimate £ m	2023/24 Estimate £ m	2024/25 Estimate £ m	2025/26 Estimate £ m
Borrowing for GF Capital Expenditure	30.260	50.812	59.840	8.137
Borrowing for HRA Capital Expenditure	26.462	17.302	26.162	26.030
Total Borrowing for Capital Expenditure	**56.722**	**68.114**	**86.002**	**34.167**
Less Loans Fund Principal Repayments	(7.399)	(11.815)	(12.732)	(22.743)
Funding for Capital Programmes	**49.323**	**56.299**	**73.270**	**11.424**
Funding for Service Concession Flexibility	64.366	4.437	4.587	4.645
Movement in CFR	**113.689**	**60.736**	**77.857**	**16.069**
Maturing Debt	43.884	21.770	33.770	120.153
Use of Cash Balances & Reserves	(152.000)	10.000	10.000	10.000
External Borrowing Requirement	**5.573**	**92.506**	**121.627**	**146.222**
Reprofiling of Service Concession Flexibility	(64.366)	13.963	30.913	17.455
Borrowing carried over from previous years.	118.683	(26.810)	0.000	0.000
Adjusted External Borrowing Requirement	**59.890**	**79.659**	**152.540**	**163.677**
Actual/Planned Borrowing	86.700	79.659	152.540	163.677
Borrowing carried over to future years.	**(26.810)**	**0.000**	**0.000**	**0.000**

1.3. The Council has borrowed £86.700 during 2022/2023. This is more than the borrowing requirement of £59.890m due to the decision to reduce the borrowing requirement by building assumptions on the level of reserves, cash balances and the phasing of the use of the service concession flexibility into the Council's loan charge model.

1.4. The borrowing not required in 2022/2023 will be carried over and used to reduce the borrowing requirement in 2023/2024.

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

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

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

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

2.3. In order that over the medium-term debt will only be for a capital purpose, the Council needs to ensure that debt does not, except in the short term, exceed the total of the Capital Financing requirement (CFR) in 2022/2023 plus the estimates of any additional CFR for 2023/24 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.

	2022/23 Estimate £ m	**2023/24 Estimate £ m**	**2024/25 Estimate £ m**	**2025/26 Estimate £ m**
General Fund Capital Financing Requirement	1,100.253	1,145.081	1,198.255	1,190.174
HRA Capital Financing Requirement	304.739	313.550	330.843	347.394
Total Capital Financing Requirement	1,404.992	1,458.631	1,529.098	1,537.568
Gross Debt	1,215.435	1,266.641	1,377.608	1,413.533
Difference	189.557	191.990	151.490	124.035

2.5. It can be seen that the estimated gross debt levels for the period 2022/2023 to 2025/2026 do not exceed the forecast CFR at the end of 2025/2026, 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 2022/2023 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.

	2022/23 Estimate £ m	2023/24 Estimate £ m	2024/25 Estimate £ m	2025/26 Estimate £ m
Operational Limit for debt	1,340.000	1,270.000	1,420.000	1,460.000
Operational Limit for other liabilities	190.000	180.000	180.000	170.000
Operational Limit	1,530.000	1,450.000	1,600.000	1,630.000
Authorised Limit for debt	1,360.000	1,290.000	1,440.000	1,480.000
Authorised Limit for other liabilities	190.000	180.000	180.000	170.000
Authorised Limit	1,550.000	1,470,000	1,620,000	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.

	2022/23 Estimate £ m	2023/24 Estimate £ m	2024/25 Estimate £ m	2025/26 Estimate £ m
General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)	4.96%	4.60%	4.69%	5.94%
HRA General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)	17.16%	17.80%	20.50%	21.17%

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 2023/24. The indicators have been calculated using the assumptions regarding reductions in grant levels built into the Financial Strategy for 2024/25 and beyond.

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

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

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

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

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

Appendix 2

Treasury Management Strategy 2023/2024

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 2023 to 30 September 2023 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 2023/2024 – 2025/2026

2.1 The expected levels of external borrowing and investment for 2023/2024 to 2025/2026 are shown in the table below. An updated position for 2022/2023 is also shown.

	2022/23 Estimate £ m	2023/24 Estimate £ m	2024/25 Estimate £ m	2025/26 Estimate £ m
External Debt				
Borrowing	£1,036.302	£1,094.605	£1,212.962	£1,256.486
Other long term liabilities	£179.133	£172.036	£164.646	£157.047
Debt at 31 March (including PPP/Finance Lease Liability)	£1,215.435	£1,266.641	£1,377.608	£1,413.533
Investments				
Total Investments at 31 March	£112.750	£40.000	£40.000	£40.000

3. Estimates and Limits on Future Debt Levels

3.1 There are a number of key indicators to ensure the Council operates its activities within well defined limits. These are detailed in the Prudential Indicators Appendix 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
2023/24	4.438%	4.125%	4.300%	4.525%	4.225%
2024/25	3.625%	3.700%	3.825%	4.050%	3.750%
2025/26	2.688%	3.250%	3.375%	3.575%	3.300%

4.2. Since the start of 2022, there has been a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table above shows, Link Asset Services are forecasting a steady, but slow, fall in both Bank Rate and gilt yields during the forecast period to March 2026, 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 2023/2024. This "cost of carrying" needs to be considered if borrowing is taken before our cash flow requires funds as returns on deposits will be lower than the rate paid on borrowing.

5. Borrowing Strategy

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

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

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

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

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

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

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

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

	2022/23 Estimate £ m	2023/24 Estimate £ m	2024/25 Estimate £ m	2025/26 Estimate £ m
Expected Borrowing	86.700	79.659	152.540	163.677

6. Treasury Management Limits on Activity

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

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

Treasury Management Indicator 1 – Liability Benchmark

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

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

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

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

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

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

Treasury Management Indicator 2 – Maturity Structure of Borrowing

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

Maturity Structure of Borrowing		
	Upper Limit	**Lower Limit**
Under 12 months	30%	0%
12 months and 24 months	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-

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

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

Interest Rate Risk

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

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

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

Credit Risk

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

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

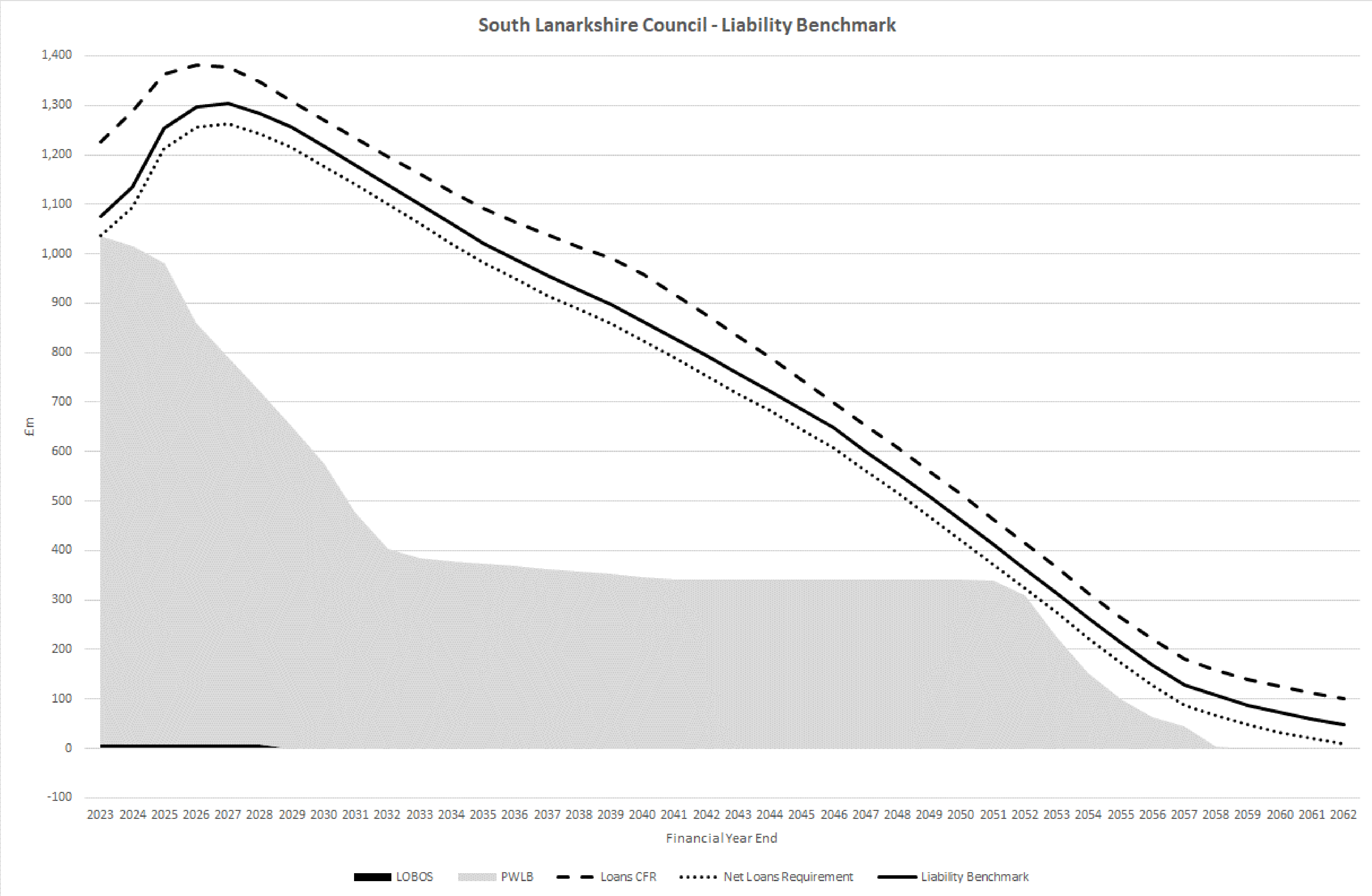
7.5. The Council's strategy for managing debt includes making additional voluntary repayments. These repayments will be used as a tool to reduce interest costs in the short to medium term by lowering the Council's need to borrow. These additional voluntary repayments will be retained and used to offset 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
2022/23	827.175	30.260	-2.821	854.614
2023/24	854.614	50.812	-3.324	902.102
2024/25 – 2027/28	902.102	67.977	-64.340	905.739
2028/29 – 2033/34	905.739	0.000	-155.766	749.973
2034/35 – 2037/38	749.973	0.000	-137.606	612.367
2038/39 – 2042/43	612.367	0.000	-128.927	483.440
2043/44 – 2047/48	483.440	0.000	-132.210	351.230
2048/49 – 2052/53	351.230	0.000	-132.800	218.430
2053/54 – 2057/58	218.430	0.000	-108.239	110.191
2058/59 – 2062/63	110.191	0.000	-38.534	71.657
2063/64 – 2067/68	71.657	0.000	-48.478	23.179
2068/69 – 2072/73	23.179	0.000	-20.068	3.111
2073/74 – 2077/78	3.111	0.000	-3.111	0.000

Housing Revenue Account	Opening Balance	New Advances	Repayments	Closing Balance
2022/23	282.841	26.463	-4.578	304.726
2023/24	304.726	17.302	-8.491	313.537
2024/25 – 2027/28	313.537	78.222	-38.968	352.791
2028/29 – 2033/34	352.791	0.000	-55.195	297.596
2034/35 – 2037/38	297.596	0.000	-56.442	241.154
2038/39 – 2042/43	241.154	0.000	-44.683	196.471
2043/44 – 2047/48	196.471	0.000	-52.242	144.229
2048/49 – 2052/53	144.229	0.000	-54.750	89.479
2053/54 – 2057/58	89.479	0.000	-43.451	46.028
2058/59 – 2062/63	46.028	0.000	-34.853	11.175
2063/64 – 2067/68	11.175	0.000	-11.175	0.000


South Lanarkshire Council - Liability Benchmark
£m
1,400
1,300
1,200
1,100
1,000
900
800
700
600
500
400
300
200
100
0
-100
2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036 2037 2038 2039 2040 2041 2042 2043 2044 2045 2046 2047 2048 2049 2050 2051 2052 2053 2054 2055 2056 2057 2058 2059 2060 2061 2062
Financial Year End
LOBOS
PWLB
Loans CFR
Net Loans Requirement
Liability Benchmark

Appendix 3

Annual Investment Strategy 2023/2024

1. Background

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

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

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

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

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

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

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

2. Investment Policy and Strategy

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

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

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

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

2.3. 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 impact on our investment strategy for 2023/2024.

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.

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 2023/2024 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 £20 million for up to 364 days and £10 million 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-	£20 million
Moody’s	A3	£20 million
Standard and Poors	A-	£20 million

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 £20 million deposits.

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

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

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

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

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

UK Government Gilts and Treasury Bills

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

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

AAA Rated Bonds Issued by Multilateral Development Banks

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

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

Loans to Third Parties

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

Liquidity Risk

5.25. In order to manage liquidity risk, the Council will endeavour to maintain a minimum balance of £5 million 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 £10 million of investments at any one time will be for a period in excess of 364 days.

6. Borrowing In Advance

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

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

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

7. Investment Projection 2022/2023 – 2024/2025

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

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

8. Prudential Indicators

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

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

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

9. Common Good Investments

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

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

10. Responsible Investing

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

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

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

10.2. 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, and we have looked to develop an approach where we can consider all factors.

Operational Banking

10.3. During 2021, an open tender process was carried out for banking services. Only one response was received, and Royal Bank of Scotland plc was awarded the contract for banking services for the period 1 April 2022 to 31 March 2029.

10.4. While we are contracted for another 6 years, we can use our voice as a client of Royal Bank of Scotland to influence their actions. We will write to the bank to set out the Council's position regarding climate change and sustainability, explain that we expect the bank to take positive action in these areas and ask them what they are doing to address these issues.

Deposits with Banks & Building Societies

10.5. The Council currently only places short term deposits with three banks, Bank of Scotland, The Royal Bank of Scotland and Clydesdale Bank. Any deposits with Bank of Scotland or The Royal Bank of Scotland are in instant access call accounts to mitigate against liquidity risk (Section 5.25). Short term deposits with Clydesdale Bank are restricted to 100 days.

10.6. There are other banks that would accept short term deposits from the Council, however security is the main objective when investing surplus funds and if banks don't meet our criteria as set out in section 5.6 we cannot use them.

10.7. All these banks are part of groups which have their own policies on climate change, sustainability and environmental issues. Further details can be found at the following links.

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

Sustainability | NatWest Group

ESG Hub | Virgin Money PLC (virginmoneyukplc.com)

10.8. While there is an established basis for the selection of counterparties with which short term deposits can be placed, based on their financial standing (Section 5.6.) there is no generally accepted method used to assess an organisations approach to climate change, sustainability and the environment.

10.9. We are looking at emerging assessments of ethical banking along with our Treasury Management Advisers, and have asked them specifically what have they done to date on this, what do they plan to do and when do they plan to provide information or ratings that would allow the Council to ensure that our investments do not fuel the climate and ecological crises?

10.10. In the meantime, we are sighted on the work of Bank.Green and research carried out in 2020 by The Ethical Consumer Research Association Ltd and have used that when considering this investment policy.

10.11. This research asked how banks were measuring the climate impacts of projects they were lending to and what their plans were to change practices to meet globally agreed targets. Of 36 banks rated, only two were rated "best" and five rated "middle".

10.12. The method from that research for rating the banks and building societies is attached at Annex 2 to the Annual Investment Strategy along with a list of the banks rated as "best" or "middle".

10.13. Of the seven rated as "best" or "middle", only two (Leeds Building Society and Yorkshire Building Society) meet the minimum credit ratings as specified at Section 5.6.

10.14. Of the remaining five, two are not active in the market for short term deposits. The Council's Treasury Adviser, Link Asset Services has strongly advised that the minimum ratings are not lowered solely to enable deposits to be placed with the remaining three organisations as this increases risks surrounding the security of the investment.

10.15. As the Leeds Building Society and Yorkshire Building Society meet our minimum credit ratings, we will open facilities with these two building societies to allow the Council to place short term deposits with them, subject to the yield that they pay in comparison to other counterparties.

10.16. For the three banks that the Council has placed short term deposits with (Bank of Scotland, Royal Bank of Scotland and Clydesdale Bank), there has been some positive action taken regarding climate change. However, at this time as assessment of ethical banking matures, until there is a generally accepted standard to assess banks' approach to climate change and sustainability, deposits with banks and building societies outwith the "best" and "middle" categories will be limited to instant access. As the banks are required to hold capital in reserves to cover these deposits they cannot use them to invest in any projects.

10.17. We can use our voice as a customer of these three banks to influence their actions and to encourage them to make further progress regarding climate change and sustainability. We will write to the banks to set out the Council's position, explain that we expect the bank to take positive action in these areas and ask them what they are doing to address these issues.

10.18. Specific questions that we will put to these banks are listed below:

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

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

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

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

Conclusion

10.19. We have attempted to identify counterparties that have a better record around the issues of climate change, sustainability, and the environment using research carried out in 2020 by The Ethical Consumer Research Association Ltd, however due to a combination of credit ratings and lack of market activity, the Council cannot place short term deposits with most of the banks rated “middle” or “best”.

10.20. Two building societies rated as “middle” and that meet our credit rating criteria have been identified and facilities to place short term deposits with them will be opened.

10.21. The Council has a very restricted actual range of counterparties and has recently placed short term deposits with only three banks, Bank of Scotland, The Royal Bank of Scotland and Clydesdale Bank. There has been some positive action taken by these banks regarding climate change.

10.22. Short term deposits will continue to be placed with these banks only for the purpose of immediate liquidity subject to them continuing to meet the minimum criteria set out in Section 5.6.

10.23. We will use our voice as a customer or client of these banks to influence their actions by writing to them to set out the Council’s position regarding climate change and sustainability, explain that we expect the banks to take positive action in these areas and to ask them what they are doing to address these issues.

10.24. 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.

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 £20 million 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 £10 million.
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 £20 million. 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 £20 million. 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 £10 million 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 £10 million. 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 £10 million 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 £10 million 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.	

How we rated the banks on climate change

Part 1: Company shows that it has a reasonable understanding of its areas of climate impact and how to ameliorate it, and is taking steps to do so.

a) A company must discuss its areas of climate impact and discuss plausible ways it has cut it in the past, and ways that it will continue to cut it in the future.
b) A company must have relevant sector-specific policies in place. In the banking sector this must include a promise to divest from all fossil fuel extraction.
c) A company must not be involved in any particularly damaging projects like tar sands, oil or aviation, be subject to damning secondary criticism regarding it's climate actions, or involved in funding climate denial think tanks.

Part 2: Company reports its scope 1&2 emissions annually (Scope 1 is direct emissions by the company. Scope 2 is emissions in purchased electricity and heat).

Part 3: Company reports scope 3 emissions, covering at least tier one suppliers.

Part 4: Company has a future target in line with international agreements.

The company has a target to cut 2.5% per year or more of its absolute scope 1&2 greenhouse gas emissions, without offsetting.
OR
The company has a scope 3 target and a scope 1&2 target that adds up to the equivalent of 2.5% or more a year.
OR
The company has a target to reduce scope 1&2 emissions per pound value added by 7% or more a year.
OR
The company has targets in place agreed by the SBTI.

Scoring:
BEST = Company gets Parts 1-4
MIDDLE = Company gets Parts 1&2

How the banks rated

Best rating for carbon management and reporting

Ecology Building Society
Triodos

Middle rating for carbon management and reporting
Co-operative Bank
Cumberland Building Society
Leeds Building Society
Sainsbury's
Yorkshire Building Society

Source: https://www.ethicalconsumer.org/money-finance/climate-change-impact-ratings-bank

Agenda Item

Report

6

Report to:	**South Lanarkshire Council**
Date of Meeting:	**22 February 2023**
Report by:	**Executive Director (Community and Enterprise Resources)**

Subject:	**South Lanarkshire Leisure and Culture – Concession Recommendations for 2023/2024**

1. Purpose of Report

1.1. The purpose of the report is to: -

- ♦ Present recommendations for amending the concession rates for South Lanarkshire Leisure and Culture (SLLC) services.

2. Recommendation(s)

2.1. The Council is asked to approve the following recommendations: -

(1) To approve the following recommendations made by the Board of SLLC:

a. That the individual general concession for SLLC services be amended from 50% to 25% of the adult rate.

b. That the additional U16s Club discount (75% of the adult rate) reverts to 50%.

c. That the Halls under 5's and over 60's group discount (75% of the full rate) reverts to 50%.

3. Background

3.1. Like all local authorities, Leisure and Cultural Trusts across Scotland are facing significant increased pressure on their budgets. The majority are considering, or have implemented, price increases and many have also had to reduce the scope of their services. Trusts have also been significantly affected since the arrival of the Covid19 pandemic that has impacted on levels of customer use and generated income. Recovery from the pandemic continues to be further impacted by the current cost of living crisis and consequent pressures on household income.

3.2. As with South Lanarkshire Council, SLLC is also experiencing extraordinary financial pressures due to inflation levels on areas including pay, utilities and contracts. The 2022-23 Pay Award averaged around 7% for staff and contracts linked to RPI could see increases of between 12% and 15%. In addition, utility price increases across financial years 2022-23 and 2023-24 are expected to be in excess of 200% for gas and 88% for electricity.

3.3. As part of the review process conducted by the SLC Cross Party Working Group (CPWG), approval was given at a full Council meeting in June 2021, and further agreed at the SLLC Board meeting in August 2021, that the Board of SLLC have full autonomy to review and set the pricing for all SLLC commercial activities in line with market tolerances and trends. It was agreed that the Council would retain the authority to decide concession pricing.

3.4. At the SLLC Board meeting on 1 February 2023, the Board approved the retention of the fitness membership at £25 per month and a commercial price rise of 7% across all other services. This is part of a package of measures that will also include consideration of service efficiencies and rationalisation required to address an estimated budget gap of £4m.

3.5. If agreed, the recommendations in this report would enable SLLC to realise £616k of additional income, reducing the funding gap further by that amount. Should the concession proposals not be agreed, there would be a requirement for the SLLC Board to approve service reductions, commensurate with the amount of income associated with the concession proposals.

3.6 The SLLC Board has a legal duty to set a balanced budget similar to that held by elected members in relation to setting a balanced budget for the council. The scale of the financial pressures faced by the Trust inevitably means that service levels cannot be maintained and difficult decisions will need to be faced. The challenge requires consideration of a range of measures to mitigate those decisions and the concession scheme changes below have been recommended by the Trust Board to assist with this mitigation.

4. Concession Recommendations

U16s Club Discount

4.1. The Council are asked to consider a recommendation from the Board of SLLC regarding changes to the level of concession awarded under this category, generating up to £0.476m of additional income.

4.2. In addition to standard concession discounts for Juniors which is 50% of the adult rate, many Clubs receive an additional discount equating to a 75% discount of the adult rate. This benefits clubs with predominantly South Lanarkshire Under 16's residents as members and applies to football pitch hire, swimming and dry-side club activities.

4.3. In the majority of instances, particularly in relation to pitch hire, this additional discount for clubs is not passed on to the U16s participating, who are charged the same rates to attend the club as in other local authority areas where the clubs do not receive a 75% discount. In this respect, SLLC is effectively not subsidising participation but rather is making a contribution to club funds.

General Concessions

Leisure

4.4. Individual concession subsidies are currently significantly higher in South Lanarkshire than in other authority areas benchmarked using the Local Government Benchmarking family group as a comparison.

4.5. South Lanarkshire currently has the highest concession rate within the group at 50%, with other authorities offering a discount of between 15% and 40% with an average discount of 24%. It is therefore proposed that the concession rate be amended to a discount of 25% of the adult rate, bringing it in line with the average. Amending the concession rate would generate circa £90k of additional income.

Table 1: Recommended changes to leisure concessions

Concession Membership Category	Concession Charge – existing	Concession Charge – revised	Full price
Health & Fitness Adult	£12.50	£18.75	£25.00
Health & Fitness Junior	£6.25	£9.40	£12.50
A.C.E Monthly	£13.40	£20.10	£26.80
Swim Lesson Monthly	£13.85	£20.80	£27.70

Hall Lets

4.6. SLLC currently offer a 75% discount of the community/junior rate to various Pre-5's and Over 60's groups. It is recommended that this discount is also amended to 50% in line with the proposed change to the leisure discount for clubs, generating an additional £50k of income.

4.7. It should be noted that even with this new charging rate, the services would be operated at a net subsidy as staffing costs would exceed the income received.

Table 2: Recommended changes to hall lets based on typical customer rate per hour

Pre-5's, Over 60's - existing charge	Under 16's/Pre-5's/Over 60's groups proposed charge	Full community rate
£3.15	£6.30	£12.60

5. Next Steps

5.1. Following Council approval implementation of new concession rates would commence on 1 April 2023.

5.2. A meeting of the Board of SLLC is due to take place on 22 February 2023 following the full Council meeting. This meeting will consider further measures required to achieve a balance budget for 2023/24.

6. Employee Implications

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

7. Financial Implications

7.1. The SLLC Board has estimated a budget gap of £4m for 2023/24 arising from exceptional inflationary rises in costs, related pay increases, the impact of the COVID19 pandemic and the subsequent cost of living crisis/ economic situation on their income. The Board has a legal duty to set a balanced budget and has agreed a number of commercial price increases to reduce the gap by £0.819m. The Board has agreed to recommend a number of changes to the concessionary scheme for Council agreement that will reduce the budget gap by a further £0.616m. This set of measures will assist in mitigating the impact on service levels across the entire SLLC operation.

7.2. The SLLC Board will consider the decision of Council at its subsequent meeting following the Council budget meeting in relation to the additional measures it will require to take to ensure it sets a balanced budget.

8. Climate change, sustainability and Environmental Implications

8.1. There are no climate change, sustainability and environmental implications as a result of this report.

9. Other Implications

9.1. There are no other implications in terms of risk and sustainability as a result of this report.

10. Equality Impact Assessment and Consultation Arrangements

10.1. An Equalities Impact Assessment has been conducted in relation to the proposals by SLLC.

David Booth
Executive Director

9 February 2023

Link(s) to Council Values/Priorities/Outcomes

- Accountable, effective, efficient and transparent

Previous References

- Executive Committee – 23 June 2021 – Cross Party Working Group Review of South Lanarkshire Leisure and Culture (SLLC) - Outcomes

List of Background Papers

- None

Contact for Further Information

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Agenda Item

Report

7

Report to:	**South Lanarkshire Council**
Date of Meeting:	**22 February 2023**
Report by:	**Executive Director (Finance and Corporate Resources)**

Subject:	**Family Leave for Elected Members - Councillor Hose**

1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ Advise of arrangements in terms of family leave for Councillor Hose.

2. Recommendation(s)

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

(1) that it be noted that Councillor Hose will take two weeks paternity leave after the birth of his baby.

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3. Background

3.1. The Council, at its meeting on 26 February 2020, approved, for implementation, the new Elected Members' Family Leave Guidance produced by COSLA.

3.2. Councillor Hose notified the Council that he intends to take two weeks paternity leave, as permitted by the Guidance, commencing on 13 February 2023 following the birth of his baby daughter on 12 February 2023.

4. Employee Implications

4.1. There are no employee implications arising from this report.

5. Financial Implications

5.1. There are no financial implications associated with the proposals contained in this report.

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. There are no other implications in terms of the information contained in this report.

8. Equality Impact Assessment and Consultation Arrangements

8.1. 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.

8.2. 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)

3 February 2023

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

Previous References
South Lanarkshire Council of 26 February 2020
South Lanarkshire Council of 7 December 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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